

IEC ELECTRONICS CORP  
Form 10-Q  
January 28, 2009

UNITED STATES

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

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended December 26, 2008

Commission File Number 0-6508

IEC ELECTRONICS CORP.

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

14513  
(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 ☒ 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 ☐  
Non-Accelerated filer ☒

Accelerated filer ☐  
Smaller Reporting Company ☐

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

YES ☐ NO ☒

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

Common Stock, \$0.01 Par Value - 9,352,485 shares as of January 26, 2009.



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Part 1. Financial Information  
Item 1 — Financial Statements

IEC ELECTRONICS CORP. AND ITS SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 26, 2008 AND SEPTEMBER 30, 2008  
(in thousands)

|   | DECEMBER 26, 2008 | SEPTEMBER 30, 2008 |
|---|-------------------|--------------------|
|   | (Unaudited)       |                    |
| <b>ASSETS</b>   |                   |                    |
| <b>CURRENT ASSETS:</b>  |                   |                    |
| Cash  | \$ -              | \$ -               |
| Accounts receivable (net of allowance for doubtful<br>Accounts of \$99 and \$145 respectively)  | 10,088            | 10,345             |
| Inventories   | 6,514             | 6,230              |
| Deferred income taxes   | 1,908             | 1,908              |
| Other current assets  | 61                | 61                 |
| Total Current Assets  | 18,571            | 18,544             |
| <b>FIXED ASSETS:</b>  |                   |                    |
| Land and land improvements  | 742               | 742                |
| Building and improvements   | 4,368             | 4,368              |
| Machinery and equipment   | 8,790             | 8,567              |
| Furniture and fixtures  | 4,092             | 4,083              |
| Sub-Total Gross Property  | 17,992            | 17,760             |
| Less Accumulated Depreciation   | (16,950)          | (16,907)           |
| Net Fixed Assets  | 1,042             | 853                |
| <b>NON-CURRENT ASSETS:</b>  |                   |                    |
| Deferred income taxes   | 13,592            | 14,727             |
| Other Non Current Assets  | 57                | 60                 |
| Total Non-Current Assets  | 13,649            | 14,787             |
| Total Assets  | \$ 33,262         | \$ 34,184          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                   |                    |
| <b>CURRENT LIABILITIES:</b>   |                   |                    |
| Short term borrowings   | \$ 1,072          | \$ 1,098           |
| Accounts payable  | 6,782             | 6,125              |
| Accrued payroll and related expenses  | 699               | 808                |
| Other accrued expenses  | 547               | 603                |
| Customer Deposits   | 255               | 664                |
| Total current liabilities   | 9,355             | 9,298              |
| Long term debt  | 7,304             | 8,910              |
| Total Liabilities   | 16,659            | 18,208             |
| <b>SHAREHOLDERS' EQUITY:</b>  |                   |                    |
| Preferred stock, \$.01 par value, Authorized<br>- 500,000 shares; Issued and outstanding - none | -                 | -                  |
| Common stock, \$.01 par value, Authorized   |                   |                    |

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|   |           |           |
|---|-----------|-----------|
| - 50,000,000 shares; Issued - 9,345,898 and<br>9,326,582 shares | 94        | 93        |
| Treasury Shares at Cost 412,873 and 412,873 shares              | (223)     | (223)     |
| Additional paid-in capital                                      | 40,218    | 40,124    |
| Accumulated deficit   | (23,486)  | (24,018)  |
| Total shareholders' equity                                      | 16,603    | 15,976    |
| Total liabilities and shareholders' equity                      | \$ 33,262 | \$ 34,184 |

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

IEC ELECTRONICS CORP. AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED DECEMBER 26, 2008 AND DECEMBER 28, 2007  
(in thousands, except share and per share data)

|   | 3 MONTHS ENDED<br>DECEMBER 26, 2008<br>(Unaudited) | 3 MONTHS ENDED<br>DECEMBER 28, 2007<br>(Unaudited) |
|---|--|--|
| Net sales   | \$ 15,857  | \$ 11,160  |
| Cost of sales   | 13,623   | 10,013   |
| Gross profit  | 2,234  | 1,147  |
| Selling and administrative expenses   | 1,287  | 754  |
| Operating profit  | 947  | 393  |
| Interest and financing expense  | 124  | 93   |
| Net Income before income taxes  | 823  | 300  |
| Provision for/(benefit from) income tax                                     | 291  | (120)  |
| Net Income  | \$ 532   | \$ 420   |
| Net Income per common and common equivalent share:                          |  |  |
| Basic   | \$ 0.06  | \$ 0.05  |
| Diluted   | \$ 0.06  | \$ 0.05  |
| Weighted average number of common and common equivalent shares outstanding: |  |  |
| Basic   | 8,929,429  | 8,284,067  |
| Diluted   | 9,513,903  | 9,069,316  |

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

IEC ELECTRONICS CORP. AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED DECEMBER 26, 2008 AND DECEMBER 28, 2007  
(in thousands)

|  | 3 MONTHS ENDED<br>DECEMBER 26, 2008<br>(Unaudited) |       | 3 MONTHS ENDED<br>DECEMBER 28, 2007<br>(Unaudited) |         |
|--|--|-------|--|---------|
| CASH FLOWS FROM OPERATING ACTIVITIES:  |  |       |  |         |
| Net Income   | \$   | 532   | \$   | 420     |
| Non-cash adjustments:  |  |       |  |         |
| Compensation Expense – Stock Options   |  | 46    |  | 41      |
| Depreciation/Amortization  |  | 47    |  | 140     |
| Issuance of director’s fees in stock   |  | 6     |  | 10      |
| Deferred Tax Expense   |  | 291   |  | (120)   |
| Changes in operating assets and liabilities:   |  |       |  |         |
| Accounts receivable  |  | 257   |  | (1,077) |
| Inventories  |  | (284) |  | (444)   |
| Other assets   |  | -     |  | 36      |
| Accounts payable   |  | 657   |  | (105)   |
| Accrued expenses   |  | (165) |  | (86)    |
| Customer Deposits  |  | (409) |  | -       |
| Net cash flows from operating activities   |  | 978   |  | (1,185) |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |  |       |  |         |
| Purchases of plant, property & equipment   |  | (232) |  | (136)   |
| Net cash flows from investing activities   |  | (232) |  | (136)   |
| CASH FLOWS FROM FINANCING ACTIVITIES:  |  |       |  |         |
| Repayments under loan agreements/notes payable                                       |  | (273) |  | (78)    |
| Borrowings/(Payments) Line of Credit   |  | (844) |  | 1,355   |
| Proceeds from Equipment Financing  |  | 328   |  | -       |
| Proceeds from exercise of stock options  |  | 43    |  | 44      |
| Net cash flows from financing activities   |  | (746) |  | 1,321   |
| Change in cash and cash equivalents  |  |       |  |         |
|  |  | -     |  | -       |
| Cash and cash equivalents at beginning of period                                     |  |       |  |         |
|  |  | -     |  | -       |
| Cash and cash equivalents at end of period   |  |       |  |         |
|  | \$   | -     | \$   | -       |
| Supplemental Disclosures of Cash Flow Information:                                   |  |       |  |         |
| Cash paid during the period for:   |  |       |  |         |
| Interest   | \$   | 144   | \$   | 89      |
| Income taxes   | \$   | 36    | \$   | -       |
| Supplemental Disclosures of Non-Cash Adjustments:                                    |  |       |  |         |
| Seller Notes adjusted through Deferred Tax Assets (related to acquisition agreement) |  |       |  |         |
|  | \$   | 844   | \$   | -       |

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



IEC ELECTRONICS CORP. AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 26, 2008

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business

IEC Electronics Corp., ("IEC", "We", "Our", the "Company"), is a premier provider of electronic manufacturing services to advanced technology companies. We specialize in the custom manufacture of high reliability, complex circuit cards, system level assemblies and a wide array of custom cable/wire harness assemblies. We excel where quality and on-time delivery is paramount and where low to medium volume, high mix production is the norm. We utilize state-of-the art, automated manufacturing and reliability testing equipment and have created a "high intensity response culture" to react to our customer's ever-changing needs. As a true extension of our customer's operation, we have applied industry leading Six Sigma and Lean Manufacturing principles to eliminate waste and lower our customer's total cost of ownership. While many EMS services are viewed as a commodity, we have truly set ourselves apart through an uncommon mix of unique features including:

