

IEC ELECTRONICS CORP
Form 10-Q
April 29, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 28, 2008

Commission File Number 0-6508

IEC ELECTRONICS CORP.

(Exact name of registrant as specified in its charter.)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3458955
(I.R.S. Employer Identification No.)

105 Norton Street, Newark, New York 14513
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (315) 331-7742

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o
Non-Accelerated filer x Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$0.01 Par Value, 8,751,095 shares as of April 24, 2008.

PART 1	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Balance Sheets as of: March 28, 2008 (Unaudited) and September 30, 2007	3
	Statements of Operations for the three months ended: March 28, 2008 (Unaudited) and March 30, 2007 (Unaudited)	4
	Statements of Operations for the six months ended: March 28, 2008 (Unaudited) and March 30, 2007 (Unaudited)	5
	Statements of Cash Flows for the six months ended: March 28, 2008 (Unaudited) and March 30, 2007 (Unaudited)	6
	Notes to Financial Statements (Unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	15
Item 4T	Controls and Procedures	15
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	15
Item 1A.	Risk Factors	15
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	15
Item 3.	Defaults Upon Senior Securities	15
Item 4.	Submission of Matters to a Vote of Security Holders	15
Item 5.	Other Information	16
Item 6.	Exhibits	16
	Signatures	16

Part 1. Financial Information
Item 1 — Financial Statements

IEC ELECTRONICS CORP.
BALANCE SHEETS
MARCH 28, 2008 AND SEPTEMBER 30, 2007
(in thousands)

	MARCH 28, 2008	SEPTEMBER 30, 2007
ASSETS	(Unaudited)	
CURRENT ASSETS:		
Cash	\$ -	\$ -
Accounts receivable (net of allowance for Doubtful accounts of \$118 and \$100 respectively)	8,076	6,185
Inventories	5,073	3,326
Other current assets	74	75
Total current assets	13,223	9,586
FIXED ASSETS:		
Land and land improvements	743	704
Building and improvements	4,165	4,134
Machinery and equipment	22,855	22,626
Furniture and fixtures	4,316	4,262
SUB-TOTAL GROSS PROPERTY	32,079	31,726
LESS ACCUMULATED DEPRECIATION	(30,403)	(30,123)
	1,675	1,603
LONG TERM ASSETS:		
Deferred Income Tax Asset	1,130	640
Other non-current assets	-	16
	\$ 16,028	\$ 11,845
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term borrowings	\$ 3,474	\$ 1,325
Accounts payable	5,927	4,937
Accrued payroll and related expenses	501	628
Other accrued expenses	441	366
Total current liabilities	10,343	7,256
LONG TERM DEBT	273	426
TOTAL LIABILITIES	10,616	7,682
SHAREHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, Authorized - 500,000 shares; None issued or outstanding	-	-
Common stock, \$.01 par value, Authorized - 50,000,000 shares; Issued - 8,736,493 and 8,670,030 shares for F08 and F07 respectively	87	87
Treasury Shares at Cost 412,873 and 412,873 Shares, Respectively	(223)	(223)
Additional paid-in capital	38,949	38,794
Accumulated deficit	(33,401)	(34,495)
Total shareholders' equity	5,412	4,163
	\$ 16,028	\$ 11,845

The accompanying notes are an integral part of these financial statements.

3

IEC ELECTRONICS CORP.
STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 28, 2008 AND MARCH 30, 2007
(in thousands, except share and per share data)

	3 MONTHS ENDED MARCH 28, 2008 (Unaudited)	3 MONTHS ENDED MARCH 30, 2007 (Unaudited)
Net sales	\$ 11,940	\$ 10,899
Cost of sales	10,557	9,370
Gross profit	1,383	1,529
Selling and administrative expenses	998	783
Operating profit	385	746
Interest and financing expense	(84)	(134)
Gain/(Loss) on disposal of fixed assets	2	(33)
Other Income		24
Net Income(loss) before income taxes	303	603
Provision for (Benefit from) income taxes	(370)	-
Net Income(loss)	\$ 673	\$ 603
Net Income(loss) per common and common equivalent share:		
Basic	\$ 0.08	\$ 0.08
Diluted	\$ 0.07	\$ 0.07
Weighted average number of common and common equivalent shares outstanding:		
Basic	8,319,497	8,033,343
Diluted	9,002,089	8,849,662

The accompanying notes are an integral part of these financial statements.

