

IEC ELECTRONICS CORP  
Form 10-Q  
July 03, 2013

**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 29, 2013

or

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission File Number 0-6508

**IEC ELECTRONICS CORP.**

(Exact name of registrant as specified in its charter)

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

105 Norton Street, Newark, New York 14513

(Address of Principal Executive Offices) (Zip Code)

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

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

x

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

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 – 9,991,291 shares as of June 27, 2013

PART I - FINANCIAL INFORMATION

Item 1.	Financial Statements:	
	Consolidated Balance Sheets as of March 29, 2013 (Unaudited) and September 30, 2012 (Restated)	3
	Consolidated Income Statements for the six month periods ended March 29, 2013 (Unaudited) and March 30, 2012 (Unaudited, Restated)	4
	Consolidated Statements of Changes in Stockholders' Equity for the six month periods ended March 29, 2013 (Unaudited) and March 30, 2012 (Unaudited, Restated)	5
	Consolidated Statements of Cash Flows for the six month periods ended March 29, 2013 (Unaudited) and March 30, 2012 (Unaudited, Restated)	6
	Notes to Consolidated Financial Statements (Unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	36

PART II - OTHER INFORMATION

Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3.	Defaults Upon Senior Securities	37
Item 4.	Mine Safety Disclosures	37
Item 5.	Other Information	37
Item 6.	Exhibits	37
	Signatures	38
	Index to Exhibits	39

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

## IEC ELECTRONICS CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

MARCH 29, 2013 and SEPTEMBER 30, 2012

(in thousands, except share and per share data)

	March 29, 2013 (unaudited)	September 30, 2012 (restated)
<b>ASSETS</b>		
Current assets:		
Cash	\$ 2,781	\$ 2,662
Accounts receivable, net of allowance	20,190	23,193
Inventories, net	17,868	17,697
Deferred income taxes	1,389	1,365
Other current assets	754	401
Total current assets	42,982	45,318
Fixed assets, net	17,744	17,120
Intangible assets, net	5,285	5,511
Goodwill	13,810	13,810
Deferred income taxes	7,119	6,018
Other assets	95	121
Total assets	\$ 87,035	\$ 87,898
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 2,929	\$ 6,533
Accounts payable	12,925	15,697
Accrued payroll and related expenses	2,258	2,676
Other accrued expenses	920	946
Customer Deposits	39	146
Total current liabilities	19,071	25,998
Long-term debt	27,756	21,104
Other long-term liabilities	227	-

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

Total liabilities	47,054	47,102
<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: 10,996,361 and 10,943,185 shares, respectively Outstanding: 9,980,903 and 9,927,727 shares, respectively	109	109
Additional paid-in capital	43,505	43,075
Retained earnings/(accumulated deficit)	(2,198 )	(953 )
Treasury stock, at cost: 1,015,458 shares	(1,435 )	(1,435 )
Total stockholders' equity	39,981	40,796
Total liabilities and stockholders' equity	\$ 87,035	\$ 87,898

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

## IEC ELECTRONICS CORP. AND SUBSIDIARIES

## CONSOLIDATED INCOME STATEMENTS

THREE and SIX MONTH PERIODS ENDED MARCH 29, 2013 and MARCH 30, 2012

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

	Three Months Ended		Six Months Ended	
	March 29, 2013	March 30, 2012 (restated)	March 29, 2013	March 30, 2012 (restated)
Net sales	\$33,681	\$38,020	\$66,671	\$71,878
Cost of sales	30,782	29,937	59,606	58,597
Gross profit	2,899	8,083	7,065	13,281
Selling and administrative expenses	4,311	3,770	8,357	8,307
Operating profit/(loss)	(1,412 )	4,313	(1,292 )	4,974
Interest and financing expense	359	292	638	644
Other (income)/expense	56	58	57	(849 )
Income/(loss) before provision for income taxes	(1,827 )	3,963	(1,987 )	5,179
Provision for/(benefit from) income taxes	(683 )	1,465	(742 )	1,913
Net income/(loss)	\$(1,144 )	\$2,498	\$(1,245 )	\$3,266
Net income/(loss) per common and common equivalent share:				
Basic	\$(0.12 )	\$0.26	\$(0.13 )	\$0.34
Diluted	(0.12 )	0.25	(0.13 )	0.33
Weighted average number of common and common equivalent shares outstanding:				
Basic	9,675,089	9,666,920	9,661,304	9,656,431
Diluted	9,751,224	10,038,406	9,726,483	9,951,727

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

## IEC ELECTRONICS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS of CHANGES in STOCKHOLDERS' EQUITY

SIX MONTH PERIODS ENDED MARCH 29, 2013 and MARCH 30, 2012

(unaudited; restated; in thousands)

	Common Stock, par \$0.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, September 30, 2011	\$ 108	\$ 42,660	\$ (7,647 )	\$ (1,435 )	\$ 33,686
Net income			3,266		3,266
Stock-based compensation		245			245
Directors' fees paid in stock		22			22
Restricted (non-vested) stock grants	1	(1 )			-
Exercise of stock options		9			9
Employee stock plan purchases		17			17
Balances, March 30, 2012	\$ 109	\$ 42,952	\$ (4,381 )	\$ (1,435 )	\$ 37,245

	Common Stock, par \$0.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, September 30, 2012	\$ 109	\$ 43,075	\$ (953 )	\$ (1,435 )	\$ 40,796
Net income/(loss)			(1,245 )		(1,245 )
Stock-based compensation		354			354
Forfeitures		(1 )			-
Directors' fees paid in stock		10			10
Restricted (non-vested) stock grants	1	(1 )			-
Exercise of stock options		41			41
Shares withheld for payment of taxes upon vesting of restricted stock		(29 )			(29 )
Employee stock plan purchases		54			54
Balances, March 29, 2013	\$ 109	\$ 43,505	\$ (2,198 )	\$ (1,435 )	\$ 39,981

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





## IEC ELECTRONICS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS of CASH FLOWS

SIX MONTH PERIODS ENDED MARCH 29, 2013 and MARCH 30, 2012

(unaudited; in thousands)

	Six Months Ended	
	March	March
	29,	30,
	2013	2012
		(restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income/(loss)	\$(1,245 )	\$3,266
Non-cash adjustments:		
Stock-based compensation	354	245
Depreciation and amortization	2,353	2,070
Change in contingent consideration	-	(871 )
Directors' fees paid in stock	10	22
Loss on sale of fixed assets	-	4
Reserve for doubtful accounts	156	125
Deferred tax expense (benefit)	(1,125 )	1,913
Changes in current assets and liabilities:		
Accounts receivable	2,847	(1,681 )
Inventories	(171 )	(2,451 )
Other current assets	(351 )	(9 )
Accounts payable	(2,772 )	3,553
Accrued expenses	(444 )	(515 )
Customer deposits	(107 )	(66 )
Other long term liabilities	227	-
Net cash flows from operating activities	(268 )	5,605
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(2,688 )	(1,698 )
Proceeds from disposal of fixed assets	-	18
Net cash flows from investing activities	(2,688 )	(1,680 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advances from revolving credit facility	27,828	29,622
Repayments of revolving credit facility, including refinancing	(30,813)	(30,081)
Borrowings under other loan agreements and notes, including refinancing	24,000	-
Repayments under loan agreements and notes, including refinancing	(17,967)	(3,492 )
Debt issuance costs	(39 )	-
Proceeds from exercise of stock options	41	9
Proceeds from employee stock plan purchases	54	17

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

Shares withheld for payment of taxes upon vesting of restricted stock	(29 )	-
Net cash flows from financing activities	3,075	(3,925 )
Net cash flows for the period	119	-
Cash and cash equivalents, beginning of period	2,662	-
Cash and cash equivalents, end of period	\$2,781	\$-
Supplemental cash flow information:		
Interest paid	\$463	\$604
Income taxes paid	367	74

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

**IEC ELECTRONICS CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. OUR BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Our Business*

IEC Electronics Corp. ("IEC", "we", "our", "us", "Company") is a premier provider of electronic contract manufacturing services ("EMS") to advanced technology companies. We specialize in the custom manufacture of high reliability, complex circuit cards and system-level assemblies; a wide array of cable and wire harness assemblies capable of withstanding extreme environments; and precision sheet metal components. We excel where quality and reliability are of paramount importance and when low-to-medium volume, high-mix production is the norm. We utilize state-of-the-art, automated circuit card assembly equipment together with a full complement of high-reliability manufacturing stress testing methods. With our customers at the center of everything we do, we have created a high-intensity, rapid response culture capable of reacting and adapting to their ever-changing needs. Our customer-centric approach offers a high degree of flexibility while simultaneously complying with rigorous quality and on-time delivery standards. While many EMS services are viewed as commodities, we believe we set ourselves apart through an uncommon mix of capabilities including:

- § A technology center that combines dedicated prototype manufacturing with an on-site Materials Analysis Lab, enabling the seamless transition of complex electronics from design to production.
- § In-house, custom, functional testing and troubleshooting of complex system-level assemblies in support of end-order fulfillment.
- § A laboratory that enables us to assist customers in mitigating the risk of purchasing counterfeit parts through our subsidiary, Dynamic Research and Testing Laboratories, LLC ("DRTL").
- § Build-to-print precision sheet metal and complex wire harness assemblies supporting just-in-time delivery of critical end-market, system-level electronics.
- § A Lean/Six Sigma continuous improvement program supported by a team of Six Sigma Blackbelts delivering best-in-class results.
- § Proprietary software-driven Web Portal providing customers real-time access to a wide array of operational data.