§ A world class Technology Center that combines a dedicated prototype manufacturing center with an on-site Materials Analysis Lab (headed by a staff PhD) for the seamless introduction of complex electronics

§ A sophisticated Lean/Sigma continuous improvement program supported by four certified Six Sigma Blackbelts delivering best-in-class results

§ Industry-leading Web Portal providing real-time access to a wide array of critical customer data

§ In-house custom functional test development to support complex system-level assembly, test, troubleshoot and end-order fulfillment

Fiscal Calendar

The Company's fiscal quarters end on the last Friday of the final month of each quarter, except that our fiscal year ends on September 30.

Consolidation

The consolidated financial statements include the accounts of IEC and its wholly owned subsidiary, Val-U-Tech Corp. ("Val-U-Tech"), from May 31, 2008. All significant inter-company transactions and accounts have been eliminated.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation. Customer deposits for raw materials, previously shown as offsets to inventory, have been reclassified on the balance sheet as Other Current Liabilities.

Allowance for Doubtful Accounts

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

#### Cash

The Company's cash received is applied against its revolving line of credit on a daily basis reducing interest expense.

#### 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; renewals and improvements are capitalized. At the time of retirement or other disposition of property, plant, and equipment, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other income.

#### Revenue Recognition

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

### Stock Based Compensation

The Company accounts for stock based compensation under SFAS No. 123(R), Share-Based Payment. SFAS No. 123(R) requires the measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123(R) also requires an entity to calculate the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to adoption of SFAS No. 123(R) ("APIC pool"). SFAS No. 123(R) also amends SFAS No. 95, Statement of Cash Flows, to require that excess tax benefits that had been reflected as operating cash flows be reflected as financing cash flows. See Note #6 for additional information on stock-based compensation.

### Income Tax/Deferred Tax Policy

We account for income taxes in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes ("SFAS 109"), which require 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. Under this method, deferred tax assets and liabilities are determined based on differing treatment of items for financial reporting and income tax reporting purposes. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. We have provided deferred income tax benefits on net operating loss carry-forwards to the extent we believe we will be able to utilize them in future tax filings. On an annual basis we will re-evaluate the forward looking forecast of our net operating loss carry-forward utilization and adjust the deferred tax asset accordingly.

### Earnings Per Share

Net income (loss) per common share is computed in accordance with SFAS No. 128, "Earnings Per Share". Basic earnings per common share are calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding for each period. Diluted earnings per common share are calculated by adjusting the weighted-average shares outstanding assuming conversion of all potentially dilutive stock options, warrants and convertible securities.

### 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 amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Unaudited Financial Statements

The accompanying unaudited financial statements as of December 26, 2008 and for the three months ended December 26, 2008 have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments considered necessary for a fair presentation, which consist solely of normal recurring adjustments, have been included. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's September 30, 2008 Annual Report on Form 10-K.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2006, the Emerging Issues Task Force (“EITF”) reached a consensus on EITF Issue No. 06-4 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (“EITF 06-4”), which requires the Company to recognize a postretirement liability for the discounted future benefit obligation that the Company will have to pay upon the death of the underlying insured employee. EITF 06-4 is effective for financial statements issued for fiscal years beginning after December 15, 2007. As such, the Company is required to adopt this provision in the current period. Adoption of EITF Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements”, did not have a significant effect on the Company’s consolidated financial statements.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 157, "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt this provision in the current period. Adoption of Statement of Financial Accounting Standard (“SFAS”) No. 157, "Fair Value Measurements", did not have a significant effect on the Company’s consolidated financial statements. The Company will defer the adoption of SFAS No. 157 for its non-financial assets and non-financial liabilities until the year ended September 30, 2010, as permitted under FASB Staff Position 157-2, “Effective Date of FASB Statement No. 157”.

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115”. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt this provision in the current period. Adoption of Statement of Financial Accounting Standard (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115”, did not have a significant effect on the Company’s consolidated financial statements.

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

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

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

## 2. INVENTORIES

Inventories are stated at the lower of weighted average cost (first-in, first-out) or market. The Company regularly assesses slow-moving, excess and obsolete inventory and maintains a balance sheet reserve against these risks. The major classifications of inventories are as follows at period end (in thousands):

|                 | December 26, 2008 | September 30, 2008 |
|-----------------|-------------------|--------------------|
| Raw Materials   | \$ 4,445          | \$ 3,775           |
| Work-in-process | 1,686             | 1,743              |
| Finished goods  | 383               | 712                |
|                 | \$ 6,514          | \$ 6,230           |

## 3. CREDIT FACILITIES:

The Company holds a \$14.2 million senior secured loan agreement (Credit Agreement) and Sale Leaseback agreement with Manufacturers and Traders Trust Company (M&T Bank). The following is a summary of the credit and sale leaseback agreements:

§ A revolving credit facility up to \$9.0 million, available for direct borrowings. The facility is based on a borrowing base formula equal to the sum of 85% of eligible receivables and 35% of eligible inventory. As of December 26, 2008, outstanding loans under the revolving credit facility were \$4.1 million. The credit facility matures on May 30, 2013. Interest on the revolver is either prime or a stated rate over LIBOR, whichever is lower based on certain ratios. Our current interest rate on our revolving line balance is 2.7%.

§ A \$1.7 million term loan amortized equally over 60 months beginning June 2008. IEC's interest rate is fixed at 6.7%. The remaining balance as of December 26, 2008 was \$1.0 million.

§ An available \$1.5 million equipment line of credit. The capital credit facility is amortized equally over 60 months and matures on May 30, 2013. Interest on the equipment line is either prime or a stated rate over LIBOR, whichever is lower based on certain ratios at the time of borrowing. Using this capital credit line the company was able to secure additional interest rate subsidies from New York State's Linked Deposit Program and has used a total of \$328,000 of the \$1.5 million available line as of December 26, 2008.

§ A \$2.0 million Sale Leaseback of the Company's fixed assets amortized equally over 60 months beginning June 27, 2008. Annual payments are fixed and are \$388,800 per year with a total for the five years of \$1.9 million. At December 26, 2008 our remaining unpaid balance for the lease was \$1.8 million.

§ All loans and the Sale-Leaseback are secured by a security interest in the assets of the Company and Val-U-Tech; a pledge of all the Company's equity interest in Val-U-Tech, a negative pledge on the Company's real property and a guaranty by Val-U-Tech.

In connection with the acquisition of Val-U-Tech and the payment of the purchase price to the sellers, a portion of the purchase price was paid in the form of promissory notes (the "Seller Notes") in the aggregate principal amount of \$3.8 million with interest at the rate of 4% per annum. Quarterly payments of principal and interest will be made in 20 equal installments. These payments began September 1, 2008. The Seller Notes are subject to a final reconciliation, and may be increased or decreased depending upon the sales by Val-U-Tech to its largest customer in calendar year 2009. As of December 26, 2008 the aggregate remaining principal balance of the Seller Notes was reduced by \$0.8 million based upon reconciliations of final working capital at May 30, 2008 and gross revenues for calendar year ended December 31, 2008. The remaining aggregate principal balance of the Seller Notes at December 26, 2008 was \$2.7 million. The offset to the Seller Notes decrease was a reduction of the Company's deferred tax asset. Each Seller Note is subordinated to the indebtedness of the Company under the Credit Agreement.

The Company's financing agreements contain various affirmative and negative covenants concerning the ratio of "EBITDARS" (Earnings Before Interest, Taxes, Depreciation, Amortization, Rent Expense under the Sale Leaseback and Stock Option Expense) to total debt and to fixed charges. These are calculated on a twelve month rolling basis. The Company must also maintain a minimum EBITDARS level of \$350,000 per individual quarter. The Company was compliant with these covenants as of December 26, 2008. (See Liquidity and Capital Resources section of the Management Discussion and Analysis)

The Company has outstanding an energy loan ("NYSERDA Loan") from M&T Bank in the principal amount of \$203,306. The NYSERDA Loan is a low interest loan, subsidized by New York State, to facilitate energy conservation projects. The NYSERDA Loan is for a term of 5 years and has an effective interest rate of 2.08%. The maturity date is May 1, 2013. As amended, the NYSERDA Loan is subject to the same financial covenants as those contained in the Credit Agreement.

Annual debt maturities (in thousands) for the twelve month periods after December 26, 2008 are:

| Year 1   | Year 2   | Year 3   | Year 4 | Year 5    |
|----------|----------|----------|--------|-----------|
| \$ 1,072 | \$ 1,060 | \$ 1,078 | \$ 766 | \$ 4,400* |

\*includes current revolver balance of \$4,148

#### 4. INCOME TAXES:

The provision for (benefit from) income taxes for the quarters ended December 26, 2008 and December 28, 2007 is summarized as follows (in thousands):

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|                                | 3 Months<br>DEC 26, 2008 | 3 Months<br>DEC 28, 2007 |
|--------------------------------|--------------------------|--------------------------|
| Current Tax Expense            |                          |                          |
| Federal                        | 0                        | 0                        |
| State / Other                  | 0                        | 0                        |
| Deferred Tax Expense (Benefit) |                          |                          |
| Federal                        | 229                      | (102)                    |
| State / Other                  | 62                       | (18)                     |
| Provision for (benefit from)   |                          |                          |
| Income taxes                   | 291                      | (120)                    |



The components of the deferred tax asset at December 26, 2008 and September 30, 2008 are as follows (in thousands):

|  | December 26, 2008 | September 30, 2008 |
|--|-------------------|--------------------|
| Net operating loss and AMT credit carryovers | \$ 15,307         | \$ 15,598          |
| Accelerated depreciation                     | 596               | 596                |
| New York State investment tax credits        | 3,312             | 3,312              |
| Inventories                                  | 140               | 140                |
| Other  | 301               | 301                |
|  | 19,656            | 19,947             |
| Remaining Valuation allowance                | (4,156)           | (3,312)            |
|  | \$ 15,500         | \$ 16,635*         |

- includes deferred tax assets acquired in Val-U-Tech acquisition

The Company has a net operating loss carryforward of \$43.9 million (expiring in years through 2024). The Company has available approximately \$5.0 million in New York State investment tax credits (expiring in years through 2017). FAS 109 requires the Company to establish an asset on the balance sheet to reflect the future value associated with the ability to utilize these losses and credits against future income tax obligations.

SFAS 109 also requires the use of a valuation allowance in the event that available net operating losses could expire unused. A valuation allowance of \$3.3 million against deferred tax assets was kept due to the Company's probable inability to realize the tax benefits from New York State investment tax credits. These credits fully expire in 2017 and cannot be used until the Company exhausts all of its NY State net operating loss carry forwards for state taxes. Due to a low state tax rate, it is unlikely that the Company will use 100% of its state net operating losses before 2017.

As of December 26, 2008 the aggregate principal amount of the Seller Notes related to the Val-U-Tech acquisition were decreased by \$0.8 million based upon reconciliations of final working capital at May 30, 2008 and gross revenues for calendar year ended December 31, 2008. The offset to the Seller Note reduction was a reduction of the Company's deferred tax asset. Going forward, and on an annual basis, management will continue to consider what portion of the deferred tax asset is more likely than not to be realized, and the valuation allowance will be adjusted accordingly.

## 5. Stock Based Compensation

In February 2002, the Company's stockholders approved IEC's 2001 Stock Option and Incentive Plan (the "2001 Plan"). As amended from time to time, the number of shares of common stock authorized for issuance under the 2001 Plan is 3,100,000 shares. Pursuant to the 2001 Plan, officers, key employees, directors and other key individuals may be granted various types of equity awards, including stock options, restricted stock and other stock awards. As of December 26, 2008, there were 576,301 shares remaining available for issuance under the 2001 Plan.

The Company issued no options during the three month period ended December 26, 2008. The Company issued 7,500 options during the three month period ended December 28, 2007. The fair value of each option issued during these periods was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

|              |              |
|--------------|--------------|
| 3 MO. ENDED  | 3 MO. ENDED  |
| DEC 26, 2008 | DEC 28, 2007 |

|                           |      |      |
|---------------------------|------|------|
| Risk free interest rate   | N/A  | 3.5% |
| Expected term             | N/A  | 4.9  |
| Volatility                | N/A  | 52%  |
| Expected annual dividends | none | none |

The weighted average fair value of options granted during the three months ended December 28, 2007 was \$0.86 with an aggregate total value of \$6,000.

