IEC ELECTRONICS CORP
Form 10-Q
May 13, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 1, 2016
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 incorporation or organization)	(I.R.S. Employer Identification No.)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company x

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

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

Common Stock, $0.01 par value – 10,259,477 shares as of May 9, 2016

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Part I FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

IEC ELECTRONICS CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
APRIL 1, 2016 and SEPTEMBER 30, 2015
(in thousands, except share and per share data)

	April 1, 2016 (unaudited)	September 30, 2015
ASSETS		
Current assets:		
Cash	$ 1,126	$ 407
Accounts receivable, net of allowance	18,231	24,923
Inventories, net	23,894	25,753
Other current assets	1,259	1,444
Total current assets	44,510	52,527
Fixed assets, net	15,065	15,443
Intangible assets, net	115	134
Goodwill	101	101
Other long term assets	264	57
Total assets	$ 60,055	$ 68,262
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2,679	$ 2,908
Accounts payable	11,839	18,336
Accrued payroll and related expenses	3,606	2,338
Other accrued expenses	679	1,318
Customer deposits	4,746	5,761
Total current liabilities	23,549	30,661
Long-term debt	24,161	28,323
Other long-term liabilities	544	590
Total liabilities	48,254	59,574
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value: 500,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value: Authorized: 50,000,000 shares Issued: 11,314,965 and 11,232,017 shares, respectively Outstanding: 10,259,477 and 10,196,145 shares, respectively	113	112
Additional paid-in capital	46,013	45,845
Retained earnings/(accumulated deficit)	(32,736)	(35,740)
Treasury stock, at cost: 1,055,488 and 1,035,872 shares, respectively	(1,589)	(1,529)

Total stockholders' equity	11,801	8,688
Total liabilities and stockholders' equity	$ 60,055	$ 68,262

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

IEC ELECTRONICS CORP.
CONDENSED CONSOLIDATED INCOME STATEMENTS
SIX MONTHS ENDED APRIL 1, 2016 and MARCH 27, 2015
(unaudited; in thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	April 1, 2016	March 27, 2015	April 1, 2016	March 27, 2015
Net sales	$33,148	$ 31,655	$66,081	$60,484
Cost of sales	27,412	28,682	54,528	54,056
Gross profit	5,736	2,973	$11,553	$6,428
Selling and administrative expenses	3,721	6,320	7,755	9,566
Restatement and related expenses	41	730	(8)	641
Operating profit/(loss)	1,974	(4,077)	3,806	(3,779)
Interest and financing expense	513	665	802	1,199
Income/(loss) from continuing operations before income taxes	1,461	(4,742)	3,004	(4,978)
Provision for/(benefit from) income taxes	—	—	—	—
Income/(loss) from continuing operations	1,461	(4,742)	3,004	(4,978)
Loss on discontinued operations, net	—	(794)	—	(1,353)
Net income/(loss)	$1,461	$ (5,536)	$3,004	$(6,331)
Basic net income/(loss) per common and common equivalent share:				
Earnings/(loss) from continuing operations	$0.14	$ (0.47)	$0.29	$(0.50)
Earnings/(loss) from discontinued operations	—	(0.08)	$—	$(0.14)
Net earnings/loss	$0.14	$ (0.55)	$0.29	$(0.63)
Diluted net income/(loss) per common and common equivalent share:				
Earnings/(loss) from continuing operations	$0.14	$ (0.47)	$0.29	$(0.50)
Earnings/(loss) from discontinued operations	—	(0.08)	—	(0.14)
Net earnings/loss	$0.14	$ (0.55)	$0.29	$(0.63)
Weighted average number of common and common equivalent shares outstanding:				
Basic	10,205,031	10,075,719	10,210,539	9,972,692
Diluted	10,205,031	10,075,719	10,210,539	9,972,692

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 APRIL 1, 2016 and MARCH 27, 2015
(unaudited; in thousands)

	Common Stock, par $0.01	Additional Paid-In Capital	Retained Earnings/ (Accumulated Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, September 30, 2014	$ 111	$ 44,302	$ (25,554)	$ (1,454)	$ 17,405
Net loss	—	—	$ (6,331)	—	(6,331)
Stock-based compensation	—	1,954	—	—	1,954
Restricted (non-vested) stock grants, net of forfeitures	2	(2)	—	—	—
Exercise of stock options	—	78	—	(75)	3
Shares withheld for payment of taxes upon vesting of restricted stock	(1)	(603)	—	—	(604)
Balances, March 27, 2015	$ 112	$ 45,729	$ (31,885)	$ (1,529)	$ 12,427

