

MINERALS TECHNOLOGIES INC
Form 10-K
February 22, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-11430

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

Delaware	25-1190717
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
622 Third Avenue	
38 th Floor	10017-6707
New York, New York	(Zip Code)
(Address of principal executive office)	
(212) 878-1800	

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Edgar Filing: MINERALS TECHNOLOGIES INC - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X].

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 [X] Accelerated Filer [] Non-accelerated Filer [] Smaller Reporting Company []
(Do not check if smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes [] No [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing price at which the stock was sold as of June 29, 2012, was approximately \$983 million. Solely for the purposes of this calculation, shares of common stock held by officers, directors and beneficial owners of 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 8, 2013, the Registrant had outstanding 35,071,669 shares of common stock, all of one class.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2013 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

\

MINERALS TECHNOLOGIES INC.
2012 FORM 10-K ANNUAL REPORT
Table of Contents

	<u>Page</u>
PART I	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	8
Item 1B. <u>Unresolved Staff Comments</u>	11
Item 2. <u>Properties</u>	11
Item 3. <u>Legal Proceedings</u>	14
Item 4. <u>Mine Safety Disclosures</u>	15
PART II	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	15
Item 6. <u>Selected Financial Data</u>	21
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 8. <u>Financial Statements and Supplementary Data</u>	33
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	33
Item 9A. <u>Controls and Procedures</u>	33
Item 9B. <u>Other Information</u>	34
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	34
Item 11. <u>Executive Compensation</u>	35
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	35

Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	35
Item 14.	<u>Principal Accountant Fees and Services</u>	35
PART IV		
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	36
	<u>Signatures</u>	39

PART I

Item 1. Business

Minerals Technologies Inc. (the "Company") is a resource- and technology-based company that develops, produces and markets worldwide a broad range of specialty mineral, mineral-based and synthetic mineral products and supporting systems and services. The Company has two reportable segments: Specialty Minerals and Refractories. The Specialty Minerals segment produces and sells the synthetic mineral product precipitated calcium carbonate ("PCC") and processed mineral product quicklime ("lime"), and mines mineral ores then processes and sells natural mineral products, primarily limestone and talc. This segment's products are used principally in the paper, building materials, paint and coatings, glass, ceramic, polymer, food, automotive and pharmaceutical industries. The Refractories segment produces and markets monolithic and shaped refractory materials and specialty products, services and application and measurement equipment, and calcium metal and metallurgical wire products. Refractories segment products are primarily used in high-temperature applications in the steel, non-ferrous metal and glass industries.

The Company maintains a research and development focus. The Company's research and development capability for developing and introducing technologically advanced new products has enabled the Company to anticipate and satisfy changing customer requirements, creating market opportunities through new product development and product application innovations.

Specialty Minerals Segment

PCC Products and Markets

The Company's PCC product line net sales were \$546.2 million, \$560.6 million and \$554.6 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Company's sales of PCC have been, and are expected to continue to be, made primarily to the printing and writing papers segment of the paper industry. The Company also produces PCC for sale to companies in the polymer, food and pharmaceutical industries.

PCC Products - Paper

In the paper industry, the Company's PCC is used:

- As a filler in the production of coated and uncoated wood-free printing and writing papers, such as office papers;
- As a filler for coated and uncoated groundwood (wood-containing) paper such as magazine and catalog papers; and
- As a coating pigment for both wood-free and groundwood papers.

The Company's Paper PCC product line net sales were \$480.3 million, \$497.0 million and \$496.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Approximately 50% of the Company's sales consist of PCC sold to papermakers from "satellite" PCC plants. A satellite PCC plant is a PCC manufacturing facility located near a paper mill, thereby eliminating costs of transporting PCC from remote production sites to the paper mill. The Company believes the competitive advantages offered by improved economics and superior optical characteristics of paper produced with PCC manufactured by the Company's satellite PCC plants resulted in substantial growth in the number of the Company's satellite PCC plants since the first such plant was built in 1986. For information with respect to the locations of the Company's PCC plants as of December 31, 2012, see Item 2, "Properties," below.

The Company currently manufactures several customized PCC product forms using proprietary processes. Each product form is designed to provide optimum balance of paper properties including brightness, opacity, bulk, strength

and improved printability. The Company's research and development and technical service staffs focus on expanding sales from its existing and potential new satellite PCC plants as well as developing new technologies for new applications. These technologies include, among others, acid-tolerant ("AT[®]") PCC, which allows PCC to be introduced to the large wood-containing segment of the printing and writing paper market, OPACARB[®] PCC, a family of products for paper coating, and our FulFill[™] family of products, a system of high-filler technologies that offers papermakers a variety of efficient, flexible solutions which decrease dependency on natural fibers.

The Company owns, staffs, operates and maintains all of its satellite PCC facilities, and owns or licenses the related technology. Generally, the Company and its paper mill customers enter into long-term evergreen agreements, initially ten years in length, pursuant to which the Company supplies substantially all of the customer's precipitated calcium carbonate filler requirements. The Company is generally permitted to sell to third-parties PCC produced at a satellite plant in excess of the host paper mill's requirement.

The Company also sells a range of PCC products to paper manufacturers from production sites not associated with paper mills. These merchant facilities are located at Adams, Massachusetts; Birmingham, England; and Walsum, Germany.

PCC Markets - Paper

Uncoated Wood-Free Printing and Writing Papers – North America. Beginning in the mid-1980's, as a result of a concentrated research and development effort, the Company's satellite PCC plants facilitated the conversion of a substantial percentage of North American uncoated wood-free printing and writing paper producers to lower-cost alkaline papermaking technology. The Company estimates that during 2012, more than 90% of North American uncoated wood-free paper was produced employing alkaline technology. Presently, the Company owns and operates 17 commercial satellite PCC plants located at paper mills that produce uncoated wood-free printing and writing papers in North America.

Uncoated Wood-Free Printing and Writing Papers – Outside North America. The Company estimates the amount of uncoated wood-free printing and writing papers produced outside of North America at facilities that can be served by satellite and merchant PCC plants is more than twice as large (measured in tons of paper produced) as the North American uncoated wood-free paper market currently served by the Company. The Company believes that the superior brightness, opacity and bulking characteristics offered by its PCC products allow it to compete with suppliers of ground limestone and other filler products outside of North America. Presently, the Company owns and operates 23 commercial satellite PCC plants located at paper mills that produce uncoated wood-free printing and writing papers outside of North America.

Uncoated Groundwood Paper. The uncoated groundwood paper market, including newsprint, represents approximately 30% of worldwide paper production. Paper mills producing wood-containing paper still generally employ acid papermaking technology. The conversion to alkaline technology by these mills has been hampered by the tendency of wood-containing papers to darken in an alkaline environment. The Company has developed proprietary application technology for the manufacture of high-quality groundwood paper in an acidic environment using PCC (AT[®] PCC). Furthermore, as groundwood or wood-containing paper mills use larger quantities of recycled fiber, there is a trend toward the use of neutral papermaking technology in this segment for which the Company presently supplies traditional PCC chemistries. The Company now supplies PCC at about 11 groundwood paper mills around the world and licenses its technology to a ground calcium carbonate producer to help accelerate the conversion from acid to alkaline papermaking.

Coated Paper. The Company continues to pursue satellite PCC opportunities in coated paper markets where our products provide unique performance and/or cost reduction benefits to papermakers and printers. Our Opacarb product line is designed to create value to the papermaker and can be used alone or in combination with other coating pigments. PCC coating products are produced at 8 of the Company's PCC plants worldwide.

Specialty PCC Products and Markets

The Company also produces and sells a full range of dry PCC products on a merchant basis for non-paper applications. The Company's Specialty PCC product line net sales were \$65.9 million, \$63.6 million and \$58.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Company sells surface-treated and untreated grades of PCC to the polymer industry for use in automotive and construction applications, and to the adhesives and printing inks industries. The Company's PCC is also used by the food and pharmaceutical industries as a source of bio-available calcium in tablets and food applications, as a buffering agent in tablets, and as a mild abrasive in toothpaste. The Company produces PCC for specialty applications from production sites at Adams, Massachusetts and Lifford, England.

Processed Minerals - Products and Markets

The Company mines and processes natural mineral products, primarily limestone and talc. The Company also manufactures lime, a limestone-based product. The Company's net sales of processed mineral products were

\$116.0 million, \$115.5 million and \$110.4 million for the years ended December 31, 2012, 2011 and 2010, respectively. Net sales of talc products were \$48.1 million, \$46.9 million and \$44.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. Net sales of ground calcium carbonate ("GCC") products, which are principally lime and limestone, were \$67.9 million, \$68.6 million and \$66.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company mines and processes GCC products at its reserves in the eastern and western parts of the United States. GCC is used and sold in the construction, automotive and consumer markets.

Lime produced at the Company's Adams, Massachusetts, and Lifford, United Kingdom, facilities is used primarily as a raw material for the manufacture of PCC at these sites and is sold commercially to various chemical and other industries.

The Company mines, beneficiates and processes talc at its Barretts site, located near Dillon, Montana. Talc is sold worldwide in finely ground form for ceramic applications and in North America for paint and coatings and polymer applications. Because of the exceptional chemical purity of the Barretts ore, a significant portion of worldwide automotive catalytic converter ceramic substrates contain the Company's Barretts talc.

The Company's natural mineral products are supported by the Company's limestone reserves located in the western and eastern parts of the United States, and talc reserves located in Montana. The Company estimates these reserves, at current usage levels, to be in excess of 30 years at its limestone production facilities and approximately 20 years at its talc production facility. See Item 2, "Properties," for more information with respect to those facilities.

Our high quality limestone, dolomitic limestone, and talc products are defined primarily by the chemistry and color characteristics of the ore bodies. Ore samples are analyzed by x-ray fluorescence (XRF) and other techniques to determine purity and more generally by Hunter brightness measurement to determine dry brightness and the Hunter yellowness (b) value. We serve multiple markets from each of our operations, each of which has different requirements relating to a combination of chemical and physical properties.

Refractories Segment

Refractory Products and Markets

Refractories Products

The Company offers a broad range of monolithic and pre-cast refractory products and related systems and services. The Company's Refractory segment net sales were \$343.4 million, \$368.8 million and \$337.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Refractory product sales are often supported by Company-supplied proprietary application equipment and on-site technical service support. The Company's proprietary application equipment is used to apply refractory materials to the walls of steel-making furnaces and other high temperature vessels to maintain and extend their useful life. Net sales of refractory products, including those for non-ferrous applications, were \$264.1 million, \$287.4 million and \$264.5 million for the years ended December 31, 2012, 2011 and 2010. The Company's proprietary application system, such as its MINSCAN®, allow for remote-controlled application of the Company's refractory products in steel-making furnaces, as well as in steel ladles and blast furnaces. Since the steel-making industry is characterized by intense price competition, which results in a continuing emphasis on increased productivity, these application systems and the technologically advanced refractory materials developed in the Company's research laboratories have been well accepted by the Company's customers. These products allow steel makers to improve their performance through, among other things, the application of monolithic refractories to furnace linings while the furnace is at operating temperature, thereby eliminating the need for furnace cool-down periods and steel-production interruption. The result is a lower overall cost for steel produced by steel makers.

The Company's technical service staff and application equipment assist customers to achieve desired productivity objectives. The Company's technicians are also able to conduct laser measurement of refractory wear, sometimes in conjunction with robotic application tools, to improve refractory performance at many customer locations. The Company believes that these services, together with its refractory product offerings, provide it with a strategic marketing advantage.

Over the past several years the Refractories segment has continued to reformulate its products and application technology to maintain its competitive advantage in the market place. Some of the new products the Company has introduced in the past several years include:

HOTCRETE®: High durability shotcrete products for applications at high temperatures in ferrous applications such as steel ladles, electric arc furnaces (EAF) and basic oxygen furnaces (BOF) furnaces;

FASTFIRE®: High durability castable and shotcrete products in the non-ferrous and ferrous industries with the added benefit of rapid dry-out capabilities;

OPTIFORM®: A system of products and equipment for the rapid continuous casting of refractories for applications such as steel ladle safety linings;

ENDURATEQ®: A high durability refractory shape for glass contact applications such as plungers and orifice rings; and

DECTEQ™: A system for the automatic control of electrical power feeding electrodes used in electric arc steel making furnaces.

LACAM® Torpedo: A laser scanning system that measures the refractory lining thickness inside a Hot Iron (Torpedo) Ladle. The torpedo ladles transport liquid iron from a blast furnace to the steel plant.

LACAM®: A new, fourth generation Lacam® laser measurement device for use in the worldwide steel industry that is 17 times faster than the previous version. This new technology provides the fastest and most accurate laser scanning for hot surfaces available today.

Refractories Markets

The principal market for the Company's refractory products is the steel industry. Management believes that certain trends in the steel industry will provide growth opportunities for the Company. These trends include growth and quality improvements in select geographic regions (e.g., China, Middle East, Eastern Europe and India) the development of improved manufacturing processes such as thin-slab casting, the trend in North America to shift production from integrated mills to electric arc furnaces (mini-mills) and the ever-increasing need for improved productivity and longer lasting refractories.

The Company sells its refractory products in the following markets:

Steel Furnace. The Company sells gunnable monolithic refractory products and application systems to users of basic oxygen furnaces and electric arc furnaces for application on furnace walls to prolong the life of furnace linings.

Other Iron and Steel. The Company sells monolithic refractory materials and pre-cast refractory shapes for iron and steel ladles, vacuum degassers, continuous casting tundishes, blast furnaces and reheating furnaces. The Company offers a full line of materials to satisfy most continuous casting refractory applications. This full line consists of gunnable materials, refractory shapes and permanent linings.

Industrial Refractory Systems. The Company sells refractory shapes and linings to non-steel refractories consuming industries including glass, cement, aluminum and petrochemicals, power generation and other non-steel industries. The Company also produces a specialized line of carbon composites and pyrolytic graphite primarily sold under the PYROID® trademark, primarily to the aerospace and electronics industries.

Metallurgical Products and Markets

The Company produces a number of other technologically advanced products for the steel industry, including calcium metal, metallurgical wire products and a number of metal treatment specialty products. Net sales of metallurgical products were \$79.3 million, \$81.4 million and \$72.9 million for the years ended December 31, 2012, 2011 and 2010. The Company manufactures calcium metal at its Canaan, Connecticut, facility and purchases calcium in international markets. Calcium metal is used in the manufacture of the Company's PFERROCAL® solid-core calcium wire, and is also sold for use in the manufacture of batteries and magnets. We also manufacture cored wires at our Canaan, Connecticut and Hengelo, Netherlands, manufacturing sites. The Company sells metallurgical wire products and associated wire-injection equipment for use in the production of high-quality steel. These metallurgical wire products are injected into molten steel to improve castability and reduce imperfections. The steel produced is used for high-pressure pipeline and other premium-grade steel applications.

Marketing and Sales

The Company relies principally on its worldwide direct sales force to market its products. The direct sales force is augmented by technical service teams that are familiar with the industries to which the Company markets its products, and by several regional distributors. The Company's sales force works closely with the Company's technical service staff to solve technical and other issues faced by the Company's customers. The Company's technical service staff assists paper producers in ongoing evaluations of the use of PCC for paper coating and filling applications. In the Refractory segment, the Company's technical service personnel advise on the use of refractory materials, and, in many cases pursuant to service agreements, apply the refractory materials to the customers' furnaces and other vessels. Continued use of skilled technical service teams is an important component of the Company's business strategy.

The Company works closely with its customers to ensure that their requirements are satisfied, and it often trains and supports customer personnel in the use of the Company's products. The Company oversees domestic marketing and sales activities from Bethlehem, Pennsylvania, and from regional sales offices in the eastern and western United States. The Company's international marketing and sales efforts are directed from regional centers located in Brussels, Belgium; Sao Jose Dos Campos, Brazil; and Shanghai, China. The Company believes its processed minerals are at regional locations that satisfy the stringent delivery requirements of the industries they serve. The Company also believes that its worldwide network of sales personnel and manufacturing sites facilitates the continued international expansion.

Raw Materials

The Company depends in part on having an adequate supply of raw materials for its manufacturing operations, particularly lime and carbon dioxide for the PCC product line, magnesia and alumina for its Refractory operations, and on having adequate access to ore reserves at its mining operations.

The Company uses lime in the production of PCC and is a significant purchaser of lime worldwide. Generally, lime is purchased under long-term supply contracts from unaffiliated suppliers located in close geographic proximity to the Company's PCC plants. Generally, the lime utilized in our business is readily available from numerous sources, including, to a small extent, from our Adams, Massachusetts facility. Carbon dioxide is readily available in exhaust gas from the host paper mills, or other operations at our merchant facilities.

The principal raw materials used in the Company's monolithic refractory products are refractory-grade magnesia and various forms of alumina silicates. The Company purchases a portion of its magnesia requirements from sources in China. The price and availability of bulk raw materials from China are subject to fluctuations that could affect the Company's sales to its customers. In addition, the volatility of transportation costs has also affected the delivered cost of raw materials imported from China to North America and Europe. The Company has developed alternate sources of magnesia over the past few years that have reduced our reliance on China sourced magnesia. The alumina we utilize in our business is readily available from numerous sources. The

Company also purchases calcium metal, calcium silicide, graphite, calcium carbide and various alloys for use in the production of metallurgical wire products and uses lime and aluminum in the production of calcium metal.

Competition

The Company is continually engaged in efforts to develop new products and technologies and refine existing products and technologies in order to remain competitive and to position itself as a market leader.

With respect to its PCC products, the Company competes for sales to the paper industry with other minerals, such as GCC and kaolin, based in large part upon technological know-how, patents and processes that allow the Company to deliver PCC that it believes imparts gloss, brightness, opacity and other properties to paper on an economical basis. The Company is the leading manufacturer and supplier of PCC to the paper industry.

The Company competes in sales of its limestone and talc based primarily upon quality, price, and geographic location.

With respect to the Company's refractory products, competitive conditions vary by geographic region. Competition is based upon the performance characteristics of the product (including strength, consistency and ease of application), price, and the availability of technical support.

Research and Development

Many of the Company's product lines are technologically advanced. Our expertise in inorganic chemistry, crystallography and structural analysis, fine particle technology and other aspects of materials science apply to and support all of our product lines. The Company's business strategy for growth in sales and profitability depends, to a large extent, on the continued success of its research and development activities. Among the significant achievements of the Company's research and development efforts have been: the satellite PCC plant concept; PCC crystal morphologies for paper coating; AT[®] PCC for wood-containing papers; FulFill[™] high filler technology systems; the development of FASTFIRE[®] and OPTIFORM[®] shotcrete refractory products; LACAM[®] laser-based refractory measurement systems; the MINSCAN[®] and HOTCRETE[®] application systems; and EMforce[®], Optibloc[®] and Titanium Dioxide (TiO₂) extenders for the Processed Minerals and Specialty PCC product lines.

Under the FulFill[™] platform of products, the Company continues to develop its filler-fiber composite material. The FulFill[™] brand High Filler Technology is a portfolio of high-filler technologies that offers papermakers a variety of efficient, flexible solutions that decreases dependency on natural fiber and reduces costs. The FulFill[™] E-325 series allows papermakers to increase filler loading levels of precipitated calcium carbonate (PCC), which replaces higher cost pulp, and increases PCC usage. Depending on paper grades, this PCC volume increase may range from 15 to 30 percent. The Company continues to progress in the commercialization of FulFill[™] E-325. We have signed agreements with eleven paper mills and are actively engaged with additional paper mill sites for further FulFill[™] deployment. We continue product development with other products within this platform.

The Company will also continue to reformulate its refractory materials to be more competitive, and will also continue development of unique calcium carbonates for use in novel biopolymers.

For the years ended December 31, 2012, 2011 and 2010, the Company spent approximately \$20.2 million, \$19.3 million and \$19.6 million, respectively, on research and development. The Company's research and development spending for 2012, 2011 and 2010 was approximately 2.0%, 1.9% and 2.0% of net sales, respectively.

The Company maintains its primary research facilities in Bethlehem and Easton, Pennsylvania. It also has research and development facilities in China, Germany, Ireland, Japan and Turkey. Approximately 79 employees worldwide

are engaged in research and development. In addition, the Company has access to some of the world's most advanced papermaking and paper coating pilot facilities.

Patents and Trademarks

The Company owns or has the right to use approximately 248 patents and approximately 875 trademarks related to its business. Our patents expire between 2013 and 2031. Our trademarks continue indefinitely. The Company believes that its rights under its existing patents, patent applications and trademarks are of value to its operations, but no one patent, application or trademark is material to the conduct of the Company's business as a whole.

Insurance

The Company maintains liability and property insurance and insurance for business interruption in the event of damage to its production facilities and certain other insurance covering risks associated with its business. The Company believes such insurance is adequate for the operation of its business. There is no assurance that in the future the Company will be able to maintain the coverage currently in place or that the premiums will not increase substantially.

Employees

At December 31, 2012, the Company employed 1,992 persons, of whom 999 were employed outside of the United States.

Environmental, Health and Safety Matters

The Company's operations are subject to federal, state, local and foreign laws and regulations relating to the environment and health and safety. Certain of the Company's operations involve and have involved the use and release of substances that have been and are classified as toxic or hazardous within the meaning of these laws and regulations. Environmental operating permits are, or may be, required for certain of the Company's operations and such permits are subject to modification, renewal and revocation. The Company regularly monitors and reviews its operations, procedures and policies for compliance with these laws and regulations. The Company believes its operations are in substantial compliance with these laws and regulations and that there are no violations that would have a material effect on the Company. Despite these compliance efforts, some risk of environmental and other damage is inherent in the Company's operations, as it is with other companies engaged in similar businesses, and there can be no assurance that material violations will not occur in the future. The cost of compliance with these laws and regulations is not expected to have a material adverse effect on the Company.

Laws and regulations are subject to change. See Item 1A, Risk Factors, for information regarding the possible effects that compliance with new environmental laws and regulations, including those relating to climate change, may have on our businesses and operating results.

Under the terms of certain agreements entered into in connection with the Company's initial public offering in 1992, Pfizer Inc ("Pfizer") and its wholly-owned subsidiary Quigley Company, Inc. ("Quigley") agreed to indemnify the Company against certain liabilities being retained by Pfizer and its subsidiaries including, but not limited to, pending lawsuits and claims, and any lawsuits or claims brought at any time in the future alleging damages or injury from the use, handling of or exposure to any product sold by Pfizer's specialty minerals business prior to the closing of the initial public offering.

Available Information

The Company maintains an internet website located at <http://www.mineralstech.com>. Its reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as well as its Proxy Statement and filings under Section 16 of the Securities Exchange Act of 1934 are available free of charge through the Investor Relations page of its website, as soon as reasonably practicable after they are filed with the Securities and Exchange Commission ("SEC"). Investors may access these reports through the Company's website by navigating to "Investor Relations" and then to "SEC Filings."

Financial information concerning our business segments and the geographical areas in which we operate appears in the Notes to the Consolidated Financial Statements. Information related to our executive officers is included in Item 10, "Directors, Executive Officers and Corporate Governance."

Item 1A. Risk Factors

Our business faces significant risks. These risks include those described below and may include additional risks and uncertainties not presently known to us. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. These risks should be read in conjunction with the other information in this Annual Report on Form 10-K.

Worldwide general economic, business, and industry conditions have had, and may continue to have, an adverse effect on the Company's results.

The global economic instability of the past few years has caused, among other things, declining consumer and business confidence, volatile raw material prices, instability in credit markets, high unemployment, fluctuating interest and exchange rates, and other challenges. The Company's business and operating results have been and may continue to be adversely affected by these global economic conditions. In particular, our operations in Europe continue to be impacted by the uncertain European economy. A currency or financial crisis in Europe could precipitate a significant decline in the European economy, which would likely result in a decrease in demand for our products in Europe. The Company's customers and potential customers may experience deterioration of their businesses, cash flow shortages, and difficulty obtaining financing. As discussed below, the industries we serve, primarily paper, steel, construction and automotive, have been particularly adversely affected by the uncertain global economic climate due to the cyclical nature of their businesses. As a result, existing or potential customers may reduce or delay their growth and investments and their plans to purchase products, and may not be able to fulfill their obligations in a timely fashion. Further, suppliers could experience similar conditions, which could affect their ability to fulfill their obligations to the Company. Adversity within capital markets may also impact the Company's results of operations by negatively affecting the amount of expense the Company records for its pension and other postretirement benefit plans. Actuarial valuations used to calculate income or expense for the plans reflect assumptions about financial market and other economic conditions – the most significant of which are the discount rate and the expected long-term rate of return on plan assets. Such actuarial valuations may

change based on changes in key economic indicators. Global economic markets remain uncertain, and there can be no assurance that market conditions will improve in the near future. Future weakness in the global economy could materially and adversely affect our business and operating results.

The Company's operations are subject to the cyclical nature of its customers' businesses and we may not be able to mitigate that risk.

The majority of the Company's sales are to customers in industries that have historically been cyclical: paper, steel, construction, and automotive. These industries have been particularly adversely affected by the uncertain global economic climate. Our Refractories segment primarily serves the steel industry. In 2012, North American and European steel production was approximately 15% below 2008 levels due to reduced demand and several steel mill closures. In the paper industry, which is served by our Paper PCC product line, production levels for uncoated freesheet within North America and Europe, our two largest markets remain approximately 16% below 2008 levels.

The reduced demand for paper industry products has also caused the paper industry to experience a number of recent bankruptcies and paper mill closures, including among our customers. In addition, our Processed Minerals and Specialty PCC product lines are affected by the domestic building and construction markets and the automotive market. Housing starts in 2012 averaged approximately 780 thousand units. Housing starts were at a peak rate of 2.1 million units in 2005. Demand for our products is subject to these trends. In addition, these trends could cause our customers to face liquidity issues or bankruptcy, which could deteriorate the aging of our accounts receivable, increase our bad debt exposure and possibly trigger impairment of assets or realignment of our businesses. The Company has taken steps to reduce its exposure to variations in its customers' businesses, including by diversifying its portfolio of products and services; through geographic expansion, and by structuring most of its long-term satellite PCC contracts to provide a degree of protection against declines in the quantity of product purchased, since the price per ton of PCC generally rises as the number of tons purchased declines. In addition, many of the Company's product lines lower its customers' costs of production or increase their productivity, which should encourage them to use its products. However, there can be no assurance that these efforts will mitigate the risks of our dependence on these industries. Continued weakness in the industries we serve has had, and may in the future have, an adverse effect on sales of our products and our results of operations. A continued or renewed economic downturn in one or more of the industries or geographic regions that the Company serves, or in the worldwide economy, could cause actual results of operations to differ materially from historical and expected results.

The Company's results could be adversely affected if it is unable to effectively achieve and implement its growth initiatives.

Sales and income growth of the Company depends upon a number of uncertain events, including the outcome of the Company's strategies of increasing its penetration into geographic markets such as the BRIC (Brazil, Russia, India, China) countries and other Asian and Eastern European countries; increasing its penetration into product markets such as the market for papercoating pigments and the market for groundwood paper pigments; increasing sales to existing PCC customers by increasing the amount of PCC used per ton of paper produced; developing, introducing and selling new products such as the FulFill™ family of products for the paper industry. Difficulties, delays or failure of any of these strategies could affect the future growth rate of the Company. Our strategy also anticipates growth through future acquisitions. However, our ability to identify and consummate any future acquisitions on terms that are favorable to us may be limited by the number of attractive acquisition targets, internal demands on our resources and our ability to obtain financing. Our success in integrating newly acquired businesses will depend upon our ability to retain key personnel, avoid diversion of management's attention from operational matters, and integrate general and administrative services. In addition, future acquisitions could result in the incurrence of additional debt, costs and contingent liabilities. Integration of acquired operations may take longer, or be more costly or disruptive to our business, than originally anticipated, and it is also possible that expected synergies from future acquisitions may not materialize. We also may incur costs and divert management attention with regard to potential acquisitions that are never consummated.

The Company's sales of PCC could be adversely affected by our failure to renew or extend long term sales contracts for our satellite operations.

The Company's sales of PCC to paper customers are typically pursuant to long-term evergreen agreements, initially ten years in length, with paper mills where the Company operates satellite PCC plants. Sales pursuant to these contracts represent a significant portion of our worldwide Paper PCC sales, which were \$480.3 million in 2012, or

approximately 48% of the Company's net sales. The terms of many of these agreements have been extended or renewed in the past, often in connection with an expansion of the satellite plant. However, failure of a number of the Company's customers to renew or extend existing agreements on terms as favorable to the Company as those currently in effect, or at all, could have a substantial adverse effect on the Company's results of operations, and could also result in impairment of the assets associated with the PCC plant.

The Company's sales could be adversely affected by consolidation in customer industries, principally paper and steel.

Several consolidations in the paper industry have taken place in recent years and such consolidation could continue in the future. These consolidations could result in partial or total closure of some paper mills where the Company operates PCC satellites. In 2011, the Company idled its satellite plant in Anjalankoski, Finland, due to the permanent closure of the paper mill, and the Company's satellite plant in Alizay, France, is temporarily closed. Such closures would reduce the Company's sales of PCC, except to the extent that they resulted in shifting paper production and associated purchases of PCC to another location served by

the Company. Similarly, consolidations have occurred in the steel industry. Such consolidations in the two major industries we serve concentrate purchasing power in the hands of a smaller number of papermakers and steel manufacturers, enabling them to increase pressure on suppliers, such as the Company. This increased pressure could have an adverse effect on the Company's results of operations in the future.

The Company is subject to stringent regulation in the areas of environmental, health and safety, and tax, and may incur unanticipated costs or liabilities arising out of claims for various legal, environmental and tax matters or product stewardship issues.

The Company's operations are subject to international, federal, state and local governmental environmental, health and safety, tax and other laws and regulations. We have expended, and may be required to expend in the future, substantial funds for compliance with such laws and regulations. In addition, future events, such as changes to or modifications of interpretations of existing laws and regulations, or enforcement policies, or further investigation or evaluation of the potential environmental impacts of operations or health hazards of certain products, may give rise to additional compliance and other costs that could have a material adverse effect on the Company. State, national, and international governments and agencies have been evaluating climate-related legislation and regulation that would restrict emissions of greenhouse gases in areas in which we conduct business, and some such legislation and regulation have already been enacted or adopted. Enactment of climate-related legislation or adoption of regulation that restrict emissions of greenhouse gases in areas in which we conduct business could have an adverse effect on our operations or demand for our products. Our manufacturing processes, particularly the manufacturing process for PCC, use a significant amount of energy and, should energy prices increase as a result of such legislation or regulation, we may not be able to pass these increased costs on to purchasers of our products. We cannot predict if or when currently proposed or additional laws and regulations regarding climate change or other environmental or health and safety concerns will be enacted or adopted. Moreover, changes in tax regulation and international tax treaties could reduce the financial performance of our foreign operations.

The Company is currently a party in various litigation matters and tax and environmental proceedings and faces risks arising from various unasserted litigation matters, including, but not limited to, product liability, patent infringement, antitrust claims, and claims for third party property damage or personal injury stemming from alleged environmental torts. Failure to appropriately manage safety, human health, product liability and environmental risks associated with the Company's products and production processes could adversely impact the Company's employees and other stakeholders, the Company's reputation and its results of operations. Public perception of the risks associated with the Company's products and production processes could impact product acceptance and influence the regulatory environment in which the Company operates. While the Company has procedures and controls to manage these risks, carries liability insurance, which it believes to be appropriate to its businesses, and has provided reserves for current matters, which it believes to be adequate, an unanticipated liability, arising out of a current matter or proceeding or from the other risks described above, could have a material adverse effect on the Company's financial condition or results of operations.

Delays or failures in new product development could adversely affect the Company's operations.

The Company's future business success will depend in part upon its ability to maintain and enhance its technological capabilities, to respond to changing customer needs, and to successfully anticipate or respond to technological changes on a cost-effective and timely basis. The Company is engaged in a continuous effort to develop new products and processes in all of its product lines. Difficulties, delays or failures in the development, testing, production, marketing or sale of such new products could cause actual results of operations to differ materially from our expected results.

The Company's ability to compete is dependent upon its ability to defend its intellectual property against inappropriate disclosure and infringement.

The Company's ability to compete is based in part upon proprietary knowledge, both patented and unpatented. The Company's ability to achieve anticipated results depends in part on its ability to defend its intellectual property against inappropriate disclosure as well as against infringement. In addition, development by the Company's competitors of new products or technologies that are more effective or less expensive than those the Company offers could have a material adverse effect on the Company's financial condition or results of operations.

The Company's operations could be impacted by the increased risks of doing business abroad.

The Company does business in many areas internationally. Approximately 44% of our sales in 2012 were derived from outside the United States and we have significant production facilities which are located outside of the United States. We continue to be concerned about the possibility of recessionary conditions in Europe, from which we derived approximately 25% of our sales in 2012. Our sales in Europe decreased from \$298.4 million in 2011 to \$257.0 million in 2012, and continued weakness in the European market may negatively affect our sales in the future. We have in recent years expanded our operations in emerging markets, and we plan to continue to do so in the future, particularly in China, India, Brazil, and Eastern Europe. Some of our operations are located in areas that have experienced political or economic instability, including Indonesia, Brazil, Thailand, China and South Africa. As the Company expands its operations overseas, it faces increased risks of doing business abroad, including inflation, fluctuation in interest rates, changes in applicable laws and regulatory requirements, export and import restrictions,

tariffs, nationalization, expropriation, limits on repatriation of funds, civil unrest, terrorism, unstable governments and legal systems, and other factors. Adverse developments in any of the areas in which we do business could cause actual results to differ materially from historical and expected results. In addition, a significant portion of our raw material purchases and sales outside the United States are denominated in foreign currencies, and liabilities for non-U.S. operating expenses and income taxes are denominated in local currencies. Accordingly, reported sales, net earnings, cash flows and fair values have been and in the future will be affected by changes in foreign currency exchange rates. Our overall success as a global business depends, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions. We cannot assure you that we will implement policies and strategies that will be effective in each location where we do business.

The Company's operations are dependent on the availability of raw materials and increases in costs of raw materials or energy could adversely affect our financial results.

The Company depends in part on having an adequate supply of raw materials for its manufacturing operations, particularly lime and carbon dioxide for the PCC product line, and magnesia and alumina for its Refractory operations. Purchase prices and availability of these critical raw materials are subject to volatility. At any given time, we may be unable to obtain an adequate supply of these critical raw materials on a timely basis, on price and other terms, or at all. While most such raw materials are readily available, the Company purchases a portion of its magnesia requirements from sources in China. The price and availability of magnesia have fluctuated in the past and they may fluctuate in the future. Price increases for certain other of our raw materials, as well as increases in energy prices, have also affected our business. Our ability to recover increased costs is uncertain. The Company and its customers will typically negotiate reasonable price adjustments in order to recover a portion of these rapidly escalating costs. While the contracts pursuant to which we construct and operate our satellite PCC plants generally adjust pricing to reflect increases in costs resulting from inflation, there is a time lag before such price adjustments can be implemented. In 2012, increased raw materials affected our Specialty Minerals segment by \$12 million.

These increased raw material costs were partially offset by price increases.

The Company also depends on having adequate access to ore reserves of appropriate quality at its mining operations. There are numerous uncertainties inherent in estimating ore reserves including subjective judgments and determinations that are based on available geological, technical, contract and economic information.

We cannot predict whether, and how much, prices for our key raw materials will increase in the future. Changes in the costs or availability of such raw materials, to the extent we cannot recover them in price increases to our customers, could adversely affect the Company's results of operations.

The Company operates in very competitive industries, which could adversely affect our profitability.

The Company has many competitors. Some of our principal competitors have greater financial and other resources than we have. Accordingly, these competitors may be better able to withstand changes in conditions within the industries in which we operate and may have significantly greater operating and financial flexibility than we do. As a result of the competitive environment in the markets in which we operate, we currently face and will continue to face pressure on the sales prices of our products from competitors, which could reduce profit margins.

Production facilities are subject to operating risks and capacity limitations that may adversely affect the Company's financial condition or results of operations.

The Company is dependent on the continued operation of its production facilities. Production facilities are subject to hazards associated with the manufacturing, handling, storage, and transportation of chemical materials and products, including pipeline leaks and ruptures, explosions, fires, inclement weather and natural disasters, mechanical failure, unscheduled downtime, labor difficulties, transportation interruptions, and environmental risks. We maintain property, business interruption and casualty insurance but such insurance may not cover all risks associated with the hazards of our business and is subject to limitations, including deductibles and maximum liabilities covered. We may incur losses beyond the limits, or outside the coverage, of our insurance policies. Further, from time to time, we may experience capacity limitations in our manufacturing operations. In addition, if we are unable to effectively forecast our customers' demand, it could affect our ability to successfully manage operating capacity limitations.

These hazards, limitations, disruptions in supply and capacity constraints could adversely affect financial results.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Set forth below is the location of, and the main customer served by, each of the Company's satellite PCC plants in operation as of December 31, 2012. Generally, the land on which each satellite PCC plant is located is leased at a nominal amount by the Company

11

Edgar Filing: MINERALS TECHNOLOGIES INC - Form 10-K

from the host paper mill pursuant to a lease, the term of which generally runs concurrently with the term of the PCC production and sale agreement between the Company and the host paper mill.