*Generally Accepted Accounting Principles*

IEC's financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("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"); IEC Electronics Corp.-Albuquerque ("Albuquerque"); Southern California Braiding, Inc. ("SCB") and DRTL. The Celmet unit 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 29, 2013 and March 30, 2012 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/A for the fiscal year ended September 30, 2012, including Note 18 – Quarterly Financial Data (Unaudited) in which the results for the quarters ended in fiscal 2012 were restated. The fiscal 2012 financial information presented in these unaudited consolidated financial statements for comparative purposes reflects the impact of the restatement.

### ***Reclassifications***

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

### ***Cash and Cash Equivalents***

The Company's cash and cash equivalents principally represent deposit accounts with Manufacturers and Traders Trust Company ("M&T"), a banking corporation headquartered in Buffalo, NY. In the six month period of the prior fiscal year, cash receipts and disbursements were used to repay or draw on IEC's revolving credit facility and cash balances were de minimis.

### ***Allowance for Doubtful Accounts***

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

### ***Inventory Valuation***

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

### ***Property, Plant and Equipment***

Property, plant and equipment ("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 represent economic benefits associated with acquired customer relationships, a non-compete agreement, and a property tax abatement. Values assigned to individual intangible assets are amortized 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 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 during fiscal 2012 or fiscal 2013.

### *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, we are required to proceed with quantitative testing.

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

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

### *Leases*

At the inception of a lease covering equipment or real estate, the 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.

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

### ***Legal Contingencies***

When legal proceedings are brought or claims are made against us and the outcome is uncertain, 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. No material charges for legal contingencies have been recorded by IEC during fiscal 2012 or fiscal 2013.

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.

### ***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. Management believes its use of derivative instruments to manage risk is in the Company's best interest. 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.

### ***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. Material management revenue amounted to less than 5% of total revenue in fiscal 2012 and fiscal 2013.

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 that provides for a discounted stock purchase price. Compensation expense related to the discount is recognized as employees contribute to the plan.

### ***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 the company has taken or expects to take on a tax return. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the position will be sustained following examination by taxing authorities, based on technical merits of the position. The Company believes that it has no material uncertain tax positions.

Any interest or penalties incurred are reported as interest expense. The Company's income tax filings are subject to audit by various tax jurisdictions and current open years are fiscal 2009 through fiscal 2012. The Company is currently under federal income tax audit for fiscal 2011 and does not expect 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 ("RSU's") and anticipated issuance through the employee stock purchase plan. Options, restricted stock and RSU's are primarily held by management and certain employees. A summary of shares used in earnings per share ("EPS") calculations follows.

	Three Months Ended		Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Shares for EPS Calculation				
Weighted average shares outstanding	9,675,089	9,666,920	9,661,304	9,656,431
Incremental shares	76,135	371,486	65,179	295,296
Diluted shares	9,751,224	10,038,406	9,726,483	9,951,727
Options excluded from diluted shares as the effect of including these shares would have been anti-dilutive	65,000	142,500	65,000	108,000

### *Dividends*

IEC does not pay dividends on its common stock, as it is the Company's current policy to retain earnings for use in the business. Furthermore, the Company's Fourth Amended and Restated Credit Facility Agreement with M&T includes certain restrictions on paying cash dividends.

*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.

*Comprehensive Income*

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

### *Recently Issued Accounting Standards*

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

Accounting Standards Update 2012-02, “Intangibles—Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment,” was issued July 27, 2012 and is effective for annual and interim fiscal years beginning after December 25, 2012. The Update simplifies the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. The amendments allow an organization the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An organization electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is “more likely than not” that the asset is impaired. The Company does not anticipate a significant impact upon adoption.

Accounting Standards Update 2012-04, “Technical Corrections and Improvements,” was issued October 2012 and for public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. The amendments in this Update cover a wide range of Topics in the Codification. These amendments are presented in two sections—Technical Corrections and Improvements (Section A) and Conforming Amendments Related to Fair Value Measurements (Section B). The amendments in this Update represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting. This Update is not intended to significantly change U.S. GAAP and the Company does not anticipate a significant impact upon adoption.

FASB Accounting Standards Update 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," was issued on February 5, 2013 to be effective for fiscal years beginning after December 15, 2012. This guidance is the culmination of the board’s redeliberation on reporting reclassification adjustments from accumulated other comprehensive income (“AOCI”). The update requires an entity to separately present the amount reclassified out of AOCI income for each component of AOCI and to disclose, for each affected line item in the income statement, the amount of AOCI that has been reclassified into that line item. If the reclassification does not go directly to an income statement line it is acceptable to cross reference that amount to another footnote that provides the required disclosure. The new requirements impact disclosure only and will take effect for the Company at the beginning of fiscal 2014.

**NOTE 2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS**

We have restated our consolidated financial statements for the fiscal year ended September 30, 2012, the interim fiscal quarter and year to date periods within the year ended September 30, 2012 and the fiscal quarter ended December 28, 2012.

The summary impact of the restatement adjustments on the Company's previously reported unaudited consolidated net income for the three months and six months ended March 30, 2012 follows:

	Three months ended March 30, 2012	Six months ended March 30, 2012
Net Income - Previously reported	\$ 2,607	\$ 3,556
Work-in-process inventory adjustments, net of tax	(109	) (290 )
Net Income - Restated	\$ 2,498	\$ 3,266

The Company has identified an error in accounting for work-in-process inventory at SCB, one of its wholly owned subsidiaries. During the quarter ended March 29, 2013 the Company began to analyze the cost structure of SCB including labor, overhead and selling and administrative expenses. Throughout the second half of fiscal 2012 and the first half of fiscal 2013 SCB's expenses incurred increased each period. Over the same period, the labor and overhead capitalized into work-in-process inventory also increased. The Company initially believed the increase in capitalized work-in-process labor and overhead resulted from unfavorable variances due to increased expenses in relation to revenue during those periods. Upon further review, it was determined the Company overcapitalized labor and overhead costs in SCB's work-in-process inventory. The overcapitalization was a result of failure to accurately factor in the stage of completion for the work-in-process inventory.

The impact of the restatement on the previously issued Consolidated Balance Sheets and Consolidated Statements of Income and Cash Flows for the three months and six months then ended follows:

	Consolidated Balance Sheet September 30, 2012		
	As reported	Adjustment	Restated
	(in thousands)		
<b>ASSETS</b>			
Current assets:			
Cash	\$2,662	\$ -	\$2,662
Accounts receivable, net of allowance	23,193	-	23,193
Inventories, net	19,348	(1,651 )	17,697
Deferred income taxes	1,365	-	1,365
Other current assets	401	-	401
Total current assets	46,969	(1,651 )	45,318
Fixed assets, net	17,120	-	17,120
Intangible assets, net	5,511	-	5,511
Goodwill	13,810	-	13,810
Deferred income taxes	5,433	585	6,018
Other assets	121	-	121
Total assets	\$88,964	\$ (1,066 )	\$87,898
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Current portion of long-term debt	\$6,533	\$ -	\$6,533
Account payable	15,697	-	15,697
Accrued payroll and related expenses	2,676	-	2,676
Other accrued expenses	946	-	946
Customer deposits	146	-	146
Total current liabilities	25,998	-	25,998
Long-term debt	21,104	-	21,104
Total liabilities	47,102	-	47,102
<b>STOCKHOLDERS' EQUITY</b>			
500,000 shares authorized; none issued or outstanding			
Common stock, \$0.01 par value:			
Authorized: 50,000,000 shares			
Issued: 10,943,185 and 10,839,997 shares, respectively			
Outstanding: 9,927,727 and 9,824,539 shares, respectively	109	-	109
Additional paid-in capital	43,075	-	43,075
Accumulated income (deficit)	113	(1,066 )	(953 )
Treasury stock, at cost: 1,015,458 shares	(1,435 )	-	(1,435 )
Total stockholders' equity	41,862	(1,066 )	40,796



Total liabilities and stockholders' equity                      \$88,964    \$ (1,066        ) \$87,697

	Consolidated Income Statements					
	Three months ended March 30, 2012			Six months ended March 30, 2012		
	As reported	Adjustment	Restated	As reported	Adjustment	Restated
	(in thousands)					
Net sales	\$38,020	\$ -	\$38,020	\$71,878	\$ -	\$71,878
Cost of sales	29,764	173	29,937	58,136	461	58,597
Gross profit	8,256	(173 )	8,083	13,742	(461 )	13,281
Selling and administrative expenses	3,770	-	3,770	8,307	-	8,307
Operating profit	4,486	(173 )	4,313	5,435	(461 )	4,974
Interest and financing expense	292	-	292	644	-	644
Other (income)/expense	58	-	58	(849 )	-	(849 )
Income before provision for income taxes	4,136	(173 )	3,963	5,640	(461 )	5,179
Provision for income taxes	1,529	(64 )	1,465	2,084	(171 )	1,913
Net income	\$2,607	\$ (109 )	\$2,498	\$3,556	\$ (290 )	\$3,266
Net income per common and common equivalent share:						
Basic	\$0.27	\$ (0.01 )	\$0.26	\$0.37	\$ (0.03 )	\$0.34
Diluted	0.26	(0.01 )	0.25	0.36	(0.03 )	0.33
Weighted average number of common and common equivalent shares outstanding:						
Basic	9,666,920		9,666,920	9,656,431		9,656,431
Diluted	10,038,406		10,038,406	9,951,727		9,951,727

Consolidated Statement of Cash Flow  
Six months ended  
March 30, 2012  
As reported    Adjustment    Restated  
(in thousands)

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$ 3,556	\$ (290 )	\$ 3,266
Non-cash adjustments:			
Stock-based compensation	245	-	245
Depreciation and amortization	2,070	-	2,070
Change in contingent consideration	(871 )	-	(871 )
Directors' fees paid in stock	22	-	22
(Gain)/loss on sale of fixed assets	4	-	4
Reserve for doubtful accounts	125	-	125
Deferred tax expense	2,084	(171 )	1,913
Changes in current assets and liabilities:			
Accounts receivable	(1,681 )	-	(1,681 )
Inventories	(2,912 )	461	(2,451 )
Other current assets	(9 )	-	(9 )
Accounts payable	3,553	-	3,553
Accrued expenses	(515 )	-	(515 )
Customer deposits	(66 )	-	(66 )
Net cash flows from operating activities	5,605	-	5,605

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of fixed assets	(1,698 )	-	(1,698 )
Proceeds from (net cost of) disposal of fixed assets	18	-	18
Net cash flows from investing activities	(1,680 )	-	(1,680 )

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Advances from revolving credit facility	29,622	-	29,622
Repayments of revolving credit facility	(30,081 )	-	(30,081 )
Borrowings under other loan agreements	-	-	-
Repayments under loan agreements and notes	(3,492 )	-	(3,492 )
Proceeds from exercise of stock options	9	-	9
Proceeds from employee stock plan purchases	17	-	17
Net cash flows from financing activities	(3,925 )	-	(3,925 )

Net cash flows for the period	-	-	-
Cash and cash equivalents, beginning of period	-	-	-
Cash and cash equivalents, end of period	\$ -	\$ -	\$ -

**Supplemental cash flow information:**

Interest paid	\$ 604	\$ -	\$ 604
Income taxes paid	74	-	74

**NOTE 3. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

A summary of activity in the allowance for doubtful accounts during the six month periods follows:

	Six Months Ended	
	March 29, 2013	March 30, 2012
Allowance for Doubtful Accounts	(thousands)	
Allowance, beginning of period	\$ 406	\$ 305
Provision for doubtful accounts	171	125
Write-offs	(15 )	-
Allowance, end of period	\$ 562	\$ 430

**NOTE 4. INVENTORIES**

A summary of inventory by category at period end follows:

Inventories	March 29, 2013	September 30, 2012
	(thousands) (restated)	
Raw materials	\$12,428	\$ 10,732
Work-in-process	5,379	6,564
Finished goods	1,888	1,661
Total inventories	19,695	18,957
Reserve for excess/obsolete inventory	(1,827 )	(1,260 )
Inventories, net	\$17,868	\$ 17,697

**NOTE 5. FIXED ASSETS**

A summary of fixed assets by category and accumulated depreciation at period end follows:

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

	March 29, 2013	September 30, 2012
Fixed Assets		
	(thousands)	
Land and improvements	\$1,556	\$ 1,556
Buildings and improvements	9,891	9,852
Leasehold improvements	1,374	1,374
Machinery and equipment	24,003	23,085
Furniture and fixtures	5,868	5,444
Construction in progress	1,980	673
Total fixed assets, at cost	44,672	41,984
Accumulated depreciation	(26,928)	(24,864 )
Fixed assets, net	\$17,744	\$ 17,120

Depreciation expense during the three and six month periods follows:

	Three Months Ended		Six Months Ended	
	March 29, 2013 (thousands)	March 30, 2012	March 29, 2013 (thousands)	March 30, 2012
Depreciation expense	\$ 1,051	\$ 928	\$ 2,064	\$ 1,816

#### NOTE 6. INTANGIBLE ASSETS

IEC's intangible assets (other than goodwill) were acquired in connection with purchases of SCB in fiscal 2011 and Albuquerque in fiscal 2010.

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

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

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

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

September 30,

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

	March 29, 2013		2012
Intangible Assets			(thousands)
Customer relationships	\$5,900		\$ 5,900
Property tax abatement	360		360
Non-compete agreement	100		100
Total intangibles	6,360		6,360
Accumulated amortization	(1,075)		(849 )
Intangible assets, net	\$5,285		\$ 5,511

Amortization expense during the three and six month periods follows:

	Three Months Ended		Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Amortization Expense	(thousands)		(thousands)	
Intangible amortization expense	\$ 113	\$ 113	\$ 226	\$ 226

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

Future Amortization	Estimated future amortization (thousands)
Twelve months ending March 29, 2014	\$ 452
2015	452
2016	447
2017	432
2018 and thereafter	3,502

#### NOTE 7. GOODWILL

Goodwill balances result from the acquisitions of SCB in fiscal 2011 and Celmet in fiscal 2010. There were no changes in outstanding goodwill balances during the six months ended March 29, 2013.

#### NOTE 8. CREDIT FACILITIES

A summary of borrowings at period end follows:

Debt	Fixed/ Variable Rate	Maturity	Interest Rate		Balances	
			March 29, 2013 (percents)	September 30, 2012	March 29, 2013 (thousands)	September 30, 2012
M&T borrowings:						
Revolving credit facility	v	01/18/16	2.50	3.00	\$3,603	\$ 6,588
Term loan A	f	02/01/22	3.98		9,815	-
Term loan B	v	02/01/23	2.70		13,882	-
SCB term loan	v	12/17/15		3.25	0	13,000
Albuquerque term loan	v	12/16/14		3.25	0	2,250
Albuquerque mortgage loan	v	03/30/18	2.75	3.25	3,133	3,267
Celmet term loan	v	07/30/15		3.25	0	1,166



Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

Equipment loans (2)	v	12/17/13		3.25	0	672
Equipment loans (3)	f	11/01/12		2.93	0	108
Energy loan	f	04/02/13	2.08	2.08	3	23
Other borrowings:						
Seller notes, Wire and Cable	f	06/01/13	3.00	3.00	149	463
Albuquerque industrial revenue bond	f	03/01/19	5.63	5.63	100	100
Total debt					30,685	27,637
Less: current portion					(2,929 )	(6,533 )
Long-term debt					\$27,756	\$ 21,104

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

Note: Rates noted above are before impact of interest rate swap.

***M&T Credit Facilities***

On January 18, 2013, the Company and M&T entered into the Fourth Amended and Restated Credit Facility Agreement (“2013 Credit Agreement”), replacing a prior agreement dated December 17, 2010 (“2010 Credit Agreement”). Many of the terms, conditions and covenants remain unchanged from the 2010 Credit Agreement. Borrowings under the 2013 Credit Agreement are secured by, among other things, the assets of IEC and its subsidiaries.

Individual debt facilities provided under the 2013 Credit Agreement are described below:

(a) *Revolving Credit Facility (“Revolver”)*: Up to \$20 million is available through January 18, 2016. The Company may borrow up to the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories or (ii) \$20 million. At IEC's election, another 35% of eligible inventories may be included in the borrowing base for limited periods of time during which a higher rate of interest is charged on the Revolver. Borrowings based on inventory balances are further limited to a cap of \$3.75 million, or when subject to the higher percentage limit, \$4.75 million. At March 29, 2013, the upper limit on Revolver borrowings was \$19.6 million. Average available balances amounted to \$13.3 million and \$12.9 million during the six months ended March 29, 2013 and March 30, 2012, respectively.

The Company incurs quarterly unused commitment fees approximating 0.125% of the excess of \$20 million over average borrowings under the Revolver. Fees incurred amounted to \$11 thousand and \$17 thousand during the six months ended March 29, 2013, and March 30, 2012, respectively. The fee percentage varies based on IEC's ratio of debt to EBITDARS.

(b) *Term Loan A*: \$10.0 million was borrowed on January 18, 2013. Principal is being repaid in 108 monthly installments of \$93 thousand.

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

(d) *Albuquerque Mortgage Loan*: \$4.0 million was borrowed on December 16, 2009. The loan is effectively secured by real property in Albuquerque, NM, and principal is being repaid in 60 monthly installments of \$22 thousand plus a balloon payment due at maturity.

