IEC ELECTRONICS CORP
Form 10-Q
February 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 30, 2011

or

¨ 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 0-6508

IEC ELECTRONICS CORP.

(Exact name of registrant as specified in its charter)

Delaware	13-3458955
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

105 Norton Street, Newark, New York 14513

(Address of Principal Executive Offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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 (sec. 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 x No ¨

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. (Check one)

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

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

Yes ¨ No x

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

Common Stock, $0.01 par value – 9,840,075 shares as of January 30, 2012

		Page Number
PART I - FINANCIAL INFORMATION		
Item 1.	Financial Statements:	
	Consolidated Balance Sheets as of December 30, 2011 (Unaudited) and September 30, 2011	3
	Consolidated Income Statements for the three-month periods ended December 30, 2011 and December 31, 2010 (Unaudited)	4
	Consolidated Statements of Changes in Shareholders' Equity for the three-month periods ended December 30, 2011 and December 31, 2010 (Unaudited)	5
	Consolidated Statements of Cash Flows for the three-month periods ended December 30, 2011 and December 31, 2010 (Unaudited)	6
	Notes to Consolidated Financial Statements (Unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	30
Item 4.	Controls and Procedures	30
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	31
Item 1A.	Risk Factors	31
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3.	Defaults Upon Senior Securities	31
Item 4.	(Removed and Reserved)	31
Item 5.	Other Information	31
Item 6.	Exhibits	31
Signatures		32
Index to Exhibits		33

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

IEC ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 30, 2011 and SEPTEMBER 30, 2011

(in thousands, except share and per share data)

	December 30, 2011 (unaudited)	September 30, 2011
ASSETS		
Current assets:		
Cash	$ -	$ -
Accounts receivable, net of allowance	19,439	19,423
Inventories, net	17,111	16,093
Deferred income taxes	3,863	3,863
Other current assets	2,924	1,834
Total current assets	43,337	41,213
Fixed assets, net	18,219	17,886
Intangible assets, net	5,851	5,964
Goodwill	13,810	13,810
Deferred income taxes	6,267	6,768
Other assets	164	179
Total assets	$ 87,648	$ 85,820
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 6,809	$ 6,896
Accounts payable	15,012	12,750
Accrued payroll and related expenses	2,837	3,092
Other accrued expenses	928	851
Customer deposits	320	332
Total current liabilities	25,906	23,921
Long-term debt	26,952	28,213
Total liabilities	52,858	52,134
SHAREHOLDERS' EQUITY		

Preferred stock, $0.01 par value:		
500,000 shares authorized; none issued or outstanding	-	-
Common stock, $0.01 par value:		
Authorized: 50,000,000 shares		
Issued: 10,835,533 and 10,839,997 shares, respectively		
Outstanding: 9,820,075 and 9,824,539 shares, respectively	108	108
Additional paid-in capital	42,816	42,660
Accumulated deficit	(6,699)	(7,647)
Treasury stock, at cost: 1,015,458 shares	(1,435)	(1,435)
Total shareholders' equity	34,790	33,686
Total liabilities and shareholders' equity	$ 87,648	$ 85,820

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

THREE-MONTH PERIODS ENDED DECEMBER 30, 2011 and DECEMBER 31, 2010

(unaudited; in thousands, except share and per share data)

	Three months ended	
	December 30, 2011	December 31, 2010
Net sales	$33,859	$ 28,644
Cost of sales	28,372	23,840
Gross profit	5,487	4,804
Selling and administrative expenses	4,533	2,841
Operating profit	954	1,963
Interest and financing expense	353	244
Other (income) expense	(902)	13
Income before provision for income taxes	1,503	1,706
Provision for income taxes	555	657
Net income	$948	$ 1,049
Net income per common and common equivalent share:		
Basic	$0.10	$ 0.11
Diluted	0.09	0.11
Weighted average number of common and common equivalent shares outstanding:		
Basic	9,645,942	9,224,877
Diluted	10,004,359	9,766,022

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS of CHANGES in SHAREHOLDERS' EQUITY

THREE-MONTH PERIODS ENDED DECEMBER 30, 2011 and DECEMBER 31, 2010

(unaudited; thousands)

	Common Stock, par $0.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Shareholders' Equity
Balances, September 30, 2010	$ 101	$ 41,138	$(14,407)	$(1,413)	$ 25,419
Net income			1,049		1,049
Stock-based compensation		76			76
Directors' fees paid in stock		11			11
Restricted (non-vested) stock grants	1	(1)			0
Exercise of stock options		33			33
Employee stock plan purchases		11			11
Shares issued in SCB acquisition	1	608			609
Balances, December 31, 2010	$ 103	$ 41,876	$(13,358)	$(1,413)	$ 27,208
Balances, September 30, 2011	$ 108	$ 42,660	$(7,647)	$(1,435)	$ 33,686
Net income			948		948
Stock-based compensation		135			135
Directors' fees paid in stock		11			11
Employee stock plan purchases		10			10
Balances, December 30, 2011	$ 108	$ 42,816	$(6,699)	$(1,435)	$ 34,790

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS of CASH FLOWS

THREE-MONTH PERIODS ENDED DECEMBER 30, 2011 and DECEMBER 31, 2010

(unaudited; thousands)

	Three months ended	
	December 30, 2011	December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 948	$ 1,049
Non-cash adjustments:		
Stock-based compensation	135	76
Depreciation and amortization	1,015	500
Change in contingent consideration	(907)	-
Directors' fees paid in stock	11	11
(Gain)/loss on sale of fixed assets	5	3
Deferred tax expense	501	570
Changes in current assets and liabilities:		
Accounts receivable	(16)	(947)
Inventories	(1,018)	(3,983)
Other current assets	(183)	(1,143)
Accounts payable	2,262	1,457
Accrued expenses	(178)	(505)
Customer deposits	(12)	1,093
Net cash flows from operating activities	2,563	(1,819)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(1,242)	(714)
Proceeds from (net cost of) disposal of fixed assets	17	(3)
Acquisition of SCB, cash portion (see Acquisitions note)	-	(25,782)
Net cash flows from investing activities	(1,225)	(26,499)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from revolving line of credit	17,017	22,054 (a)
Repayments of revolving line of credit	(16,582)	(12,933)
Borrowings under other loan agreements	-	20,000
Repayments under loan agreements and notes	(1,783)	(722)
Proceeds from exercise of stock options	-	33
Proceeds from employee stock plan purchases	10	11
Financing costs capitalized	-	(125)
Net cash flows from financing activities	(1,338)	28,318
Net cash flows for the period	-	-

Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	$-	$ -
Supplemental cash flow information:		
Interest paid	$333	$ 197
Income taxes paid	54	27
Supplemental disclosure of non-cash adjustments:		
100,000 common shares issued in SCB acquisition	$-	$ 609

(a) Revolver borrowings of $5,782 were utilized to partially fund December 2010 purchase of SCB.

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

6

IEC ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 30, 2011

(Unaudited)

NOTE 1. OUR BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our Business

IEC Electronics Corp. ("IEC", "we", "our", “us”, “Company”) is a premier provider of electronic contract manufacturing services (“EMS”) to advanced technology companies. We specialize in the custom manufacture of high reliability, complex circuit cards and system-level assemblies; a wide array of cable and wire harness assemblies capable of withstanding extreme environments; and precision sheet metal components. We excel where quality and reliability are of paramount importance and when low-to-medium volume, high-mix production is the norm. We utilize state-of-the-art, automated circuit card assembly equipment together with a full complement of high-reliability manufacturing stress testing methods. 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. While many EMS services are viewed as commodities, we believe we set ourselves apart through an uncommon mix of capabilities, including:

§ A Technology Center embedded in our Newark, NY operation that combines dedicated prototype manufacturing with an on-site Materials Analysis Lab, enabling the seamless transition of complex electronics from design to production.
§ In-house, custom, functional testing and troubleshooting of complex system-level assemblies, in support of end-order fulfillment.
§ Build-to-print precision sheet metal and complex wire harness assemblies supporting just-in-time delivery of critical end-market, system-level electronics.
§ A Lean/Six Sigma continuous improvement program supported by a team of Six Sigma Blackbelts delivering best-in-class results.
§ Proprietary software-driven Web Portal providing customers real-time access to a wide array of operational data.

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, 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") formerly known as General Technology Corporation; and since December 17, 2010, Southern California Braiding, Inc. ("SCB"). The Celmet unit acquired on July 30, 2010 operates as a division of IEC. All significant intercompany transactions and accounts are eliminated in the consolidation process.

Unaudited Financial Statements

The accompanying unaudited financial statements for the three-month periods ended December 30, 2011 and December 31, 2010 have been prepared in accordance with generally accepted accounting principles for interim financia1 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 period ended September 30, 2011.

Reclassifications and Retrospective Adjustments

Prior year financial statement amounts are reclassified as necessary to conform to the current year presentation. Such reclassifications generally involve transfers of individual accounts from one financial statement line-item to another, without affecting income before or after taxes.

Retrospective adjustments result from the process of determining the fair value of each asset acquired and liability assumed in a business combination. Since an extended period of time (up to one year) is often needed to complete appraisals and valuations and to obtain other fair-value information, preliminary balances reported in initial periods following an acquisition are often replaced with adjusted balances during later periods. Previously, adjusted balances were reported in the later periods and prior period financial data remained as originally reported. ASC 805-10-25-17 requires adjustment of comparative balances presented in current period financial statements when such balances would otherwise contain out-of-date acquiree data.

Cash and Cash Equivalents

The Company's cash and cash equivalents principally represent deposit accounts with Manufacturers and Traders Trust Company ("M&T"), a banking corporation headquartered in Buffalo, NY. Since cash receipts and disbursements repay or draw on IEC's revolving loan balance with M&T, cash balances are typically de minimis.

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 lower of cost or market.

Property, Plant and Equipment

Property, plant and equipment 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 and represent economic benefits associated with: acquired customer relationships; a non-compete agreement; and a property tax abatement. Values assigned to individual intangible assets are amortized under the straight-line method over their estimated useful lives.

Reviewing Long-Lived Assets for Potential Impairment

FASB ASC 360-10 (Property, Plant and Equipment) and 350-30 (Intangibles) require the Company to test long-lived assets (PP&E and amortizable intangible 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 written off to earnings. No impairment charges were recorded by IEC during fiscal 2012 or 2011.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired in a corporate acquisition. 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, we would be 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.

Most of IEC's recorded goodwill relates to the SCB unit acquired in December 2010, and a lesser portion relates to Celmet, which was acquired in July 2010. No goodwill impairment has been experienced to date by either unit.

Leases

At the inception of a lease covering equipment or real estate, the agreement is evaluated under criteria discussed in FASB 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.

In June 2008, IEC entered into a sale-leaseback arrangement with M&T under which fixed assets with a net book value of $2.0 million and an original cost of $15.6 million were sold to M&T and were leased back under a five-year operating lease. The sold assets were removed from the accounts and minimal loss on the transaction is being amortized over the lease term.

Legal contingencies

When legal proceedings are brought or claims are made against us and the outcome is uncertain, FASB 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 accrued by means of a charge to earnings. No charges for legal contingencies were recorded by IEC during fiscal 2012 or 2011.

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.

Fair Value Measurements

Under FASB 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 for which rates are generally variable. IEC believes that recorded value approximates fair value for all such instruments.

FASB 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 for identical assets or liabilities in active markets.

Level 2: Quoted prices for similar assets or liabilities in markets whether active or not, and model-derived

valuations based on observable inputs or value-drivers.

Level 3: Model-derived valuations using inputs for which active markets do not exist.

Incorporating level 2 or level 3 inputs into the measurement process requires significant judgment. Level 2 inputs were used in valuing fixed assets acquired in connection with IEC's fiscal 2011 and 2010 business combinations. Inputs of this nature included comparable sales values and depreciated cost values utilized in appraising acquired property and equipment.

Intangible asset valuations completed in connection with the Company's corporate acquisitions have been based on level 3 inputs. The most significant such valuation, prepared for SCB's customer intangible, was derived from estimated future cash flows attributable to SCB's acquisition-date customer base. Key input assumptions utilized in the valuation process included the rate of customer attrition, cost of sales percent, and discount rate.

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 revenues are generally recognized once the service has been rendered. For material management arrangements, revenues are generally recognized in proportion to the materials procured to date as compared to the total materials covered by the arrangement. 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. Material management revenues have amounted to less than 5% of total revenues in fiscal 2012 and 2011.

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

Stock-Based Compensation

FASB ASC 718 (Stock Compensation) requires that compensation expense be recognized for equity awards granted to employees 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 periods the employees render requisite services (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.

Income Taxes and Deferred Taxes

FASB 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 the 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 or penalties incurred are reported as interest expense. The Company’s income tax filings are subject to audit by various tax jurisdictions, and current open years run from fiscal 2008 through 2010.

Earnings Per Share

Basic earnings per common share are calculated by dividing income available to common shareholders 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 (unvested) stock and restricted stock units. These awards are primarily held by management and certain employees. A summary of shares used in earnings per share calculations follows.

	Three months ended	
Shares for EPS Calculation	December 30, 2011	December 31, 2010
Weighted average shares outstanding	9,645,942	9,224,877
Incremental shares	358,417	541,145
Diluted shares	10,004,359	9,766,022
Options excluded from diluted shares due to exercise price being higher than average market price	44,000	10,000

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, certain covenants in the Third Amended and Restated Credit Facility Agreement with M&T restrict the Company from paying cash dividends. The Company does not expect to pay cash dividends on common stock in the foreseeable future.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. For businesses acquired during the periods presented, reported cash flows include cash disbursed to the sellers and normal business activity occurring subsequent to the acquisition date.

Comprehensive Income

IEC has no items of other comprehensive income (OCI) in any period presented in the accompanying financial statements, and in accordance with FASB ASC 220-10-15, is not required to present captions for OCI or comprehensive income in the statements.

Recently Issued Accounting Standards

FASB Accounting Standards Update 2011-08, "Testing Goodwill for Impairment," was issued in September 2011 to be effective for fiscal years beginning after December 15, 2011. Under existing generally accepted accounting principles (GAAP), entities are periodically required to evaluate the carrying value of a unit's goodwill by first determining fair value of the unit, and then, if fair value is less than the unit's carrying value, by allocating such fair value to the unit's assets and liabilities. Under provisions of the update, entities are permitted, but not required, to precede calculation of a unit's fair value with a qualitative evaluation of the likelihood that fair value is less than carrying value. If the qualitative assessment leads to a conclusion that there is more than a 50 percent likelihood that fair value exceeds carrying value, no further testing is required. In the event of a less favorable assessment, the entity is required to proceed to the previously mentioned quantitative testing. As permitted by the update, IEC adopted its provisions in the fourth quarter of fiscal 2011.

FASB Accounting Standards Update 2011-05, "Presentation of Comprehensive Income," was issued in June 2011 to be effective for fiscal years beginning after December 15, 2011. Comprehensive income includes certain items that are recognized as "other comprehensive income" ("OCI") and are excluded from net income. Examples include unrealized gains/losses on certain investments and gains/losses on derivative instruments designated as hedges. Under provisions of the update, the components of OCI must be presented in one of two formats: either (i) together with net income in a continuous statement of comprehensive income or (ii) in a second statement of comprehensive income to immediately follow the income statement. An existing option to present the components of OCI as part of the statement of changes in shareholders' equity is being eliminated. IEC presently has no items classified as OCI and expects the update to have minimal, if any, effect on its financial statements.

FASB Accounting Standards Update 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS," was issued in May 2011 to be effective for fiscal years beginning after December 15, 2011. The update changes the wording for certain measurement and disclosure requirements relating to fair value determinations under U.S. GAAP in order to make them more consistent with International Financial Reporting Standards (IFRS). While many of the modifications are not expected to change the application of U.S. GAAP, additional disclosure requirements relating to the use of Level 3 inputs in determining fair value do apply to IEC. The Company uses such inputs in valuing certain assets acquired in business combinations, and will be required to provide additional information regarding the sensitivity of derived values to changes in the inputs.

FASB Accounting Standards Update 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations," was issued in December 2010 to be effective for fiscal years beginning after December 15, 2010. The update clarifies that when prior period financial statements are presented, the assumed acquisition date for preparing pro forma information is to be the start of the year preceding the year of acquisition. The update also requires disclosure of the nature and amount of material, nonrecurring pro forma adjustments that affect the information presented. IEC implemented this update during the quarter ended December 31, 2010.

FASB Accounting Standards Update 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," was issued in July 2010. The update requires entities to (i) describe methods used to estimate the allowance for doubtful accounts; (ii) disclose policies for charging off uncollectible receivables; and (iii) present a summary of provisions, charge-offs and recoveries recorded in the allowance during each period. No changes in accounting methods are required. Period-end disclosures were required beginning in IEC's December 2010 quarter, and transaction-oriented disclosures have been required in subsequent periods. IEC implemented the requirements of this update in the quarter ended September 30, 2010.

NOTE 2. SCB ACQUISITION

On December 17, 2010, IEC, through a subsidiary now known as Southern California Braiding, Inc., acquired substantially all of the assets of Southern California Braiding Company, Inc. of Bell Gardens, CA, a privately held manufacturer of high reliability wire, cable and harness products for military and defense markets. The contracted purchase price was $25.0 million, subject to adjustment for any increase or decrease in working capital between the contract date and the closing date. The closing-date working capital adjustment amounted to $1.6 million, resulting in a $26.6 million price at closing. $609 thousand was paid with 100,000 shares of newly issued IEC common stock, and the $26.0 million remainder was paid with cash proceeds from certain borrowings under the M&T Credit Agreement.

The cash portion of the purchase price was decreased to $25.8 million based on a further analysis of closing-date working capital as required under the asset purchase agreement. The resulting $248 thousand adjustment, which was refunded to IEC in May 2011, was recorded as a reduction of goodwill.