**6. MAJOR CUSTOMER CONCENTRATIONS:**

Financial instruments, which potentially subject the Company to concentrations of a significant credit risk, consist primarily of cash, cash equivalents, and trade accounts receivable. The Company has concentrations of credit risk due to sales to its major customers. Five customers accounted for 65% of our revenue during the three month period ending December 26, 2008. For the comparable period of the prior year our top five customers represented 77% of total sales. No single customer exceeded 20% of total Company sales revenue for the three month period ending December 26, 2008. For the comparable period of the prior year one customer represented 26% of total company sales revenue.

**7. LITIGATION:**

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

**8. COMMITMENTS AND CONTINGENCIES:**

a.)Equipment leases - As of September 30, 2008, the Company was obligated under non-cancelable operating leases, primarily for manufacturing and office equipment. These leases generally contain renewal options and provisions for payment of the lease by the Company for executory costs (taxes, maintenance and insurance). Annual minimum lease obligations for manufacturing and office equipment are approximated as follows:

| Fiscal Year                  | Amount       |
|------------------------------|--------------|
| 2009                         | \$ 451,664   |
| 2010                         | 451,664      |
| 2011                         | 451,664      |
| 2012                         | 451,664      |
| 2013                         | 451,664      |
| Total minimum lease payments | \$ 2,258,320 |

b.)Val-U-Tech lease - The Company leases the buildings occupied by Val-U-Tech. The buildings are leased under a non-cancelable operating lease which expires in December 2012. Annual minimum lease obligations on the building are approximated as follows:

| Fiscal Year                  | Amount     |
|------------------------------|------------|
| 2009                         | \$ 176,857 |
| 2010                         | 176,857    |
| 2011                         | 184,578    |
| 2012                         | 187,150    |
| Total minimum lease payments | \$ 725,442 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Results of Operations - Three Months Ended December 26, 2008,  
Compared to the Three Months Ended December 28, 2007.

The information in this Management's Discussion & Analysis should be read in conjunction with the accompanying financial statements and the related Notes to Consolidated Financial Statements. Forward-looking statements in this Management's Discussion and Analysis are qualified by the cautionary statement found on Page 15 of this form 10-Q.

## Analysis of Operations

| Sales                  | (dollars in millions) |                   |
|------------------------|-----------------------|-------------------|
| For Three Months Ended | December 26, 2008     | December 28, 2007 |
| Net sales              | \$ 15.9               | \$ 11.2           |

IEC had a good first quarter and significantly surpassed the revenue achieved in the same quarter of the prior year. Net Sales for the three month period ended December 26, 2008 were \$15.9 million. In the comparable period during fiscal 2007, net sales were \$11.2 million. The \$4.7 million increase represents an improvement of 42%. While the soft economy has impacted some of IEC's customers, others continue to grow. The Company has experienced solid new orders and despite the recessionary outlook for the economy we expect continued growth in both revenue and profitability throughout fiscal 2009.

Our five largest customers accounted for 65% of our sales for the quarter ended December 26, 2008. For the quarter ended December 28, 2007, our five largest customers accounted for 77% of our sales. No customer in the quarter ended December 26, 2008 represented more than 19% of the Company's sales. One customer represented 26% of the Company's sales in the comparable period of the prior fiscal year.

| Gross Profit           | (dollars in thousands and as a % of Net Sales) |                   |
|------------------------|--|-------------------|
| For Three Months Ended | December 26, 2008                              | December 28, 2007 |
| Gross profit           | \$ 2,234                                       | \$ 1,147          |
| Gross profit percent   | 14.1%  | 10.3%             |

Gross profit as a percentage of sales significantly improved over the comparable quarter of the prior year. The improvement of 3.8 percentage points of gross margin at a materially higher revenue level demonstrates an increased margin flow-thru on incremental sales and a strong improvement in the quality of earnings. This improvement in gross margin is evidence of more efficient labor utilization, a more highly trained workforce, realization of benefits associated with investments in capital equipment, strong margins being achieved at Val-U-Tech, and lean initiatives focused on driving operational efficiencies. IEC expects this drive for increased productivity to result in additional future improvements in gross margin.

| Selling and Administrative Expense | (dollars in thousands and as a % of Net Sales) |  |
|------------------------------------|--|--|
|------------------------------------|--|--|

| For Three Months Ended                     | December 26,<br>2008 | December 28,<br>2007 |
|--|----------------------|----------------------|
| Selling and administrative expense         | \$ 1,287             | \$ 754               |
| Selling and administrative expense percent | 8.1%                 | 3.5%                 |

Selling and administrative expenses as a percentage of sales increased to 8.1% for the three month period ended December 26, 2008 compared to 3.5% for the same period in the prior fiscal year. However, given that we have only experienced three months of the current year, this percentage is affected strongly by the timing of spending. Prior full fiscal year SG&A percentage was 7.5%. Our expectation is to finish the current year with a lower total SG&A expense percentage than the prior year. Costs added to SG&A have been focused on strengthening our Sales and Marketing team, our Finance department and our Information Systems and Technology group. Selling and administrative expenses for the quarters ended December 26, 2008 and December 28, 2007 included \$47K and \$41K of non-cash stock option expense respectively.

Interest expense was \$124,000 for the three month period ended December 26, 2008, up from \$93,000 in the comparable period of the prior fiscal year. Total debt has increased due to the Val-U-Tech acquisition. The M&T credit agreement has afforded the Company with much more competitive interest rates in comparison to prior years. We continue to actively manage our debt to reduce interest expense. Strong earnings and prudent working capital management have enabled accelerated reduction of our overall debt.

Income tax expense for the three month period ended December 26, 2008 was \$291,000. In the comparable quarter of the prior fiscal year we recognized a net benefit from income taxes of \$120,000 due to a reversal of a portion of the valuation allowance against our deferred tax assets.

## Liquidity and Capital Resources

Cash Flow provided by (used in) operating activities was \$1.0 million for the three month period ended December 26, 2008 compared to (\$1.2) million used in operations during the same three month period in the prior fiscal year. This represents a \$2.2 million increase year over year in cash provided by operations for the first quarter. The improvement is mainly attributable to increased focus on effective working capital management. Accounts receivable changes were a source of cash and contributed \$1.3 million toward the favorable year over year variance. Changes in payables balances provided additional cash and are the cause of \$0.8 million of the variance year over year. Additionally, income for the first quarter of fiscal 2009 was ahead of the comparable quarter of fiscal 2007.

Cash Flow provided by (used in) investing activities was (\$0.2) million for the three month period ended December 26, 2008. During the same period of the prior fiscal year we used (\$0.1) million to invest in capital.

Cash Flow provided by (used in) financing activities was (\$0.8) million during the first quarter of fiscal 2008 as we continue to utilize our cash provided through operations to pay-down our outstanding debt ahead of schedule. We sourced \$0.3 million of cash through our available capital line of credit to finance the procurement and installation of more state-of-the-art production equipment during the first quarter. As of December 26, 2008 the Company adjusted the Seller Notes associated with the acquisition of Val-U-Tech. The adjustment was based upon a reconciliation of the gross revenue achieved by the Val-U-Tech business for the calendar year ended December 31, 2008 and upon a final reconciliation of working capital as of May 30, 2008. The net adjustment was a reduction of \$844,000 of the outstanding Seller Notes. This item is a non-cash event which reduces total Company long term debt.

At December 26, 2008, we had a \$4.1 million balance outstanding under our revolving credit facility. The maximum borrowing limit under our revolving credit facility is limited to the lesser of (i) \$9.0 million or (ii) an amount equal to the sum of 85% of the receivables borrowing base and 35% of the inventory borrowing base. We believe that our liquidity is adequate to cover operating requirements for the next 12 months.