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

The 2013 Credit Agreement also contains various affirmative and negative covenants including financial covenants. The Company is required to maintain (i) a minimum level of quarterly EBITDARS, (ii) a ratio of debt to twelve month EBITDARS that is below a specified limit, and (iii) a minimum fixed charge coverage ratio as described in the table below. The Company was in compliance with these three covenants at September 30, 2012 but was not in compliance with these financial covenants at March 29, 2013 and has obtained a waiver from M&T with respect to such noncompliance. In addition, on May 15, 2013 we have obtained an amendment to the 2013 Credit Agreement (the "2013 Covenant Amendment") which modifies the total Debt to twelve months EBITDARS ratio and fixed charge coverage ratio covenants as follows:

Debt to EBITDARS: (a)

2013 Credit Agreement, before amendment:

3/31/2013 through and including 9/29/2013	< 3.00 to 1.00
9/30/2013 and thereafter	<2.75 to 1.00

2013 Credit Agreement, after amendment:

6/28/2013 through and including 12/27/2013	< 3.25 to 1.00
12/28/2013 through and including 3/28/2014	<3.00 to 1.00
3/29/2014 and thereafter	< 2.75 to 1.00

Fixed Charge Coverage Ratio: (b)

2013 Credit Agreement, before amendment:

3/31/2013 and thereafter < 1.25 to 1.00

2013 Credit Agreement, after amendment:

6/28/2013	>0.95 to 1.00
9/30/2013	>1.00 to 1.00
12/27/2013	>1.15 to 1.00
3/28/2014 and thereafter	>1.25 to 1.00

(a) The ratio of debt to earnings before interest, taxes, depreciation, amortization, rent expense and non-cash stock compensation expense.

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

For the purpose of calculating compliance with the covenants, IEC's operating lease obligation to M&T for certain equipment sold to the bank on June 27, 2008 and leased back for a period of five years, is treated as debt. Rental payments for the remainder of the lease term ending June 2013 total \$66 thousand. Although the financial covenants remained unchanged prior to the 2013 Covenant Amendment, it should be noted that the terms of the 2013 Credit Agreement did not require measurement of financial covenants for the first quarter of fiscal 2013. The waiver received by the Company for failure to comply with the financial covenants at March 29, 2013 does not affect the quarterly calculation of the applicable margin based upon Total Debt to EBITDARS that is added to the LIBOR Rate to determine the interest rate applicable to the Revolver and Albuquerque Mortgage Loan. The higher ratio based on financial covenant levels at March 29, 2013 will result in an increase of 0.5% in the effective rate applicable to those two loans and an increase of 0.375% in the unused commitment fee for the Revolver.

Significant modifications made in the 2013 Credit Agreement to the financing arrangements previously in effect under the 2010 Credit Agreement include:

Consolidation of all outstanding term debt, except the Albuquerque Mortgage Loan and the Energy Loan, and an \$8,876,237 portion of outstanding loans under the Revolver, into two new and increased term loans, described below ("Term Loan A" and "Term Loan B");

Creation of a new Term Loan A in the original principal amount of \$10,000,000, bearing interest at the fixed rate of 3.98% per annum, payable in equal monthly principal payments of \$92,593 each plus accrued interest, with a final maturity date of February 1, 2022;

Creation of a new Term Loan B in the original principal amount of \$14,000,000, bearing interest at a variable rate equal to 2.50 percentage points above the LIBOR in effect from time to time, payable in equal monthly principal payments of \$116,667 each plus accrued interest, with a final maturity date of February 1, 2023;

Extension of the maturity date of the Albuquerque Mortgage Loan from December 16, 2014 to February 1, 2018, with no change to the monthly principal payments of \$22,222 each plus accrued interest;

Modification of the interest rate applicable to the Albuquerque Mortgage Loan from (i) a range on the applicable quarterly adjustment date of 2.50% to 3.75% above LIBOR based upon the Company's then ratio of Debt to EBITDARS (ranging from 1.75:1.00 to 3.25:1.00), to (ii) a range on the applicable quarterly adjustment date of 2.00% to 3.25% above LIBOR based upon the Company's then ratio of Debt to EBITDARS (ranging from 0.75:1.00 to 2.75:1.00);

Continuation of the Revolver in the maximum available principal amount of the lesser of \$20,000,000 or the amount available under the borrowing base (the formula for which, and interest rate surcharge applicable to optional over-base advances, remains unchanged), with an outstanding principal balance immediately after the closing of \$3,656,140;

Extension of the maturity date of the Revolver from December 17, 2013 to January 18, 2016;

Modification of the interest rate applicable to the Revolver from (i) a range on the applicable quarterly adjustment date of 2.25% to 3.50% above LIBOR based upon the Company's then ratio of Debt to EBITDARS (ranging from 1.75:1.00 to 3.25:1.00), to (ii) a range on the applicable quarterly adjustment date of 1.75% to 3.00% above LIBOR based upon the Company's then ratio of Debt to EBITDARS (ranging from 0.75:1.00 to 2.75:1.00);

Modification of the unused fee applicable to the Revolver from (i) a range on the applicable quarterly adjustment date of 0.125% to 0.500% based upon the Company's then ratio of Debt to EBITDARS (ranging from 1.75:1.00 to 3.25:1.00), to (ii) a range on the applicable quarterly adjustment date of 0.125% to 0.500% based upon the Company's then ratio of Debt to EBITDARS (ranging from 0.75:1.00 to 2.75:1.00);

Elimination of mandatory prepayments based upon excess cash flow;  
Continuation, unchanged, of existing financial covenants requiring minimum quarterly EBITDARS, a maximum Debt to twelve month EBITDARS ratio, and minimum Fixed Charge Coverage Ratio, all measured at the end of each quarter commencing with the quarter ending in March 2013 (but later modified in the 2013 Covenant Amendment);  
and  
Modification of the prohibition against dividends and stock repurchases to permit an aggregate maximum of \$3,500,000 of such distributions prior to February 1, 2023 absent default at the time of the applicable payment.

In connection with the 2013 Credit Agreement, on January 18, 2013, the Company and M&T entered into an interest rate swap arrangement ("Swap Transaction"). The Swap Transaction is for a notional amount of \$14,000,000 with an effective date of February 1, 2013 and a termination date of February 1, 2023. The Swap Transaction is designed to reduce the variability of future interest payments with respect to Term Loan B by effectively fixing the annual interest rate payable on outstanding principal of Term Loan B. Pursuant to the interest rate swap, the Company's one month LIBOR rate is swapped for a fixed rate of 1.32%. When the swap fixed rate is added to the Term Loan B Spread of 2.50%, the Company's interest rate applicable to Term Loan B is effectively fixed at 3.82%.

The 2010 Credit Agreement provided for various debt facilities as detailed below. The revolving credit facility and term loan borrowings under the 2010 Credit Agreement bear interest at Libor plus a margin that varies between 2.25% and 3.75% based on the Company's ratio of Debt to EBITDARS.

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

Individual debt facilities provided under the 2010 Credit Agreement are described below:

(a) *Revolving Credit Facility ("Revolver")*: Up to \$20 million was available through December 17, 2013. The Company could borrow up to the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories or (ii) \$20 million. At IEC's election, another 35% of eligible inventories would be included in the borrowing base for limited periods of time during which a higher rate of interest is charged on the Revolver. Borrowings based on inventory balances were further limited to a cap of \$3.75 million, or when subject to the higher percentage limit, \$4.75 million.

(b) *SCB Term Loan*: \$20 million was borrowed on December 17, 2010 and principal was being repaid in 60 equal monthly installments. This loan was paid off in January 2013.

(c) *Albuquerque Term Loan*: \$5 million was borrowed on December 16, 2009, and principal was being repaid in 60 equal monthly installments. This loan was paid off in January 2013.

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

(e) *Celmet Term Loan*: \$2 million was borrowed on July 30, 2010, and principal was being repaid in 60 equal monthly installments. This loan was paid off in January 2013.

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

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

***Other Credit Facilities***

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

(i) *Albuquerque Industrial Revenue Bond*: When IEC acquired Albuquerque, the Company assumed responsibility for a \$100 thousand Industrial Revenue Bond issued by the City of Albuquerque. Interest on the bond is paid semiannually, and principal is due in its entirety at maturity.

A summary of contractual principal payments under IEC's borrowings for the next five years taking into consideration the 2013 Credit Agreement follows:

Debt Repayment Schedule	Contractual Principal Payments (thousands)
Twelve months ending March 29,	
2014	\$ 2,929
2015	2,778
2016*	6,381
2017	2,778
2018 and thereafter	15,819
	\$ 30,685

\*Includes Revolver balance of \$3,603 as of March 29, 2013.

**NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS*****Interest Rate Risk Management***



The Company uses an interest rate swap agreement to manage its exposure to changes in interest rates of the Company's variable rate debt. The swap agreement is recorded in the consolidated balance sheet at fair value. Changes in the fair value of the swap agreements are recorded in net income or other comprehensive income/(loss), based on whether the agreements are designated as part of a hedge transaction and whether the agreements are effective in offsetting the change in the value of the future interest payments attributable to the underlying portion of the Company's variable rate debt. Interest payments accrued each reporting period for the interest rate swap are recognized in interest expense.

In connection with the 2013 Credit Agreement, on January 18, 2013, the Company and M&T entered into an interest rate swap arrangement ("Swap Transaction"). The Swap Transaction is for a notional amount of \$14,000,000 with an effective date of February 1, 2013 and a termination date of February 1, 2023. The Swap Transaction is designed to reduce the variability of future interest payments with respect to Term Loan B by effectively fixing the annual interest rate payable on outstanding principal of Term Loan B. Pursuant to the interest rate swap, the Company's one month LIBOR rate is swapped for a fixed rate of 1.32%. When the swap fixed rate is added to the Term Loan B Spread of 2.50%, the Company's interest rate applicable to Term Loan B is effectively fixed at 3.82%.

The fair value of the interest rate swap agreement represented a liability of \$0.04 million as of March 29, 2013 and was estimated based on Level 2 inputs. The Company did not designate the swap as a cash flow hedge at inception and therefore, the gains or losses from the changes in fair value of the derivative instrument are recognized in earnings for the period ended March 29, 2013 within interest expense.

The fair value of the interest rate swap recorded in other long-term liabilities in the consolidated balance sheet as of March 29, 2013 is \$0.04 million.

**NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS:**

*Financial Instruments Carried at Fair Value*

The Company's interest rate swap agreement is recorded on the balance sheet as either assets or liabilities measured at fair value. The Company estimates the fair value of its interest rate swap agreement based on Level 2 valuation inputs, including fixed interest rates, LIBOR implied forward interest rates and the remaining time to maturity. As of March 29, 2013, the interest rate swap agreement is a liability of \$0.04 million.

*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. The fair value and carrying value of Term Loan A at March 29, 2013 are \$8.2 million and \$9.8 million, respectively. The fair value of the remainder of the Company's debt approximated carrying value at March 29, 2013 as it is variable rate debt. The fair value of the Company's debt agreements approximated carrying value at September 30, 2012.

**NOTE 11. 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 six month periods follows:

	Six Months Ended	
	March 29, 2013	March 30, 2012
Warranty Reserve		
	(thousands)	

Reserve, beginning of period	\$ 388	\$ 448
Provision	(36 )	(18 )
Warranty costs	\$ (59 )	(58 )
Reserve, end of period	293	\$ 372

**NOTE 12. DEFERRED GRANTS**

The Company received grants for certain facility improvements from state and local agencies in which the Company operates. These grants reimburse the Company for a portion of the actual cost or provide in kind services in support of capital projects. During the quarter ended March 29, 2013, the Company received grant proceeds of \$0.18 million, from such grant programs.

One of the Company's grants is a loan to grant agreement. The Company has signed a promissory note, which will be forgiven if certain employment targets are obtained at future dates. If the employment targets are not obtained, the Company is obligated to repay the loan with interest. As the Company intends to comply with these agreements, the Company has recorded the funds received as deferred grants and customer deposits on the balance sheet.

The Company is also the recipient of matching grants from two local governmental agencies related to certain renovations for one of its operating locations. One agency is contributing in kind services and property of \$0.1 million while the other is contributing cash of \$0.1 million to match expenditures by the Company of at least the same amount.

The grants will be amortized over the useful lives of the related fixed assets when there is reasonable assurance that the Company will meet the employment targets. There has been no amortization recorded for the deferred grants through March 29, 2013.

#### **NOTE 13. STOCK-BASED COMPENSATION**

The 2010 Omnibus Incentive Compensation Plan (“2010 Plan”) was approved by the Company’s stockholders at the January 2011 Annual Meeting of the Stockholders. This plan replaces IEC’s 2001 Stock Option and Incentive Plan (“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 common shares may be issued over a term of ten years.

Stock-based awards granted through December 2011, were made under the 2001 Plan. Awards granted after December 2011, were made under the 2010 Plan and future awards will be made under the 2010 Plan.

Stock compensation expense recorded under the plans totaled \$354 thousand and \$245 thousand in the six months ended March 29, 2013 and March 30, 2012, respectively. 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 employee stock purchase plan is provided below.

#### ***Stock Options***

When options are granted, IEC estimates fair value 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 plan is generally seven years.

Assumptions used in the Black-Scholes model and the estimated value of options follows:

Six Months Ended

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

	March 29, 2013		March 30, 2012	
Valuation of Options				
Assumptions for Black-Scholes:				
Risk-free interest rate	0.55	%	0.65	%
Expected term in years	4.0		4.0	
Volatility	49	%	51	%
Expected annual dividends	none		none	
Value of options granted:				
Number of options granted	50,000		43,500	
Weighted average fair value per share	\$2.65		\$ 1.93	
Fair value of options granted (000's)	\$133		\$ 84	

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

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

Stock Options	Six Months Ended			
	March 29, 2013		March 30, 2012	
	Number of Options	Wgt. Avg. Exercise Price	Number of Options	Wgt. Avg. Exercise Price
Outstanding, beginning of period	280,789	\$ 3.81	371,339	\$ 3.32
Granted	50,000	6.91	43,500	4.84
Exercised	(18,650 )	2.16	(11,000 )	1.24
Forfeited	(45,756 )	5.09	(59,900 )	4.50
Expired	(4,000 )	2.24	(5,000 )	0.55
Outstanding, end of period	262,383	\$ 4.22	338,939	\$ 3.46
For options expected to vest				
Number expected to vest	218,426	\$ 3.83	321,992	\$ 3.46
Weighted average remaining term, in years	3.5		4.2	
Intrinsic value (000s)		\$ 469		\$ 498
For exercisable options				
Number exercisable	117,783	\$ 2.17	139,239	\$ 1.73
Weighted average remaining term, in years	1.9		2.5	
Intrinsic value (000s)		\$ 422		\$ 456
For non-exercisable options				
Expense not yet recognized (000s)		\$ 173		\$ 269
Weighted average years to become exercisable	2.6		1.7	
For options exercised				
Intrinsic value (000s)		\$ 88		\$ 46

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

Stock Options	Six Months Ended			
	March 29, 2013		March 30, 2012	
	Number of Options	Wgt. Avg. Grant Date Fair Value	Number of Options	Wgt. Avg. Grant Date Fair Value
Non-vested, beginning of period	157,150	\$ 2.42	241,100	\$ 2.02

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

Granted	50,000	2.65	43,500	1.93
Vested	(16,794 )	2.33	(25,000 )	0.88
Forfeited	(45,756 )	2.51	(59,900 )	2.13
Non-vested, end of period	144,600	\$ 2.49	199,700	\$ 2.11

**Restricted (Non-vested) Stock**

Holders 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 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:

	Six Months Ended			
	March 29, 2013		March 30, 2012	
	Number of	Wgtd. Avg. Grant Date	Number of	Wgtd. Avg. Grant Date
Restricted (Non-vested) Stock	Non-vested Shares	Fair Value	Non-vested Shares	Fair Value
Outstanding, beginning of period	339,939	\$ 5.66	284,476	\$ 5.76
Granted	88,208	6.86	74,825	4.99
Vested	(45,587 )	4.92	(17,744 )	5.90
Shares withheld for payment of taxes upon vesting of restricted stock	(4,441 )	4.70	-	
Forfeited	(83,103 )	5.70	(8,400 )	4.32
Outstanding, end of period	295,016	\$ 6.13	333,157	\$ 5.62
For non-vested shares				
Expense not yet recognized (000s)		\$ 891		\$ 1,176
Weighted average remaining years for vesting		2.8		2.2
For shares vested				
Aggregate fair value on vesting dates (000s)		\$ 336		\$ 90

**Employee Stock Purchase Plan**

The Company administers an employee stock purchase plan ("ESPP") that provides for a discounted stock purchase price for purchases after October 1, 2011. Employee contributions to the plan were \$40 thousand and \$54 thousand in the six months ended March 29, 2013 and March 30, 2012, respectively. Compensation expense recognized under the ESPP was \$4 thousand and \$6 thousand in the six months ended March 29, 2013 and March 30, 2012, respectively. On May 21, 2013, in connection with the restatement of the Company's financial statements described herein, the Compensation Committee of the Company's Board of Directors suspended operation of the ESPP. The Company



expects to resume operation of the ESPP with the purchase period beginning April 1, 2014.

*Stock Issued to Board Members*

In addition to annual grants of restricted stock, Board members are granted common stock for certain services provided. During the six months ended March 29, 2013 and March 30, 2012, board members were granted 1,480 and 4,304 shares of common stock, respectively. The Company recognized compensation expense related to Board members of \$10 thousand and \$22 thousand during the six months ended March 29, 2013 and March 30, 2012, respectively.

**NOTE 14. 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. For the Albuquerque unit, the Company contributes 25% of the first 6% contributed by employees. Company contributions on behalf of Albuquerque employees totaled \$16 thousand during the six months ended March 29, 2013, and \$17 thousand during the six months ended March 30, 2012. There were no other Company contributions to the plan during the two periods.

**NOTE 15. INCOME TAXES**

Provision for income taxes during the three and six month periods follows:

	Three Months Ended		Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Income Tax Provision	(thousands)	(restated)	(thousands)	(restated)
Provision for/(benefit from) income taxes	\$ (683 )	\$ 1,465	\$ (742 )	\$ 1,913

IEC has federal and state net operating loss carryforwards (“NOLs”) for income tax purposes of approximately \$16.7 million and \$25.0 million, respectively, as of September 30, 2012, expiring mainly in years 2020 through 2025. It is estimated that the federal and state NOLs will produce future tax benefits totaling \$5.1 million.

In addition, \$1.0 million of New York State investment tax and other credits are available to the Company as carryforwards, expiring in various years through 2026. These credits cannot be utilized until the New York net operating loss carryforward is exhausted. We have recorded a valuation allowance for these credits to the extent that we believe it is more likely than not that the tax benefit will not be realized. If the credits expire unused, the related deferred tax asset and offsetting valuation allowance will be reduced.

**NOTE 16. 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 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Military & Aerospace	50%	43%	53%	39%
Medical	18%	20%	19%	23%
Industrial	24%	28%	20%	27%
Communications & Other	8%	9%	8%	11%

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

100%      100%      100%      100%

Two individual customers represented 10% or more of sales for the six months ended March 29, 2013. For this period, one customer in the Industrial sector represented 15.5% of sales and one customer in the Medical sector represented 10.0% of sales. Two individual customers represented 10% or more of sales for the six months ended March 30, 2012. One customer in the Medical sector represented 20.0% of sales and one customer in the Industrial sector represented 18.9% of sales. One customer represented 10% or more of receivables at 12.9% as of March 29, 2013. Two individual customers represented 10% or more of receivables, aggregated to 22.9% of outstanding receivable balances at March 30, 2012.

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 17. LITIGATION**

As discussed in Note 2 to these unaudited consolidated financial statements, the Company has restated its financial statements. In connection with the restatement, the Audit Committee conducted an independent review of the underlying facts and circumstances, the Company is reporting to NYSE MKT under its formal plan to regain compliance, the Company is responding to an informal inquiry from the staff of the SEC and the restatement could result in other actions (including a shareholder class action filed June 28, 2013 in the United States District Court, Southern District of New York, against the Company and its CEO and CFO). From time to time, the Company may be involved in other legal actions in the ordinary course of its business, but management does not believe that any such other proceedings commenced through the date of these financial statements, individually or in the aggregate, will have a material adverse effect on the Company's financial position.

**NOTE 18. COMMITMENTS AND CONTINGENCIES**

The Company is obligated under non-cancelable operating leases, primarily for manufacturing equipment, buildings and office equipment. Leases for buildings occupied by IEC's businesses expire as follows: Celmet in July 2014, and SCB primarily in September 2013. These operating leases generally contain renewal options and require the Company to pay executory costs such as taxes, insurance and maintenance.

A summary of minimum lease obligations through the remainder of the lease terms follows:

Future Rental Obligations	Contractual Lease Payments (thousands)
Twelve months ending March 29, 2014	\$ 540
2015	120
2016	5
2017	2

Rent expense during the three and six month periods follows:

Three Months Ended March 30,	Six Months Ended March 30,
---------------------------------	-------------------------------

Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

	March 29, 2013		March 29, 2012	
Rent Expense	(thousands)		(thousands)	
Rent expense	\$ 296	\$ 330	\$ 653	\$ 644

During August 2011, one of IEC's operating units entered into a five-year agreement with one of its suppliers to purchase a minimum volume of materials in exchange for receiving favorable pricing on the unit's purchases. In the event the unit's cumulative purchases do not equal or exceed stated minimums, the supplier has a right to terminate the agreement and the IEC unit would be obligated to pay an early termination fee that declines from \$365 thousand to zero over the term of the agreement. As of the date of this Report, the company expects to exceed minimum purchase requirements under the agreement, thereby avoiding any termination fee.

## **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 consolidated financial statements and notes, as well as Note 18 – Quarterly Financial Data (Unaudited) to the Company's consolidated financial statements included in its Annual Report on Form 10-K/A for fiscal 2012, which restates the Company's unaudited financial statements for the quarterly periods ended during fiscal 2012. The fiscal 2012 financial information presented in this Management's Discussion and Analysis for comparative purposes reflects the impact of the restatement.

**Forward-Looking Statements:** This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934, and are made in reliance upon the protections provided by such Acts for forward-looking statements. These forward-looking statements (such as when we describe what we “believe,” “expect,” “intend,” or “anticipate” will occur, and other similar 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 different from those expressed or implied by these 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 operating results; 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 of customer requirements; uncertainties as to availability and timing of governmental funding for our customers; our ability to assimilate acquired businesses and to achieve the anticipated benefits of such acquisitions; 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; natural disasters; and other factors that we may not have currently identified or quantified. Additional risks and uncertainties resulting from the restatement of our financial statements included in our Quarterly Report on Form 10-Q/A for the quarter ended December 28, 2012 and our Annual Report on Form 10-K/A for the fiscal year ended September 30, 2012 could, among others, (i) cause us to incur substantial additional legal, accounting and other expenses, (ii) result in additional shareholder, governmental or other actions, (iii) cause our customers, including the government contractors with which we deal, to lose confidence in us or cause a default under our contractual arrangements, (iv) cause a default under the Company's arrangements with M&T Bank with respect to which, if the Bank chooses to exercise its remedies, the Company may not be able to obtain replacement financing or continue its operations (v) result in delisting of the Company's stock from NYSE MKT (the “Exchange”) if the Exchange does not concur that the Company has regained compliance with the Exchange listing standards and the Company's listing agreement, or (vi) result in additional failures of the Company's internal

controls if the Company's remediation efforts are not effective. Any one or more of such risks and uncertainties could have a material adverse effect on us or the value of our common stock.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. New risks and uncertainties arise from time to time and we cannot predict those events or how they may affect us. When considering these risks, uncertainties and assumptions, you should keep in mind the cautionary statements contained elsewhere in this report and in any documents incorporated herein by reference. In particular, you should consider the Risk Factors identified in Item 1 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012 as amended on Form 10-K/A and in the Company's subsequently filed SEC reports. You should read this document and the documents that we incorporate by reference into this Report on 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

Since 2004, we have focused our efforts on developing relationships with customers who manufacture advanced technology products and who are unlikely to utilize offshore suppliers due to the proprietary nature of their products, governmental restrictions or volume considerations. We have continued to expand our business by adding new customers and markets, and our customer base is stronger and more diverse as a result. We proactively invest in areas we view as important for our continued growth. IEC is ISO 9001:2008 certified. Four of our units (IEC and Wire and Cable in Newark, NY; Albuquerque in NM; and SCB in Bell Gardens, CA) are AS9100 certified to serve the military and commercial aerospace market sector, and are ITAR registered. In addition, the Company's locations in Newark, NY and Albuquerque, NM are Nadcap accredited for electronics manufacturing to support the most stringent quality requirements of the aerospace industry and the Newark, NY location is ISO 13485 certified to serve the medical market sector. Our Newark, NY location is also an NSA approved supplier under the COMSEC standard and its environmental systems are ISO 14001:2004 certified. DRTL is ISO 17025 accredited, which is the international standard covering testing and calibration laboratories. Albuquerque and SCB also perform work per NASA-STD-8739 and J-STD-001ES space standards.

We evaluate emerging technologies on an ongoing basis to maintain a technology roadmap so that relevant processes and advances in new equipment are available to our customers when commercial and design factors warrant. The current generation of interconnection technologies includes chip-scale packaging and ball-grid-array ("BGA") assembly techniques. We have placed millions of plastic and ceramic BGA's since 1994. Future advances will be directed by our Technology Center, which combines Prototype and Pilot Build Services with the capabilities of our Advanced Materials Technology Laboratory and our Design Engineering Group.

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

## Prior Restatement

The Company previously disclosed in its Annual Report on Form 10-K/A ("Form 10-K/A") and Quarterly Report on Form 10-Q/A ("Form 10-Q/A"), both filed with the Securities and Exchange Commission (the "SEC") on or about the date of this Quarterly Report, that it was restating its financial statements for the periods described herein because the Company was incorrectly accounting for work-in-process inventory at one of its subsidiaries, SCB. The Company restated: (i) its previously issued consolidated financial statements for the fiscal year ended September 30, 2012 ("FY 2012"), as included in the Company's Annual Report on Form 10-K for FY 2012, as well as the unaudited interim consolidated financial statements as of and for the fiscal quarter and year-to-date periods ended December 30, 2011 ("Q1-2012"), March 30, 2012 ("Q2-2012") and June 29, 2012 ("Q3-2012") (collectively, the "2012 Restated Periods") as included in its Quarterly Reports on Form 10-Q for Q-1 2012, Q-2 2012 and Q-3 2012, and (ii) its previously issued financial statements for the quarter ended December 28, 2012 ("Q1-2013") as included in its Quarterly Report on Form



## Edgar Filing: IEC ELECTRONICS CORP - Form 10-Q

10-Q for Q1-2013. Comparative information for the Fiscal 2012 Restated Periods, as well as for Q1-2013, included in this Quarterly Report reflect information contained in the financial statements as so restated.

### Three Month Results

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

Income Statement Data	Three Months Ended	
	March 29, 2013	March 30, 2012
	(thousands)	
	(restated)	
Net sales	\$33,681	\$ 38,020
Gross profit	2,899	8,083
Selling and administrative expenses	4,311	3,770
Interest and financing expense	359	292
Other (income)/expense	56	58
Income/(loss) before provision for income taxes	(1,827 )	3,963
Provision for/(benefit from) income taxes	(683 )	1,465
Net income/(loss)	\$(1,144 )	\$ 2,498

As more fully described in Note 2 - Restatement of Consolidated Financial Statements, the Company has restated its financial statements for the three and six month periods ended March 30, 2012.

Revenue decreased in the second quarter of fiscal 2013 by \$4.3 million or 11.4% as compared to the second quarter of the prior fiscal year. Aggregate revenue decreases in the medical, industrial and communications & other market sectors of \$5.1 million were partially offset by increased revenue in the military & aerospace market sector of \$0.8 million. Revenue for the medical market sector decreased \$1.5 million primarily due to decreased demand from a customer upon completion of a recall program. Revenue for the industrial market sector decreased \$2.4 million primarily due to delayed demand from one of our customers and a strategic decision by another customer to dual source product to mitigate risk. Revenue for the communications & other market sector also decreased by \$1.2 million primarily due to decreased demand from two customers, one of which is now producing a component part in house, partially offset by revenue from a new customer. Military & aerospace revenue increased \$1.2 million due primarily to revenue related to new programs from existing customers, revenue from a new customer and releases in military funding. These increases were partially offset by a \$0.4 million decrease in revenue from one of our aerospace customers that discontinued outsourcing a product to us and used its excess capacity, created by decreased end-customer demand to manufacture it in house.

Our second fiscal quarter gross profit decreased \$5.2 million to 8.6% of sales from 21.3% of sales in the second quarter of the prior fiscal year. Lower sales volume and unfavorable changes in product mix at some locations were partially offset by higher sales volume and favorable changes in product mix at others. Lower than anticipated sales volumes at some locations reduced leverage on fixed manufacturing costs. In addition, higher indirect labor costs were incurred as a result of anticipated higher revenue volumes, which did not materialize. Our gross profit was also impacted by costs of resolving technical problems for a telecom customer.

Selling and administrative ("S&A") expense increased \$0.5 million to 12.8% of revenue in the second fiscal quarter of 2013, as compared to 9.9% in the same quarter of the prior fiscal year. The increase in S&A expense for the second fiscal quarter of 2013 was primarily driven by the recognition of \$0.4 million of severance to former employees.

Interest expense was relatively consistent compared to the same quarter of the prior fiscal year. IEC's average outstanding debt balances decreased to \$31.1 million for the second quarter of fiscal 2013 from \$32.5 million for the same quarter of the prior fiscal year. Average borrowings in the second quarter of fiscal 2013 were lower than the second quarter of the prior fiscal year due to the repayment of term loans. The weighted average interest rate on IEC's debt, excluding the impact of the interest rate swap, was 0.09% lower than in the second quarter of the prior fiscal year. Lower average borrowings and interest rates were offset by the impact of the swap as well as covenant waiver fees. Detailed information regarding our borrowings, including a summary of modifications in the Fourth Amended and Restated Credit Facility Agreement, is provided in Note 8 - Credit Facilities to the unaudited consolidated financial statements included in this Quarterly Report.

The benefit from income taxes was \$0.7 million for the second quarter of fiscal 2013 as compared to a provision for income taxes of \$1.5 million for the second quarter of the prior fiscal year, primarily resulting from a decrease in pretax income/(loss). The effective tax rate for the second fiscal quarter has remained relatively consistent as a percent of pretax income/(loss) compared to the same quarter in the prior fiscal year.

With respect to tax payments, in the near term IEC expects to be sheltered by sizable net operating loss (“NOL”) carryforwards for federal and New York state income tax purposes. At the end of fiscal 2012, the carryforwards amounted to approximately \$16.7 million and \$25.0 million for federal and New York State, respectively. The carryforwards expire in varying amounts between 2020 and 2025 unless utilized prior to these dates. The Company estimates that the federal and state NOLs will produce future tax benefits totaling \$5.1 million.

Six Month Results

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

Income Statement Data	Six Months Ended	
	March 29, 2013	March 30, 2012
	(thousands)	
	(restated)	
Net sales	\$66,671	\$71,878
Gross profit	7,065	13,281
Selling and administrative expenses	8,357	8,307
Interest and financing expense	638	644
Other (income)/expense	57	(849 )
Income before provision for income taxes	(1,987 )	5,179
Provision for/(benefit from) income taxes	(742 )	1,913
Net income/(loss)	\$(1,245 )	\$3,266

As more fully described in Note 2 - Restatement of Consolidated Financial Statements, the Company has restated its financial statements for the three and six month periods ended March 30, 2012.

Revenue decreased for the first six months of this fiscal year compared to the same period in fiscal 2012 by \$5.2 million or 7.2%. Aggregate revenue decreases in the medical, industrial and communications & other market sectors of \$12.7 million were partially offset by increased revenue in the military & aerospace market sector of \$7.5 million. Revenue for the medical market sector decreased \$4.1 million primarily due to decreased demand from a customer due to completion of a recall program partially offset by an increase in revenue related to new programs from an existing customer and increased demand from an existing customer for an ongoing program. Revenue for the industrial market sector decreased \$5.2 million primarily due to delayed demand from one of our customers and a strategic decision by another customer to dual source product to mitigate risk. Revenue for the communications & other market sector also decreased by \$3.4 million primarily due to decreased demand from two customers, one of which is now producing a component part in house, partially offset by revenue from a new customer. Military & aerospace revenue increased to 53% of revenue in the first six months of this fiscal year compared to 39% in the same period in fiscal 2012. The \$8.8 million increase in military & aerospace revenue was due primarily to revenue related to new programs from existing customers, revenue from a new customer and releases in military funding. These increases were partially offset by a \$1.3 million decrease in revenue from one of our aerospace customers that discontinued outsourcing a product to us and used its excess capacity, created by decreased end-customer demand, to manufacture it in house.

Our gross profit for the first six months of this fiscal year decreased \$6.2 million to 10.6% of sales from 18.5% of sales in the prior fiscal year. Lower sales volume and unfavorable changes in product mix at some locations were partially offset by higher sales volume and favorable changes in product mix at others. Lower than anticipated sales volumes at some locations reduced leverage on fixed manufacturing costs. In addition, higher indirect labor costs were incurred as a result of anticipated higher revenue volumes, which did not materialize.

S&A expense increased \$0.1 million to 12.5% of revenue for the first six months of the current fiscal year compared to 11.6% of sales in the same period of the prior fiscal year. S&A expense for the first six months of the current fiscal year included \$0.4 million of severance to former employees, the impact of which was offset by lower payroll related costs, including bonus, and commission expense due to lower sales volumes.

Interest expense was \$0.6 million in the first six months of both the current fiscal year and the prior fiscal year. IEC's average outstanding debt balances decreased to \$30.0 million for the first six months of the current fiscal year from \$33.3 million for the prior fiscal year. Average borrowings in the current fiscal year were lower than the prior fiscal year due to the repayment of term loans. The weighted average interest rate on IEC's debt, excluding the impact of the interest rate swap, was 0.09% lower than in the first six months of the prior fiscal year. Detailed information regarding our borrowings, including a summary of modifications in the Fourth Amended and Restated Credit Facility Agreement, is provided in Note 8 - Credit Facilities to the unaudited consolidated financial statements included in this Quarterly Report.

The other (income)/expense category of IEC's income statement reflects non-operating items such as acquisition costs and various gains and losses. In the six months ended March 30, 2012, \$0.9 million of additional income was recorded for contingent consideration owed to IEC by the sellers of Southern California Braiding Company, Inc. The income is the result of a shortfall in SCB's calendar-year 2011 sales as compared to a target specified in the acquisition agreement.

The benefit from income taxes was \$0.7 million for the first six months of the current fiscal year as compared to a provision for income taxes of \$1.9 million for the prior fiscal year, primarily resulting from a decrease in pretax income/(loss). The effective tax rate for the first six months of the current fiscal year has remained relatively consistent as a percent of pretax income/(loss) compared to the prior fiscal year.

### Liquidity and Capital Resources

Cash flow from operations, before considering changes in IEC's working capital accounts, was \$0.5 million in the six months ended March 29, 2013, compared to \$6.8 million in the six months ended March 30, 2012. The decrease was primarily driven by a \$4.5 million decrease in net income, as well as a \$3.0 million lower add-back for deferred taxes. The net change in current asset and liability accounts used \$0.8 million of cash in the six months ended March 29, 2013, compared to using \$1.2 million of cash for the six months ended March 30, 2012.

Investing activities utilized \$2.7 million of cash flow in the six months ended March 29, 2013 and \$1.7 million for the six month period of the prior fiscal year. Cash was used for the purchase of equipment and building improvements.

For the six months ended March 29, 2013, borrowings on the revolving credit facility represented the majority of cash generated from financing activities. Cash was also used to pay term loans, mortgage loans and the revolving credit facility. During the quarter ended March 29, 2013, net borrowings were \$3.0 million, and for the quarter ended March 30, 2012, net repayments were \$3.9 million.

On January 18, 2013, the Company and M&T entered into a Fourth Amended and Restated Credit Facility Agreement ("2013 Credit Agreement"). The refinancing converted a portion of the outstanding balance of the revolving credit facility to term debt, however did not change the aggregate principal outstanding under the M&T credit agreements. Other key provisions of the financing, including financial covenants, are described in Note 8 – Credit Facilities to the unaudited consolidated financial statements contained in this Quarterly Report.

As of March 29, 2013, borrowings under the revolving credit facility ("Revolver") amounted to \$3.6 million, and the maximum available was \$19.6 million. Borrowings on the Revolver in the first six months of the current fiscal year were used to fund working capital changes discussed above. The Company believes that its liquidity is sufficient to satisfy anticipated operating requirements during the next twelve months.

The financial covenants in the 2013 Credit Agreement remain unchanged from those contained in the 2010 Credit Agreement, and include (i) a minimum level of quarterly EBITDARS, (ii) a ratio of debt to twelve month EBITDARS

that is below a specified limit, and (iii) a minimum fixed charge coverage ratio. EBITDARS is defined as earnings before interest, taxes, depreciation, amortization, rent expense and non-cash stock compensation expense. The 2013 Credit Agreement did not require measurement of financial covenants for the quarter ended December 28, 2012. The Company was not in compliance with these financial covenants at March 29, 2013 and has obtained a waiver from M&T with respect to such noncompliance. In addition, we have obtained an amendment to the 2013 Credit Agreement which modifies the total debt to twelve months EBITDARS ratio and fixed charge coverage ratio covenants as more particularly described in Note 8 – Credit Facilities to the consolidated financial statements contained in this Quarterly Report.

Debt Covenant	Limit at March 29, 2013	Calculated Amount At	
		March 29, 2013	September 30, 2012 (a)
Quarterly EBITDARS (000s)	Minimum \$1,500	\$ 39	\$ 4,033 (restated)
Total debt to EBITDARS	Maximum 3.00x	3.05 x	1.65 x
Fixed charge coverage ratio (b)	Minimum 1.25x	1.22 x	2.00 x

(a) Compliance waived

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

A reconciliation of EBITDARS to net income follows:

	Three Months Ended		Twelve Months Ended	
	March 29, 2013 (thousands)	September 30, 2012 (restated)	March 29, 2013 (thousands)	September 30, 2012 (restated)
Net income/(loss)	\$ (1,144 )	\$ 1,586	\$ 2,184	\$ 6,694
Provision for/(benefit from) income taxes	(683 )	711	1,015	3,670
Depreciation and amortization expense	1,213	1,119	4,580	4,297
Interest and financing expense	359	297	1,220	1,227
Rent expense (M&T sale-leaseback)	97	97	389	389
Non-cash stock compensation	197	223	682	595
EBITDARS	\$ 39	\$ 4,033	\$ 10,070	\$ 16,872

EBITDARS is a non-GAAP financial measure. It should not be considered in isolation or as a measure of the Company's profitability or liquidity; it is in addition to, and is not a substitute for, financial measures under GAAP. EBITDARS may be different from non-GAAP financial measures used by other companies, and may not be comparable to similarly titled measures reported by other companies. Non-GAAP financial measures have limitations since they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP.

EBITDARS does not take into account working capital requirements, capital expenditures, debt service requirements and other commitments, and accordingly, EBITDARS is not necessarily indicative of amounts that may be available for discretionary use. The Company presents EBITDARS because certain covenants in the Company's credit facilities are tied to that measure. The Company also views EBITDARS as a useful measure of operating performance given the Company's strong operating margins and large net operating loss carryforward and because, as a supplemental measure: (i) it is a basis upon which the Company assesses its liquidity position and performance and (ii) the Company believes that investors will find the data useful in assessing its ability to service and/or incur indebtedness. The Company believes that EBITDARS, when considered with both the Company's GAAP results and the reconciliation to operating income, provides a more complete understanding of the Company's business than could be obtained absent this disclosure.

#### 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 is disclosed in our 2012 Annual Report on Form 10-K/A filed for the fiscal year ended September 30, 2012. During the quarter ended March 29, 2013 there were no material changes to these policies.

Recently Issued Accounting Standards

See Note 1 - Our Business and Summary of Significant Accounting Policies to our unaudited consolidated financial statements included in this Quarterly Report for further information concerning recently issued accounting standards.

**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 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. Management believes its use of derivative instruments to manage risk is in the Company's best interest. However, the Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility.

As of March 29, 2013, the Company had \$30.7 million of debt, comprised of \$20.6 million with variable interest rates and \$10.1 million with fixed rates. Interest rates on variable loans are based on London interbank offered rate (“Libor”) and currently adjust daily, causing interest on such loans to vary from period to period. To the extent not mitigated by our interest rate swap agreement, a one-percentage point increase or decrease in interest rates, which represents more than a 10% change, would increase or decrease the Company’s annual interest expense by approximately \$0.2 million. As more fully described in Note 8 – Credit Facilities to the unaudited consolidated financial statements included in this Quarterly Report, the Swap Transaction increases the portion of debt with effectively fixed rates of interest from \$10.1 million to \$24.0 million.

The Company is exposed to credit risk to the extent of non-performance by M&T under the 2013 Credit Agreement and the Swap Transaction. M&T’s credit rating (reaffirmed A- by Fitch in April 2013) is monitored by the Company, and IEC expects that M&T will perform in accordance with the terms of the 2013 Agreement and the Swap Transaction.

#### **Item 4. Controls and Procedures**

##### **Evaluation of disclosure controls and procedures**

IEC’s management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(c) and 15d-15(c) under the Securities Exchange Act of 1934 (“Exchange Act”)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, solely as a result of the material weakness discussed in greater detail in our Form 10-K/A filed with the SEC on or about the date of filing of this Quarterly Report (the “2012 Form 10-K/A”), our Chief Executive Officer and Chief Financial Officer concluded that as of March 29, 2013, the Company’s disclosure controls and procedures were not effective. To address this material weakness, we have implemented certain remedial measures, as described in our 2012 Form 10-K/A.

##### **Changes in internal control over financial reporting**

Management identified a material weakness in our internal control over financial reporting related to an error in accounting for work-in-process inventory at SCB, as discussed in greater detail in Item 9A of our 2012 Form 10-K/A. To address this material weakness, we have implemented certain remedial measures, as described in Item 9A of our 2012 Form 10-K/A, which description is incorporated by reference herein. The material weakness cannot be considered fully remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Except as described above, during the quarter ended March 29, 2013, there were no changes in our internal controls that materially affected, or are 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:**

As discussed in the Explanatory Note to this Form 10-Q, the Company has restated its financial statements. In connection with the restatement, the Audit Committee conducted an independent review of the underlying facts and circumstances, the Company is reporting to NYSE MKT under its formal plan to regain compliance, the Company is responding to an informal inquiry from the staff of the SEC and the restatement could result in other actions (including a shareholder class action filed June 28, 2013 in the United States District Court, Southern District of New York, against the Company and its CEO and CFO seeking unspecified compensatory damages). From time to time, the Company may be involved in other legal actions in the ordinary course of its business, but management does not believe that any such other proceedings commenced through the date of the financial statements contained in Part I of this Quarterly Report, individually or in the aggregate, will have a material, adverse effect on the Company's consolidated financial position.

### **Item 1A. Risk Factors:**

There are no material changes to the risk factors described in Item 1A of our Annual Report on Form 10-K/A for the fiscal year ended September 30, 2012, as filed with the SEC on or about the date of filing of this Quarterly Report.

### **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 Report. The Index to Exhibits is incorporated herein

by reference.

37

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)

July 3, 2013 /s/ W. Barry Gilbert  
W. Barry Gilbert  
Chairman and Chief Executive Officer

July 3, 2013 /s/ Vincent A. Leo  
Vincent A. Leo  
Chief Financial Officer

**IEC ELECTRONICS CORP.**

**Form 10-Q for Quarter Ended March 29, 2013**

**INDEX TO EXHIBITS**

Exhibit No. Description

10.1*	Supplemental Salary Continuation and Non-Competition Agreement and Release of Claims, dated February 25, 2013, between IEC Electronics Corp. and Jeffrey T. Schlarbaum (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 28, 2013 and incorporated herein by reference)
10.2*	Restricted Stock Award Agreement Amendment 1, dated February 25, 2013, between IEC Electronics Corp. and Jeffrey T. Schlarbaum (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 28, 2013 and incorporated herein by reference)
10.3	First Amendment to Fourth Amended and Restated Credit Facility Agreement, dated as of May 15, 2013 by and between IEC Electronics Corp. and Manufacturers and Traders Trust Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 20, 2013 and incorporated herein by reference)
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. Pursuant to Rule 406T of Regulation S-T, the interactive data files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended; are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended; and otherwise are not subject to liability under those sections.

\*Management contract or compensatory plan or arrangement