$3.1 million of the amount paid for SCB was deposited in escrow accounts to be released to the sellers or returned to the purchaser under certain specified circumstances through March 31, 2012. In February 2011, $623 thousand was released to the sellers upon satisfaction of applicable provisions in the asset purchase agreement. The remaining escrow is subject to buyer indemnity claims, if any, and sellers' further performance under the agreement as indicated below. At December 30, 2011, the escrow consisted of $2.0 million of cash and 77,176 shares of IEC common stock.

The acquisition agreement provided for a potential return of contingent consideration held in escrow if SCB's gross sales and backlog for calendar-year 2011 did not reach specified targets. The Company recorded the estimated amount of contingent consideration at the end of each fiscal quarter, resulting in a receivable of $1.1 million as of September 30, 2011. Based on actual results through the end of December 2011, such contingent consideration was adjusted to $2.0 million at December 30, 2011. Within the accompanying financial statements, the $907 thousand current-quarter adjustment is reported as "other income" and the total amount due from sellers is included in "other current assets."

Concurrent with the acquisition, IEC assumed responsibility for operating leases covering SCB's premises, for which rent approximates $350 thousand per year. In accordance with another provision in the purchase contract, the former shareholders of SCB agreed that they would not compete with the Company for a five-year period.

Under the acquisition method of accounting, the Company is required to measure and record the fair value of assets acquired and liabilities assumed, as summarized below. The excess of purchase price over the value of identifiable net assets acquired is recorded as goodwill.

SCB Opening Balance Sheet	December 17, 2010
(thousands, except shares)	
Accounts receivable	$ 1,576
Inventories	2,896
Other current assets	29
Leasehold improvements	1,169
Machinery & equipment	1,344
Furniture & fixtures	236
Intangible assets	6,000
Goodwill	13,708
Deferred income taxes	122
Total assets acquired	27,080
Accounts payable	$ 560
Accruals and other liabilities	129
Total liabilities assumed	689
Net assets acquired/purchase price	$ 26,391
Funded with bank debt	$ 25,782
Funded with 100,000 shares of IEC common stock	609
Total funding for SCB acquisition	$ 26,391

Operating and Pro Forma Results: The first table below displays the revenue and earnings of SCB from date of acquisition to the end of the first quarter of fiscal 2011. The disclosed amounts are included in the accompanying consolidated financial statements.

The second table presents IEC's unaudited, pro forma, consolidated operating results for the first quarter of fiscal 2011 as if the SCB acquisition had occurred on the first day of the preceding fiscal year. The pro forma results combine IEC's actual consolidated results for the quarter with revenue and earnings generated by SCB during the 2.5-month portion of the quarter when it was not a member of the IEC consolidated group. While the pro forma results take into consideration certain estimated changes in expenses resulting from the merged operations, they do not reflect additional revenues that may be generated by combining SCB with other members of the IEC group. The pro forma results are not necessarily equivalent to those that would have been obtained by consummating the SCB acquisition on the earlier date, nor are they necessarily indicative of future results.

SCB Fiscal 2011 Operating Results Subsequent to Date of Acquisition (in thousands)	14 Days ended December 31, 2010 (unaudited)
Net sales	$ 235
Loss before income taxes	(120)
Net loss	(71)

IEC Pro Forma Operating Results (in thousands, except share and per share data)	Three months ended December 31, 2010 (unaudited)
As if SCB had been acquired in the fiscal year preceding the year of acquisition	
Net sales	$ 32,575
Income before income taxes	2,194
Net income	1,342
Earnings per share:	
Basic	$ 0.14
Diluted	0.14
Weighted average common and common equivalent shares:	
Basic	9,308,573
Diluted	9,849,718

In developing pro forma (as if combined) financial results, the acquiree's pre-merger data is adjusted to account for some of the changes that are estimated to result from operating the entity as part of the IEC consolidated group. For example, depreciation changes due to asset revaluations; newly identified intangibles are amortized; interest is incurred on acquisition-related debt; and certain expenses decrease or increase based on the manner in which IEC intends to operate the entity. As mentioned above, certain other expected changes, such as potential revenue changes, are not factored into the pro forma information. A summary of adjustments made in preparing IEC’s pro forma information above is provided in the table that follows.

Adjustments Reflected in "Pro Forma Results" Table Above (in thousands, except share data)	Three months ended December 31, 2010 (unaudited) Increase (decrease)
Cost of sales	
Depreciation expense	$ 64
Selling and administrative expenses	
Compensation	$ (379)
Sales/marketing expenses	(364)
Insurance premiums	(76)
Legal and accounting expenses	(154)
Contract staffing	(112)
Amortization of intangibles	86
Corporate allocation	150
Other	(33)
Total selling and administrative expense adjustments	$ (882)
Interest expense	
Interest on acquisition debt	$ 201
Other	(2)
Total interest expense adjustments	$ 199
Other (income) expense	
Eliminate acquisition expenses (legal, accounting, etc.)	$ (109)
Weighted average common shares outstanding	
100,000 shares issued in SCB acquisition, weighted to cover 77 days prior to the acquisition date	83,696

NOTE 3. ADJUSTMENT OF PRIOR YEAR CASH FLOW INFORMATION

As permitted by ASC 805-10-25-14, IEC continued to analyze and revise SCB's opening balance sheet values during the twelve months following the December 2010 acquisition date. Balances reported in earlier periods were subsequently superseded based on appraisals, valuations and other updated information. Since the ASC requires such revisions to be reflected in the Company's financial statements on a retrospective basis, comparative balances being presented in current period financial statements may differ from the amounts originally reported. That is the case with respect to comparative cash flow information displayed in IEC's December 30, 2011 financial statements. A summary follows of adjustments made to year-ago cash flow information in order to incorporate the effects of final acquisition-date asset and liability values for SCB. Based on the immateriality of expense adjustments attributable to prior periods, all such adjustments were recorded currently as they were determined and no income statement revision is required. The table that follows also presents certain balance sheet reclassifications that affect December 2010 cash flows.

15

Adjustments to Cash Flows for Three Months Ended December 31, 2010 (thousands)	Cash inflows (outflows), as originally reported	Effect of SCB purchase price adjustment (i)	Effect of balance sheet reclassif-ications (ii)	Cash inflows (outflows), as adjusted
Changes in current assets and liabilities:				
Accounts receivable	$ (920)	$ -	$ (27)	$ (947)
Other current assets	59	(248)	(954)	(1,143)
Acquisition of SCB, cash portion	(27,011)	248	981	(25,782)
Totals	$ (27,872)	$ -	$ -	$ (27,872)

(i) Represents refund received from sellers of SCB on May 19, 2011, based on post-closing analysis of working capital balances. This entry establishes a receivable for the refund.

(ii) Reclassifies to "other current assets" $981 thousand paid at SCB closing and refunded shortly thereafter. Also shows the effect of $27 thousand of "miscellaneous receivables" reclassified as of September 30, 2010 from accounts receivable to "other current assets."

NOTE 4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary follows of activity in the allowance for doubtful accounts during the three-month periods ended December 30, 2011 and December 31, 2010.

Allowance for Doubtful Accounts	Three months ended December 30, 2011	December 31, 2010
	(thousands)	
Allowance, beginning of period	$ 305	$ 250
Provision for doubtful accounts (reversal)	107	(61)
Write-offs	-	-
Recoveries	-	-
Allowance, end of period	$ 412	$ 189

NOTE 5. INVENTORIES

A summary of inventory by category at period end follows:

Inventories	December 30, 2011	September 30, 2011
	(thousands)	
Raw materials	$9,533	$ 8,492
Work-in-process	6,921	6,821
Finished goods	1,733	1,677
Total inventories	18,187	16,990
Reserve for excess/obsolete inventory	(1,076)	(897)
Inventories, net	$17,111	$ 16,093

16

NOTE 6. FIXED ASSETS

Fixed assets and accumulated depreciation at period end consist of the following:

Fixed Assets	December 30, 2011	September 30, 2011
	(thousands)	
Land and improvements	$1,556	$ 1,556
Buildings and improvements	9,824	9,824
Leasehold improvements	1,374	1,374
Machinery and equipment	21,728	20,586
Furniture and fixtures	5,304	5,246
Construction in progress	430	422
Total fixed assets, at cost	40,216	39,008
Accumulated depreciation	(21,997)	(21,122)
Net fixed assets	$18,219	$ 17,886

Depreciation expense was $888 thousand and $479 thousand in the quarters ended December 30, 2011 and December 31, 2010, respectively.

NOTE 7. INTANGIBLE ASSETS

IEC's intangible assets (other than goodwill) were acquired in connection with purchases of SCB in December 2010 and Albuquerque in December 2009.

Among SCB’s key attributes as an acquisition candidate were the relationships established with a number of military and defense contractors. The anticipated profitability of those relationships was considered by IEC in arriving at an amount to offer for the firm and also became the basis for allocating a portion of the purchase price to a related intangible asset. Based upon several key assumptions and a detailed analysis of value, $5.9 million was allocated to a customer-based intangible. The asset is being amortized over its fifteen-year estimated useful life, under the straight-line method.

IEC also allocated $100 thousand to an intangible asset representing the estimated value of a five-year, non-compete agreement entered into with SCB’s selling shareholders. That intangible is being amortized evenly over its contractual life.

Albuquerque's building and land were acquired in December 2009 subject to an Industrial Revenue Bond ("IRB") that exempts the property from real estate taxes for the term of the IRB. The tax abatement was valued at $360 thousand at date of acquisition, and such value is being amortized over the 9.2-year exemption period that remained as of the acquisition date.

Presented in tables below are: intangible assets by category; amortization expense for the periods; and estimated future amortization as of December 30, 2011.

17

Intangible Assets	December 30, 2011	September 30, 2011
	(thousands)	
Customer relationships	$5,900	$ 5,900
Property tax abatement	360	360
Non-compete agreement	100	100
Total intangibles, at cost	6,360	6,360
Accumulated amortization	(509)	(396)
Net intangible assets	$5,851	$ 5,964

Amortization Expense	Three months ended December 30, 2011	December 31, 2010
	(thousands)	
Amortization expense, relating to intangibles	$ 113	$ 11

Future Amortization	Estimated future amortization (thousands)
Twelve months ending December 30,	
2012	$ 452
2013	452
2014	452
2015	452
2016	432

NOTE 8. GOODWILL

Goodwill balances result from the acquisitions of SCB in fiscal 2011 and Celmet in 2010. There were no changes in outstanding goodwill balances during the quarter ended December 30, 2011.

NOTE 9. CREDIT FACILITIES

A summary of borrowings as of December 30, 2011 and September 30, 2011 follows:

Debt	Fixed/ Variable Rate	Maturity	Interest Rate December 30, 2011 (percents)	Interest Rate September 30, 2011	Balances December 30, 2011 (thousands)	Balances September 30, 2011
M&T borrowings						
Revolving credit facility	v	12/17/13	3.06	3.25	$7,633	$ 7,198
SCB term loan	v	12/17/15	3.56	3.50	16,000	17,000
Albuquerque term loan	v	12/16/14	3.56	3.50	3,000	3,250
Albuquerque mortgage loan	v	12/16/14	3.56	3.50	3,467	3,533
Celmet term loan	v	07/30/15	3.56	3.50	1,433	1,533
Equipment loans (2)	v	12/17/13	3.31	3.25	877	945
Equipment loans (3)	f	11/01/12	3.03	3.05	262	315
Wire & Cable term loan	f	01/01/12	6.70	6.70	10	95
Energy loan	f	04/02/13	2.08	2.08	54	64
Other borrowings						
Seller notes, Wire & Cable	f	06/01/13	3.00	4.00	925	1,076
Albuquerque industrial revenue bond	f	03/01/19	5.63	5.63	100	100
Total debt					33,761	35,109
Less: current portion					(6,809)	(6,896)
Long-term debt					$26,952	$ 28,213

Note: Sale-leaseback agreement with M&T is accounted for as an operating lease, and therefore is not included above.

M&T Credit Facilities

On December 17, 2010, IEC entered into the Third Amended and Restated Credit Facility Agreement (“Credit Agreement”) with M&T, replacing a prior agreement dated July 30, 2010. This Credit Agreement added a $20.0 million term loan used for the SCB acquisition; increased the limit on the revolving credit facility from $15.0 million to $20.0 million; and eliminated a minimum threshold for variable interest tied to Libor (London interbank offered rate). The basic structure of the agreement and many of the terms and conditions remained unchanged from the prior agreement. Except as otherwise noted below, the revolving credit facility and term loan borrowings under the Credit Agreement bear interest at Libor plus a margin that varies between 2.25% and 3.75% based on the Company's ratio of

debt to EBITDARS, as defined.

The Credit Agreement was modified on November 17, 2011 by a letter agreement that extended the equipment line to December 17, 2013 and made all loans under such line due and payable no later than that date. The Credit Agreement required prepayments of term loans equal to 50% of excess cash flow for fiscal years ending after September 30, 2010 and the letter agreement changed that requirement to fiscal years ending after September 30, 2011.

Individual debt facilities provided under the Credit Agreement are described below:

(a) *Revolving Credit Facility (“Revolver”)*: Up to $20 million is available through December 17, 2013. The Company may borrow up to the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories or (ii) $20 million. At IEC's election, another 35% of eligible inventories will be included in the borrowing base for limited periods of time during which a higher rate of interest is charged on the Revolver. Borrowings based on inventory balances are further limited to a cap of $3.75 million, or when subject to the higher percentage limit, $4.75 million. At December 30, 2011, the upper limit on Revolver borrowings was $20.0 million. Average available balances amounted to $13.1 million and $11.7 million during the three-month periods ended December 30, 2011 and December 31, 2010, respectively.

The Company incurs quarterly unused commitment fees approximating 0.375% of the excess of $20 million over average borrowings under the Revolver. Fees incurred amounted to $8 thousand and $5 thousand during the quarters ended December 30, 2011 and December 31, 2010, respectively. The fee percentage varies based on IEC's ratio of debt to EBITDARS.

(b) *SCB Term Loan*: $20 million was borrowed on December 17, 2010 and principal is being repaid in 60 equal monthly installments.

(c) *Albuquerque Term Loan*: $5 million was borrowed on December 16, 2009, and principal is being repaid in 60 equal monthly installments.

(d) *Albuquerque Mortgage Loan*: $4 million was borrowed on December 16, 2009. The loan is effectively secured by real property in Albuquerque, NM, and principal is being repaid in 60 monthly installments of $22 thousand plus a balloon payment due at maturity.

(e) *Celmet Term Loan*: $2 million was borrowed on July 30, 2010, and principal is being repaid in 60 equal monthly installments.

(f) *Equipment Line of Credit*: Up to $1.5 million, reduced by outstanding loans, is available through December 17, 2013. The line is available for purchases of capital equipment. Borrowings under the line are supported by individual notes that specify interest and principal repayment terms. The Company has the option to select whether the interest rate is fixed or variable. Equal payments of principal are being made over 48 months for four of the loans and over 60 months for one loan.

(g) *Wire & Cable Term Loan*: $1.7 million was borrowed on May 30, 2008, and principal is being repaid in monthly installments of $28 thousand. The loan's original repayment period of 60 months was reduced as a result of a $0.5 million prepayment in the fourth quarter of fiscal 2008. The interest rate on this loan is fixed at 6.70%. This loan was paid in full in January 2012.

(h) *Energy Loan (also referred to as the "NYSERDA" loan)*: $0.2 million was borrowed on April 2, 2008 under this facility, for which interest at a fixed rate of 2.08% is subsidized by the State of New York. Principal is being repaid in 60 equal monthly installments.

Other Credit Facilities

(i) *Seller Notes*: The May 2008 acquisition of Wire and Cable was financed in part by three promissory notes payable to the sellers and totaling $3.8 million. These notes are subordinated to borrowings under the Credit Agreement and are being repaid in quarterly installments of $160 thousand, including interest. Effective October 1, 2011, the interest rate on the notes was reduced from 4.0% to 3.0% without altering any other terms of the borrowings.

(j) *Albuquerque Industrial Revenue Bond*: 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 is paid semiannually, and principal is due in its entirety at maturity.

Borrowings under the M&T Credit Agreement are secured by, among other things, the assets of IEC and its subsidiaries. The Credit Agreement also contains various affirmative and negative covenants including financial covenants. The Company is required to maintain (i) a minimum level of quarterly EBITDARS, (ii) a ratio of debt to twelve-month EBITDARS that is below a specified limit, and (iii) a minimum fixed charge coverage ratio as described in the table below. The Company was in compliance with the three covenants at December 30, 2011 and September 30, 2011.

Debt Covenant	Limit	Calculated amount at December 30, 2011		September 30, 2011	
Quarterly EBITDARS (000s)	Must be above $1,500	$ 3,098		$ 4,904	
Total debt to EBITDARS	Must be below 3.50x	2.15	x	2.08	x
Fixed charge coverage ratio (a)	Must be above 1.25x	1.68	x	2.03	x

(a) The ratio compares (i) 12-month EBITDA plus non-cash stock compensation expense minus unfinanced capital expenditures minus cash taxes paid, to (ii) the sum of interest expense, principal payments, sale-leaseback payments and dividends, if any (fixed charges).

For the purpose of calculating compliance with the covenants, IEC's operating lease obligation to M&T for certain equipment sold to the bank on June 27, 2008 and leased back for a period of five years, is treated as debt. Rental payments of $389 thousand per year total $551 thousand for the remainder of the lease term.

Aggregate contractual principal payments under IEC's borrowings for the next five years are summarized below:

Debt Repayment Schedule	Contractual principal payments (thousands)
Twelve months ending December 30,	
2012	$ 6,809
2013*	13,954
2014	5,940
2015	6,958
2016	100
	$ 33,761

*Includes Revolver balance of $7,633 as of December 30, 2011.

NOTE 10. INCOME TAXES

Provisions for income taxes for the three-month periods ended December 30, 2011 and December 31, 2010 are as follows: