

IEC ELECTRONICS CORP
Form 10-Q
February 08, 2011

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 31, 2010
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
(State or other jurisdiction of
incorporation or organization)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-Accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>

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 (exclude treasury shares):

Common Stock, \$0.01 par value - 9,517,018 shares as of February 4, 2011

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31 AND SEPTEMBER 30, 2010
(in thousands, except share and per share data)

	December 31, 2010 (Unaudited)	September 30, 2010
ASSETS		
Current assets:		
Cash (see Cash note)	\$ -	\$ -
Accounts receivable, net of allowance	18,855	16,315
Inventories (see Inventories note)	18,841	12,068
Deferred income taxes	4,329	3,359
Other current assets	1,156	234
Total current assets	43,181	31,976
Fixed assets, net of accumulated depreciation (see Fixed Assets note)	14,832	13,098
Intangible assets, net of accumulated amortization (Intangibles note)	420	331
Goodwill	21,147	58
Deferred income taxes (see Income Taxes note)	8,679	10,113
Other assets	221	106
Total assets	\$ 88,480	\$ 55,682
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 6,905	\$ 2,899
Accounts payable	10,105	8,145
Accrued payroll and related expenses	1,591	2,279
Other accrued expenses	1,186	941
Customer deposits	1,093	-
Total current liabilities	20,880	14,264
Long-term debt (see Credit Facilities note)	40,392	15,999
Total liabilities	61,272	30,263
SHAREHOLDERS' EQUITY		
Preferred stock, \$.01 par value: 500,000 shares authorized; none issued or outstanding	-	-
Common stock, \$.01 par value: 50,000,000 shares authorized; 10,359,057 and 10,100,589 shares issued, respectively	103	101
Additional paid-in capital	41,876	41,138
Accumulated deficit	(13,358)	(14,407)
Treasury stock, at cost: 1,012,873 shares	(1,413)	(1,413)
Total shareholders' equity	27,208	25,419
Total liabilities and shareholders' equity	\$ 88,480	\$ 55,682

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 31, 2010 and DECEMBER 25, 2009
(in thousands, except share and per share data)

	Three months ended	
	December 31, 2010	December 25, 2009 (Unaudited)
Net sales	\$ 28,644	\$ 18,060
Cost of sales	24,061	15,247
Gross profit	4,583	2,813
Selling and administrative expenses	2,620	1,500
Operating profit	1,963	1,313
Interest and financing expense	244	95
Other (income)/expense	13	58
Income before provision for income taxes	1,706	1,160
Provision for income taxes	657	406
Net income	\$ 1,049	\$ 754
Net income per common and common equivalent share:		
Basic	\$ 0.11	\$ 0.09
Diluted	0.11	0.08
Weighted average number of common and common equivalent shares outstanding:		
Basic	9,224,877	8,828,604
Diluted	9,766,022	9,526,342

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS of COMPREHENSIVE INCOME and SHAREHOLDERS' EQUITY
THREE-MONTH PERIODS ENDED DECEMBER 31, 2010 and DECEMBER 25, 2009
(thousands, except per share)
(Unaudited)

	Common Stock, par \$.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Shareholders' Equity
Balances, September 30, 2009	\$ 97	\$ 40,632	\$ (19,062)	\$ (1,413)	\$ 20,254
Stock compensation accruals		34			34
Directors' fees paid in stock		5			5
Restricted (non-vested) stock grants	-				-
Exercise of stock options	1	28			29
Net income/ Comprehensive income			754		754
Balances, December 25, 2009	\$ 98	\$ 40,699	\$ (18,308)	\$ (1,413)	\$ 21,076
Balances, September 30, 2010	\$ 101	\$ 41,138	\$ (14,407)	\$ (1,413)	\$ 25,419
Stock compensation accruals		76			76
Directors' fees paid in stock		11			11
Restricted (non-vested) stock grants	1				1
Exercise of stock options		32			32
Shares issued in SCB acquisition	1	608			609
Employee stock plan purchases		11			11
Net income/ Comprehensive income			1,049		1,049
Balances, December 31, 2010	\$ 103	\$ 41,876	\$ (13,358)	\$ (1,413)	\$ 27,208

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 31, 2010 and DECEMBER 25, 2009
(thousands, except shares)

	Three months ended	
	December 31, 2010	December 25, 2009
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,049	\$ 754
Non-cash adjustments:		
Stock-based compensation	76	34
Depreciation and amortization	500	135
Directors' fees paid in stock	11	5
(Gain)/loss on sale of fixed assets	-	(10)
Deferred tax expense	570	380
Changes in current assets and liabilities:		
Accounts receivable	(920)	(943)
Inventories	(3,983)	(253)
Other current assets	59	(14)
Accounts payable	1,457	2,005
Accrued expenses	(505)	(470)
Customer deposits	1,093	(1)
Net cash flows from operating activities	(593)	1,622
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(713)	(344)
Proceeds from sale of fixed assets	-	10
Acquisition of SCB, cash portion (see Acquisitions note)	(27,011) (a)	-
Acquisition of GTC (see Acquisitions note)	-	(15,111) (b)
Net cash flows from investing activities	(27,724)	(15,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in borrowings under revolving line	9,121(c)	5,153(d)
Borrowings under other loan agreements	20,000	9,000
Repayments under loan agreements and notes	(722)	(285)
Proceeds from exercise of stock options	32	29
Proceeds from shares issued under employee purchase plan	11	-
Financing costs capitalized	(125)	(74)
Net cash flows from financing activities	28,317	13,823
Net cash flows for the period	0	0
Cash and cash equivalents, beginning of period	0	0
Cash and cash equivalents, end of period	\$ 0	\$ 0
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 197	\$ 92

Income taxes		27		107
Supplemental disclosure of non-cash adjustments:				
100,000 common shares issued in SCB acquisition	\$	609	\$	-

- (a) Funds advanced at closing of which \$981 were repaid to purchaser based on post-closing cash reconciliation.
- (b) During year following acquisition date, adjustments from seller reduced purchase price to \$14,761.
- (c) Revolver borrowings of \$6,030 were utilized to partially fund December 2010 purchase of SCB.
- (d) Revolver borrowings of \$6,111 were utilized to partially fund December 2009 purchase of GTC.

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
(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 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. 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, responsive 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. As a true extension of our customers' operations, we have applied industry-leading Six Sigma and Lean Manufacturing principles to eliminate waste and reduce our customers' total cost of ownership. While many EMS services are viewed as commodities, we believe we set ourselves apart through an uncommon mix of capabilities, including:

- § A world class Technology Center that combines dedicated prototype manufacturing with an on-site Materials Analysis Lab (headed by two PhD's) enabling the seamless transition of complex electronics from design to production.
- § In-house custom, functional test development supporting complex system-level assembly, test, troubleshooting and end-order fulfillment.
- § An authentic Lean/Six Sigma continuous improvement program supported by five certified Six Sigma Blackbelts delivering best-in-class results.
- § An industry-leading Web Portal providing customers real-time access to a wide array of critical data.

Fiscal Calendar

The Company's fiscal year begins on October 1st and quarters generally end on the Friday closest to the end of the calendar quarter, with the exception of the fourth quarter, which ends on September 30th.

Consolidation

The consolidated financial statements include the accounts of IEC and its wholly owned subsidiaries, IEC Electronics Wire and Cable, Inc. ("Wire and Cable"); General Technology Corporation ("GTC") since December 16, 2009; and Southern California Braiding, Inc. ("SCB") since December 17, 2010. The Celmet unit acquired on July 30, 2010 operates as a division of IEC. See further discussion of SCB, GTC and Celmet in the Acquisitions note. All significant intercompany transactions and accounts have been eliminated.

Unaudited Financial Statements

The accompanying unaudited financial statements for the three months ended December 31, 2010 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 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, 2010 Annual Report on Form 10-K.

Reclassifications

Amounts in prior year financial statements are reclassified as necessary to conform to the current year presentation.

Cash and Cash Equivalents

The Company's cash and cash equivalents are maintained principally in deposit accounts with Manufacturers and Traders Trust Company ("M&T"), a banking corporation with headquarters 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 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; 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.

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.

	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

Leases

At the inception of a lease covering equipment or real estate, the Company evaluates the lease under criteria discussed in FASB ASC 840-10-25 (Leases). Leases meeting one of the 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. Under 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 at least 90 percent of 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 at a minimal loss 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.

Intangible Assets

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In December 2010, IEC entered into a five-year non-compete agreement with SCB's selling shareholders and assigned a \$100 thousand value to a corresponding intangible asset. The intangible is being amortized over five years.

GTC's building and land were acquired in December 2009 subject to an Industrial Revenue Bond that exempts the property from real estate taxes for the term of the IRB. At date of acquisition, the \$360 thousand estimated value of the tax abatement was recorded as an intangible asset that is being amortized under the straight-line method to the maturity date of the borrowing.

Goodwill

Under FASB ASC 805 (Business Combinations), goodwill represents the excess of cost over fair value of net assets acquired in a corporate acquisition. While income tax rules allow fifteen-year, straight-line amortization, ASC 350 (Intangibles & Goodwill) does not permit amortization for financial reporting purposes. In lieu of amortizing, ASC 350 requires that goodwill be reviewed for impairment at least annually or when events or circumstances indicate that carrying value may exceed fair value. The review process entails estimating the overall fair value of the unit to which the goodwill relates and comparing that value to the unit's carrying value. If fair value exceeds carrying value, no goodwill write-down 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 should be written down to a lower value.

Most of IEC's recorded goodwill relates to the SCB unit acquired in the current quarter and a small portion relates to Celmet, which was acquired in July 2010 (see Acquisitions note). No goodwill impairment has occurred to date in connection with either unit.

Long-Lived Assets

FASB ASC 360-10 (Property, Plant and Equipment) requires the Company to test long-lived assets for recoverability whenever events or circumstances indicate that the carrying amount may not be recoverable. No impairment charges were recorded during the quarters ended December 2010 or 2009.

Fair Value of Financial Assets and Liabilities

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 mainly floating-rate debt. IEC believes that carrying amounts approximate fair value for all such instruments.

FASB ASC 820 (Fair Value Measurements and Disclosures) defines fair value, establishes a framework for measurement, and expands disclosure about fair value measurements. 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 that are not observable, including situations in which there is little or no market activity.

Level 2 inputs were used in valuing fixed assets acquired in connection with IEC's fiscal 2010 business combinations and will be used to value fixed assets acquired with SCB in fiscal 2011. Intangible asset valuations performed in connection with the Company's corporate acquisitions have been based on level 3 inputs. Significant judgments are required in all such valuation procedures. Asset and liability values assigned to the SCB unit acquired in December 2010 are preliminary and subject to change in amounts that could be material.

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 (a)

goods are shipped or title and risk of ownership have passed, (b) the price to the buyer is fixed or determinable, and (c) realization is reasonably assured. Service revenues are recognized when services are rendered. Provisions for discounts and rebates to customers, estimated returns and allowances and other adjustments are recorded in the period the related sales are recognized.

Stock-Based Compensation

FASB ASC 718 (Stock Compensation) requires that the cost of employee services received in exchange for equity instruments be based on the grant-date fair value of the instruments. Such costs are recorded over periods employees render services to the Company and earn vested rights in the instruments. Compensation cost relating to stock options and restricted (non-vested) stock is credited directly to the common stock and paid-in capital accounts.

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 tax laws, 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 a comprehensive model for how a company should measure, recognize, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained following examination by taxing authorities, based on technical merits of the position.

Tax benefits from uncertain positions, that are recognized in the financial statements, would be recorded at the largest amount having a greater than 50% likelihood of ultimately being realized. Interest and penalties, if incurred, are included in interest expense. The Company's income tax filings are subject to audit by various tax jurisdictions, and current open years run from fiscal 2007 through 2009. The Company believes that it has no material uncertain tax positions.

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 for each period. Diluted earnings per common share are calculated by adding to weighted-average shares outstanding the incremental shares resulting from the assumed exercise of all potentially dilutive stock options, those with an exercise price below the average market price during the period. Restricted (non-vested) shares are reported as outstanding from date of grant. A summary of shares used in the earnings per share calculations follows.

Shares for EPS Calculation	Three months ended	
	December 31, 2010	December 25, 2009
Weighted avg. shares outstanding	9,224,877	8,828,604
Incremental shares from assumed exercise of stock options	541,145	697,738
Diluted shares	9,766,022	9,526,342
Options excluded from diluted shares due to exercise price being higher than average market price	10,000	22,500

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 Credit 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 and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from management's estimates.

Statement of Cash Flows

The Company prepares the Consolidated Statement of Cash Flows utilizing the indirect method of reporting. For companies acquired during the periods, cash flows mainly represent activity subsequent to the acquisition date. The net cash outflow attributable to the net cost of assets acquired and liabilities assumed is presented as an investing cash flow.

Recently Issued Accounting Standards

FASB Accounting Standards Update 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations," was issued in December 2010 for application to business combinations occurring no later than IEC's 2012 fiscal year and beyond. The update clarifies that when prior period financial statements are presented, the assumed acquisition date for preparing pro forma information should be the start of the year preceding the year of acquisition. As a result, the current period pro forma information is then prepared excluding any one-time acquisition related expenses that are included in the pro forma information for the preceding year period. 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 describe methods used to estimate the allowance for doubtful accounts; disclose policies for charging off uncollectible receivables; and 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 must be provided beginning in IEC's December 2010 quarter, and transaction-oriented disclosures are required in subsequent periods. IEC implemented the requirements of this update at September 30, 2010.

NOTE 2. ACQUISITIONS

On December 17, 2010, IEC's subsidiary, SCB acquired substantially all of the assets of Southern California Braiding Company, Inc. in Bell Gardens, CA, formerly a privately held manufacturer of high reliability wire, cable and harness products for military and defense markets. The purchase price was \$25.0 million, subject to adjustment up or down if closing date working capital is greater or less, respectively, than a target of \$2.7 million. The final working capital adjustment will be based upon post-closing verification of working capital as provided in the asset purchase agreement. The final purchase price is also subject to potential downward adjustment based on the level of SCB's gross sales and backlog for calendar year 2011. Cash paid at closing was \$27.0 million, which included an estimated working capital adjustment of \$1.6 million, and of which \$981 thousand was returned to purchaser on January 6, 2011 following a post-closing reconciliation of cash disbursements.

A portion of the acquisition price, \$609 thousand, was funded with 100,000 shares of newly issued IEC common stock, and the remaining \$26.0 million of net cash paid was funded with bank debt. \$3.1 million of the cash paid and shares issued was deposited in escrow to be released to seller or returned to purchaser under certain specified circumstances occurring at varying times through March 31, 2012. The selling shareholders entered into a five-year agreement not to compete with SCB, and the president of Southern California Braiding Company, Inc. continues in that capacity with SCB under IEC ownership. Concurrent with the acquisition, the Company assumed leases for operating premises of the business, with aggregate annual base rent obligations of approximately \$350 thousand.

Under the acquisition method of accounting, the Company is required to measure and record the fair value of assets acquired and liabilities assumed. If the purchase price is greater than the value of identifiable net assets acquired, as in the case of SCB, the difference is recorded as goodwill. If net asset value exceeds the amount paid, the excess is recorded in other income as a gain.

Estimated fair values of the assets acquired and liabilities assumed in the SCB acquisition are summarized below. The estimates may be revised as working capital balances are verified and appraisals and valuations of fixed assets, intangibles and other assets and liabilities are completed. Due to the limited period of ownership, required appraisals and valuations are pending at December 31, 2010, and potential adjustments could be material.

SCB Opening Balance Sheet	December 17, 2010 (thousands, except shares)	
Accounts receivable, net	\$	1,620
Inventories		2,790
Leasehold improvements		814
Machinery & equipment		510
Furniture & fixtures		176
Intangible asset		100
Goodwill		21,088
Deferred income taxes		106
Total assets acquired		27,204
Accounts payable	\$	503
Accruals and other liabilities		62
Total liabilities assumed		565
Net assets acquired/purchase price	\$	26,639
Funded with bank debt	\$	26,030
Funded with 100,000 shares of IEC common stock		609
Total funding for SCB acquisition	\$	26,639

On July 30, 2010, the Company acquired certain assets and assumed certain liabilities of Celmet, a privately held, precision sheet metal fabrication, component assembly and metal stamping company located in Rochester, NY. The purchase price of \$1.9 million for the business, which is being operated as the Celmet division of IEC, was funded with senior bank debt. Concurrent with the acquisition, the Company entered into a 48-month lease for the operating premises of the business. Annual base rent under the operating lease is \$190 thousand.

Fair values of the assets acquired and liabilities assumed in connection with the Celmet acquisition are summarized below. Since the price paid exceeded fair value of net assets acquired, \$58 thousand of goodwill was recorded.

Celmet Division Opening Balance Sheet	July 30, 2010 (thousands)	
Accounts receivable, net	\$	577
Inventories		364
Other current assets		23
Equipment		1,058
Goodwill		58
Deferred income taxes		62
Total assets acquired		2,142
Accounts payable	\$	214
Accruals and other liabilities		30
Total liabilities assumed		244
Net assets acquired/purchase price	\$	1,898
(Purchase price funded with bank debt)		

On December 16, 2009, the Company acquired all the stock of General Technology Corporation from Crane International Holdings, Inc. The acquired business, located in Albuquerque, NM, employs complementary

technologies and serves markets similar to IEC's. The purchase price of \$14.8 million was funded entirely with senior bank debt.

The GTC acquisition resulted in a gain of \$588 thousand, \$418 thousand of which was recognized during fiscal 2010. The remaining \$170 thousand was recorded in December 2010 upon IEC's receipt of a purchase price refund from the seller. The December payment resolved a dispute over working capital values that had been referred to arbitration.

During the twelve-month period following the GTC acquisition, certain adjustments were made to purchase price and to the valuation of assets and liabilities acquired as refunds were received and new information became available. The summary of GTC's acquisition-date balance sheet provided below displays preliminary balances recorded in December 2009 and final balances reflected in the December 2010 financial statements.

GTC Opening Balance Sheet	As of December 16, 2009	
	Final December 2010 (thousands)	Preliminary December 2009
Accounts receivable, net	\$ 3,931	\$ 3,945
Inventories	4,275	4,444
Other current assets	69	69
Land	813	813
Building	5,074	5,087
Equipment	2,761	2,761
Intangible asset	360	360
Deferred income taxes	485	-
Total assets acquired	17,768	17,479
Accounts payable	\$ 1,128	\$ 1,111
Accruals and other liabilities	1,191	1,157
Gain on acquisition	588	-
Long-term debt	100	100
Total liabilities assumed	3,007	2,368
Net assets acquired/purchase price	\$ 14,761	\$ 15,111
(Purchase price funded with bank debt)		

The table that follows displays the revenue and earnings of SCB in 2010 and GTC in 2009 for the brief periods from the respective dates of acquisition to the ends of the two quarters. The amounts presented are included in IEC's consolidated income statements for the periods.

The summary below also presents IEC's unaudited pro forma consolidated results for the two quarters as if the SCB, Celmet and GTC acquisitions had occurred on October 1, 2009. The pro forma results combine IEC's actual consolidated amounts for the quarters with revenue and earnings generated by SCB, Celmet and GTC for any time-periods within the quarters that they were not members 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, Celmet, GTC and IEC. The pro forma results are not necessarily equivalent to those that would have been obtained by consummating the acquisitions on October 1, 2009, nor are they necessarily indicative of future results.

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SCB and GTC Actual Results within IEC and IEC Pro Forma Results for the Quarters (in thousands, except share and per share data)	Three months ended	
	December 31, 2010	December 25, 2009
	(Unaudited)	
SCB results in 2010 and GTC results in 2009 from respective dates of acquisition		
Net sales	\$ 235	\$ 679
Income (loss) before income taxes	(120)	111
Net income (loss)	(71)	72
IEC results as if GTC, Celmet and SCB were acquired on October 1, 2009		
Net sales	\$ 32,575	\$ 27,361
Income before income taxes	2,480	1,757
Net income	1,513	1,111
Earnings per share:		
Basic	\$ 0.16	\$ 0.12
Diluted	0.15	0.12
Weighted average common and common equivalent shares:		
Basic	9,308,573	8,928,604
Diluted	9,849,718	9,626,342
Significant pro forma adjustments: (increase(decrease) in pretax income)		
Compensation adjustments	\$ 458	\$ 498
Change in sales commission program	49	(9)
Other sales/marketing expense reductions	227	-
Insurance expense reduction	62	87
Contract staff cost changes	82	(22)
Depreciation on fixed asset adjustments	9	(85)
Reduction in legal/professional fees	154	64
Interest expense on acquisition debt	(202)	(366)
Eliminate former parent's management fee	-	55
IEC's acquisition expenses	109	(159)

NOTE 3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary follows of activity in the allowance for doubtful accounts for the three-month periods ending in December 2010 and December 2009:

Allowance for Doubtful Accounts	Three months ended	
	December 31, 2010	December 25, 2009
	(thousands)	