IEC ELECTRONICS CORP.
STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED MARCH 28, 2008 AND MARCH 30, 2007
(in thousands, except share and per share data)

	6 MONTHS ENDED MARCH 28, 2008 (Unaudited)	6 MONTHS ENDED MARCH 30, 2007 (Unaudited)
Net sales	\$ 23,100	\$ 20,145
Cost of sales	20,571	18,408
Gross profit	2,529	1,737
Selling and administrative expenses	1,752	1,390
Operating profit	777	347
Interest and financing expense	(176)	(259)
Gain/(Loss) on disposal of fixed assets	2	(33)
Other Expense		(25)
Net Income(loss) before income taxes	603	30
Provision for (Benefit from) income taxes	(490)	3
Net Income	\$ 1,093	\$ 27
Net Income (loss) per common and common equivalent share:		
Basic	\$ 0.13	\$ 0.00
Diluted	\$ 0.12	\$ 0.00
Weighted average number of common and common equivalent shares outstanding:		
Basic	8,301,666	8,024,727
Diluted	9,034,332	8,868,415

The accompanying notes are an integral part of these financial statements.

IEC ELECTRONICS CORP.
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED MARCH 28, 2008 AND MARCH 30, 2007
(in thousands)

	6 MONTHS ENDED MARCH 28, 2008 (Unaudited)	6 MONTHS ENDED MARCH 30, 2007 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (loss)	\$ 1,093	\$ 27
Non-cash adjustments:		
Compensation Expense - Stock Options	91	41
Depreciation/Amortization	296	204
(Gain)Loss on sale of fixed assets	(2)	33
Issuance of director's fees in stock	10	25
Changes in operating assets and liabilities:		
Accounts receivable	(1,891)	(304)
Inventories	(1,747)	1,440
Deferred Income Taxes	(490)	-
Other assets	1	59
Accounts payable	990	(25)
Accrued expenses	(52)	211
Net cash flows from operating activities	(1701)	1,711
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of property	2	-
Purchases of plant, property & equipment	(353)	(479)
Net cash flows from investing activities	(351)	(479)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments under loan agreements		(164) (145)
Borrowings/(Payments) on line of credit	2,160	(1,550)
Proceeds from Equipment Loan	-	450
Proceeds from exercise of stock options	56	13
Net cash flows from financing activities	2,052	(1,232)
Change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	\$ -	\$ -
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 176	\$ 252
Income taxes	\$ -	\$ 3

The accompanying notes are an integral part of these financial statements.

IEC ELECTRONICS CORP.
NOTES TO FINANCIAL STATEMENTS
MARCH 28, 2008

(1) Business and Summary of Significant Accounting Policies

IEC Electronics Corp. ("IEC", the "Company") is an independent electronics manufacturing services ("EMS") provider of complex printed circuit board assemblies and electronic products and systems. The Company provides high quality electronics manufacturing services with state-of-the-art manufacturing capabilities and production capacity. Utilizing automated manufacturing and test machinery and equipment, IEC provides manufacturing services employing surface mount technology ("SMT") and pin-through-hole ("PTH") interconnection technologies. As an independent full-service EMS provider, the Company offers its customers a wide range of manufacturing services, on either a turnkey or consignment basis. These services include product development, prototype assembly, material procurement, volume assembly, test engineering support, statistical quality assurance, order fulfillment and repair services. The Company's strategy is to cultivate strong manufacturing relationships with established and emerging original equipment manufacturers ("OEMs"). Our quarters end on the last Friday of the final month in the quarter, except that our fiscal year ends on September 30th.

Revenue Recognition

The Company's net revenue is derived from the sale of electronic products built to customer specifications. The Company also derives revenue from design services and repair work. Revenue from sales is generally recognized, net of estimated product return costs, when goods are shipped; title and risk of ownership have passed; the price to the buyer is fixed or determinable; and recovery is reasonably assured. Service related revenues are recognized upon completion of the services. The Company assumes no significant obligations after product shipment.

Allowance for Doubtful Accounts

The Company establishes an allowance for uncollectable trade accounts receivable based on the age of outstanding invoices and management's evaluation of collectibility of outstanding balances.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. The Company's cash and cash equivalents are held and managed by institutions that follow the Company's investment policy. The fair value of the Company's financial instruments approximates carrying amounts due to the relatively short maturities and variable interest rates of the instruments, which approximate current market interest rates.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. The major classifications of inventories are as follows at period end (in thousands):

	MARCH 28, 2008		SEPTEMBER 30, 2007	
	(Unaudited)			
Raw materials	\$	1,913	\$	1,811
Work-in-process		2,618		1,427
Finished goods		542		88
	\$	5,073	\$	3,326

Unaudited Financial Statements

The accompanying unaudited financial statements as of March 28, 2008, and for the three and six months ended March 28, 2008, have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments considered necessary for a fair presentation, which consist solely of normal recurring adjustments, have been included. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's September 30, 2007 Annual Report on Form 10-K.

Earnings Per Share

Net income per share is computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic earnings per share is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding for each period. Diluted earnings per common share is calculated by adjusting the weighted-average shares outstanding, assuming conversion of all potentially dilutive stock options.

New Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115". SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. This Statement applies to all entities, including not-for-profit organizations. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending September 30, 2009. The Company is currently evaluating the impact of SFAS 159 on its financial statements, but does not expect this to have a material impact.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending September 30, 2009. The Company is currently evaluating the impact of SFAS 157 on its financial statements, but does not expect this to have a material impact.

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2008. The Company is currently evaluating the impact of FIN 48 on its financial statements, but does not expect this to have a material impact.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), "Business Combinations". SFAS 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2010. The Company does not expect adoption of SFAS 141(R) to have a material effect on its financial statements.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years,

beginning on or after December 15, 2008. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2010. The Company does not expect SFAS 160 to have a material effect on its financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (“SAB 110”). SAB 110 permits companies to continue to use the simplified method, under certain circumstances, in estimating the expected term of “plain vanilla” options beyond December 31, 2007. SAB 110 updates guidance provided in SAB 107 that previously stated that the Staff would not expect a company to use the simplified method for share option grants after December 31, 2007. Adoption of SAB 110 is not expected to have a material impact on the Company’s financial statements.

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring companies to enhance disclosure about how these instruments and activities affect their financial position, performance and cash flows. SFAS 161 also improves the transparency about the location and amounts of derivative instruments in a company’s financial statements and how they are accounted for under SFAS 133. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods beginning after that date. As such, the Company is required to adopt these provisions beginning with the quarter ending in March 2009. The Company is currently evaluating the adoption of this pronouncement and expects no material impact on the Company’s consolidated financial statements.

In June 2006, the Emerging Issues Task Force (“EITF”) reached a consensus on EITF Issue No. 06-4 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (“EITF 06-4”), which requires the Company to recognize a postretirement liability for the discounted future benefit obligation that the Company will have to pay upon the death of the underlying insured employee. EITF 06-4 is effective for financial statements issued for fiscal years beginning after December 15, 2007. As such, the Company is required to adopt these provisions beginning with the fiscal year ending September 30, 2009. The Company is currently evaluating the adoption of this pronouncement.

(2) Financing Agreements

The Company’s financing agreements contain various affirmative and negative covenants including, among others, limitations on the amount available under the revolving line of credit relative to the borrowing base, capital expenditures, and minimum earnings before interest, taxes, depreciation and amortization (EBITDA). The Company was compliant with these covenants for the three month period ended March 28, 2008. (3) Stock Option Plans In December 2004, the FASB issued SFAS No. 123R, “Share-Based Payment”. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the financial statements based on their fair values. That expense will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period). We adopted SFAS No. 123R effective beginning October 1, 2005 using the Modified Prospective Application Method. Under this method, SFAS No. 123R applies to new awards and to awards modified, repurchased or cancelled after the effective date. The impact of adopting SFAS No. 123R was an increase of \$49,697 and \$90,543 to selling and administrative expenses for the three and six month periods ending March 28, 2008, respectively.

The Company issued 135,000 and 142,500 options during the three and six month periods ended March 28, 2008, respectively. The Company issued 46,000 and 68,500 options during the three and six month periods ended March 30, 2007, respectively. The fair value of each option issued during these periods was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	3 MO. ENDED MAR 28, 2008	3 MO. ENDED MAR 30, 2007	6 MO. ENDED MAR 28, 2008	6 MO. ENDED MAR 30, 2007
Risk free interest rate	2.7%	4.7%	2.9%	4.7%
Expected term	4.5 years	3.8 years	4.5 years	4.2 years
Volatility	51%	53%	51%	54%
Expected annual dividends	none	none	none	none

The weighted average fair value of options granted during the three months ended March 28, 2008 was \$0.79 with an aggregate total value of \$107,300. The weighted average fair value of options granted during the six months ended March 28, 2008 was \$0.80 with an aggregate total value of \$113,750. The weighted average fair value of options granted during the three months ended March 30, 2007 was \$0.69 with an aggregate total value of \$6,000. The

weighted average fair value of options granted during the six months ended March 30, 2007 was \$0.70 with an aggregate total value of \$10,000.

4. Litigation

Except as set forth below, there are no material legal proceedings pending to which IEC property is subject. To our knowledge, there are no material legal proceedings to which any director, officer or affiliate of IEC, or any beneficial owner of more than 5 percent (5%) of Common Stock, or any associate of any of the foregoing, is a party adverse to IEC.

On August 13, 2003 General Electric Company (“GE”) commenced an action in the state of Connecticut against IEC and Vishay Intertechnology, Inc. (“Vishay”). The action alleges cause of action for breach of a manufacturing services contract, which had an initial value of \$4.4 million, breach of express warranty, breach of implied warranty, and a violation of the Connecticut Unfair Trade Practices Act. Vishay supplied a component that IEC used to assemble printed circuit boards for GE that GE contends failed to function properly requiring a product recall. GE claims damages “in excess of \$15,000” plus interest and attorney’s fees. IEC and Vishay are proceeding to defend GE’s Connecticut action on the merits and IEC is proceeding with a cross claim against Vishay. IEC filed a motion for summary judgment directed to all counts. On January 11, 2007, the Court granted the motion in part, dismissing the claim for violation of the Connecticut Unfair Trade Practices Act, but determined that factual issues were disputed on the contract and warranty claims. On September 17, 2007, at a status conference, the parties agreed to a schedule for the case and it was set forth as an order of the Court. The Scheduling Order contemplates a trial to begin on January 5, 2010. IEC intends to vigorously defend the claims and prosecute the cross claim, and is proceeding with the discovery process in accordance with the Scheduling Order.

5. INCOME TAXES:

The provision for (benefit from) income taxes for the quarters and YTD ending March 28, 2008 and March 30, 2007 is summarized as follows (in thousands):

	3 Months MAR 28, 2008	YTD MAR 28, 2008	3 Months MAR 30, 2007	YTD MAR 30, 2007
Current Tax Expense				
Federal	103	205	205	9
State / Other	18	36	36	2
Deferred Tax Expense				
Federal	(418)	(622)	(205)	(11)
State / Other	(73)	(109)	(36)	(3)
Provision for (benefit from) Income taxes	(370)	(490)	-	3

6. SUBSEQUENT EVENTS:

On April 3, 2008, IEC received a \$203,000 NYSERDA loan. This is a low interest loan, subsidized by New York State, to facilitate energy conservation projects. This loan is for a term of 5 years at an effective interest rate of 2.08%. The final loan payment is due May 1, 2013.

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

Results of Operations - Three Months Ended March 28, 2008,
Compared to the Three Months Ended March 30, 2007.

Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations

Net sales for the three month period ended March 28, 2008, were \$11.9 million, compared to \$10.9 million for the comparable period of the prior fiscal year, an increase of 9%. The increase in sales is due to a combination of factors. Sales increased from existing customers and three new customers were added. The new customers are expected to reach full production level in the near future. Despite the current economic slowdown, we remain comfortable with our prospects for the remainder of the year. Some of our customers are experiencing difficulty in their end markets but a number of our customers are growing their business.

Our five largest customers accounted for 74.7% of our sales for the quarter ended March 28, 2008, and 63.0% of our sales for the quarter ended March 30, 2007.

Gross profit was \$1.4 million or 11.6% of sales for the three month period ended March 28, 2008. This compares to \$1.5 million or 14% of sales in the comparable period of the prior fiscal year. On January 24, 2007, one of our customers, Mangrove Systems, announced that it was ceasing operations. As a result of this announcement, we recorded a \$339,000 charge against first quarter 2007 cost of sales to cover our accounts receivable and inventory exposure. During March 2007, Carrier Access purchased the assets of Mangrove Systems. Carrier Access subsequently paid the accounts receivable balance and we were able to reverse most of the first quarter adjustment in the second quarter. Without this recovery, gross profit for the 3 months ended March 30, 2007 would have been \$1.2 million or 11% of sales.

Selling and administrative expenses were \$1.0 million for the three month period ended March 28, 2008, and \$0.8 million for the comparable period of the prior fiscal year. The increase in cost is due in part to higher commissions paid to our manufacturer's representatives related to the higher sales revenue, and also due to increased staffing levels necessary to support our growth. Additionally, the current 3 month period ending March 28, 2008 includes \$140,000 associated with the retirement of the Company's CFO and recruitment of a new CFO and a Director of Customer Management. Selling and administrative expenses were 8.4% of sales during the current period, compared to 7.2% of sales during the same quarter of the prior fiscal year.

Interest expense was \$84,000 for the three month period ended March 28, 2008, down from \$134,000 in the comparable period of the prior fiscal year. The current quarter reduction in interest expense versus same quarter prior year is the result of a lower average outstanding balance on our working capital line in addition to a lower interest rate. The average outstanding working capital loan and average interest rate for the quarter ended March 28, 2008 were approximately \$1.4 million and 2.25% lower, respectively, than the same period in the prior year.

We recorded a \$370,000 tax benefit during the three months ended March 28, 2008 and adjusted the deferred tax asset. FASB 109 requires the Company to establish an asset on the balance sheet to reflect the future value associated with the ability to utilize the Company's net operating loss carryforwards and credits against future income tax obligations. From 2001 through 2005, there was substantial uncertainty as to the Company's future profitability. Hence, the Company was not certain about its ability to utilize those losses and credits. The Company has been rebuilding its business and increasing its profitability since 2005. Management has taken what it believes to be a conservative posture with respect to the deferred tax valuation allowances. The reversal of the valuation allowance was, and is, based on management's belief that it is more likely than not that this portion of our deferred tax asset will be realized. We review this issue regularly as we gain greater visibility as to the anticipated profitability of the Company and can estimate what portion of the deferred tax asset is more likely than not to be realized. Consequently, the valuation allowance is correspondingly adjusted.

Net income was \$673,000 for the three months ended March 28, 2008. Net Income was \$603,000 in the comparable quarter of the prior fiscal year but included some recovery from Carrier Access for the expenses associated with Mangrove System's cessation of business. Without that recovery the three month period ending March 30, 2007 would have shown Net Income of \$314,000 and a diluted income per share of \$0.04.

Diluted income per share was \$0.07 compared to \$.07 per share for the comparable quarter of the prior year. Excluding the Carrier Access recovery of \$289,000 associated with the Mangrove expense, diluted income per share in the comparable quarter of prior year would have been \$0.04.

Accounts receivable increased by \$0.8 million during the three month period ended March 28, 2008. The increase was due to higher sales in the quarter which were weighted toward the end of the quarter. Inventory increased by \$1.3 million during the quarter. This increase was due to an escalation in materials purchased to support next quarter's shipments. Additionally, we accommodated two customer's requests for minor delays in shipment dates which caused Finished Goods to be carried at quarter end.

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

Results of Operations - Six Months Ended March 28, 2008, Compared to the Six Months Ended March 30, 2007.

Net sales for the six month period ended March 28, 2008, were \$23.1 million, compared to \$20.1 million for the comparable period of the prior fiscal year, an increase of 15%. The increase in sales is due to the addition of several new customers for the comparative period, and new orders from existing customers.

Our five largest customers accounted for 72.0% of our sales for the six months ended March 28, 2008, and 65.7% of our sales for the six months ended March 30, 2007.

Gross profit was \$2.5 million or 10.9% of sales for the six month period ended March 28, 2008. This compares to \$1.7 million or 8.6% of sales in the comparable period of the prior fiscal year. The improvement in Gross Profit percentage is due to increased productivity through reductions in start-up and training costs. The Company workforce has improved its skill-set. The initial cost investment in training is paying off and significant progress has been made along the new assembly learning curves.

Selling and administrative expenses were \$1.8 million for the six month period ended March 28, 2008, and \$1.4 million for the comparable period of the prior fiscal year. The increase in cost is due to higher commissions paid to our manufacturer's representatives related to the higher sales revenue, and also due to increased staffing levels and associated costs necessary to support our growth. Selling and administrative expenses were 7.6% of sales during the current period, compared to 6.9% of sales during the same period of the prior fiscal year.

Interest expense was \$176,000 for the six month period ended March 28, 2008, down from \$259,000 in the comparable period of the prior fiscal year. The current year reduction in interest expense resulted from less borrowing from our line of credit and lower interest rates. The average outstanding working capital loan and average interest rate for the six months ended March 28, 2008 were approximately \$1.2 million and 1.5% lower, respectively, than the same period in the prior year.

During 2004, we provided engineering services to Mangrove Systems in exchange for a de minimis equity investment in their company. On January 24, 2007, Mangrove announced that they were ceasing operations. We charged this investment of \$50,000 against first quarter 2007 "other expense" as a result of this announcement.

Income before taxes was \$603,000 for the six months ended March 28, 2008. Income before taxes was \$30,000 in the comparable period of the prior fiscal year. The improvement is attributable to margin earned on higher shipment volume versus the same six month period prior year. Additionally, costs associated with start-up and training on new assemblies affected prior year profitability during the comparable six month period.

We recorded a \$490,000 tax benefit during the six months ended March 28, 2008 and have adjusted the deferred tax asset. There was no tax benefit booked for the same six month period in the prior year. FASB 109 requires the Company to establish an asset on the balance sheet to reflect the future value associated with the ability to utilize the Company's net operating loss carryforwards and credits against future income tax obligations. From 2001 through 2005, there was substantial uncertainty as to the Company's future profitability. Hence, the Company was not certain about its ability to utilize those losses and credits. The Company has been rebuilding its business and increasing its profitability since 2005. Management has taken what it believes to be a conservative posture with respect to the deferred tax valuation allowances. The reversal of the valuation allowance was, and is, based on management's belief that it is more likely than not that this portion of our deferred tax asset will be realized. We review this issue regularly as we gain greater visibility as to the anticipated profitability of the Company and can estimate what portion of the deferred tax asset is more likely than not to be realized. Consequently, the valuation allowance is correspondingly adjusted.

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

Net income was \$1,093,000 for the six months ended March 28, 2008. Net Income was \$27,000 in the comparable period of the prior fiscal year.

Diluted income per share was \$0.12 as compared to \$0.0 per share for the comparable six months of the prior fiscal year.

Accounts receivable increased by \$1.9 million during the six month period ended March 28, 2008. The increase was due to higher sales. Inventory increased by \$1.7 million during the six month period. The increase was due to materials purchased to support 3rd quarter expected shipments.

Liquidity and Capital Resources

Cash flow provided by (used in) operating activities was (\$1.7) million for the six months ended March 28, 2008 compared to \$1.7 million for the six months ended March 30, 2007. The primary use of cash was a \$1.9 million increase in accounts receivable that was due to increased sales. A large share of this increase in sales occurred as the 2nd quarter drew to a close. Inventories have increased \$1.7 million since the start of the year due mainly to increased purchasing of raw materials to facilitate 3rd quarter shipments. In addition, finished goods inventory increased by \$454,000. This use of cash is partially offset by an increase in payables of \$1.0 million since the start of the year. We used \$0.4 million to purchase new equipment (investing activities) during the six month periods ending on March 28, 2008 compared to \$0.5 million during the six months ending on March 30, 2007.

Working capital on March 28, 2008 totaled \$3.7 million compared to \$3.0 million at our prior fiscal year end. On March 28, 2008, we were borrowing \$3.5 million under our revolving credit facility. The maximum borrowing limit under our revolving credit facility is limited to the lesser of (i) \$6.0 million or (ii) an amount equal to the sum of 85% of the receivables borrowing base and 35% of the inventory borrowing base. We believe that our liquidity is adequate to cover operating requirements for the next 12 months.

We also have a term loan balance of \$310,000 that is secured by a first mortgage on the IEC plant in Newark, New York (the "Real Estate Loan"), and another term loan balance of \$262,500 that is secured by certain manufacturing equipment (the "Equipment Loan"). The Real Estate Loan is payable in 39 monthly installments of \$12,500 that commenced on October 1, 2005, and a final payment of the remaining balance on January 1, 2009. The Equipment Loan is payable in 39 monthly installments of \$12,500 that commenced on January 2, 2007, and a final payment of the remaining balance on September 12, 2009. Both term loans have an interest rate of prime plus 1.0%.

The financing agreements contain various affirmative and negative covenants including, among others, limitations on the amount available under the revolving line of credit relative to the borrowing base, capital expenditures, and minimum earnings before interest, taxes, depreciation and amortization (EBITDA). The Company was compliant with these covenants on March 28, 2008.

Application of Critical Accounting Policies

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for us include revenue recognition, provisions for doubtful accounts, provisions for inventory obsolescence, impairment of long-lived assets, accounting for legal contingencies and accounting for income taxes.

We recognize revenue in accordance with Staff Accounting Bulletin No.101, "Revenue Recognition in Financial Statements." Sales are recorded when products are shipped to customers. Provisions for discounts and rebates to customers, estimated returns and allowances and other adjustments are provided for in the same period the related sales are recorded.

We evaluate our long-lived assets for financial impairment on a regular basis in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We evaluate the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated discounted future cash flows associated with them. At the time such evaluations indicate that the future discounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

We are subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies", requires that an estimated loss from a loss contingency should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position or our results of operations.

Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could impact our financial position or our results of operations.

Impact of Inflation

The impact of inflation on our operations has been minimal due to the fact that we have been able to adjust our bids to reflect any inflationary increases in costs.

New Pronouncements

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115”. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. This Statement applies to all entities, including not-for-profit organizations. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending September 30, 2009. The Company is currently evaluating the impact of SFAS 159 on its financial statements, but does not expect this to have a material impact.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 157, “Fair Value Measurements”. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending September 30, 2009. The Company is currently evaluating the impact of SFAS 157 on its financial statements, but does not expect this to have a material impact.

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2008. The Company is currently evaluating the impact of FIN 48 on its financial statements, but does not expect this to have a material impact.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 160, “Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51”. SFAS 160 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2010. The Company does not expect SFAS 160 to have a material effect on its financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (“SAB 110”). SAB 110 permits companies to continue to use the simplified method, under certain circumstances, in estimating the expected term of “plain vanilla” options beyond December 31, 2007. SAB 110 updates guidance provided in SAB 107 that previously stated that the Staff would not expect a company to use the simplified method for share option grants after December 31, 2007. Adoption of SAB 110 is not expected to have a material impact on the Company’s financial statements.

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring companies to enhance disclosure about how these

instruments and activities affect their financial position, performance and cash flows. SFAS 161 also improves the transparency about the location and amounts of derivative instruments in a company's financial statements and how they are accounted for under SFAS 133. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods beginning after that date. As such, the Company is required to adopt these provisions beginning with the quarter ending in March 2009. The Company is currently evaluating the adoption of this pronouncement and expects no material impact on the Company's consolidated financial statements.

In June 2006, the Emerging Issues Task Force (“EITF”) reached a consensus on EITF Issue No. 06-4 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (“EITF 06-4”), which requires the Company to recognize a postretirement liability for the discounted future benefit obligation that the Company will have to pay upon the death of the underlying insured employee. EITF 06-4 is effective for financial statements issued for fiscal years beginning after December 15, 2007. As such, the Company is required to adopt these provisions beginning with the fiscal year ending September 30, 2009. The Company is currently evaluating the adoption of this pronouncement.

Item 3 — Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative Disclosures about Market Risk represents the risk of loss that may impact the consolidated financial position, results of operations or cash flows of IEC due to adverse changes in financial rates. We are exposed to market risk in the area of interest rates. One exposure is directly related to our Term Loans and Revolving Credit borrowings under the Credit Agreement, due to their variable interest rate pricing. Management believes that interest rate fluctuations will not have a material impact on IEC's results of operations.

Item 4T — Controls and Procedures

Based on their evaluation as of the end of the period covered by this Report, IEC's Chief Executive Officer and Chief Financial Officer have concluded that IEC's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) are effective to ensure that information required to be disclosed by IEC in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There were no changes in IEC's internal control over financial reporting during the second three months of fiscal 2008 or in other factors that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Forward-looking Statements

Forward-looking statements in this Form 10-Q include, without limitation, statements relating to the Company's plans, future prospects, strategies, objectives, expectations, intentions and adequacy of resources and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements may be identified by their use of words like "plans", "expects", "aims", "believes", "projects", "anticipates", "intends", "estimates", "will", "should", "could", and other expressions that indicate future events and trends. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others, the following: general economic and business conditions, the timing of orders and shipments, availability of material, product mix, changes in customer requirements and in the volume of sales to principal customers, competition and technological change, the ability of the Company to control manufacturing and operating costs, and satisfactory relationships with vendors. The Company's actual results of operations may differ significantly from those contemplated by such forward-looking statements as a result of these and other factors, including factors set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 2007 and in other filings with the Securities and Exchange Commission.

PART II. OTHER INFORMATION

Item 1 — Legal Proceedings

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

The information set forth in Note 4 of the Notes to Financial Statements included in Part I -Item 4 of this Form 10-Q is incorporated by reference.

Item 1A - Risk Factors

There are no material changes to the Risk Factors described in Item 1A in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds - None

Item 3 — Defaults Upon Senior Securities - None

Item 4 — Submission of Matters to a Vote of Security Holders

- (a) The Annual Meeting of Stockholders was held on January 23, 2008.

(b) Proxies for the meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, there was no solicitation in opposition to the management's nominees as listed in the proxy statement and all of such nominees were elected.

(c) (i) At the Annual Meeting, the tabulation of the votes with respect to each nominee was as follows:

Nominee	Votes FOR	Authority Withheld
W. Barry Gilbert	7,639,499	32,744
Eben S. Moulton	7,651,968	20,275
James C. Rowe	7,604,925	67,318
Carl E. Sassano	7,649,468	22,775
Justin L. Vigdor	7,587,013	85,230
Jerold L. Zimmerman	7,651,968	20,275

(ii) At the Annual Meeting, the stockholders also voted upon a proposal to approve an amendment to the Company's 2001 Stock Option and Incentive Plan to increase the number of shares that may be issued under the Plan. The tabulation of votes with respect to such matter was as follows:

Votes FOR	Votes AGAINST	Votes ABSTAINING	Broker NON-VOTES
2,861,347	92,793	6,565	4,711,538

Item 5 — Other Information - None

Item 6 — Exhibits

The following documents are filed as exhibits to this Report:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IEC ELECTRONICS CORP.
REGISTRANT

Dated: April 29, 2008

/s/ W. Barry Gilbert
W. Barry Gilbert
Chairman and
Chief Executive Officer

Dated: April 29, 2008

/s/ Michael R. Schlehr
Michael R. Schlehr
Vice President and Chief Financial Officer