The Company's financing agreements contain various affirmative and negative covenants concerning the ratio of "EBITDARS" (Earnings Before Interest, Taxes, Depreciation, Amortization, Rent Expense under the Sale Leaseback and Stock Option Expense) to total debt and to fixed charges. These are calculated on a twelve month rolling basis. The Company must also maintain a minimum EBITDARS level of \$350,000 per individual quarter. The Company was compliant with these covenants as of December 26, 2008. The table below provides details on the Company's performance relative to each of the three covenants for the quarter:

| Covenant                   | Requirement  | Actual Performance |
|----------------------------|--------------|--------------------|
| Minimum quarterly EBITDARS | ≥ \$ 350,000 | \$ 1,138,000       |
| Fixed Charge Coverage      | ≥ 1.1x       | 3.0x               |
| Total Debt to EBITDARS     | < 3.75x      | 2.6x               |

### Application of Critical Accounting Policies

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

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

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

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

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

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

#### Impact of Inflation

To date the impact has been minimal due to the fact that we have been able to adjust many of our bids to reflect most inflationary increases in costs; however it is not clear this will continue and in turn could affect our margins.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-4 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements ("EITF 06-4"), which requires the Company to recognize a postretirement liability for the discounted future benefit obligation that the Company will have to pay upon the death of the underlying insured employee. EITF 06-4 is effective for financial statements issued for fiscal years beginning after December 15, 2007. As such, the Company is required to adopt this provision in the current period. Adoption of EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements", did not have a significant effect on the Company's consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt this



provision in the current period. Adoption of Statement of Financial Accounting Standard (“SFAS”) No. 157, "Fair Value Measurements", did not have a significant effect on the Company's consolidated financial statements. The Company will defer the adoption of SFAS No. 157 for its non-financial assets and non-financial liabilities until the year ended September 30, 2010, as permitted under FASB Staff Position 157-2, “Effective Date of FASB Statement No. 157”.

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115". SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt this provision in the current period. Adoption of Statement of Financial Accounting Standard (“SFAS”) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115", did not have a significant effect on the Company's consolidated financial statements.

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

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

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

### Item 3 — Quantitative and Qualitative Disclosures About Market Risk

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

### Item 4T — Controls and Procedures

#### (a) Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of IEC's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures associated with the “base IEC business”, excluding the recently acquired Val-U-Tech operation, as of the end of the period covered by this Quarterly Report on Form 10-Q as required by Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that “base IEC business, excluding the Val-U-Tech operation, has disclosure controls and procedures which were effective as of the end of the period covered by this Quarterly Report on Form 10-Q to provide reasonable assurance that information required to be disclosed by IEC in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC rules and forms and that such information is accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding disclosures. The Val-U-Tech operation will be evaluated in exactly the same manner and management will report on the effectiveness of controls of that operation as of September 30, 2009 in our Annual Report on Form 10-K for the year ended

September 30, 2009.

(b) Changes in internal control over financial reporting

In connection with the evaluation described above, our management, including our Chief Executive Officer and Chief Financial Officer, identified no change in our internal control over financial reporting that occurred during our fiscal quarter ended December 26, 2008, that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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## Forward-looking Statements

Forward-looking statements in this Form 10-Q include, without limitation, statements relating to the Company's plans, future prospects, strategies, objectives, expectations, intentions and adequacy of resources and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements may be identified by their use of words like "plans", "expects", "aims", "believes", "projects", "anticipates", "intends", "estimates", "will", "should", "could", and other expressions that indicate future events and trends. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others, the following: general economic and business conditions, the timing of orders and shipments, availability of material, product mix, changes in customer requirements and in the volume of sales to principal customers, competition and technological change, the ability of the Company to assimilate acquired businesses and to achieve anticipated benefits of such acquisitions, the ability of the Company to control manufacturing and operating costs, and satisfactory relationships with vendors. The Company's actual results of operations may differ significantly from those contemplated by such forward-looking statements as a result of these and other factors, including factors set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 2008 and in other filings with the Securities and Exchange Commission.

## PART II. OTHER INFORMATION

### Item 1 — Legal Proceedings

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

### Item 1A – Risk Factors

There are no material changes to the Risk Factors described in Item 1A in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008.

### Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds – None

### Item 3 — Defaults Upon Senior Securities - None

### Item 4 — Submission of Matters to a Vote of Security Holders – None

### Item 5 — Other Information - None

### Item 6 — Exhibits

The following documents are filed as exhibits to this Report:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

SIGNATURES

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

IEC ELECTRONICS CORP.  
REGISTRANT

Dated: January 28, 2009

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

Dated: January 28, 2009

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