IEC ELECTRONICS CORP
Form 10-Q
August 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 29, 2018
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____

Commission File Number 001-34376

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

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x
Emerging growth company ¨	

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

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

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

Common Stock, $0.01 par value – 10,289,426 shares as of August 1, 2018

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Part I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

IEC ELECTRONICS CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 29, 2018 and SEPTEMBER 30, 2017
(unaudited; in thousands, except share and per share data)

	June 29, 2018	September 30, 2017
ASSETS		
Current assets:		
Cash	$—	$ —
Accounts receivable, net of allowance	19,668	17,887
Inventories	26,074	15,605
Other current assets	1,222	1,018
Total current assets	46,964	34,510
Property, plant and equipment, net	18,806	17,777
Deferred income taxes	1,010	—
Other long term assets	127	160
Total assets	$66,907	$ 52,447
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$1,172	$ 987
Current portion of capital lease obligation	302	215
Accounts payable	17,582	13,046
Accrued payroll and related expenses	2,127	1,013
Other accrued expenses	501	444
Customer deposits	2,401	1,611
Total current liabilities	24,085	17,316
Long-term debt	17,800	14,023
Long-term capital lease obligation	7,103	5,362
Other long-term liabilities	1,804	1,317
Total liabilities	50,792	38,018
Commitments and contingencies (Note 11)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value:		
500,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value:		
Authorized: 50,000,000 shares		
Issued: 11,303,571 and 11,252,566 shares, respectively		
Outstanding: 10,248,083 and 10,197,078 shares, respectively	102	102
Additional paid-in capital	47,186	46,789
Accumulated deficit	(29,584)	(30,873)
Treasury stock, at cost: 1,055,488 shares	(1,589)	(1,589)

Total stockholders’ equity	16,115	14,429
Total liabilities and stockholders’ equity	$66,907	$ 52,447

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

IEC ELECTRONICS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE and NINE MONTHS ENDED JUNE 29, 2018 and JUNE 30, 2017
(unaudited; in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Net sales	$29,782	$ 26,489	$82,706	$ 68,833
Cost of sales	26,423	22,781	73,045	61,050
Gross profit	3,359	3,708	9,661	7,783
Selling and administrative expenses	2,833	2,604	8,543	7,711
Operating income	526	1,104	1,118	72
Interest and financing expense	322	255	834	703
Income/(loss) before income taxes	204	849	284	(631)
Income tax expense/(benefit)	—	43	(1,005)	43
Net income/(loss)	$204	$ 806	$1,289	$ (674)
Net income/(loss) per common share:				
Basic	$0.02	$ 0.08	$0.12	$ (0.07)
Diluted	$0.02	$ 0.08	$0.12	$ (0.07)
Weighted average number of shares outstanding:				
Basic	10,243,286	10,193,200	10,221,869	10,176,626
Diluted	10,556,764	10,193,200	10,467,112	10,176,626

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

IEC ELECTRONICS CORP.
CONDENSED CONSOLIDATED STATEMENT of CHANGES in STOCKHOLDERS' EQUITY
NINE MONTHS ENDED JUNE 29, 2018
(unaudited; in thousands, except share data)

	Number of Shares Outstanding	Common Stock, par $0.01	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock, at cost	Total Stockholders' Equity
Balances, October 1, 2017	10,197,078	$ 102	$ 46,789	$ (30,873)	$(1,589)	$ 14,429
Net income	—	—	—	1,289	—	1,289
Stock-based compensation	—	—	347		—	347
Restricted stock vested, net of shares withheld for payment of taxes	37,557	—	—	—	—	—
Exercise of stock options	1,400	—	—		—	—
Employee stock plan purchases	12,048	—	50	—	—	50
Balances, June 29, 2018	10,248,083	$ 102	$ 47,186	$ (29,584)	$(1,589)	$ 16,115

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

IEC ELECTRONICS CORP.
CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS
NINE MONTHS ENDED JUNE 29, 2018 and JUNE 30, 2017
(unaudited; in thousands)

	Nine Months Ended	
	June 29, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	$ 1,289	$ (674)
Non-cash adjustments:		
Stock-based compensation	347	468
Depreciation and amortization	1,708	1,981
Change in reserve for doubtful accounts	(42)	(169)
Change in excess/obsolete inventory reserve	143	(93)
Deferred tax benefit	(1,010)	—
Amortization of deferred gain	(54)	(45)
Changes in assets and liabilities:		
Accounts receivable	(1,739)	1,394
Inventory	(10,612)	(2,754)
Other current assets	(204)	270
Other long term assets	4	7
Accounts payable	3,268	2,004
Change in book overdraft position	1,268	—
Accrued expenses	1,171	(2,016)
Customer deposits	790	(1,035)
Other long term liabilities	(75)	(124)
Net cash flows used in operating activities	(3,748)	(782)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(2,001)	(2,035)
Proceeds from disposal of property, plant and equipment	5	5
Proceeds from sale-leaseback	1,947	5,750
Net cash flows (used in)/provided by investing activities	(49)	3,720
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from revolving line of credit	47,402	36,143
Repayments of revolving line of credit	(41,609)	(30,514)
Borrowings under other loan agreements	836	—
Repayments under other loan agreements	(2,665)	(9,146)
Repayments under capital lease	(172)	(123)
Debt issuance costs	(45)	(89)
Proceeds from employee stock plan purchases	50	27
Cash paid for taxes upon vesting of restricted stock	—	(4)
Net cash flows provided by/(used in) financing activities	3,797	(3,706)
Net cash decrease for the period	—	(768)
Cash, beginning of period	—	845

Cash, end of period	$—	$ 77
Supplemental cash flow information		
Interest paid	$ 807	$ 687
Income taxes paid	4	116
Property, plant and equipment additions financed through capital lease	2,000	5,750

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

IEC ELECTRONICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1—OUR BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our Business

IEC Electronics Corp. ("IEC" or the "Company") provides electronic manufacturing services ("EMS") to advanced technology companies that produce life-saving and mission critical products for the medical, industrial, aerospace and defense sectors. The Company specializes in delivering technical solutions for the custom manufacture of complex full system assemblies by providing on-site analytical testing laboratories, custom design and test engineering services combined with a broad array of manufacturing services encompassing electronics, interconnect solutions, and precision metalworking. As a full service EMS provider, IEC holds all appropriate certifications for the market sectors it supports including ISO 9001:2008, AS9100D, ISO 13485, and Nadcap. IEC is headquartered in Newark, NY and also has operations in Rochester, NY and Albuquerque, NM. Additional information about IEC can be found on its web site at www.iec-electronics.com. The contents of this website are not incorporated by reference into this quarterly report.

Generally Accepted Accounting Principles

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

Fiscal Calendar

The Company's fiscal year ends on September 30th and the first three quarters generally end on the Friday closest to the last day of the calendar quarter. For the fiscal year ending September 30, 2018 ("fiscal 2018"), the fiscal quarters ended on December 29, 2017, March 30, 2018 and June 29, 2018. For the fiscal year ended September 30, 2017 ("fiscal 2017"), the fiscal quarters ended on December 30, 2016, March 31, 2017 and June 30, 2017.

Consolidation

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

Unaudited Financial Statements

The accompanying unaudited condensed consolidated financial statements for the three and nine months ended June 29, 2018 and June 30, 2017 have been prepared without an audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and do not include certain of the information the footnotes require by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, required for a fair presentation of the information have been made. The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

Cash

The Company’s cash represents deposit accounts with Manufacturers and Traders Trust Company (“M&T Bank”), a banking corporation headquartered in Buffalo, NY. The Company's cash management system provides for the funding of the disbursement accounts on a daily basis as checks are presented for payment. Under this system, outstanding checks in excess of the bank balance create a book overdraft. Book overdrafts are presented in accounts payable in the condensed consolidated balance sheets. Changes in the book overdrafts are presented within net cash flows provided by operating activities within the condensed consolidated statements of cash flows.

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 the likelihood of collection is remote.

Inventory Valuation

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

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
Software	3 to 10

Reviewing Long-Lived Assets for Potential Impairment

ASC 360-10 (Property, Plant and Equipment) requires the Company to test long-lived assets (PP&E and definitive lived assets) for recoverability whenever events or circumstances indicate that the carrying amount may not be recoverable. If carrying value exceeds undiscounted future cash flows attributable to an asset, it is considered impaired and the excess of carrying value over fair value must be charged to earnings. No impairment charges were recorded by IEC for long-lived assets during the three and nine months ended June 29, 2018 and June 30, 2017.

Leases

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

Legal Contingencies

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

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

Legal Expense Accrual

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

Customer Deposits

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

Fair Value Measurements

Under ASC 825 (Financial Instruments), the Company is required to disclose the fair value of financial instruments for which it is practicable to estimate value. The Company's financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and borrowings. IEC believes that recorded value approximates fair value for all cash, accounts receivable, accounts payable and accrued liabilities. See Note 6—Fair Value of Financial Instruments for a discussion of the fair value of IEC's borrowings.

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

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

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

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

The Company deems a transfer between levels of the fair value hierarchy to have occurred at the beginning of the reporting period. There were no such transfers during each of the three and nine months ended June 29, 2018 and June 30, 2017.

Revenue Recognition

The Company's revenue is principally derived from the sale of electronic products built to customer specifications, but also from other value-added support services and repair work. Revenue from product sales is recognized when (i) goods are shipped or title and risk of ownership have passed, (ii) the price to the buyer is fixed or determinable, and (iii) realization is reasonably assured. Service revenue is generally recognized once the service has been rendered. For material management arrangements, revenue is generally recognized as services are rendered. Under such arrangements, some or all of the following services may be provided: design, bid, procurement, testing, storage or other activities relating to materials the customer expects to incorporate into products that it manufactures. Value-added support services revenue, including material management and repair work revenue, amounted to less than 5% of total revenue in each of the three and nine months ended June 29, 2018 and June 30, 2017.

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

Stock-Based Compensation

ASC 718 (Stock Compensation) requires that compensation expense be recognized for equity awards based on fair value as of the date of grant. For stock options, the Company uses the Black-Scholes pricing model to estimate grant date fair value. Costs associated with stock awards are recorded over requisite service periods, generally the vesting period. If vesting is contingent on the achievement of performance objectives, fair value is accrued over the period the objectives are expected to be achieved only if it is considered probable that the objectives will be achieved. The Company also has an employee stock purchase plan ("ESPP") that provides for the purchase of Company common stock at a discounted stock purchase price.

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

Dividends

IEC does not pay dividends on its common stock as it is the Company's current policy to retain earnings for use in the business. Furthermore, the Company's Fifth Amended and Restated Credit Facility Agreement, as amended, with M&T Bank includes certain restrictions on paying cash dividends, as more fully described in Note 5—Credit Facilities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent assets and liabilities. Significant items subject to such estimates include: allowance for doubtful accounts, excess and obsolete inventory, warranty reserves and the valuation of deferred income tax assets. 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/(loss).

Segments

The Company's results of operations for the three and nine months ended June 29, 2018 and June 30, 2017 represent a single operating and reporting segment, referred to as contract manufacturing within the EMS industry. The Company strategically directs production between its various manufacturing facilities based on a number of considerations to best meet its customers' requirements. The Company shares resources for sales, marketing, engineering, supply chain, information services, human resources, payroll and corporate accounting functions. