

IEC ELECTRONICS CORP  
Form 10-Q  
May 10, 2017  
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 March 31, 2017

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 001-34376

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

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

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

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

Not Applicable  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 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  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes " No x

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

Common Stock, \$0.01 par value – 10,316,623 shares as of May 1, 2017

---

TABLE OF CONTENTS

<u>Part I</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements</u>	<u>3</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>32</u>
<u>Part II</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>33</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>33</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>33</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>33</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>33</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>33</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>33</u>
	<u>SIGNATURES</u>	<u>34</u>
	<u>INDEX TO EXHIBITS</u>	<u>35</u>

## Part I FINANCIAL INFORMATION

## Item 1. Condensed Financial Statements

IEC ELECTRONICS CORP.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 MARCH 31, 2017 and SEPTEMBER 30, 2016  
 (in thousands, except share and per share data)

	March 31, 2017	September 30, 2016
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 509	\$ 845
Accounts receivable, net of allowance	14,713	17,140
Inventories, net	16,477	15,384
Assets held for sale	—	4,611
Other current assets	997	1,214
Total current assets	32,696	39,194
Property, plant & equipment, net	17,010	10,994
Intangible assets, net	75	95
Goodwill	101	101
Other long term assets	8	13
Total assets	\$ 49,890	\$ 50,397
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,530	\$ 2,908
Current portion of capital lease	206	—
Accounts payable	11,784	10,864
Accrued payroll and related expenses	1,207	3,365
Other accrued expenses	496	529
Customer deposits	2,161	1,756
Total current liabilities	\$ 17,384	\$ 19,422
Long-term debt	12,950	16,732
Long-term capital lease	5,471	—
Other long-term liabilities	1,425	379
Total liabilities	37,230	36,533
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.01 par value:	—	—
500,000 shares authorized; none issued or outstanding		
Common stock, \$0.01 par value:		
Authorized: 50,000,000 shares		
Issued: 11,372,111 and 11,330,151 shares, respectively		
Outstanding: 10,316,623 and 10,274,663 shares, respectively	114	113

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

Additional paid-in capital	46,557	46,294
Retained earnings/(accumulated deficit)	(32,422 )	(30,954 )
Treasury stock, at cost: 1,055,488 shares	(1,589 )	(1,589 )
Total stockholders' equity	12,660	13,864
Total liabilities and stockholders' equity	\$ 49,890	\$ 50,397

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

3

---

IEC ELECTRONICS CORP.  
 CONDENSED CONSOLIDATED INCOME STATEMENTS  
 THREE and SIX MONTHS ENDED MARCH 31, 2017 and APRIL 1, 2016  
 (unaudited; in thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Net sales	\$21,368	\$ 33,148	\$42,344	\$ 66,081
Cost of sales	19,089	27,412	38,269	54,528
Gross profit	2,279	5,736	4,075	11,553
Selling and administrative expenses	2,665	3,762	5,095	7,747
Operating profit/(loss)	(386 )	1,974	(1,020 )	3,806
Interest and financing expense	229	513	448	802
Income/(loss) before income taxes	(615 )	1,461	(1,468 )	3,004
Provision for/(benefit from) income taxes	—	—	—	—
Net income/(loss)	\$(615 )	\$ 1,461	\$(1,468 )	\$ 3,004
Net income/(loss) per common and common equivalent share:				
Basic	\$(0.06 )	\$ 0.14	\$(0.14 )	\$ 0.29
Diluted	(0.06 )	0.14	(0.14 )	0.29
Weighted average number of common and common equivalent shares outstanding:				
Basic	10,173,388	10,205,031	10,168,339	10,210,539
Diluted	10,173,388	10,205,031	10,168,339	10,210,539

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

## IEC ELECTRONICS CORP.

CONDENSED CONSOLIDATED STATEMENTS of CHANGES in STOCKHOLDERS' EQUITY  
SIX MONTHS ENDED MARCH 31, 2017 and APRIL 1, 2016

(unaudited; in thousands)

	Common Stock, par \$0.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, October 1, 2015	\$ 112	\$ 45,845	\$(35,740)	\$(1,529)	\$ 8,688
Net income	—	—	3,004	—	3,004
Stock-based compensation	—	162	—	—	162
Restricted (non-vested) stock grants, net of forfeitures	1	(1 )	—	—	—
Employee stock plan purchase	—	7	—	—	7
Return of incentive compensation shares	—	—	—	(60 )	(60 )
Balances, April 1, 2016	\$ 113	\$ 46,013	\$(32,736)	\$(1,589)	\$ 11,801

	Common Stock, par \$0.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, October 1, 2016	\$ 113	\$ 46,294	\$(30,954)	\$(1,589)	\$ 13,864
Net loss	—	—	(1,468 )	—	(1,468 )
Stock-based compensation	—	252	—	—	252
Restricted (non-vested) stock grants, net of forfeitures	1	—	—	—	1
Employee stock plan purchases	—	13	—	—	13
Shares withheld for payment of taxes upon vesting of restricted stock	—	(2 )	—	—	(2 )
Balances, March 31, 2017	\$ 114	\$ 46,557	\$(32,422)	\$(1,589)	\$ 12,660

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

IEC ELECTRONICS CORP.  
 CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS  
 SIX MONTHS ENDED MARCH 31, 2017 and APRIL 1, 2016  
 (unaudited; in thousands)

	Six Months Ended	
	March 31, 2017	April 1, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income/(loss)	\$(1,468)	\$3,004
Non-cash adjustments:		
Stock-based compensation	252	162
Incentive compensation shares returned	—	(60 )
Depreciation and amortization	1,330	1,681
(Gain)/loss on sale of property, plant and equipment	—	1
Reserve for doubtful accounts	(151 )	270
Provision for excess/obsolete inventory	(196 )	279
Amortization of deferred gain on sale leaseback	(30 )	—
Changes in assets and liabilities:		
Accounts receivable	2,578	6,422
Inventory	(897 )	1,580
Other current assets	217	185
Other long term assets	5	(11 )
Accounts payable	920	(6,497 )
Accrued expenses	(2,191 )	629
Customer deposits	405	(1,015 )
Other long term liabilities	(85 )	(14 )
Net cash flows from operating activities	689	6,616
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(1,536 )	(1,270 )
Proceeds from sale-leaseback	5,750	—
Net cash flows from investing activities	4,214	(1,270 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from revolving line of credit	21,448	30,271
Repayments of revolving line of credit	(19,868 )	(32,998 )
Repayments under other loan agreements	(6,758 )	(1,696 )
Repayments under capital lease	(73 )	—
Debt issuance costs	—	(211 )
Proceeds from employee stock plan purchases	13	7
Shares withheld for payment of taxes upon vesting of restricted stock	(1 )	—
Net cash flows from financing activities	(5,239 )	(4,627 )
Net cash flows for the period	(336 )	719
Cash, beginning of period	845	407
Cash, end of period	\$509	\$1,126



Supplemental cash flow information

Interest paid	\$429	\$803
Income taxes paid	79	—
Borrowings under capital lease	5,750	—

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

IEC ELECTRONICS CORP.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—OUR BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our Business

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

Generally Accepted Accounting Principles

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

Fiscal Calendar

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

Consolidation

The consolidated financial statements include the accounts of IEC and its wholly-owned subsidiaries: IEC Electronics Wire and Cable, Inc. (“Wire and Cable”) that merged into IEC on December 28, 2016; IEC Electronics Corp-Albuquerque (“Albuquerque”); IEC Analysis & Testing Laboratory, LLC (“ATL”), formerly Dynamic Research and Testing Laboratories, LLC; and IEC California Holdings, Inc. The Rochester unit, formerly Celmet, operates as a division of IEC. All significant intercompany transactions and accounts are eliminated in consolidation.

Unaudited Financial Statements

The accompanying unaudited financial statements for the six months ended March 31, 2017 and April 1, 2016 have been prepared in accordance with GAAP for interim financial information. In the opinion of management, all adjustments required for a fair presentation of the information have been made. The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (“fiscal 2016”).

Reclassifications

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

## Cash

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

## Allowance for Doubtful Accounts

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

## Inventory Valuation

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

## Property, Plant and Equipment

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

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

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

## Intangible Assets

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

## Reviewing Long-Lived Assets for Potential Impairment

ASC 360-10 (Property, Plant and Equipment) and ASC 350-30 (Intangibles) require the Company to test long-lived assets (PP&E and definitive lived assets) for recoverability whenever events or circumstances indicate that the carrying amount may not be recoverable. If carrying value exceeds undiscounted future cash flows attributable to an asset, it is considered impaired and the excess of carrying value over fair value must be charged to earnings. No impairment charges were identified or recorded by IEC for PP&E or intangibles during the six months ended March 31, 2017.

## Goodwill

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

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

IEC's remaining goodwill as of March 31, 2017 of \$0.1 million relates to its acquisition of the Rochester division in July 2010. There has been no impairment for this goodwill since the acquisition date.

## Leases

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

## Legal Contingencies

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

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

## Customer Deposits

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

## Grants from Outside Parties

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

There were no deferred grants recorded during the six months ended March 31, 2017 or the fiscal year ended September 30, 2016. The outstanding grant balance was \$0.2 million and \$0.3 million at March 31, 2017 and September 30, 2016, respectively.

## Derivative Financial Instruments

The Company actively monitors its exposure to interest rate risk and from time to time may use derivative financial instruments to manage the impact of this risk. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the interest rate nor does the Company use derivative instruments where it does not have underlying exposures. The Company did not have any derivative financial instruments at March 31, 2017 or September 30, 2016.

## Fair Value Measurements

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

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

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

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

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

The Company deems a transfer between levels of the fair value hierarchy to have occurred at the beginning of the reporting period. There were no such transfers during each of the first six months of the fiscal year ending September 30, 2017 (“fiscal 2017”) or fiscal 2016.

#### Revenue Recognition

The Company’s revenue is principally derived from the sale of electronic products built to customer specifications, but also from other value-added support services and repair work. Revenue from product sales is recognized when (i) goods are shipped or title and risk of ownership have passed, (ii) the price to the buyer is fixed or determinable, and (iii) realization is reasonably assured. Service revenue is generally recognized once the service has been rendered. Services revenue, including material management, design and repair work revenue, amounted to less than 5% of total revenue in each of the first six months of fiscal 2017 and fiscal 2016.

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

#### Stock-Based Compensation

ASC 718 (Stock Compensation) requires that compensation expense be recognized for equity awards based on fair value as of the date of grant. For stock options, the Company uses the Black-Scholes pricing model to estimate grant date fair value. Costs associated with stock awards are recorded over requisite service periods, generally the vesting period. If vesting is contingent on the achievement of performance objectives, fair value is accrued over the period the objectives are expected to be achieved only if it is considered probable that the objectives will be achieved. The Company also has an employee stock purchase plan (“ESPP”) that provides for the purchase of Company common stock at a discounted stock purchase price. Compensation expense related to the discount is recognized as employees contribute to the plan. During the fiscal year ended September 30, 2015 (“fiscal 2015”) and the first quarter of fiscal 2016, the ESPP was suspended in connection with the 2014 restatements of the Company’s financial statements. The ESPP was reinstated as of the beginning of the second quarter of fiscal 2016.

#### Legal Expense Accrual

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

#### Income Taxes and Deferred Taxes



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

ASC 740 also prescribes the manner in which a company measures, recognizes, presents and discloses in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the position will be sustained following examination by taxing authorities, based on technical merits of the position. The Company believes that it has no material uncertain tax positions.

Any interest incurred is reported as interest expense. Any penalties incurred are reported as tax expense. The Company's income tax filings are subject to audit by various tax jurisdictions and current open years are the fiscal year ended September 30, 2010 through fiscal year ended September 30, 2012, and fiscal year ended September 30, 2014 through fiscal 2015. The federal income tax audit for the fiscal year ended September 30, 2013 concluded during the first six months of fiscal 2017 and resulted in no change to reported tax.

### Earnings Per Share

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

A summary of shares used in the earnings per share ("EPS") calculations follows:

Shares for EPS Calculation	Three Months Ended		Six Months Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Weighted average shares outstanding	10,173,388	10,205,031	10,168,339	10,210,539
Incremental shares	—	—	—	—
Diluted shares	10,173,388	10,205,031	10,168,339	10,210,539
Anti-dilutive shares excluded	1,157,356	804,965	1,157,356	804,965

As a result of the net loss and incremental shares being negative for the three and six months ended March 31, 2017, the Company calculated diluted earnings per share using weighted average basic shares outstanding, as using diluted shares would be anti-dilutive to loss per share.

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

### Dividends

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

### Use of Estimates

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

### Statements of Cash Flows

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

#### Recently Issued Accounting Standards

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

Considerations” was issued in March 2016 and improves implementation guidance on principal versus agent considerations. FASB ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” was issued in April 2016 and adds further guidance on identifying performance obligations as well as improving licensing implementation guidance. FASB ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” was issued in June 2016 and clarifies the objective of the collectability criterion, presentation of taxes collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition and how guidance in Topic 606 is retrospectively applied. The amendments do not change the core principle of the guidance in Topic 606. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within that period. Early adoption is permitted for annual periods beginning after December 15, 2016. The Company is identifying key personnel to evaluate the guidance and determine the transition method, while also formulating a time line to review the potential impact of the new standard on the Company's existing revenue recognition policies and procedures. Although Management has not completed its evaluation of all the issued guidance under Topic 606, the Company does not currently expect the guidance to have a material effect on its financial position, results of operations or cash flows.

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

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

FASB ASU 2016-02, “Leases” was issued in February 2016. The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. For public entities, the new guidance is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted for all entities. The Company is evaluating the impact this ASU will have on its financial statements.

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

#### NOTE 2—ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary of activity in the allowance for doubtful accounts during the six months ended March 31, 2017 and April 1, 2016 follows:

	Six Months Ended March 31,	April 1, 2017	2016
Allowance for Doubtful Accounts			

(in thousands)

Allowance, beginning of period	\$226	\$ 423
Provision for doubtful accounts	(151 )	270
Write-offs/recoveries	15	(158 )
Allowance, end of period	\$90	\$ 535

12

---

## NOTE 3—INVENTORIES

A summary of inventory by category at period end follows:

Inventories	March 31, September 30,	
	2017	2016
(in thousands)		
Raw materials	\$9,711	\$ 9,138
Work-in-process	6,676	5,932
Finished goods	1,519	1,939
Total inventories	17,906	17,009
Reserve for excess/obsolete inventory	(1,429 )	(1,625 )
Inventories, net	\$ 16,477	\$ 15,384

## NOTE 4—PROPERTY, PLANT &amp; EQUIPMENT

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

Property, Plant & Equipment	March 31, September 30,	
	2017	2016
(in thousands)		
Land and improvements	\$ 788	\$ 788
Buildings and improvements	8,910	8,910
Building under capital lease	5,750	—
Machinery and equipment	28,371	26,905
Furniture and fixtures	7,503	7,489
Construction in progress	3,135	3,079
Total property, plant and equipment, at cost	54,457	47,171
Accumulated depreciation	(37,447 )	(36,177 )
Property, plant and equipment, net	\$ 17,010	\$ 10,994

Depreciation expense during the three and six months ended March 31, 2017 and April 1, 2016 follows:

	Three Months		Six Months	
	Ended		Ended	
	March 31, April 1,		March 31, April 1,	
	2017	2016	2017	2016
(in thousands)				
Depreciation expense	\$ 652	\$ 807	\$ 1,298	\$ 1,647

## NOTE 5—INTANGIBLE ASSETS

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

Albuquerque's building and land were acquired subject to an Industrial Revenue Bond ("IRB") that exempted the property from real estate taxes for the term of the IRB. The tax abatement was valued at \$0.4 million at the date of acquisition, and such value was being amortized over the 9.2 year exemption period that remained as of the acquisition date. No impairment was taken for this asset since the Albuquerque acquisition. The IRB was paid off in connection with the sale-leaseback transaction described in Note 14—Capital Lease.



Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

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

Intangible Assets	March 31, September 30,	
	2017	2016
(in thousands)		
Property tax abatement - Albuquerque	\$ 360	\$ 360
Accumulated amortization	(285 )	(265 )
Intangible assets, net	\$ 75	\$ 95

Amortization expense during the three and six months ended March 31, 2017 and April 1, 2016 follows:

Amortization Expense	Three Months Ended		Six Months Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
(in thousands)				
Intangible amortization expense	\$ 10	\$ 10	\$ 20	\$ 20

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

Future Amortization	Estimated future amortization
(in thousands)	
Twelve months ended March, 2018	\$ 40
2019	35
2020 and thereafter	—

NOTE 6—CREDIT FACILITIES

A summary of borrowings at period end follows:

Debt	Fixed/ Variable Rate	Maturity Date	March 31, 2017		September 30, 2016	
			Balance	Interest Rate	Balance	Interest Rate
(\$ in thousands)						
M&T credit facilities:						
Revolving Credit Facility	v	1/18/2018	\$5,541	5.23 %	\$3,961	3.28 %
Term Loan A <sup>(1)</sup>	f	2/1/2020	—	—	3,693	3.98
Term Loan B	v	2/1/2023	8,283	4.03	8,983	3.03
Albuquerque Mortgage Loan <sup>(1)</sup>	v	2/1/2018	—	—	2,200	3.55
Celmet Building Term Loan	f	11/7/2018	867	4.72	932	4.72
Other credit facilities:						
Albuquerque Industrial Revenue Bond <sup>(1)</sup>	f	3/1/2019	—	—	100	5.63
Total debt, gross			14,691		19,869	
Unamortized debt issuance costs			(211 )		(229 )	
Total debt, net			14,480		19,640	
Less: current portion			(1,530 )		(2,908 )	
Long-term debt			\$12,950		\$16,732	



<sup>(1)</sup> The Albuquerque Mortgage Loan and the Albuquerque Industrial Revenue Bond were repaid in connection with the sale-leaseback transaction described in Note 14—Capital Lease. The proceeds from the transaction were also used to pay down Term Loan A, which was subsequently paid off in due course.

## M&T Bank Credit Facilities

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

On May 5, 2017, the Company and M&T Bank entered into the Third Amendment to Fifth Amended and Restated Credit Facility Agreement (the “Third Amendment”). See Note 15—Subsequent Events for a discussion of the Third Amendment.

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

a) Revolving Credit Facility (“Revolver”): Up to \$16.0 million is available through January 18, 2018. The maximum amount the Company may borrow is determined based on a borrowing base calculation described below.

Term Loan A: \$10.0 million was borrowed on January 18, 2013. Principal was being repaid in 108 equal monthly installments of \$93 thousand. The proceeds of the sale-leaseback transaction described in Note 14—Capital Lease were used to pay down the loan, which was subsequently paid off in due course.

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

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

Celmet Building Term Loan: \$1.3 million was borrowed on November 8, 2013 pursuant to an amendment to the Fourth Amended and Restated Credit Facility Agreement dated as of January 18, 2013. The proceeds were used to reimburse the Company’s cost of purchasing its Rochester, New York facility. Principal is being repaid in 59 equal monthly installments of \$11 thousand plus a balloon payment due at maturity.

## Borrowing Base

Under the Fifth Amended Credit Agreement, as amended, the maximum amount the Company can borrow under the Revolver is the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories (up to a cap of \$3.75 million) or (ii) \$16.0 million at March 31, 2017 and \$20.0 million at September 30, 2016.

At March 31, 2017 and September 30, 2016, the upper limit on Revolver borrowings was \$13.8 million and \$16.4 million, respectively. Average Revolver balances amounted to \$3.4 million during the six months ended March 31, 2017.

## Interest Rates

Under the Fifth Amended Credit Agreement, variable rate debt accrues interest at LIBOR plus the applicable marginal interest rate that fluctuates based on the Company’s Debt to EBITDAS Ratio, as defined below. Under the Second

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

Prior to December 14, 2015, the Sixth Amendment fixed each facility's applicable margin through March 31, 2016 as follows: 4.25% for the Revolver, 4.50% for the Albuquerque Mortgage Loan and 3.25% for the Term Loan B. The applicable unused line fee of 0.50% also was extended through March 31, 2016.

The Company incurs quarterly unused commitment fees ranging from 0.250% to 0.500% of the excess of \$16.0 million over average borrowings under the Revolver. Fees incurred amounted to \$50.1 thousand and \$23.8 thousand during the six months ended March 31, 2017 and April 1, 2016, respectively. The fee percentage varies based on the Company's Debt to EBITDAS Ratio, as defined below.

## Financial Covenants

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

Covenant ratios in effect at March 31, 2017, pursuant to the Fifth Amended Credit Agreement, as amended by the Second Amendment, are as follows:

## Debt to EBITDAS Ratio:

12/31/2016 through and including 3/31/2017	< 4.7 to 1.00
--	------------------

## Minimum Quarterly EBITDAS:

Fiscal Quarter ending 3/31/2017	\$240,000
---------------------------------	-----------

## Fixed Charge Coverage Ratio:

12/31/2016 through and including 3/31/2017	> 0.3 to 1.00
--	------------------

## Maximum Inventory:

As of 3/31/2017	\$25.0 m
-----------------	----------

Maximum Capital Expenditures:	Measured annually; maximum \$4.5m
-------------------------------	--

The Company was in compliance with all debt covenants at March 31, 2017.

## Other Borrowings

When IEC acquired Albuquerque, the Company assumed responsibility for a \$0.1 million Industrial Revenue Bond issued by the City of Albuquerque. Interest on the bond was paid semiannually, and principal was due in its entirety at maturity. The Bond was repaid in connection with the sale-leaseback transaction described in Note 14—Capital Lease.

## Contractual Principal Payments

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

Contractual  
Debt Repayment Schedule  
Principal  
Payments

(in thousands)

Twelve months ended March

2018	\$ 1,530
2019 <sup>(1)</sup>	2,137
2020	1,400
2021	1,400
2022 and thereafter <sup>(2)</sup>	8,224
	\$ 14,691

<sup>(1)</sup> Includes final payment of Celmet Building Term Loan on November 7, 2018.

<sup>(2)</sup> Includes Revolver balance of \$5.5 million at March 31, 2017.

## NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS

## Financial Instruments Carried at Historical Cost

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

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

	March 31, 2017		September 30, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
(in thousands)				
Term Loan A	\$ —	\$ —	\$3,489	\$ 3,693
Celmet Building Term Loan	811	867	864	932

The fair value of the remainder of the Company's debt approximated carrying value at March 31, 2017 and September 30, 2016 as it is variable rate debt.

## NOTE 8—WARRANTY RESERVES

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

estimated future warranty costs to be incurred on products and services sold through the balance sheet date.

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

	Six Months	
	Ended	
Warranty Reserve	March 31,	April 1,
	2017	2016
(in thousands)		
Reserve, beginning of period	\$ 180	\$ 399
Provision	111	123
Warranty costs	(101 )	(183 )
Reserve, end of period	\$ 190	\$ 339

## NOTE 9—STOCK-BASED COMPENSATION

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

Stock-based compensation expense recorded under the 2010 and 2001 Plans as well as the ESPP totaled \$0.1 million and \$0.3 million for the three and six months ended March 31, 2017, respectively. Stock-based compensation expense recorded under the 2010 and 2001 Plans as well as the ESPP totaled \$0.1 million and \$0.2 million for the three and six months ended April 1, 2016, respectively. During the six months ended April 1, 2016, incentive compensation shares were returned by the Company’s former CEO resulting in a reduction to compensation expense of \$60.0 thousand.

At March 31, 2017, there were 240,790 shares available to be issued under the 2010 Plan.

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

## Stock Options

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

Assumptions used in the Black-Scholes model and the estimated value of options granted during the six months ended March 31, 2017 are included in the table below. There were no options granted during the six months ended April 1, 2016.

Valuation of Options	Six Months Ended March 31, 2017	
Assumptions for Black-Scholes:		
Risk-free interest rate	1.48	%
Expected term in years	4.0	
Volatility	40	%
Expected annual dividends	none	
Value of options granted:		
Number of options granted	50,000	
Weighted average fair value per share	\$ 1.18	
Fair value of options granted (000s)	\$ 59	





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

Stock Options	Six Months Ended			
	March 31, 2017		April 1, 2016	
	Number of Options	Wgt. Avg. Exercise Price	Number of Options	Wgt. Avg. Exercise Price
Outstanding, beginning of period	759,795	\$ 4.43	717,645	\$ 4.40
Granted	50,000	3.60	—	—
Exercised	—	—	—	—
Forfeited	(30,500)	5.70	(15,500)	5.99
Expired	(19,750)	5.37	—	—
Outstanding, end of period	759,545	\$ 4.30	702,145	\$ 4.37
For options expected to vest				
Number expected to vest	738,410	\$ 4.30	558,596	\$ 4.44
Weighted average remaining term, in years	4.9		5.3	
Intrinsic value (000s)		\$ 11		\$ 239
For exercisable options				
Number exercisable	324,472	\$ 4.46	260,036	\$ 4.84
Weighted average remaining term, in years	4.3		4.4	
Intrinsic value (000s)		\$ —		\$ 77
For non-exercisable options				
Expense not yet recognized (000s)		\$ 526		\$ 597
Weighted average years to be recognized	2.3		3.1	
For options exercised				
Intrinsic value (000s)		\$ —		\$ —

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

Stock Options	Six Months Ended			
	March 31, 2017		April 1, 2016	
	Number of Options	Wgt. Avg. Grant Date Fair Value	Number of Options	Wgt. Avg. Grant Date Fair Value
Non-vested, beginning of period	489,109	\$ 1.43	546,145	\$ 1.41
Granted	50,000	1.18	—	—
Vested	(104,036)	1.45	(104,036)	1.45
Forfeited	—	—	—	—
Non-vested, end of period	435,073	\$ 1.40	442,109	\$ 1.40

#### Restricted (Non-vested) Stock

Holder of IEC restricted stock have voting and dividend rights as of the date of grant, but until vested, the shares may be forfeited and cannot be sold or otherwise transferred. At the end of the vesting period, which is typically four or five years (three years in the case of directors), holders have all the rights and privileges of any other IEC common

stockholder. The fair value of a share of restricted stock is its market value on the date of grant, and that value is recognized as stock compensation expense over the vesting period.

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

Restricted (Non-vested) Stock	Six Months Ended			
	March 31, 2017		April 1, 2016	
	Number of	Wgt. Avg.	Number of	Wgt. Avg.
	Non-vested	Grant Date	Non-vested	Grant Date
	Shares	Fair Value	Shares	Fair Value
Outstanding, beginning of period	228,759	\$ 4.40	54,960	\$ 4.23
Granted	194,766	3.62	59,560	4.03
Vested	(25,131 )	4.22	(11,700 )	4.23
Shares withheld for payment of taxes upon vesting of restricted stock	(583 )	3.60	—	—
Forfeited	—	—	—	—
Outstanding, end of period	397,811	\$ 4.03	102,820	\$ 4.11
For non-vested shares				
Expense not yet recognized (000s)		\$ 1,075		\$ 357
Weighted average remaining years for vesting	2.4		2.5	
For shares vested				
Aggregate fair value on vesting dates (000s)		\$ 94		\$ 43

#### Employee Stock Purchase Plan

The Company administers an ESPP that provides for a discounted stock purchase price. On February 13, 2015, the Compensation Committee of the Company's Board of Directors suspended operation of the ESPP indefinitely in connection with the 2014 restatements of the Company's financial statements. The Compensation Committee of the Company's Board of Directors reinstated the ESPP on December 2, 2015; however, participants were not able to contribute to the ESPP until January 2016.

Employees currently receive a 10% discount on stock purchases through the ESPP. Employee contributions to the plan, net of withdrawals were \$16.7 thousand and \$8.1 thousand for the six months ended March 31, 2017 and April 1, 2016, respectively. Compensation expense recognized under the ESPP was \$1.9 thousand and \$1.0 thousand for the six months ended March 31, 2017 and April 1, 2016, respectively.

#### Stock Issued to Board Members

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

#### NOTE 10—RETIREMENT PLAN

The Company administers a retirement savings plan for the benefit of its eligible employees and their beneficiaries under the provisions of Sections 401(a) and (k) of the Internal Revenue Code. Eligible employees may contribute a portion of their compensation to the plan, and the Company is permitted to make discretionary contributions as determined by the Board of Directors. The Company contributes 25% of the first 6% contributed by all employees at all locations. Company contributions during the six months ended March 31, 2017 and April 1, 2016 totaled \$0.1

million and \$0.1 million, respectively.

20

---

## NOTE 11—INCOME TAXES

Provision for income taxes during each of the three and six months ended March 31, 2017 and April 1, 2016 follows:

	Three Months Ended		Six Months Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Income Tax Provision/Benefit				
(in thousands)				
Provision for/(benefit from) income taxes	\$ —	\$ —	\$ —	\$ —

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

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

## NOTE 12—MARKET SECTORS AND MAJOR CUSTOMERS

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

% of Sales by Sector	Three Months Ended		Six Months Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Aerospace & Defense	44%	34%	47%	37%
Medical	32%	50%	30%	46%
Industrial	21%	14%	20%	15%
Communications & Other	3%	2%	3%	2%
	100%	100%	100%	100%

Two individual customers each represented 10% or more of sales for the six months ended March 31, 2017. One customer was from the Aerospace & Defense sector and represented 13% of sales, while the other was from the Medical sector and also represented 13% of sales for the six months ended March 31, 2017. Two individual customers each represented 10% or more of sales for the six months ended April 1, 2016. Both customers were from the Medical sector, with one representing 18% of sales, while the other customer represented 17% of sales, for the six months ended April 1, 2016.

Three individual customers represented 10% or more of receivables and accounted for 40% the outstanding balance at March 31, 2017. Two individual customers represented 10% or more of receivables and accounted for 29% of the outstanding balances at April 1, 2016.

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

NOTE 13—LITIGATION

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

## NOTE 14—CAPITAL LEASE

## Leases

On November 18, 2016, the Company entered into a sale-leaseback agreement, pursuant to the terms of the Purchase and Sale Agreement (the “PSA”), with Store Capital Acquisitions, LLC, a Delaware limited liability company (the “Purchaser”), for the sale of certain property, including the manufacturing facility located in Albuquerque, New Mexico (the “Property”). Albuquerque (the “Seller”) completed the sale of the Property to the Purchaser for an aggregate purchase price of approximately \$5.8 million including a \$0.1 million holdback held subject to a holdback of funds agreement. The net book value of assets sold was \$4.6 million and the value of the assets acquired under the lease is \$5.8 million. The Company recorded a deferred gain of \$1.1 million related to the transaction, which is recorded in other long-term liabilities section of the consolidated balance sheet. The proceeds from the transaction were used to payoff the Albuquerque Mortgage Loan and pay down Term Loan A. As part of the transaction, a Lease Agreement dated as of November 18, 2016 was entered into between the Seller and the Purchaser (the “Lease”). Pursuant to the Lease, the Seller is leasing the Property for an initial term of 15 years, with two renewal options of five years each. The initial base annual rent is approximately \$0.5 million and is subject to an annual increase equal to the lesser of two percent or 1.25 times the change in the Consumer Price Index. Late payments incur a charge of 5% and bear interest at a rate of 18% or the highest rate permitted by law. If an event of default occurs under the terms of the Lease, among other things, all rental amounts accelerate and become due and owing, subject to certain adjustments. In addition, the Company entered into a separate payment and performance guaranty with the Purchaser with respect to the Lease.

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

Capital Lease Payment Schedule	Contractual Principal Payments
(in thousands)	
Twelve months ended March	
2018	\$ 478
2019	487
2020	497
2021	549
2022 and thereafter	6,101
Total capital lease payments	\$ 8,112
Less: amounts representing interest	(2,435 )
Present value of minimum lease payment	\$ 5,677

## NOTE 15—SUBSEQUENT EVENTS

Effective as of May 5, 2017, the Company and M&T Bank entered into the Third Amendment to Fifth Amended Credit Agreement (the “Third Amendment”), that amended the Fifth Amended Credit Agreement. The Third Amendment extended the Revolver termination date to May 5, 2022. In connection with the Third Amendment, the Company issued the Term Loan B to M&T Bank, that amended and restated the Amended and Restated Term Loan B dated December 14, 2015. The Third Amendment revised certain covenants to provide that the Company may use Revolver proceeds to refinance existing indebtedness. As a result, the Term Loan B, which matures on May 5, 2022, now has a principal amount of \$6.0 million. The Third Amendment also revised the maximum amount the Company can borrow under the Revolver to the lesser of \$16.0 million or 85% of eligible receivables plus \$7.0 million of eligible inventories.

Pursuant to the Third Amendment, as of March 31, 2017, certain financial covenants of the credit facility were eliminated or revised to be less complex, including the Maximum Inventory covenant, Debt to EBITDAS ratios, the Maximum Capital Expenditures limit after the fiscal year ending September 30, 2017, and future requirements of Minimum Quarterly EBITDAS except for the fiscal quarter ending June 30, 2017. The Third Amendment also modified the definitions of Applicable Margin and Applicable Unused Fee to provide that each is calculated using the applicable Fixed Charge Coverage Ratio, as redefined by the Third Amendment. The Third Amendment established a Borrowing Base computed using monthly Borrowing Base Reports that, if inaccurate, allow M&T Bank, in its discretion, to suspend the making of or limit Revolving Credit Loans. Further, the Third Amendment provides for the Company's repurchase of its common stock under certain circumstances without M&T Bank's prior written consent.





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

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

### Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

#### Overview

IEC Electronics Corp. (“IEC,” “we,” “our,” “us,” the “Company”) conducts business directly, as well as through its subsidiaries IEC Electronics Wire and Cable, Inc (“Wire and Cable”) that merged into IEC on December 28, 2016, IEC Electronics Corp-Albuquerque (“Albuquerque”), IEC Analysis & Testing Laboratory, LLC (“ATL”) and IEC California Holdings, Inc. The Rochester unit, formerly Celmet, operates as a division of IEC.

We are a premier provider of electronic manufacturing services (“EMS”) to advanced technology companies that produce life-saving and mission critical products for the medical, industrial, aerospace and defense sectors. We specialize in delivering

technical solutions for the custom manufacturing, product configuration, and verification testing of highly engineered complex products that require a sophisticated level of manufacturing to ensure quality and performance.

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

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

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

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

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

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

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

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

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

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

We proactively invest in areas we view as important for our continued long-term growth. All of our locations are ISO 9001:2008 certified and ITAR registered. We are Nadcap accredited and AS9100C certified at our Newark and Albuquerque locations to support the stringent quality requirements of the aerospace industry. Our Newark location is ISO 13485 certified to serve the medical market sector and is an approved supplier by the National Security Agency ("NSA") under the COMSEC standard regarding communications security. ATL in Albuquerque is ISO 17025 accredited, an IPC-approved Validation Services test Laboratory, and is the only on-site EMS laboratory that has been

approved by the DLA for their QTSL program which deems the site suitable to conduct various QTSL and military testing standards including counterfeit component analysis. Albuquerque also performs work per NASA-STD-8739 and J-STD-001ES space standards.

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

Employees are our single greatest resource. IEC’s total employees numbered 579, all of which are full time employees, at March 31, 2017. The Company decreased by 55 employees during fiscal 2017, mainly driven by lower volumes in fiscal 2017. Some of our full-time employees are temporary employees. We make a concerted effort to engage our employees in initiatives that improve our business and provide opportunities for growth, and we believe that our employee relations are good. We have access to large and technically qualified workforces in close proximity to our operating locations in Rochester, NY and Albuquerque, NM.

## Three Months Results

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

Income Statement Data (in thousands)	Three Months Ended	
	March 31, 2017	April 1, 2016
Net sales	\$21,368	\$33,148
Gross profit	2,279	5,736
Selling and administrative expenses	2,665	3,762
Interest and financing expense	229	513
Income/(loss) before income taxes	(615)	) 1,461
Provision for/(benefit from) income taxes	—	—
Net income/(loss)	\$(615)	) \$1,461

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

% of Sales by Sector	Three Months Ended	
	March 31, 2017	April 1, 2016
Aerospace & Defense	44%	34%
Medical	32%	50%
Industrial	21%	14%
Communications & Other	3%	2%
	100%	100%

Revenue decreased in the second quarter of fiscal 2017 by \$11.8 million or 35.5% as compared to the second quarter of the prior fiscal year. Revenues from all three major market sectors decreased year over year. The medical market sector decreased \$9.6 million, the aerospace & defense market sector decreased \$1.9 million and the industrial market sector decreased \$0.5 million. Offsetting these decreases was an increase of \$0.3 million in the communication & other market sector.

Revenue for the medical market sector decreased \$9.6 million primarily due to decreases in demand from two customers. The lower demand was due to a decline in their end market demand as well as their high inventory position. We anticipate the demand from one customer will increase during the second half of fiscal 2017. We expect the other customer will not increase their demand until early 2018. We had several other medical customers with lower demand during the second quarter of fiscal 2017 that was caused by the stage of their programs.

Various increases and decreases for our aerospace & defense customers resulted in a net decrease of \$1.9 million in the second quarter of fiscal 2017. Programs frequently fluctuate in demand or end and are replaced by new programs. Aggregate decreases of \$3.4 million in the quarter were partially offset by \$1.6 million in increases from other customers. Another \$0.5 million decrease was due to our decision to disengage with a customer due to lack of profitability. Two new customers were added that increased revenue by \$ 0.6 million.

The net decrease in demand in the industrial market sector of \$0.5 million resulted primarily from decreased demand from customers whose end market has softened.

Gross profit for the second quarter of fiscal 2017 decreased to 10.7% of sales versus 17.3% in the second quarter of the prior fiscal year. The reduction in revenue year over year had the most significant impact on gross profit.

Reductions in overhead costs lessened the impact of the lower revenue. Direct labor costs as a percentage of sales were consistent with the same period of the prior year while material costs increased due to customer mix.

Selling and administrative (“S&A”) expense decreased \$1.1 million and represented 12.5% of sales in the second quarter of fiscal 2017 compared to 11.3% of sales in the same quarter of the prior fiscal year. The decrease in S&A expense was primarily

due to lower wage and related expenses of \$0.7 million driven by headcount reductions and \$0.3 million of severance incurred in the second quarter of fiscal 2016. Also, legal and other professional expenses were lower in the second quarter of fiscal 2017 by \$0.1 million compared to the second quarter of fiscal 2016.

Interest expense decreased by \$0.3 million in the second quarter of fiscal 2017 compared to the same quarter of the prior fiscal year. The net impact of adjusting the interest rate swap to fair value contributed \$0.2 million to the expense in the second quarter of the prior fiscal year compared to this fiscal year. The weighted average interest rate on IEC's debt, excluding the impact of the interest rate swap, was 0.13% higher during the second quarter of fiscal 2017 than in the second quarter of the prior fiscal year. Our average outstanding debt balances decreased by \$14.6 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 because of the repayment of Term Loan A and the Albuquerque Mortgage Loan as well as lower balances on the Revolving Credit Facility. In the second quarter of fiscal 2017, we incurred roughly \$56.0 thousand of interest related to the sale-leaseback obligation for the Albuquerque, New Mexico facility. Cash paid for interest on credit facility debt was approximately \$0.2 million and \$0.4 million for the second quarter of fiscal 2017 and fiscal 2016, respectively. Detailed information regarding our borrowings is provided in Note 6—Credit Facilities.

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

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

### Six Months Results

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

Income Statement Data	Six Months Ended	
	March 31, 2017	April 1, 2016
(in thousands)		
Net sales	\$42,344	\$66,081
Gross profit	4,075	11,553
Selling and administrative expenses	5,095	7,747
Interest and financing expense	448	802
Income/(loss) before income taxes	(1,468)	3,004
Provision for/(benefit from) income taxes	—	—
Net income/(loss)	\$(1,468)	\$3,004

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

% of Sales by Sector	Six Months Ended	
	March 31, 2017	April 1, 2016
Aerospace & Defense	47%	37%
Medical	30%	46%
Industrial	20%	15%
Communications & Other	3%	2%



100% 100%

Revenue decreased in the first six months of fiscal 2017 by \$23.7 million or 35.9% as compared to the first six months of the prior fiscal year. Revenues from all three major market sectors decreased year over year. The medical market sector decreased \$17.2 million, the aerospace & defense market sector decreased \$4.9 million and the industrial market sector decreased \$1.5 million.

Revenue for the medical market sector decreased \$17.2 million primarily due to decreases in demand from two of our larger customers. The lower demand was due to a decline in their end market demand as well as their high inventory position. One of these customers has started ordering again, while we believe the other customer will not increase their demand until early 2018. There were several other customers with more modest reductions year over year due to the stage of their programs.

Various increases and decreases for our aerospace & defense customers resulted in a net decrease of \$4.9 million in the first six months of fiscal 2017. Programs frequently fluctuate in demand or come to an end and are replaced by new programs. Aggregate decreases of \$5.3 million were partially offset by \$3.6 million in increases from other customers. Increases were primarily due to higher demand at several existing customers of \$2.5 million while new programs from existing customers increased revenue by another \$1.2 million. Also, the winding down of older programs caused a decrease of \$2.5 million and the ending of one customer relationship due to low profitability caused an additional decrease of \$1.3 million. However, two new customers added \$0.8 million in revenue year over year.

The net decrease in demand in the industrial market sector of \$1.5 million resulted primarily from decreases in demand due to the softness of the railroad industry. The decreases were partially offset by increased demand from two of our other customers of \$0.3 million.

The gross profit for the first six months of fiscal 2017 decreased to 9.6% of sales versus 17.5% in the first six months of the prior fiscal year. The reduction in revenue year over year had the most significant impact on gross profit. Reductions in overhead costs lessened the impact of the lower revenue. Direct labor costs as a percentage of sales were consistent with the same period of the prior year while material costs increased due to customer mix.

Selling and administrative (“S&A”) expense decreased \$2.7 million and represented 12.0% of sales in the first six months of fiscal 2017 compared to 11.7% of sales in the first six months of the prior fiscal year. The decrease in S&A expense was primarily due to lower wage and related expenses of \$1.3 million driven by headcount reductions and severance costs in the first six months of the prior fiscal year of \$0.5 million. Lower bad debt expense of \$0.4 million was due to better cash collections and reduced accounts receivable aging. Also, legal and other professional expenses were \$0.4 million lower in fiscal 2017 compared to fiscal 2016.

Interest expense decreased by \$0.4 million in the first six months of fiscal 2017 compared to the first six months of the prior fiscal year. The net impact of adjusting the interest rate swap to fair value contributed \$0.05 million to the expense in the first six months of the prior fiscal year compared to this fiscal year. The weighted average interest rate on IEC’s debt, excluding the impact of the interest rate swap, was 0.16% lower during the first six months of fiscal 2017 than in the first six months of the prior fiscal year. Our average outstanding debt balances decreased by \$14.2 million in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 because of the repayment of Term Loan A and the Albuquerque Mortgage Loan as well as lower balances on the Revolving Credit Facility. In the first six months of fiscal 2017, we incurred roughly \$0.1 million of interest related to the sale-leaseback obligation for the Albuquerque, New Mexico facility. Cash paid for interest on credit facility debt was approximately \$0.3 million and \$0.8 million for the first six months of fiscal 2017 and fiscal 2016, respectively. Detailed information regarding our borrowings is provided in Note 6—Credit Facilities.

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

With respect to tax payments, in the near term IEC expects to be largely sheltered by sizable NOL carryforwards for federal income tax purposes. In the first six months of fiscal 2017, we paid \$0.1 million in taxes. At the end of fiscal 2016, the NOL carryforwards amounted to approximately \$31.7 million. The NOL carryforwards expire in varying

amounts between 2022 and 2035, unless utilized prior to these dates.

## Liquidity and Capital Resources

### Capital Resources

As of March 31, 2017, there were \$0.1 million of outstanding capital expenditure commitments for manufacturing equipment. We generally fund capital expenditures with cash flow from operations and our revolving credit facility.

## Summary of Cash Flows

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

Cash Flow Data	Six Months Ended	
	March 31, 2017	April 1, 2016
(in thousands)		
Cash, beginning of period	\$845	\$407
Net cash flow from:		
Operating activities	689	6,616
Investing activities	4,214	(1,270 )
Financing activities	(5,239 )	(4,627 )
Net (decrease) increase in cash and cash equivalents	(336 )	719
Cash and cash equivalents at end of period	\$509	\$1,126

## Operating activities

Cash flows used by operations, before considering changes in IEC's working capital accounts, was \$0.3 million for the first six months of fiscal 2017. Cash flow provided by operations, before considering changes in working capital, in the first six months of fiscal 2016 was \$5.3 million. Net loss of \$1.5 million in the first six months of fiscal 2017 compared to net income of \$3.0 million during the first six months of the prior fiscal year was the largest component of the change.

Working capital provided cash flows of \$1.0 million and \$1.3 million in the first six months of fiscal 2017 and fiscal 2016, respectively. The change in working capital in the the first six months of fiscal 2017 was primarily due to decreases in accounts receivable of \$2.6 million and increases in accounts payable of \$0.9 million. These increases to cashflow were offset by uses of cash related to an increase in inventory of \$0.9 million and decrease in accrued expenses of \$2.2 million. Accounts receivable decreases were primarily due to lower sales. The increase in accounts payable was due primarily to an increase of inventory purchases, as well as timing of purchases and payments.

## Investing activities

Cash flows provided by investing activities were \$4.2 million for the first six months of fiscal 2017 and used \$1.3 million for the first six months of fiscal 2016, respectively. Cash flows provided in the first six months of fiscal 2017 consisted of proceeds from the Albuquerque sale-leaseback, offset by the purchases of equipment and capitalized software costs resulting from the ongoing implementation of a new enterprise resource planning system. Cash flows used in the first six months of fiscal 2016 consisted of purchases of equipment and capitalized software costs.

## Financing activities

Cash flows used in financing activities were \$5.2 million and \$4.6 million for the first six months of fiscal 2017 and 2016, respectively. During the first six months of fiscal 2017, net repayments under all credit facilities were \$5.2 million, with \$1.6 million of net borrowings under the Revolver, as defined below, and repayments of \$6.8 million for term debt, due largely to the Albuquerque sale-leaseback transaction. During the first six months of fiscal 2016, net repayments under all credit facilities were \$4.4 million, with \$2.7 million of net repayments under the revolver and repayments of \$1.7 million for term debt.

## Credit Facilities

At March 31, 2017, borrowings outstanding under the revolving credit facility (the “Revolver”) under the Second Amendment to the Fifth Amended and Restated Credit Facility Agreement (the “Second Amendment”), that amended the Fifth Amended and Restated Credit Facility Agreement dated as of December 14, 2015, as amended by the First Amendment to the Fifth Amended and Restated Credit Facility, dated as of June 20, 2016 (“Fifth Amended Credit Agreement”) amounted to \$5.5 million, and the maximum available was \$13.8 million. Repayments on the Revolver during the current fiscal year were driven by cash flow from operations discussed above. We believe that our liquidity is sufficient to satisfy anticipated operating requirements during the next twelve months.

Effective as of May 5, 2017, the Company and M&T Bank entered into the Third Amendment to Fifth Amended Credit Agreement (the “Third Amendment”), that amended the Fifth Amended Credit Agreement. The Third Amendment extended the Revolver termination date to May 5, 2022. In connection with the Third Amendment, the Company issued the Term Loan B to

M&T Bank, that amended and restated the Amended and Restated Term Loan B dated December 14, 2015. The Third Amendment revised certain covenants to provide that the Company may use Revolver proceeds to refinance existing indebtedness. As a result, the Term Loan B, which matures on May 5, 2022, now has a principal amount of \$6.0 million. The Third Amendment also revised the maximum amount the Company can borrow under the Revolver to the lesser of \$16.0 million or 85% of eligible receivables plus \$7.0 million of eligible inventories.

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

Pursuant to the Third Amendment, as of March 31, 2017, certain financial covenants of the credit facility were eliminated or revised to be less complex, including the Maximum Inventory covenant, Debt to EBITDAS ratios, the Maximum Capital Expenditures limit after the fiscal year ending September 30, 2017, and future requirements of Minimum Quarterly EBITDAS except for the fiscal quarter ending June 30, 2017. The Third Amendment also modified the definitions of Applicable Margin and Applicable Unused Fee to provide that each is calculated using the applicable Fixed Charge Coverage Ratio, as redefined by the Third Amendment. The Third Amendment established a Borrowing Base computed using monthly Borrowing Base Reports that, if inaccurate, allow M&T Bank, in its discretion, to suspend the making of or limit Revolving Credit Loans. Further, the Third Amendment provides for the Company’s repurchase of its common stock under certain circumstances without M&T Bank’s prior written consent.

The Company was in compliance with all debt covenants at March 31, 2017.

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

Debt Covenant	Limit at		Calculated Amount At	
	March 31, 2017	September 30, 2016	March 31, 2017	September 30, 2016
Quarterly EBITDAS (000s)	Minimum \$240	Minimum \$1,080	\$375	\$1,269
Debt to EBITDAS Ratio	Maximum 4.7	Maximum 3.1x	4.4x	2.0x
Fixed Charge Coverage Ratio	Minimum 0.3x	Minimum 1.25x	0.3x	1.5x
Maximum Inventory	Maximum \$25.0m	Maximum \$27.0m	\$17.9m	\$17.0m
Maximum Capital Expenditures	Maximum \$4.5m annually	Maximum \$4.5m annually	Measured Annually	\$3.3m

A reconciliation of EBITDAS to Net income follows:

Three  
Months  
Ended

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

March 31,  
2017

(in thousands)

Net income/(loss)	\$ (615 )
Provision for/(benefit from) income taxes	—
Depreciation and amortization expense	644
Interest expense	229
Non-cash stock compensation	117
EBITDAS	\$ 375

30

---

A reconciliation of Adjusted EBITDA to Net income follows:

	Three Months Ended March 31, 2017
(in thousands)	
Net income/(loss)	\$ (615 )
Provision for/(benefit from) income taxes	—
Depreciation and amortization expense	644
Interest expense	229
Non-cash stock compensation	117
Unfinanced capital expenditures	(1,079 )
Income taxes paid	—
Adjusted EBITDA	\$ (704 )

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

#### Off-Balance Sheet Arrangements

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

#### Application of Critical Accounting Policies

Our application of critical accounting policies are disclosed in our 2016 Annual Report on Form 10-K filed for the fiscal year ended September 30, 2016. During the six months ended March 31, 2017, there have been no material changes to these policies.

#### Recently Issued Accounting Standards

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

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

As a result of its financing activities, the Company is exposed to changes in interest rates that may adversely affect operating results. The Company actively monitors its exposure to interest rate risk and from time to time may use derivative financial instruments to manage the impact of this risk. The Company may use derivatives only for the purpose of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the interest rate nor does the Company use derivatives instruments where it does not have underlying exposure. The Company did not have any derivative financial instruments at March 31, 2017 or September 30, 2016.



At March 31, 2017, the Company had \$14.7 million of debt, comprised of \$13.8 million with variable interest rates and \$0.9 million with fixed interest rates. Interest rates on variable loans are based on London interbank offered rate (“LIBOR”). The credit facilities are more fully described in Note 6—Credit Facilities. Interest rates based on LIBOR currently adjust daily, causing interest on such loans to vary from period to period. A sensitivity analysis as of March 31, 2017 indicates that a one-percentage point increase or decrease in our variable interest rates, which represents more than a 10% change, would increase or decrease the Company’s annual interest expense by approximately \$0.1 million.

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of March 31, 2017, the end of the period covered by this Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2017, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting

Our management carried out an evaluation of the internal controls over financial reporting to determine whether any change occurred during the quarter ended March 31, 2017. Based on such evaluation, there has been no change in our internal control over financial reporting that occurred during the most recently completed fiscal quarter ended March 31, 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of control systems

IEC’s management does not expect that our disclosure controls and internal controls will prevent all errors and fraud. Because of inherent limitations in any such control system (e.g. faulty judgments, human error, information technology system error, or intentional circumvention), there can be no assurance that the objectives of a control system will be met under all circumstances. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The benefits of a control system also must be considered relative to the costs of the system and management’s judgments regarding the likelihood of potential events. In summary, there can be no assurance that any control system will succeed in achieving its goals under all possible future conditions, and as a result of these inherent limitations, misstatements due to error or fraud may occur and may or may not be detected.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

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

SIGNATURES

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

IEC Electronics Corp.  
(Registrant)

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

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

IEC ELECTRONICS CORP.

Form 10-Q for Quarter Ended March 31, 2017

INDEX TO EXHIBITS

Exhibit No.	Description
10.1	Waiver of Annual Bonus for 2017 Fiscal Year dated as of March 23, 2017 between IEC Electronics Corp. and Jeffrey T. Schlarbaum
10.2	Waiver of Annual Bonus for 2017 Fiscal Year dated as of March 23, 2017 between IEC Electronics Corp. and Michael T. Williams
10.3	Waiver of Annual Bonus for 2017 Fiscal Year dated as of March 23, 2017 between IEC Electronics Corp. and Jens Hauvn
10.4	Third Amendment to Fifth Amended and Restated Credit Facility Agreement dated as of May 5, 2017
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101	The following items from this Quarterly Report on Form 10-Q formatted in Extensible Business Reporting Language: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Income Statements (unaudited), (iii) Consolidated Statements of Changes in Stockholders' Equity (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (v) Notes to Consolidated Financial Statements.