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Allowance, beginning of period	\$	250	\$	85
Allowances of acquired companies		25		-
Provision (reversal)		(86)		40
Write-offs		-		(6)
Allowance, end of period	\$	189	\$	119

NOTE 4. INVENTORIES

A summary of inventory by category follows:

Inventories	December 31, 2010	September 30, 2010
(thousands)		
Raw materials	\$ 11,378	\$ 7,993
Work-in-process	7,471	3,974
Finished goods	1,263	1,012
Total inventories	20,112	12,979
Reserve for excess and obsolete inventory	(1,271)	(911)
Inventories, net	\$ 18,841	\$ 12,068

NOTE 5. FIXED ASSETS

Fixed assets and accumulated depreciation consist of the following:

Fixed Assets	December 31, 2010	September 30, 2010
(thousands)		
Land and improvements	\$ 1,556	\$ 1,556
Buildings and improvements	9,730	9,581
Leasehold improvements	827	-
Machinery and equipment	16,354	15,434
Furniture and fixtures	5,150	4,833
Total fixed assets, at cost	33,617	31,404
Accumulated depreciation	(18,785)	(18,306)
Net fixed assets	\$ 14,832	\$ 13,098

NOTE 6. INTANGIBLE ASSETS

Intangible assets and accumulated amortization are as follows:

Intangible Assets	December 31, 2010	September 30, 2010
(thousands)		
Property tax abatement	\$ 360	\$ 360
Non-compete agreement	100	-
Total intangibles, at cost	460	360
Accumulated amortization	(40)	(29)
Net intangible assets	\$ 420	\$ 331

NOTE 7. CREDIT FACILITIES

A summary of borrowings at December 31 and September 30, 2010 follows:

Debt	Fixed/		Interest Rate		December	September
	Variable	Maturity	12/31/10	9/30/10	31, 2010	30, 2010
	Rate		(percents)		(thousands)	
M&T borrowings						
Revolving credit facility						
	v	12/17/13	3.56	3.50	\$ 14,944	\$ 5,823
SCB term loan	v	12/17/15	3.81	-	20,000	-
GTC term loan	v	12/16/14	3.81	3.75	4,000	4,250
GTC mortgage loan	v	12/16/14	3.81	3.75	3,733	3,800
Celmet term loan	v	07/30/15	3.81	3.75	1,833	1,933
Equipment loan, variable	v	12/17/13	3.81	3.75	258	273
Equipment loans (3), fixed	f	11/01/12	3.06	3.07	470	521
Term loan	f	01/01/12	6.70	6.70	350	435
Energy loan	f	04/02/13	2.08	2.08	95	105
Other borrowings						
Seller notes, Wire & Cable						
	f	06/01/13	4.00	4.00	1,514	1,658
GTC industrial revenue bond						
	f	03/01/19	5.63	5.63	100	100
Total debt					47,297	18,898
Less: current portion					(6,905)	(2,899)
Long-term debt					\$ 40,392	\$ 15,999

Note: Sale-leaseback agreement with M&T is treated as an operating lease, not as debt.

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. The new arrangement added a \$20.0 million term loan to be used for the SCB acquisition; increased the revolving credit facility by \$5.0 million to \$20.0 million; eliminated a minimum threshold for variable interest tied to LIBOR (London Interbank Offered Rate); and modified certain other provisions as discussed below. The basic structure of the agreement and many of the terms and conditions remained unchanged from the prior agreement. Except as otherwise noted below, Revolver and Term Loan borrowings under the Credit Agreement bear interest at LIBOR plus a margin that varies based on the Company's ratio of debt to EBITDARS, as defined. Individual facilities provided under the agreement are as follows:

(a) \$20 million Revolving Credit Facility ("Revolver") available through December 17, 2013: The Company may borrow up to the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories up to \$3.75 million, as defined, or (ii) \$20 million. Overline advances of 70% of inventories up to \$4.75 million are permitted for limited periods at an increased interest rate. At December 31, 2010, the maximum amount then available for borrowing was

\$19.2 million. Average balances outstanding amounted to \$8.3 million and \$5.1 million, during IEC's fiscal quarters ending December 2010 and 2009, respectively.

The Company currently incurs a fee of 0.375% on any unused portion of the revolver commitment, which amounted to \$5 thousand for the quarter ended December 2010. This fee also varies based on IEC's ratio of debt to EBITDARS.

(b) \$20 million SCB Term Loan originated December 17, 2010: Principal is repaid in sixty equal monthly installments. A \$125 thousand commitment fee is being amortized over life of the loan.

(c) \$2 million Celmet Term Loan originated July 30, 2010: Principal is repaid in sixty equal monthly installments.

(d) \$5 million GTC Term Loan originated December 16, 2009: Principal is repaid in sixty equal monthly installments.

(e) \$4 million GTC Mortgage Loan originated December 16, 2009: The loan is effectively secured by GTC property in Albuquerque, NM and principal is being repaid in 60 monthly installments of \$22 thousand plus a balloon payment at maturity.

(f) \$1.5 million Equipment Line of Credit, reduced by prior borrowings under the line, and available through December 17, 2011: This line is utilized for purchases of capital equipment, and individual borrowings under the line are supported by separate notes that specify fixed or variable interest, as selected by the Company, and principal repayment terms. Monthly principal repayments of each note are one-sixtieth of the loan amount plus any remaining balance at termination date of the Revolver. Three fixed-rate loans outstanding at December 31, 2010 were funded under a prior agreement that requires level principal payments over 48 months, plus interest.

(g) \$1.7 million Term Loan originated on May 30, 2008: Interest rate on this loan is fixed at 6.70%, and principal is being repaid in monthly installments of \$28 thousand plus the remainder at maturity. The loan's original repayment period of 60 months was shortened to account for a \$0.5 million accelerated payment made in the fourth quarter of fiscal 2008.

(h) \$0.2 million Energy Loan (also referred to as the "NYSERDA Loan"): Interest on this loan is subsidized by New York State, and principal is being repaid in sixty equal monthly installments.

The Credit Agreement is secured by, among other things, a security interest in the assets of IEC, Wire and Cable, GTC, Celmet, and SCB and a mortgage encumbering GTC property, as mentioned above. The 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 below.

For the purpose of calculating compliance with the covenants, IEC's operating lease obligation to M&T for certain equipment sold and leased back on June 27, 2008, is treated as debt. Rental payments amount to \$389 thousand per year, and payments remaining at December 31, 2010 total \$941 thousand. The Company was in compliance with the three covenants at December 31, 2010, as shown in the table at the end of this note.

Other Credit Facilities

(i) The May 2008 acquisition of Wire and Cable was financed in part by three promissory notes totaling \$3.8 million given to the sellers ("Seller Notes"). These notes are subordinated to borrowings under the Credit Agreement and are being repaid in quarterly installments amounting to \$160 thousand, including interest, through maturity.

(j) When IEC acquired GTC, the Company assumed responsibility for an 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.

Compliance with covenants under the Credit Agreement, and aggregate debt maturities on all IEC borrowings for the next five years are summarized in the tables that follow:

Covenant Compliance:

Covenant	Type of limit	Limit	Actual at December 31, 2010
	Lower	\$ 1,500	\$ 2,612

Quarterly EBITDARS (000's)			
Total debt to EBITDARS	Upper	3.50x	2.79x
Fixed charge coverage (a)	Lower	1.25x	3.95x

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

Debt Maturities:

Years ending December 31,	Debt Maturities (thousands)
2011	\$ 6,905
2012	6,592
2013*	21,065
2014	5,730
2015	6,905
2016 and thereafter	100
	\$ 47,297

*Includes Revolver balance of \$14,944 as of December 31, 2010.

NOTE 8. INCOME TAXES

The provision for income taxes for the periods ended December 31, 2010 and December 25, 2009 is summarized below:

Income Tax Provision	Three months ended	
	December 31, 2010	December 25, 2009
	(thousands)	
Current tax expense:		
State	\$ 51	\$ 3
Federal	36	23
Deferred tax expense:		
State	29	11
Federal	541	369
Total income tax provision	\$ 657	\$ 406

The following table displays deferred tax assets by category as of December 31 and September 30, 2010, respectively. Recorded amounts are affected by deferred tax provisions and the establishment of deferred taxes for acquired companies (see Acquisitions note).

Deferred Tax Assets	December 31, 2010	September 30, 2010
	(thousands)	
Net operating loss carryforward	\$ 11,269	\$ 11,862
Alternative minimum tax credit carryforward		