

The background of the cover is a repeating pattern of small, light green, stylized arrowheads pointing upwards and to the right. A large, dark green, stylized arrowhead shape is overlaid on the right side of the page, pointing upwards and to the right. The text is centered within this large arrowhead.

Nortech Systems
ANNUAL REPORT / 2010

COMPANY PROFILE

Nortech Systems Inc. is a full-service electronics manufacturing services (EMS) provider of wire and cable assemblies, printed circuit board assemblies and higher-level complete box build assemblies for a wide range of industries. Markets served include industrial equipment, military/defense, medical and transportation. The company has manufacturing capabilities and operating partners in the U.S., Asia and Latin America. Nortech Systems is traded on the NASDAQ Stock Market under the symbol NSYS and appears in most stock listings as “NorSys.”

VISION

“To be the best”

OUR PURPOSE

To be the preferred electronics manufacturing services provider that builds long-term relationships and creates value-added solutions for our customers.

OUR VALUES

- ▶ Respect
- ▶ Customer-Focused
- ▶ Committed to Success
- ▶ Sense of Urgency
- ▶ Great Communication
- ▶ No One Does It Alone

ANNUAL MEETING

The annual meeting of shareholders will be held at 3:00 p.m. on May 11, 2011, at the Wayzata Country Club, 200 West Wayzata Boulevard, Wayzata, Minnesota.

To Our Shareholders:

Last year was marked by recovery and growth at Nortech Systems. We withstood a difficult and unstable business environment, emerging onto solid footing as a stronger, more flexible and resilient company. I commend all our employees for their vital role in this effort. Achievements last year included increasing sales, returning to profitability and expanding our capabilities.

Growing Sales in Competitive Industry

Fiscal 2010 sales increased 25 percent from 2009, to \$99.8 million. Our medical and industrial customers, in particular, showed increased stability and confidence.

Although our defense-market business was down, indicators became more encouraging as the year progressed. We continue to see increased quoting and new business activity. We're proud that our Blue Earth, Minnesota, facility received three recognition awards from major defense contractors for quality, delivery and project management.

The electronics manufacturing services (EMS) industry remains highly competitive, with consolidations and excess capacity. In this challenging environment, we were pleased to exceed our bellwether peers in 2010 sales growth: the six largest U.S.-traded EMS firms saw revenues increase an average of 19 percent.

Strengthening Operations and Balance Sheet

Our gross profits nearly doubled in 2010, to \$11.4 million, and the gross profit percentage rose to 11.5 percent from 7.3 percent in 2009. These increases were due to our higher sales volumes and the cost-reduction efforts we undertook during 2009.

Operating income during 2010 was \$1.2 million, compared with an operating loss of \$4.5 million in 2009 before restructuring charges. Fiscal 2010 net income was \$507,000, or \$0.18 per diluted common share.

In 2010 we generated positive operating cash flow of \$2.9 million and paid down our long-term debt by \$2.0 million. We also signed a new three-year agreement with Wells Fargo Bank to provide for our working capital needs and to fund our growth and acquisitions.

Engraining FOCUS Culture

To build a stronger company for today and the future, we continued developing our lean manufacturing initiative called FOCUS. Going forward, we'll work on engraining FOCUS more deeply into our company's culture and into our two newest facilities. Ongoing training activities educate our dedicated personnel in improving their own work processes while delivering excellence to our customers.

Along with fortifying customer relationships, this cornerstone program helps counteract rising prices of certain key commodities. In our very competitive environment, excess capacity across the EMS industry puts downward pressure on prices and makes it difficult to pass any price increases onto customers in the short term. We are closely watching trends on copper and petroleum-based materials, and working to offset price fluctuations.

The ongoing success of FOCUS and other Nortech initiatives depends upon satisfied, motivated employees. In 2010 our personnel undertook an employee engagement survey and we later created action plans that will be implemented during 2011.

Targeting Growth Opportunities

Last year we reinforced and broadened our capabilities with two strategic acquisitions that demonstrate our commitment to capitalize on opportunities.



To better serve the high-growth medical market, we acquired a life sciences electronics manufacturer in Milaca, Minnesota, that offers sophisticated design, engineering and manufacturing capabilities. Their expertise with FDA regulations and other requirements is highly valued by medical OEMs.

Increasing demand from industrial customers spurred our second acquisition – the EMS operation of Winland Electronics, located in Mankato, Minnesota. They will provide valuable new expertise and capacity in printed circuit board assemblies.

These two acquisitions complement and enhance our existing strengths. During 2011, integrating them into Nortech Systems will be a major focus. We believe our recently expanded capabilities make us increasingly well-positioned with both current and prospective customers.

Capitalizing on Industry Trends

More North American OEMs are looking closer to home for manufacturing partners, motivated by rising costs in offshore locations. Our facilities in the Upper Midwest and Mexico are very responsive for high-mix, low-volume products that require quick turnaround with superior quality and customer service. During 2010 we added business from 17 new customers.

Another trend is OEMs looking to EMS companies like Nortech Systems to supply design engineering assistance. Our recent acquisitions bolster these capabilities, particularly with life sciences. By partnering earlier, we build a stronger relationship with our customers, earn more revenue and enable them to achieve significant cost reductions. It's a win-win for everyone.

In closing, we're pleased to see our sales and operational results stabilize and rebound during 2010. We're also enthusiastic about the potential synergies offered by our recent acquisitions. We believe the necessary building blocks are now in place for a period of solid and sustained profitable growth.

Looking ahead, we remain confident in our employees' ability to reinforce our continuous-improvement culture, leading to higher levels of customer satisfaction and improved financial results. As a fellow shareholder, I'm proud to lead our employees in these efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "M. J. Degen". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Michael J. Degen
President & Chief Executive Officer

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