<u>Location</u>	<u>Principal Customer</u>
United States	
Alabama, Courtland	International Paper Company
Alabama, Jackson	Boise Inc.
Alabama, Selma	International Paper Company
Arkansas, Ashdown	Domtar Inc.
Florida, Pensacola	Georgia-Pacific Corporation (Koch Industries)
Kentucky, Wickliffe	NewPage Corporation
Louisiana, Port Hudson	Georgia-Pacific Corporation (Koch Industries)
Maine, Jay	Verso Paper Holdings LLC
Maine, Madison	Madison Paper Industries
Michigan, Quinnesec	Verso Paper Holdings LLC
Minnesota, Cloquet	Sappi Ltd.
Minnesota, International Falls	Boise Inc.
New York, Ticonderoga	International Paper Company
Ohio, Chillicothe	P.H. Glatfelter Co.
Ohio, West Carrollton	Appleton Papers Inc.
South Carolina, Eastover	International Paper Company
Washington, Camas	Georgia-Pacific Corporation (Koch Industries)
Washington, Longview	North Pacific Paper Corporation
Washington, Wallula	Boise Inc.
Wisconsin, Kimberly	Appleton Coated
Wisconsin, Park Falls	Flambeau River Papers LLC

Edgar Filing: MINERALS TECHNOLOGIES INC - Form 10-K

Balances, October 1, 2015	\$	112	\$ 45,845	\$ (35,740)	\$ (1,529)	\$ 8,688
Net income	—	—	—	1,543	—	1,543
Stock-based compensation	—	—	54	—	—	54
Return of incentive compensation shares	—	—	—	—	(60)	(60)
Balances, January 1, 2016	\$	112	\$ 45,899	\$ (34,197)	\$ (1,589)	\$ 10,225

	Common Stock, par \$0.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, October 1, 2016	\$ 113	\$ 46,294	\$(30,954)	\$(1,589)	\$ 13,864
Net loss	—	—	(865)	—	(865)
Stock-based compensation	—	135	—	—	135
Employee stock plan purchases	—	13	—	—	13
Shares withheld for payment of taxes upon vesting of restricted stock	—	(2)	—	—	(2)
Balances, December 30, 2016	\$ 113	\$ 46,440	\$(31,819)	\$(1,589)	\$ 13,145

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

IEC ELECTRONICS CORP.
 CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS
 THREE MONTHS ENDED DECEMBER 30, 2016 and JANUARY 1, 2016
 (unaudited; in thousands)

	Three Months Ended	
	December 30, 2016	January 1, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	\$(865)	\$ 1,543
Non-cash adjustments:		
Stock-based compensation	135	54
Incentive compensation shares returned	—	(60)
Depreciation and amortization	664	855
Reserve for doubtful accounts	(162)	277
Provision for excess/obsolete inventory	6	498
Amortization of deferred gain on sale leaseback	(12)	—
Changes in assets and liabilities:		
Accounts receivable	5,876	4,576
Inventory	892	(922)
Other current assets	212	(315)
Other long term assets	3	(63)
Accounts payable	(2,098)	(5,016)
Accrued expenses	(2,133)	427
Customer deposits	(592)	(176)
Other long term liabilities	48	(74)
Net cash flows from operating activities	1,974	1,604
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(457)	(685)
Proceeds from sale-leaseback	5,750	—
Net cash flows from investing activities	5,293	(685)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from revolving line of credit	10,807	16,816
Repayments of revolving line of credit	(12,125)	(17,128)
Repayments under other loan agreements	(6,328)	(727)
Repayments under capital lease	(33)	—
Debt issuance costs	—	(202)
Proceeds from employee stock plan purchases	13	—
Shares withheld for payment of taxes upon vesting of restricted stock	(2)	—
Net cash flows from financing activities	(7,668)	(1,241)
Net cash flows for the period	(401)	(322)
Cash, beginning of period	845	407
Cash, end of period	\$444	\$ 85

Supplemental cash flow information

Edgar Filing: MINERALS TECHNOLOGIES INC - Form 10-K

Interest paid	\$209	\$ 365
Income taxes paid	79	—
Borrowings under capital lease	5,750	—

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

6

IEC ELECTRONICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—OUR BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our Business

IEC Electronics Corp. (“IEC,” “we,” “our,” “us,” the “Company”) provides electronic manufacturing services (“EMS”) to advanced technology companies that produce life-saving and mission critical products for the medical, industrial, aerospace and defense sectors. The Company specializes in delivering technical solutions for the custom manufacture of complex full system assemblies by providing on-site analytical testing laboratories, custom design and test engineering services combined with a broad array of manufacturing services encompassing electronics, interconnect solutions, and precision metalworking. As a full service EMS provider, IEC holds all appropriate certifications for the market sectors it supports including ISO 9001:2008, AS9100C, ISO 13485, Nadcap and IPC QML. IEC is headquartered in Newark, NY and also has operations in Rochester, NY and Albuquerque, NM. Additional information about IEC can be found on its website at www.iec-electronics.com. The contents of this website are not incorporated by reference into this quarterly report.

Generally Accepted Accounting Principles

IEC's financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), as set forth in the Financial Accounting Standards Board's (“FASB”) Accounting Standards Codification (“ASC”).

Fiscal Calendar

The Company's fiscal year ends on September 30th and the first three quarters end generally on the Friday closest to the last day of the calendar quarter.

Consolidation

The consolidated financial statements include the accounts of IEC and its wholly-owned subsidiaries: IEC Electronics Wire and Cable, Inc. (“Wire and Cable”); IEC Electronics Corp-Albuquerque (“Albuquerque”); IEC Analysis & Testing Laboratory, LLC (“ATL”), formerly Dynamic Research and Testing Laboratories, LLC; and IEC California Holdings, Inc. The Rochester unit, formerly Celmet, operates as a division of IEC. All significant intercompany transactions and accounts are eliminated in consolidation.

Unaudited Financial Statements

The accompanying unaudited financial statements for the three months ended December 30, 2016 and January 1, 2016 have been prepared in accordance with GAAP for interim financial information. In the opinion of management, all adjustments required for a fair presentation of the information have been made. The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (“fiscal 2016”).

Reclassifications

Prior year financial statement amounts are reclassified as necessary to conform to the current year presentation. There was no impact on net income or accumulated deficit as a result of the reclassification.

Cash

The Company's cash represents deposit accounts with Manufacturers and Traders Trust Company ("M&T Bank"), a banking corporation headquartered in Buffalo, NY.

Allowance for Doubtful Accounts

The Company establishes an allowance for doubtful accounts receivable based on the age of outstanding invoices and management's evaluation of collectability. Accounts are written off after all reasonable collection efforts have been exhausted and management concludes that likelihood of collection is remote.

Inventory Valuation

Inventories are stated at the lower of cost or market value under the first-in, first-out method. The Company regularly assesses slow-moving, excess and obsolete inventory and maintains balance sheet reserves in amounts required to reduce the recorded value of inventory to the lower of cost or market.

Property, Plant and Equipment

Property, plant and equipment ("PP&E") are stated at cost and are depreciated over various estimated useful lives using the straight-line method. Maintenance and repairs are charged to expense as incurred, while renewals and improvements are capitalized. At the time of retirement or other disposition of PP&E, cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded in earnings.

Depreciable lives generally used for PP&E are presented in the table below. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the improvement.

PP&E Lives	Estimated Useful Lives (years)
Land improvements	10
Buildings and improvements	5 to 40
Machinery and equipment	3 to 5
Furniture and fixtures	3 to 7

Intangible Assets

Intangible assets (other than goodwill) are those that lack physical substance and are not financial assets. Such assets held by IEC were acquired in connection with business combinations or represent economic benefits associated with a property tax abatement. Values assigned to individual intangible assets are amortized using the straight-line method over their estimated useful lives.

Reviewing Long-Lived Assets for Potential Impairment

ASC 360-10 (Property, Plant and Equipment) and ASC 350-30 (Intangibles) require the Company to test long-lived assets (PP&E and definitive lived assets) for recoverability whenever events or circumstances indicate that the carrying amount may not be recoverable. If carrying value exceeds undiscounted future cash flows attributable to an asset, it is considered impaired and the excess of carrying value over fair value must be charged to earnings. No impairment charges were identified or recorded by IEC for PP&E or intangibles during the three months ended December 30, 2016.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired in a business combination. Under ASC 350, goodwill is not amortized but is reviewed for impairment at least annually or when events or circumstances indicate that carrying value may exceed fair value. The Company may elect to precede a quantitative review for impairment with a qualitative assessment of the likelihood that fair value of a particular reporting unit exceeds carrying value. If the qualitative assessment leads to a conclusion that it is more than 50 percent likely that fair value exceeds carrying value, no further testing is required. In the event of a less favorable outcome, the Company is required to proceed with quantitative testing.

The quantitative process entails comparing the overall fair value of the unit to which goodwill relates to carrying value. If fair value exceeds carrying value, no further assessment of potential impairment is required. If fair value of the unit is less than carrying value, a valuation of the unit's individual assets and liabilities is required to determine whether or not goodwill is impaired. Goodwill impairment losses are charged to earnings.

IEC's remaining goodwill as of December 30, 2016 of \$0.1 million relates to its acquisition of the Rochester division in July 2010. There has been no impairment for this goodwill since the acquisition date.

Leases

At the inception of a lease covering equipment or real estate, the lease agreement is evaluated under criteria discussed in ASC 840-10-25 (Leases). Leases meeting one of four key criteria are accounted for as capital leases and all others are treated as operating leases. Under a capital lease, the discounted value of future lease payments becomes the basis for recognizing an asset and a borrowing, and lease payments are allocated between debt reduction and interest. For operating leases, payments are recorded as rent expense. Criteria for a capital lease include (i) transfer of ownership during the lease term; (ii) existence of a bargain purchase option under terms that make it likely to be exercised; (iii) a lease term equal to 75 percent or more of the economic life of the leased property; and (iv) minimum lease payments that equal or exceed 90 percent of the fair value of the property.

Legal Contingencies

When legal proceedings are brought or claims are made against us and the outcome is uncertain, ASC 450-10 (Contingencies) requires that we determine whether it is probable that an asset has been impaired or a liability has been incurred. If such impairment or liability is probable and the amount of loss can be reasonably estimated, the loss must be charged to earnings.

When it is considered probable that a loss has been incurred, but the amount of loss cannot be estimated, disclosure but not accrual of the probable loss is required. Disclosure of a loss contingency is also required when it is reasonably possible, but not probable, that a loss has been incurred.

Customer Deposits

Customer deposits represent amounts invoiced to customers for which the revenue has not yet been earned and therefore represent a commitment for the Company to deliver goods or services in the future. Deposits are generally short term in nature and are recognized as revenue when earned.

Grants from Outside Parties

Grants from outside parties are recorded as other long-term liabilities and are amortized over the same period during which the associated PP&E are depreciated. The Company received grants for certain facility improvements and equipment from state and local agencies in which the Company operates. These grants reimbursed the Company for a portion of the actual cost or provided in kind services in support of capital projects.

There were no deferred grants recorded during the three months ended December 30, 2016 or the fiscal year ended September 30, 2016. The outstanding grant balance was \$0.2 million and \$0.3 million at December 30, 2016 and September 30, 2016, respectively.

Derivative Financial Instruments

The Company actively monitors its exposure to interest rate risk and from time to time may use derivative financial instruments to manage the impact of this risk. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the interest rate nor does the Company use derivative instruments where it does not have underlying exposures. The Company did not have any derivative financial instruments at December 30, 2016 or September 30, 2016.

Fair Value Measurements

Under ASC 825 (Financial Instruments), the Company is required to disclose the fair value of financial instruments for which it is practicable to estimate value. The Company's financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and borrowings. IEC believes that recorded value approximates fair value for all cash, accounts receivable, accounts payable and accrued liabilities. See Note 7—Fair Value of Financial Instruments for discussion of the fair value of IEC's borrowings.

ASC 820 (Fair Value Measurements and Disclosures) defines fair value, establishes a framework for measurement, and prescribes related disclosures. ASC 820 defines fair value as the price that would be received upon sale of an asset or would be paid to transfer a liability in an orderly transaction. Inputs used to measure fair value are categorized under the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs are observable market data.

Level 3: Model-derived valuations in which one or more significant inputs are unobservable.

The Company deems a transfer between levels of the fair value hierarchy to have occurred at the beginning of the reporting period. There were no such transfers during each of the first three months of fiscal 2017 or fiscal 2016.

Revenue Recognition

The Company's revenue is principally derived from the sale of electronic products built to customer specifications, but also from other value-added support services and repair work. Revenue from product sales is recognized when (i) goods are shipped or title and risk of ownership have passed, (ii) the price to the buyer is fixed or determinable, and (iii) realization is reasonably assured. Service revenue is generally recognized once the service has been rendered. For material management arrangements, revenue is generally recognized as services are rendered. Under such arrangements, some or all of the following services may be provided: design, bid, procurement, testing, storage or other activities relating to materials the customer expects to incorporate into products that it manufactures. Value-added support services revenue, including material management and repair work revenue, amounted to less than 5% of total revenue in each of the first three months of fiscal 2017 and fiscal 2016.

Provisions for discounts, allowances, rebates, estimated returns and other adjustments are recorded in the period the related sales are recognized.

Stock-Based Compensation

ASC 718 (Stock Compensation) requires that compensation expense be recognized for equity awards based on fair value as of the date of grant. For stock options, the Company uses the Black-Scholes pricing model to estimate grant date fair value. Costs associated with stock awards are recorded over requisite service periods, generally the vesting period. If vesting is contingent on the achievement of performance objectives, fair value is accrued over the period the objectives are expected to be achieved only if it is considered probable that the objectives will be achieved. The Company also has an employee stock purchase plan ("ESPP") that provides for the purchase of Company common stock at a discounted stock purchase price. Compensation expense related to the discount is recognized as employees contribute to the plan. During fiscal 2015 and the first quarter of fiscal 2016, the ESPP was suspended in connection with the 2014 restatements of the Company's financial statements. The ESPP was reinstated as of the beginning of the second quarter of fiscal 2016.

Legal Expense Accrual

The Company records legal expenses as they are incurred, based on invoices received or estimates provided by legal counsel. Future estimated legal expenses are not recorded until incurred.

Income Taxes and Deferred Taxes

ASC 740 (Income Taxes) requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns, but not in both. Deferred tax assets are also established for tax benefits associated with tax loss and tax credit carryforwards. Such deferred balances reflect tax rates that are scheduled to be in effect, based on currently enacted legislation, in the years the book/tax differences reverse and tax loss and tax credit carryforwards are expected to be realized. An allowance is established for any deferred tax asset for which realization is not likely.

ASC 740 also prescribes the manner in which a company measures, recognizes, presents, and discloses in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the position will be sustained following examination

by taxing authorities, based on technical merits of the position. The Company believes that it has no material uncertain tax positions.

Any interest incurred is reported as interest expense. Any penalties incurred is reported as tax expense. The Company's income tax filings are subject to audit by various tax jurisdictions and current open years are fiscal 2010 through fiscal 2015. The federal income tax audit for the fiscal year ended September 30, 2013 concluded during the first three months of fiscal 2017 and resulted in no change to reported tax.

Earnings Per Share

Basic earnings per common share are calculated by dividing income available to common stockholders by the weighted average number of shares outstanding during each period. Diluted earnings per common share add to the denominator incremental shares resulting from the assumed exercise of all potentially dilutive stock options, as well as restricted (non-vested) stock, restricted stock units ("RSUs") and anticipated issuances under the ESPP. Options, restricted stock and RSUs are primarily held by directors, officers and certain employees. A summary of shares used in earnings per share ("EPS") calculations follows.

Shares for EPS Calculation	Three Months Ended	
	December 30, 2016	January 1, 2016
Weighted average shares outstanding	10,163,291	10,216,587
Incremental shares	—	—
Diluted shares	10,163,291	10,216,587
Anti-dilutive shares excluded	1,006,304	757,105

As a result of the net loss and incremental shares being negative for the three months ended December 30, 2016, the Company calculated diluted earnings per share using weighted average basic shares outstanding, as using diluted shares would be anti-dilutive to loss per share.

As a result of the incremental shares being negative for the three months ended and January 1, 2016, the Company calculated diluted earnings per share using weighted average basic shares outstanding, as using diluted shares would be anti-dilutive.

Dividends

IEC does not pay dividends on its common stock as it is the Company's current policy to retain earnings for use in the business. Furthermore, the Company's Fifth Amended and Restated Credit Facility Agreement, as amended, with M&T Bank includes certain restrictions on paying cash dividends, as more fully described in Note 6—Credit Facilities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from management's estimates.

Statements of Cash Flows

The Company presents operating cash flows using the indirect method of reporting under which non-cash income and expense items are removed from net income.

Recently Issued Accounting Standards

FASB Accounting Standard Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“Topic 606”) was issued May 2014 and updates the principles for recognizing revenue. The ASU will supersede most of the existing revenue recognition requirements in GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which a company expects to be entitled in exchange for transferring goods or services to a customer. This ASU also amends the required disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. FASB ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations” was issued in March 2016 and improves implementation guidance on principal versus agent considerations. FASB ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and

Licensing” was issued in April 2016 and adds further guidance on identifying performance obligations as well as improving licensing implementation guidance. FASB ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” was issued in June 2016 and clarifies the objective of the collectability criterion, presentation of taxes collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition and how guidance in Topic 606 is retrospectively applied. The amendments do not change the core principle of the guidance in Topic 606. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within that period. Early adoption is permitted for annual periods beginning after December 15, 2016. The Company is identifying key personnel to evaluate the guidance and determine the transition method, while also formulating a time line to review the potential impact of the new standard on its existing revenue recognition policies and procedures. Although Management has not completed its evaluation of all the issued guidance under ASC No. 606, the Company does not currently expect the guidance to have a material effect on its financial position, results of operations or cash flows.

FASB ASU 2014-12, “Compensation - Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” was issued in June 2014. This guidance was issued to resolve diversity in accounting for performance targets. A performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition and should not be reflected in the award’s grant date fair value. Compensation cost should be recognized over the required service period, if it is probable that the performance condition will be achieved. The guidance became effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. This update did not have a significant impact on the Company’s financial statements upon adoption.

FASB ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” was issued in September 2014. This provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. This update did not have a significant impact on the Company’s financial statements upon adoption.

FASB ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs” was issued in April 2015. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU applies to all entities and is effective for public business entities for annual periods beginning after December 15, 2015, and interim periods thereafter, with early adoption permitted. The guidance should be applied on a retrospective basis. This update did not have a significant impact on the Company’s financial statements upon adoption.

FASB ASU 2015-11, “Simplifying the Measurement of Inventory” was issued in July 2015. This requires entities to measure most inventory “at the lower of cost and net realizable value,” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The ASU will not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. For public business entities, the ASU is effective prospectively for annual periods beginning after December 15, 2016, and interim periods therein. Upon transition, entities must disclose the nature of and reason for the accounting change. The Company does not anticipate a significant impact on its financial statements upon adoption.

FASB ASU 2015-15, "Interest—Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" was issued in August 2015 and permits an entity to report deferred debt issuance costs associated with a line-of-credit arrangement as an asset and to amortize such costs over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings under the credit line. The ASU applies to all entities and is effective for public business entities for annual periods beginning after December 15, 2015, and interim periods thereafter, with early adoption permitted. The guidance should be applied on a retrospective basis. This update did not have a significant impact on the Company's financial statements upon adoption.

FASB ASU 2015-17, "Income Taxes Balance Sheet Classification of Deferred Taxes" was issued in November 2015. This requires entities to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position and applies to all entities that present a classified statement of financial position. For public entities, this update is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company does not anticipate a significant impact on its financial statements upon adoption.

FASB ASU 2016-02, "Leases" was issued in February 2016. The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. For public entities, the new

guidance is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted for all entities. The Company is evaluating the impact the ASU will have on its financial statements.

FASB ASU 2016-09, "Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting" was issued in March 2016. This simplifies accounting for several aspects of share-based payment including income tax consequences, classification of awards as either equity or liability and classification on the statement of cash flows. For public entities, this update is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company does not anticipate a significant impact on its financial statements upon adoption.

NOTE 2—ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary of activity in the allowance for doubtful accounts during the three months ended December 30, 2016 and January 1, 2016 follows:

Allowance for Doubtful Accounts (in thousands)	Three Months Ended	
	December 30, 2016	January 1, 2016
Allowance, beginning of period	\$ 226	\$ 423
Provision for doubtful accounts	(162)	277
Write-offs/recoveries	13	(155)
Allowance, end of period	\$ 77	\$ 545

NOTE 3—INVENTORIES

A summary of inventory by category at period end follows:

Inventories (in thousands)	December 30, 2016	September 30, 2016
Raw materials	\$ 9,118	\$ 9,138
Work-in-process	5,610	5,932
Finished goods	1,389	1,939
Total inventories	16,117	17,009
Reserve for excess/obsolete inventory	(1,631)	(1,625)
Inventories, net	\$ 14,486	\$ 15,384

NOTE 4—PROPERTY, PLANT & EQUIPMENT

A summary of property, plant and equipment and accumulated depreciation at period end follows:

Property, Plant & Equipment (in thousands)	December 30, 2016	September 30, 2016
Land and improvements	\$ 788	\$ 788
Buildings and improvements	8,910	8,910
Building under capital lease	5,750	—
Machinery and equipment	27,583	26,905
Furniture and fixtures	7,503	7,489

Edgar Filing: MINERALS TECHNOLOGIES INC - Form 10-K

Construction in progress	3,047	3,079
Total property, plant and equipment, at cost	53,581	47,171
Accumulated depreciation	(36,800)	(36,177)
Property, plant and equipment, net	\$ 16,781	\$ 10,994

13

Depreciation expense during the three months ended December 30, 2016 and January 1, 2016 follows:

Three Months
 Ended
 December 30, January 1,
 2016 2016

(in thousands)

Depreciation expense \$ 645 \$ 840

NOTE 5—INTANGIBLE ASSETS

IEC's intangible assets (other than goodwill) were acquired in connection with the purchase of Albuquerque during the fiscal year ended September 30, 2010.

Albuquerque's building and land were acquired subject to an Industrial Revenue Bond (“IRB”) that exempted the property from real estate taxes for the term of the IRB. The tax abatement was valued at \$360 thousand at the date of acquisition, and such value was being amortized over the 9.2 year exemption period that remained as of the acquisition date. No impairment was taken for this asset since the Albuquerque acquisition. The IRB was paid off in connection with the sale-leaseback transaction described in Note 14—Capital Lease.

A summary of intangible assets by category and accumulated amortization at period end follows:

Intangible Assets	December 30, 2016	September 30, 2016
(in thousands)		
Property tax abatement - Albuquerque	\$ 360	\$ 360
Accumulated amortization	(275)	(265)
Intangible assets, net	\$ 85	\$ 95

Amortization expense during the three months ended December 30, 2016 and January 1, 2016 follows:

Amortization Expense	Three Months Ended December 30, 2016	January 1, 2016
(in thousands)		
Intangible amortization expense	\$ 10	\$ 10

A summary of amortization expense for the next five years follows:

Future Amortization	Estimated future amortization
(in thousands)	
Twelve months ended December, 2017	\$ 39
2018	39
2019 and thereafter	7

NOTE 6—CREDIT FACILITIES

A summary of borrowings at period end follows:

Debt	Fixed/ Variable Rate	Maturity Date	December 30, 2016		September 30, 2016	
			Balance	Interest Rate	Balance	Interest Rate
(\$ in thousands)						
M&T credit facilities:						
Revolving Credit Facility	v	1/18/2018	\$2,643	5.02 %	\$3,961	3.28 %
Term Loan A ⁽¹⁾	f	2/1/2020	48	3.98	3,693	3.98
Term Loan B	v	2/1/2023	8,633	3.87	8,983	3.03
Albuquerque Mortgage Loan ⁽¹⁾	v	2/1/2018	—	—	2,200	3.55
Celmet Building Term Loan	f	11/7/2018	899	4.72	932	4.72
Other credit facilities:						
Albuquerque Industrial Revenue Bond ⁽¹⁾	f	3/1/2019	—	—	100	5.63
Total debt, gross			12,223		19,869	
Unamortized debt issuance costs			(220)		(229)	
Total debt, net			12,003		19,640	
Less: current portion			(1,578)		(2,908)	
Long-term debt			\$10,425		\$16,732	

⁽¹⁾ The Albuquerque Mortgage Loan and the Albuquerque Industrial Revenue Bond were repaid in connection with the sale-leaseback transaction described in Note 14—Capital Lease. The proceeds from the transaction were also used to pay down Term Loan A.

M&T Bank Credit Facilities

On November 28, 2016, the Company and M&T Bank entered into the Second Amendment to Fifth Amended and Restated Credit Facility Agreement (the “Second Amendment”), that amended the Fifth Amended and Restated Credit Facility Agreement dated as of December 14, 2015, as amended by the First Amendment to the Fifth Amended and Restated Credit Facility, dated as of June 20, 2016 (“Fifth Amended Credit Agreement”). The Second Amendment reduced M&T Bank’s revolving credit commitment to \$16.0 million and modified the trigger for maintenance of the cash management system. The Second Amendment also modified the level adjustment dates for the Applicable Margin and the Applicable Unused Fee, as such terms are defined under the Fifth Amended Credit Agreement. In addition, the Second Amendment amended the covenants regarding the Company's Debt to EBITDAS Ratio, Minimum Quarterly EBITDAS amounts and the Fixed Charge Coverage Ratio, as such terms are defined under the Fifth Amended Credit Agreement. The Fifth Amended Credit Agreement prohibits the Company from paying dividends or repurchasing or redeeming its common stock without first obtaining the consent of M&T Bank.

Individual debt facilities provided under the Fifth Amended Credit Agreement, as amended, are described below:

- a) Revolving Credit Facility (“Revolver”): Up to \$16 million is available through January 18, 2018. The maximum amount the Company may borrow is determined based on a borrowing base calculation described below.
- b) Term Loan A: \$10.0 million was borrowed on January 18, 2013. Principal was being repaid in 108 equal monthly installments of \$93 thousand. The proceeds of the sale-leaseback transaction described in Note 14—Capital Lease were used to paydown the loan. The Company repaid the remaining \$48 thousand balance of the loan during January 2017.
- c)

Term Loan B: \$14.0 million was borrowed on January 18, 2013. Principal is being repaid in 120 equal monthly installments of \$117 thousand.

Albuquerque Mortgage Loan: \$4.0 million was borrowed on December 16, 2009. The loan was secured by real property in Albuquerque, NM, and principal was being repaid in equal monthly installments of \$22 thousand. The loan was repaid in connection with the sale-leaseback transaction described in Note 14—Capital Lease.

Celmet Building Term Loan: \$1.3 million was borrowed on November 8, 2013 pursuant to an amendment to the Fourth Amended and Restated Credit Facility Agreement dated as of January 18, 2013. The proceeds were used to reimburse

the Company's cost of purchasing its Rochester, New York facility. Principal is being repaid in 59 equal monthly installments of \$11 thousand plus a balloon payment due at maturity.

Borrowing Base

Under the Fifth Amended Credit Agreement, the maximum amount the Company can borrow under the Revolver is the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories (up to a cap of \$3.75 million) or (ii) \$16.0 million at December 30, 2016 and \$20.0 million at September 30, 2016.

At December 30, 2016 and September 30, 2016, the upper limit on Revolver borrowings was \$11.5 million and \$16.4 million, respectively. Average Revolver balances amounted to \$2.8 million during the three months ended December 30, 2016.

Interest Rates

Under the Fifth Amended Credit Agreement, variable rate debt accrues interest at LIBOR plus the applicable marginal interest rate that fluctuates based on the Company's Debt to EBITDAS Ratio, as defined below. Under the Second Amendment, the applicable marginal interest rate was fixed on November 28, 2016 through the fiscal quarter ending September 30, 2017, as follows: 4.25% for the Revolver and 3.25% for Term Loan B. Beginning October 1, 2017, variable rate debt will again accrue interest at LIBOR plus the applicable margin interest rate that is based on the Company's Debt to EBITDAS Ratio. Changes to applicable margins and unused fees resulting from the Debt to EBITDAS Ratio generally become effective mid-way through the subsequent quarter.

Prior to December 14, 2015, the Sixth Amendment fixed each facility's applicable margin through March 31, 2016 as follows: 4.25% for the Revolver, 4.50% for the Albuquerque Mortgage Loan and 3.25% for the Term Loan B. The applicable unused line fee of 0.50% also was extended through March 31, 2016, and thereafter if the Company is not in compliance with its financial covenants.

The Company incurs quarterly unused commitment fees ranging from 0.250% to 0.500% of the excess of \$16.0 million over average borrowings under the Revolver. Fees incurred amounted to \$15.7 thousand and \$8.7 thousand during the three months ended December 30, 2016 and January 1, 2016, respectively. The fee percentage varies based on the Company's Debt to EBITDAS Ratio, as defined below.

Financial Covenants

The Fifth Amended Credit Agreement also contains various affirmative and negative covenants including financial covenants. The Company is required to maintain (i) a minimum level of quarterly EBITDAS, as defined below ("Quarterly EBITDAS"), (ii) a ratio of total debt to twelve month EBITDAS ("Debt to EBITDAS Ratio") that is below a specified limit, (iii) a minimum fixed charge coverage ratio ("Fixed Charge Coverage Ratio"), (iv) a maximum level of inventory ("Maximum Inventory"), and (v) a maximum amount of capital expenditures ("Maximum Capital Expenditures"). The Debt to EBITDAS Ratio is the ratio of debt to earnings before interest, taxes, depreciation, amortization and non-cash stock compensation expense ("EBITDAS"). "Adjusted EBITDA" means, for the applicable period, EBITDAS less unfinanced capital expenditures and cash paid for taxes, all on a consolidated basis. The Fixed Charge Coverage Ratio compares (i) 12 month Adjusted EBITDA plus non-cash stock compensation expense minus unfinanced capital expenditures minus taxes paid, to (ii) the sum of interest expense, principal payments and dividends, if any (fixed charges). The Maximum Inventory covenant allows for specific levels of inventory as defined by the agreement. The Maximum Capital Expenditures covenants allow for a maximum amount of capital expenditures on an annual basis.

Covenant ratios in effect at December 30, 2016, pursuant to the Fifth Amended Credit Agreement, as amended by the Second Amendment, are as follows:

Debt to EBITDAS Ratio:

9/30/2016 through and including 12/30/16 < 3.00 to
1.00

Minimum Quarterly EBITDAS:

Fiscal Quarter ending December 30, 2016 \$(500,000)

Fixed Charge Coverage Ratio:

9/30/16 through and including 12/30/16 > 0.72 to
1.00

Maximum Inventory:

As of December 30, 2016 \$26.0 m

Maximum Capital Expenditures:

Measured
annually;
maximum
\$4.5m

The Company was in compliance with all debt covenants at December 30, 2016.

Other Borrowings

When IEC acquired Albuquerque, the Company assumed responsibility for a \$100 thousand Industrial Revenue Bond issued by the City of Albuquerque. Interest on the bond was paid semiannually, and principal was due in its entirety at maturity. The Bond was paid off in connection with the sale-leaseback transaction described in Note 14—Capital Lease.

Contractual Principal Payments

A summary of contractual principal payments under IEC's borrowings for the next five years taking into consideration the Fifth Amended Credit Agreement, as amended, follows:

Debt Repayment Schedule	Contractual Principal Payments
(in thousands)	
Twelve months ended December	
2017	\$ 1,578
2018 ⁽¹⁾	4,812
2019	1,400
2020	1,400
2021 and thereafter	3,033
	\$ 12,223

⁽¹⁾ Includes Revolver balance of \$2.6 million at December 30, 2016 and final payment of Celmet Building Term Loan on November 7, 2018.

NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Carried at Historical Cost

The Company's long-term debt is not quoted. Fair value was estimated using a discounted cash flow analysis based on Level 2 valuation inputs, including borrowing rates the Company believes are currently available to it for loans with similar terms and maturities.

The Company's debt is carried at historical cost on the balance sheet. A summary of the fair value and carrying value of fixed rate debt at period end follows:

	December 30, 2016		September 30, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
(in thousands)				
Term Loan A	\$ 48	\$ 48	\$3,489	\$ 3,693
Celmet Building Term Loan	835	899	864	932

The fair value of the remainder of the Company's debt approximated carrying value at December 30, 2016 and September 30, 2016 as it is variable rate debt.

NOTE 8—WARRANTY RESERVES

IEC generally warrants its products and workmanship for up to twelve months from date of sale. As an offset to warranty claims, the Company is sometimes able to obtain reimbursement from suppliers for warranty-related costs or losses. Based on historical warranty claims experience and in consideration of sales trends, a reserve is maintained for estimated future warranty costs to be incurred on products and services sold through the balance sheet date.

A summary of additions to and charges against IEC's warranty reserves during the period follows:

	Three Months Ended	
	December 30, 2016	January 1, 2016
(in thousands)		
Warranty Reserve		
Reserve, beginning of period	\$ 180	\$ 399
Provision	29	133
Warranty costs	(34)	(130)
Reserve, end of period	\$ 175	\$ 402

NOTE 9—STOCK-BASED COMPENSATION

The 2010 Omnibus Incentive Compensation Plan (the "2010 Plan"), was approved by the Company's stockholders at the January 2011 Annual Meeting. The Company also has an ESPP, adopted in 2011, that provides for the purchase of Company common stock at a discounted stock purchase price. The 2010 Plan replaced IEC's 2001 Stock Option and Incentive Plan (the "2001 Plan"), which expired in December 2011. The 2010 Plan, which is administered by the Compensation Committee of the Board of Directors, provides for the following types of awards: incentive stock options, nonqualified options, stock appreciation rights, restricted shares, restricted stock units, performance compensation awards, cash incentive awards, director stock and other equity-based and equity-related awards. Awards are generally granted to certain members of management and employees, as well as directors. Under the 2010 Plan, up to 2,000,000 shares of common stock may be issued over a term of ten years.

Stock-based compensation expense recorded under the 2010 and 2001 Plans as well as the ESPP totaled \$135.0 thousand and \$54.0 thousand for the three months ended December 30, 2016 and January 1, 2016, respectively. During the three months ended January 1, 2016, incentive compensation shares were returned by the Company's former CEO resulting in a reduction to compensation expense of \$60.0 thousand.

At December 30, 2016, there were 470,082 shares available to be issued under the 2010 Plan.

Expenses relating to stock options that comply with certain U.S. income tax rules are neither deductible by the Company nor taxable to the employee. Further information regarding awards granted under the 2001 Plan, 2010 Plan and ESPP is provided below.

Stock Options

When options are granted, IEC estimates the fair value of the option using the Black-Scholes option pricing model and recognizes the computed value as compensation cost over the vesting period, which is typically four years. The contractual term of options granted under the 2010 Plan is generally seven years.

Assumptions used in the Black-Scholes model and the estimated value of options granted during the three months ended December 30, 2016 are included in the table below. There were no options granted during the three months ended January 1, 2016.

Valuation of Options	Three Months Ended December 30, 2016	
----------------------	---	--

Assumptions for Black-Scholes:

Risk-free interest rate	1.48	%
Expected term in years	4.0	
Volatility	40	%
Expected annual dividends	none	

Value of options granted:

Number of options granted	50,000
Weighted average fair value per share	\$ 1.18
Fair value of options granted (000's)	\$ 59

A summary of stock option activity, together with other related data, follows:

Stock Options	Three Months Ended December 30, 2016		January 1, 2016	
	Number of Options	Wgt. Avg. Exercise Price	Number of Options	Wgt. Avg. Exercise Price
Outstanding, beginning of period	759,795	\$ 4.43	717,645	\$ 4.40
Granted	50,000	3.60	—	—
Exercised	—	—	—	—
Forfeited	(17,500)	5.30	(15,500)	5.99
Expired	(12,250)	5.06	—	—
Outstanding, end of period	780,045	\$ 4.35	702,145	\$ 4.37
For options expected to vest				
Number expected to vest	755,142	\$ 4.35	539,756	\$ 4.45
Weighted average remaining term, in years	5.0		5.5	
Intrinsic value (000s)		\$ —		\$ —
For exercisable options				
Number exercisable	240,936	\$ 4.76	156,000	\$ 5.33
Weighted average remaining term, in years	3.9		3.6	
Intrinsic value (000s)		\$ —		\$ —
For non-exercisable options				
Expense not yet recognized (000s)		\$ 588		\$ 672
Weighted average years to be recognized	2.5		3.3	
For options exercised				
Intrinsic value (000s)		\$ —		\$ —

Changes in the number of non-vested options outstanding, together with other related data, follows:

	Three Months Ended			
	December 30, 2016		January 1, 2016	
Stock Options	Number of Options	Wgt. Avg. Grant Date Fair Value	Number of Options	Wgt. Avg. Grant Date Fair Value
Non-vested, beginning of period	489,109	\$ 1.43	546,145	\$ 1.41
Granted	50,000	1.18	—	—
Vested	—	—	—	—
Forfeited	—	—	—	—
Non-vested, end of period	539,109	\$ 1.41	546,145	\$ 1.41

Restricted (Non-vested) Stock

Holders of IEC restricted stock have voting and dividend rights as of the date of grant, but until vested, the shares may be forfeited and cannot be sold or otherwise transferred. At the end of the vesting period, which is typically four or five years (three years in the case of directors), holders have all the rights and privileges of any other IEC common stockholder. The fair value of a share of restricted stock is its market value on the date of grant, and that value is recognized as stock compensation expense over the vesting period.

A summary of restricted stock activity, together with related data, follows:

	Three Months Ended			
	December 30, 2016		January 1, 2016	
Restricted (Non-vested) Stock	Number of Non-vested Shares	Wgt. Avg. Grant Date Fair Value	Number of Non-vested Shares	Wgt. Avg. Grant Date Fair Value
Outstanding, beginning of period	228,759	\$ 4.40	54,960	\$ 4.23
Granted	—	—	—	—
Vested	(1,917)	3.60	—	—
Shares withheld for payment of taxes upon vesting of restricted stock	(583)	3.60	—	—
Forfeited	—	—	—	—
Outstanding, end of period	226,259	\$ 4.40	54,960	\$ 4.23
For non-vested shares				
Expense not yet recognized (000s)		\$ 682		\$ 200
Weighted average remaining years for vesting	2.0		2.0	
For shares vested				
Aggregate fair value on vesting dates (000s)		\$ 9		\$ —

Employee Stock Purchase Plan

The Company administers an ESPP that provides for a discounted stock purchase price. On February 13, 2015, the Compensation Committee of the Company's Board of Directors suspended operation of the ESPP indefinitely in connection with the 2014 restatements of the Company's financial statements. The Compensation Committee of the Company's Board of Directors reinstated the ESPP on December 2, 2015; however, participants were not able to

contribute to the ESPP until January 2016.

20

Employees currently receive a 10% discount on stock purchases through the ESPP. Employee contributions to the plan, net of withdrawals were \$8.7 thousand for the three months ended December 30, 2016. Compensation expense recognized under the ESPP was \$1.0 thousand for the three months ended December 30, 2016. There were no employee contributions to the plan or compensation expense recognized for the three months ended January 1, 2016.

Stock Issued to Board Members

In addition to annual grants of restricted stock, included in the table above, Board members may elect to have their meeting fees paid in the form of shares of the Company's common stock. The Company has not paid any meeting fees in stock since May 21, 2013.

NOTE 10—RETIREMENT PLAN

The Company administers a retirement savings plan for the benefit of its eligible employees and their beneficiaries under the provisions of Sections 401(a) and (k) of the Internal Revenue Code. Eligible employees may contribute a portion of their compensation to the plan, and the Company is permitted to make discretionary contributions as determined by the Board of Directors. The Company contributes 25% of the first 6% contributed by all employees at all locations. Company contributions during the three months ended December 30, 2016 and January 1, 2016 totaled \$70 thousand and \$67 thousand, respectively.

NOTE 11—INCOME TAXES

Provision for income taxes during each of the three months ended December 30, 2016 and January 1, 2016 follows:

	Three Months Ended	
Income Tax Provision/Benefit	December 30, 2016	January 1, 2016
(in thousands)		
Provision for/(benefit from) income taxes	\$ —	\$ —

The Company has recorded a full valuation allowance on all deferred tax assets. Although we have recorded a full valuation allowance for all deferred tax assets, including net operating loss carryforwards ("NOLs"), these NOLs remain available to the Company to offset taxable income and reduce tax payments. IEC had federal NOLs for income tax purposes of approximately \$31.7 million at September 30, 2016, expiring mainly in years 2022 through 2025 and 2034 through 2035. The Company also has additional state NOLs available in several jurisdictions in which it files state tax returns.

Recent New York state corporate tax reform has resulted in the reduction of the business income base rate for qualified manufactures in New York state to 0% beginning in fiscal 2015 for IEC. At September 30, 2016, the Company had \$1.2 million of New York State investment tax and other credit carryforwards, expiring in various years through 2030. The credits cannot be utilized unless the New York state tax rate is no longer 0%.

NOTE 12—MARKET SECTORS AND MAJOR CUSTOMERS

A summary of sales, according to the market sector within which IEC's customers operate, follows:

	Three Months Ended	
% of Sales by Sector	December 30, 2016	January 1, 2016

Edgar Filing: MINERALS TECHNOLOGIES INC - Form 10-K

Aerospace & Defense	50%	40%
Medical	28%	41%
Industrial	20%	16%
Communications & Other	2%	3%
	100%	100%

Two individual customers each represented 10% or more of sales for the three months ended December 30, 2016. One customer was from the Aerospace & Defense sector and represented 14% of sales, while the other was from the Industrial sector and represented 10% of sales. Two individual customers represented 10% or more of sales for the three months ended January 1, 2016. Both customers were from the Medical sector, with one representing 18% of sales, while the other customer represented 15% of sales, for the three months ended January 1, 2016.

One individual customer represented 11% of the outstanding receivable balance at December 30, 2016. Two individual customers represented 10% or more of receivables and accounted for 25% of the outstanding balances at January 1, 2016.

Credit risk associated with individual customers is periodically evaluated by analyzing the entity's financial condition and payment history. Customers generally are not required to post collateral.

NOTE 13—LITIGATION

From time to time, the Company may be involved in legal action in the ordinary course of its business, but management does not believe that any such proceedings commenced through the date of the financial statements included in this Form 10-Q, individually or in the aggregate, will have a material adverse effect on the Company's consolidated financial position.

NOTE 14—CAPITAL LEASE

Leases

On November 18, 2016, the Company entered into a sale-leaseback agreement, pursuant to the terms of the Purchase and Sale Agreement (the "PSA"), with Store Capital Acquisitions, LLC, a Delaware limited liability company (the "Purchaser"), for the sale of certain property, including the manufacturing facility located in Albuquerque, New Mexico (the "Property"). Albuquerque (the "Seller") completed the sale of the Property to the Purchaser for an aggregate purchase price of approximately \$5.75 million including a \$120.0 thousand holdback held subject to a holdback of funds agreement. The net book value of assets sold was \$4.6 million and the value of the assets acquired under the lease is \$5.75 million. The Company recorded a deferred gain of \$1.1 million related to the transaction, which is recorded in other long-term liabilities section of the consolidated balance sheet. The proceeds from the transaction were used to payoff the Albuquerque Mortgage Loan and pay down Term Loan A. As part of the transaction, a Lease Agreement dated as of November 18, 2016 was entered into between the Seller and the Purchaser (the "Lease"). Pursuant to the Lease, the Seller is leasing the Property for an initial term of 15 years, with two renewal options of five years each. The initial base annual rent is approximately \$474.0 thousand and is subject to an annual increase equal to the lesser of two percent or 1.25 times the change in the Consumer Price Index. Late payments incur a charge of 5% and bear interest at a rate of 18% or the highest rate permitted by law. If an event of default occurs under the terms of the Lease, among other things, all rental amounts accelerate and become due and owing, subject to certain adjustments. In addition, the Company entered into a separate payment and performance guaranty with the Purchaser with respect to the Lease.

A summary of capital lease payments for the next five years follows:

Capital Lease Payment Schedule	Contractual Principal Payments
(in thousands)	
Twelve months ended December	
2017	\$ 476
2018	485
2019	495
2020	505
2021 and thereafter	6,228
Total capital lease payments	\$ 8,189

Less: amounts representing interest (2,472)
Present value of minimum lease payment 5,717

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

The information in this Management's Discussion and Analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes. All references to "Notes" are to the accompanying condensed consolidated financial statements and Notes included in this Quarterly Report on Form 10-Q ("Form 10-Q").

Cautionary Note Regarding Forward-Looking Statements

References in this report to "IEC," the "Company," "we," "our," or "us" mean IEC Electronics Corp. and its subsidiaries except where the context otherwise requires. This Form 10-Q contains forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "targets," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions. These forward-looking statements include, but are not limited to, statements regarding future sales and operating results, future prospects, the capabilities and capacities of business operations, any financial or other guidance and all statements that are not based on historical fact, but rather reflect our current expectations concerning future results and events. The ultimate correctness of these forward-looking statements is dependent upon a number of known and unknown risks and events and is subject to various uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

The following important factors, among others, could affect future results and events, causing those results and events to differ materially from those views expressed or implied in our forward-looking statements: litigation and governmental investigations or proceedings arising out of or relating to accounting and financial reporting matters; business conditions and growth or contraction in our customers' industries, the electronic manufacturing services industry and the general economy; variability of our operating results; our ability to control our material, labor and other costs; our dependence on a limited number of major customers; the potential consolidation of our customer base; availability of component supplies; dependence on certain industries; variability and timing of customer requirements; technological, engineering and other start-up issues related to new programs and products, uncertainties as to availability and timing of governmental funding for our customers; the impact of government regulations, including FDA regulations; the types and mix of sales to our customers; intellectual property litigation; our ability to maintain effective internal controls over financial reporting; unforeseen product failures and the potential product liability claims that may be associated with such failures; the availability of capital and other economic, business and competitive factors affecting our customers, our industry and business generally; failure or breach of our information technology systems; and natural disasters. Any one or more of such risks and uncertainties could have a material adverse effect on us or the value of our common stock. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections in this Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 and other filings with the Securities and Exchange Commission (the "SEC").

All forward-looking statements included in this Form-10-Q are made only as of the date indicated or as of the date of this Form 10-Q. We do not undertake any obligation to, and may not, publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur or which we hereafter become aware of, except as required by law. New risks and uncertainties arise from time to time and we cannot predict these events or how they may affect us and cause actual results to differ materially from those expressed or implied by our forward-looking statements. Therefore, you should not rely on our forward-looking statements as predictions of future events. When considering these risks, uncertainties and assumptions, you should keep in mind the cautionary statements contained in this report and any documents incorporated herein by reference. You should read this

document and the documents that we reference in this Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Overview

IEC Electronics Corp. (“IEC,” “we,” “our,” “us,” the “Company”) conducts business directly, as well as through its subsidiaries IEC Electronics Wire and Cable, Inc (“Wire and Cable”), IEC Electronics Corp-Albuquerque (“Albuquerque”) and IEC Analysis & Testing Laboratory, LLC (“ATL”).

We are a premier provider of electronic manufacturing services (“EMS”) to advanced technology companies that produce life-saving and mission critical products for the medical, industrial, aerospace and defense sectors. We specialize in delivering technical solutions for the custom manufacturing, product configuration, and verification testing of highly engineered complex products that require a sophisticated level of manufacturing to ensure quality and performance.

Within the EMS sector, we have unique capabilities which allow our customers to rely on us to solve their complex challenges, minimize their supply chain risk and deliver full system solutions for their supply chain. These capabilities include, among others:

Our engineering services include the design, development, and fabrication of customized stress testing platforms to simulate a product's end application, such as thermal cycling and vibration, in order to ensure reliable performance and avoid catastrophic failure when the product is placed in service.

Our vertical manufacturing model offers customers the ability to simplify their supply chain by utilizing a single supplier for their critical components including complex printed circuit board assembly ("PCBA"), precision metalworking, and interconnect solutions. This service model allows us to control the cost, lead time, and quality of these critical components which are then integrated into full system assemblies and minimizes our customers' supply chain risk.

We provide direct order fulfillment services for our customers by integrating with their configuration management process to obtain their customer orders, customize the product to the specific requirements, functionally test the product and provide verification data, and direct ship to their end customer in order to reduce time, cost, and complexity within our customers' supply chain.

We are the only EMS provider with an on-site laboratory that has been approved by the Defense Logistics Agency ("DLA") for their Qualified Testing Supplier List ("QTSL") program which deems the site suitable to conduct various QTSL and military testing standards including counterfeit component analysis. In addition, this advanced laboratory is utilized for complex design analysis and manufacturing process development to solve challenges and accelerate our customers' time to market.

We are a 100% U.S. manufacturer which attracts customers who are unlikely to utilize offshore suppliers due to the proprietary nature of their products, governmental restrictions or volume considerations. Our locations include:

Newark, New York - Located approximately one hour east of Rochester, New York, our Newark location is our corporate headquarters and is the largest manufacturing location providing complex circuit board manufacturing, interconnect solutions, and system-level assemblies along with an on-site material analysis laboratory for advanced manufacturing process development.

Rochester, New York - Focuses on precision metalworking services including complex metal chassis and assemblies.

Albuquerque, New Mexico - Specializes in the aerospace and defense markets with complex circuit board and system-level assemblies along with a state of the art analysis and testing laboratory which conducts counterfeit component analysis and complex design analysis.

We excel at complex, highly engineered products that require sophisticated manufacturing support where quality and reliability are of paramount importance. With our customers at the center of everything we do, we have created a high-intensity, rapid response culture capable of reacting and adapting to their ever-changing needs. Our customer-centric approach offers a high degree of flexibility while simultaneously complying with rigorous quality and on-time delivery standards.

We proactively invest in areas we view as important for our continued long-term growth. All of our locations are ISO 9001:2008 certified and ITAR registered. We are Nadcap accredited and AS9100C certified at our Newark and Albuquerque locations to support the stringent quality requirements of the aerospace industry. Our Newark location is ISO 13485 certified to serve the medical market sector and is an approved supplier by the National Security Agency ("NSA") under the COMSEC standard regarding communications security. ATL in Albuquerque is ISO 17025 accredited, an IPC-approved Validation Services test Laboratory, and is the only on-site EMS laboratory that has been approved by the DLA for their QTSL program which deems the site suitable to conduct various QTSL and military testing standards including counterfeit component analysis. Albuquerque also performs work per NASA-STD-8739

and J-STD-001ES space standards.

The technical expertise of our experienced workforce enables us to build some of the most advanced electronic, wire and cable, interconnect solutions, and precision metal systems sought by original equipment manufacturers (“OEMs”).

24

Three Months Results

A summary of selected income statement amounts for the three months ended follows:

Income Statement Data (in thousands)	Three Months Ended	
	December 30, 2016	January 1, 2016
Net sales	\$20,976	\$32,933
Gross profit	1,795	5,817
Selling and administrative expenses	2,441	3,985
Interest and financing expense	219	289
Income/(loss) before income taxes	(865)	1,543
Provision for/(benefit from) income taxes	—	—
Net income/(loss)	\$(865)	\$1,543

A summary of sales, according to the market sector within which IEC's customers operate, follows:

% of Sales by Sector	Three Months Ended	
	December 30, 2016	January 1, 2016
Aerospace & Defense	50%	40%
Medical	28%	41%
Industrial	20%	16%
Communications & Other	2%	3%
	100%	100%

Revenue decreased in the first quarter of fiscal 2017 by \$12.0 million or 36.3% as compared to the first quarter of the prior fiscal year. Revenues from all three major market sectors decreased year over year. The medical market sector decreased \$7.6 million, the aerospace & defense market sector decreased \$2.9 million and the industrial market sector decreased \$1.0 million.

Revenue for the medical market sector decreased \$7.6 million primarily due to decreases in demand from two of our larger customers. The lower demand was due to a decline in their end market demand as well as their high inventory position. We believe that the demand from these two customers will increase in the later part of fiscal 2017. We had several other medical customers increase their demand, but these increases were offset by decreases from other customers.

Various increases and decreases for our aerospace & defense customers resulted in a net decrease of \$2.9 million in the first quarter of fiscal 2017. Programs frequently fluctuate in demand or end and are replaced by new programs. Aggregate decreases of \$5.5 million in the quarter were partially offset by \$3.2 million in increases from other customers. Another \$0.8 million decrease was due to our decision to disengage with a customer due to lack of profitability. One new customer was added that increased revenue by \$0.2 million.

The net decrease in demand in the industrial market sector of \$1.0 million resulted primarily from decreased demand from several customers whose end market has softened.

Our fiscal 2017 first quarter gross profit decreased to 8.6% of sales versus 17.7% in the first quarter of the prior fiscal year. The reduction in volume year over year had the most significant impact to gross profit. Reductions in overhead costs lessened the impact of the lower revenue. Direct labor costs as a percentage of sales were consistent with the same period of the prior year while material costs increased due to customer mix.

Selling and administrative ("S&A") expense decreased \$1.5 million and represented 11.6% of sales in the first quarter of fiscal 2017, compared to 12.1% of sales in the same quarter of the prior fiscal year. The decrease in S&A expense was primarily due to lower wage and related expenses of \$0.8 million driven by headcount reductions. Bad debt expense was lower year over year by \$0.5 million due to the reduction in accounts receivable aging. Also, legal and other professional expenses were higher

in first quarter of fiscal 2016 by \$0.4 million compared to the first quarter of fiscal 2017 related to the debt refinancing, employment related matters and other related activity.

Interest expense decreased by \$0.1 million in the first quarter of fiscal 2017 compared to the same quarter of the prior fiscal year. The net impact of adjusting the interest rate swap to fair value contributed \$0.1 million to the expense in the first quarter of the prior fiscal year compared to this fiscal year. The weighted average interest rate on IEC's debt, excluding the impact of the interest rate swap, was 0.37% lower during the first quarter of fiscal 2017 than in the first quarter of the prior fiscal year. Our average outstanding debt balances decreased by \$14.7 million in the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016. In the first quarter of fiscal 2017, we incurred roughly \$50.0 thousand of interest related to the sale-leaseback obligation for the Albuquerque, New Mexico facility. Cash paid for interest on credit facility debt was approximately \$0.2 million and \$0.4 million for the first quarter of fiscal 2017 and fiscal 2016. Detailed information regarding our borrowings is provided in Note 6—Credit Facilities.

There was no material income tax expense or benefit in the first three months of fiscal 2017 or 2016 as we have net operating loss (“NOL”) carryforwards to offset any current tax expense and a full valuation on all deferred tax assets.

With respect to tax payments, in the near term IEC expects to be largely sheltered by sizable NOL carryforwards for federal income tax purposes. In the first three months of fiscal 2017, we paid \$0.1 million in taxes. At the end of fiscal 2016, the NOL carryforwards amounted to approximately \$31.7 million. The NOL carryforwards expire in varying amounts between 2022 and 2035, unless utilized prior to these dates.

Liquidity and Capital Resources

Capital Resources

As of December 30, 2016, there were \$0.5 million of outstanding capital expenditure commitments for manufacturing equipment. We generally fund capital expenditures with cash flow from operations and our revolving credit facility.

Summary of Cash Flows

A summary of selected cash flow amounts for the three months ended follows:

Cash Flow Data	Three Months Ended	
	December 31, 2016	January 1, 2017
(in thousands)		
Cash, beginning of period	\$ 845	\$ 407
Net cash flow from:		
Operating activities	1,974	1,604
Investing activities	5,293	(685)
Financing activities	(7,668)	(1,241)
Net (decrease) increase in cash and cash equivalents	(401)	(322)
Cash and cash equivalents at end of period	\$ 444	\$ 85

Operating activities

Cash flows provided by operations, before considering changes in IEC's working capital accounts, was \$0.6 million for the first three months of fiscal 2017. Cash flow provided by operations, before considering changes in working

capital, in the first three months of fiscal 2016 was \$1.6 million. Net loss of \$0.9 million in the first three months of fiscal 2017 compared to net income of \$1.5 million during the first three months of the prior fiscal year was the largest component of the change.

Working capital from continuing operations provided cash flows of \$2.2 million and used cash flow of \$1.6 million in the first three months of fiscal 2017 and 2016, respectively. The change in working capital in the first quarter of fiscal 2017 was primarily due to a decrease in accounts receivable of \$5.9 million, offset by a decrease in accounts payable and accrued expenses of \$2.1 million and \$2.1 million, respectively. Accounts receivable decreases were primarily due to timing of revenue and improved cash collections. The decrease in accounts payable was due primarily to a reduction of inventory purchases as well as timing of purchases and payments.

Investing activities

Cash flows provided by investing activities were \$5.3 million and \$0.7 million for the first three months of fiscal 2017 and 2016, respectively. Cash flows provided in the first three months of fiscal 2017 consisted of proceeds from the sale-leaseback and the purchases of equipment and capitalized software costs resulting from the ongoing implementation of a new enterprise resource planning system. Cash flows used in the first three months of fiscal 2016 consisted of purchases of equipment and capitalized software costs.

Financing activities

Cash flows used in financing activities were \$7.7 million and \$1.2 million for the first three months of fiscal 2017 and 2016, respectively. During the first three months of fiscal 2017, net repayments under all credit facilities were \$7.6 million, with \$1.3 million of net repayments under the Revolver, as defined below, and repayments of \$6.3 million for term debt, due largely to the Albuquerque sale-leaseback transaction. In the first three months of fiscal 2016, net cash flows increased outstanding credit facilities by \$1.0 million due to net borrowings.

Credit Facilities

At December 30, 2016, borrowings outstanding under the revolving credit facility (the “Revolver”) under the Second Amendment to the Fifth Amended Second Amendment to Fifth Amended and Restated Credit Facility Agreement (the “Second Amendment”), that amended the Fifth Amended and Restated Credit Facility Agreement dated as of December 14, 2015, as amended by the First Amendment to the Fifth Amended and Restated Credit Facility, dated as of June 20, 2016 (“Fifth Amended Credit Agreement”) amounted to \$2.6 million, and the maximum available was \$11.5 million. Repayments on the Revolver during the current fiscal year were driven by cash flow from operations discussed above. We believe that our liquidity is sufficient to satisfy anticipated operating requirements during the next twelve months.

The Fifth Amended Credit Agreement, as amended, also contains various affirmative and negative covenants including financial covenants. The Company is required to maintain (i) a minimum level of quarterly EBITDAS, as defined below (“Quarterly EBITDAS”), (ii) a ratio of total debt to twelve month EBITDAS (“Debt to EBITDAS Ratio”) that is below a specified limit, (iii) a minimum fixed charge coverage ratio (“Fixed Charge Coverage Ratio”), (iv) a maximum level of inventory (“Maximum Inventory”), and (v) a maximum amount of capital expenditures (“Maximum Capital Expenditures”). The Debt to EBITDAS Ratio is the ratio of debt to earnings before interest, taxes, depreciation, amortization and non-cash stock compensation expense (“EBITDAS”). The Fixed Charge Coverage Ratio compares (i) 12 month Adjusted EBITDA plus non-cash stock compensation expense minus unfinanced capital expenditures minus cash taxes paid, to (ii) the sum of interest expense, principal payments and dividends, if any (fixed charges). “Adjusted EBITDA” means, for the applicable period, EBITDAS less unfinanced capital expenditures and cash paid for taxes, all on a consolidated basis. The Maximum Inventory covenant allows for specific levels of inventory as defined by the Fifth Amended Credit Agreement, as amended. The Maximum Capital Expenditures covenants allow for a maximum amount of capital expenditures on an annual basis.

The Company was in compliance with all debt covenants at December 30, 2016.

The calculation of financial covenants as of the dates indicated follows:

Debt Covenant	Limit at	September 30, 2016	Calculated Amount At	
	December 30, 2016		December 30, 2016	September 30, 2016
Quarterly EBITDAS (000s)	Minimum (\$500)	Minimum \$1,080	\$132	\$1,269

Edgar Filing: MINERALS TECHNOLOGIES INC - Form 10-K

Debt to EBITDAS Ratio	Maximum 3.0	Maximum 3.1x	2.5x	2.0x
Fixed Charge Coverage Ratio	Minimum 0.72x	Minimum 1.25x	1.0x	1.5x
Maximum Inventory	Maximum \$26.0m	Maximum \$27.0m	\$16.1m	\$17.0m
Maximum Capital Expenditures	Maximum \$4.5m annually	Maximum \$4.5m annually	Measured Annually	3.3m

A reconciliation of EBITDAS to Net income follows:

	Three Months Ended December 30, 2016
(in thousands)	
Net income/(loss)	\$ (865)
Provision for/(benefit from) income taxes	—
Depreciation and amortization expense	643
Interest expense	219
Non-cash stock compensation	135
EBITDAS	\$ 132

A reconciliation of Adjusted EBITDA to Net income follows:

	Three Months Ended December 30, 2016
(in thousands)	
Net income/(loss)	\$ (865)
Provision for/(benefit from) income taxes	—
Depreciation and amortization expense	643
Interest expense	219
Non-cash stock compensation	135
Unfinanced capital expenditures	(457)
Income taxes paid	(79)
Adjusted EBITDA	\$ (404)

We present EBITDAS and Adjusted EBITDA because certain covenants in our credit facilities are tied to these measures. EBITDAS and Adjusted EBITDA are not measures of financial performance under GAAP and are not calculated through the application of GAAP. As such, they should not be considered as substitutes or alternatives for the GAAP measure of net income and, therefore, should not be used in isolation of, but in conjunction with, the GAAP measure. EBITDAS and Adjusted EBITDA, as presented, may produce results that vary from the GAAP measure and may not be comparable to a similarly defined non-GAAP measure used by other companies.

Off-Balance Sheet Arrangements

IEC is not a party to any material off-balance sheet arrangements.

Application of Critical Accounting Policies

Our application of critical accounting policies are disclosed in our 2016 Annual Report on Form 10-K filed for the fiscal year ended September 30, 2016. During the three months ended December 30, 2016, there have been no material changes to these policies.

Recently Issued Accounting Standards

See Note 1—Our Business and Summary of Significant Accounting Policies for further information concerning recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a result of its financing activities, the Company is exposed to changes in interest rates that may adversely affect operating results. The Company actively monitors its exposure to interest rate risk and from time to time may use derivative financial instruments to manage the impact of this risk. The Company may use derivatives only for the purpose of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the interest rate nor does the Company use derivatives instruments where it does not have underlying exposure. The Company did not have any derivative financial instruments at December 30, 2016 or September 30, 2016

At December 30, 2016, the Company had \$12.2 million of debt, comprised of \$11.3 million with variable interest rates and \$0.9 million with fixed interest rates. Interest rates on variable loans are based on London interbank offered rate (“LIBOR”). The credit facilities are more fully described in Note 6—Credit Facilities. Interest rates based on LIBOR currently adjust daily, causing interest on such loans to vary from period to period. A sensitivity analysis as of December 30, 2016 indicates that a one-percentage point increase or decrease in our variable interest rates, which represents more than a 10% change, would increase or decrease the Company's annual interest expense by approximately \$0.1 million.

The Company is exposed to credit risk to the extent of non-performance by M&T Bank under the Fifth Amended Credit Agreement, as amended. M&T Bank's credit rating (reaffirmed A by Fitch in October 2016) is monitored by the Company, and IEC expects that M&T Bank will perform in accordance with the terms of the Fifth Amended Credit Agreement, as amended.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of December 30, 2016, the end of the period covered by this Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 30, 2016, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting

Our management carried out an evaluation of the internal controls over financial reporting to determine whether any change occurred during the quarter ended December 30, 2016. Based on such evaluation, there has been no change in our internal control over financial reporting that occurred during the most recently completed fiscal quarter ended December 30, 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of control systems

IEC's management does not expect that our disclosure controls and internal controls will prevent all errors and fraud. Because of inherent limitations in any such control system (e.g. faulty judgments, human error, information technology system error, or intentional circumvention), there can be no assurance that the objectives of a control system will be met under all circumstances. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The benefits of a control system also must be considered

relative to the costs of the system and management's judgments regarding the likelihood of potential events. In summary, there can be no assurance that any control system will succeed in achieving its goals under all possible future conditions, and as a result of these inherent limitations, misstatements due to error or fraud may occur and may or may not be detected.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company may be involved in legal actions in the ordinary course of its business, but management does not believe that any such proceedings commenced through the date of the financial statements included in this Form 10-Q, individually or in the aggregate, will have a material adverse effect on the Company's consolidated financial position.

Item 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended September 30, 2016 filed with the SEC on December 16, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

For the exhibits that are filed herewith or incorporated herein by reference, see the Index to Exhibits located immediately following the signature page to this Form 10-Q. The Index to Exhibits is incorporated herein by reference.

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)

February 10, 2017 By: /s/ Jeffrey T. Schlarbaum
Jeffrey T. Schlarbaum
President & Chief Executive Officer

February 10, 2017 By: /s/ Michael T. Williams
Michael T. Williams
Chief Financial Officer

IEC ELECTRONICS CORP.

Form 10-Q for Quarter Ended December 30, 2016

INDEX TO EXHIBITS

Exhibit No.	Description
10.1	Second Amendment to Fifth Amended and Restated Credit Facility Agreement dated as of November 28, 2016 by and between IEC Electronics Corp. and Manufacturers and Traders Trust Company (incorporated herein by reference from Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended September 30, 2016)
10.2	Purchase and Sale Agreement dated as of September 30, 2016 by and between IEC Electronics Corp. - Albuquerque and Store Capital Acquisitions, LLC (incorporated herein by reference from Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended September 30, 2016)
10.3	Lease Agreement dated as of November 18, 2016 by and between Store Capital Acquisitions, LLC and IEC Electronics Corp. - Albuquerque (incorporated herein by reference from Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended September 30, 2016)
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
101	The following items from this Quarterly Report on Form 10-Q formatted in Extensible Business Reporting Language: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Income Statements (unaudited), (iii) Consolidated Statements of Changes in Stockholders' Equity (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (v) Notes to Consolidated Financial Statements.