	Common Stock, par $0.01	Additional Paid-In Capital	Retained Earnings/ (Accumulated Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, September 30, 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)	—	—	—
Exercise of stock options	—	—	—	—	—
Employee stock plan purchases	—	7	—	—	7
Return of incentive compensation shares	—	—	—	(60)	(60)
Balances, April 1, 2016	$ 113	$ 46,013	$ (32,736)	$ (1,589)	$ 11,801

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 APRIL 1, 2016 and MARCH 27, 2015
(unaudited; in thousands)

	Six Months Ended	
	April 1, 2016	March 27, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$3,004	$(6,331)
Less: Loss on discontinued operations, net	—	(1,353)
Income/(loss) from continuing operations	3,004	(4,978)
Non-cash adjustments:		
Stock-based compensation	162	1,954
Incentive compensation shares returned	(60)	—
Depreciation and amortization	1,681	2,008
(Gain)/loss on sale of fixed assets	1	—
Reserve for doubtful accounts	112	(172)
Provision for excess/obsolete inventory	279	(715)
Changes in assets and liabilities:		
Accounts receivable	6,580	1,729
Inventory	1,580	(4,173)
Other current assets	185	(1,177)
Other long term assets	(11)	242
Accounts payable	(6,497)	(121)
Accrued expenses	629	96
Customer deposits	(1,015)	1,483
Other long term liabilities	(14)	(83)
Net cash flows from operating activities-continuing operations	6,616	(3,907)
Net cash flows from operating activities-discontinued operations	—	(620)
Net cash flows from operating activities	6,616	(4,527)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(1,270)	(1,854)
Grant proceeds from outside parties	—	698
Net cash flows from investing activities-continuing operations	(1,270)	(1,156)
Net cash flows from investing activities-discontinued operations	—	(52)
Net cash flows from investing activities	(1,270)	(1,208)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from revolving line of credit	30,271	36,738
Repayments of revolving line of credit	(32,998)	(30,137)
Repayments under other loan agreements	(1,696)	(1,453)
Debt issuance costs	(211)	—
Proceeds from exercise of stock options	—	3
Proceeds from employee stock plan purchases	7	—
Shares withheld for payment of taxes upon vesting of restricted stock	—	(604)
Net cash flows from financing activities-continuing operations	(4,627)	4,547
Net cash flows from financing activities-discontinued operations	—	—

Net cash flows from financing activities	(4,627)	4,547
Net increase/(decrease) in cash and cash equivalents	719	(1,188)
Cash and cash equivalents, beginning of period	407	1,980
Cash and cash equivalents, end of period	$1,126	$792
Supplemental cash flow information:		
Interest paid	$803	$769
Income taxes paid	—	—
Non-cash transactions		
Fixed assets purchased with extended payment terms	$—	$22
Incentive compensation shares returned	60	—
Conversion of grant to loan	32	—

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

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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”, or the “Company”) provides electronic contract manufacturing services (“EM to companies in various industries that require advanced technology. We specialize in the custom manufacture of high reliability, complex circuit boards and system-level assemblies; a wide array of cable and wire harness assemblies capable of withstanding extreme environments; and precision metal components. We provide EMS where quality and reliability are of paramount importance and when low-to-medium volume, high-mix production is the norm. We utilize state-of-the-art, automated circuit board assembly equipment together with a full complement of high-reliability manufacturing stress testing methods. Our customers are at the center of everything we do and we are 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.

Generally Accepted Accounting Principles

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

Fiscal Calendar

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

Consolidation

The consolidated financial statements include the accounts of IEC and its wholly owned subsidiaries: IEC Electronics Wire and Cable, Inc. (“Wire and Cable”); IEC Electronics Corp-Albuquerque (“Albuquerque”); and IEC Analysis & Testing Laboratory, LLC ("ATL"), formerly Dynamic Research and Testing Laboratories, LLC. The Celmet unit (“Celmet”) operates as a division of IEC. As further discussed in Note 2—SCB Divestiture and Discontinued Operations, the operations of our wholly-owned subsidiary, formerly known as Southern California Braiding, Inc. (“SCB”), were divested during the fourth quarter of fiscal 2015. All significant intercompany transactions and accounts are eliminated in consolidation.

Unaudited Financial Statements

The accompanying unaudited financial statements for the three and six months ended April 1, 2016 and March 27, 2015 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, 2015.

Reclassifications

Prior year financial statement amounts are reclassified as necessary to conform to the current year presentation, including presentation of results of discontinued operations.

Cash and Cash Equivalents

The Company's cash and cash equivalents principally represent 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 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 and the remaining assets 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 recorded by IEC for property, plant and equipment or intangibles in fiscal 2016.

Goodwill

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

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

IEC's remaining goodwill relates to Celmet, which was acquired in July 2010.

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 fixed assets are depreciated.

Derivative Financial Instruments

The Company actively monitors its exposure to interest rate risk and from time to time uses 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 manages its hedging position and monitors the credit ratings of counterparties and does not anticipate losses due to counterparty nonperformance. However, the Company’s use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. The Company’s instruments are recorded in the consolidated balance sheets at fair value in other assets or other long-term liabilities.

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, borrowings and an interest rate swap agreement. IEC believes that recorded value approximates fair value for all cash, accounts receivable, accounts payable and accrued liabilities.

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 fiscal 2016 or fiscal 2015.

Revenue Recognition

The Company's revenue is principally derived from the sale of electronic products built to customer specifications, but also from other value-added support services and repair work. Revenue from product sales is recognized when (i) goods are shipped or title and risk of ownership have passed, (ii) the price to the buyer is fixed or determinable, and (iii) realization is reasonably assured. Service revenue is generally recognized once the service has been rendered. For material management arrangements, revenue is generally recognized as services are rendered. Under such arrangements, some or all of the following services may be provided: design, bid, procurement, testing, storage or other activities relating to materials the customer expects to incorporate into products that it manufactures. Value-added support services revenue, including material management and repair work revenue, amounted to less than 5% of total revenue in each of the first six months of fiscal 2016 and fiscal 2015.

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 discounted stock purchase price. Compensation expense related to the discount is recognized as employees contribute to the plan. During fiscal 2015 and the first quarter of fiscal 2016, the ESPP was suspended in connection with the 2014 Restatements described below. The ESPP was reinstated as of the beginning of the second quarter of fiscal 2016.

Restatement and Related Expenses

The Company restated its consolidated financial statements for the fiscal year ended September 30, 2012, and the interim fiscal quarters and year to date periods within the year ended September 30, 2012, included in the Company's Annual Report on Form10-K/A and the fiscal quarter ended December 28, 2012, as reported in the Company's

Quarterly Report on Form 10-Q/A for that fiscal quarter (the "Prior Restatement"). The Company also restated its consolidated financial statements for the fiscal year ended September 30, 2014, and its interim financial statements for each quarterly period within the year ended September 30, 2014, included in the Company's Annual Report on Form 10-K/A, to correct an error in the valuation allowance on deferred income tax assets as well as an error in estimating excess and obsolete inventory reserves (the "2014 Restatements"). The Prior Restatement and the 2014 Restatements together are referred to as the "Restatements".

Restatement and related expenses represent third-party expenses arising from the Restatements. These expenses include legal and accounting fees incurred by the Company from external counsel and independent accountants directly attributable to the Restatements as well as other matters arising from the Prior Restatement including those more fully described in Note 17—Litigation. The Company receives reimbursement for certain of these expenses which may result in a benefit in a given period.

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 or penalties incurred are reported as interest expense. The Company's income tax filings are subject to audit by various tax jurisdictions and current open years are fiscal 2010 through fiscal 2014. The Company is currently under federal income tax audit for fiscal 2013 and does not expect the audit to have a material impact on the financial statements.

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 employee stock purchase plan. Options, restricted stock and RSUs are primarily held by directors, officers and certain employees. A summary of shares used in earnings per share ("EPS") calculations follows.

	Three Months Ended		Six Months Ended
Shares for EPS Calculation	April 1, 2016	March 27, 2015	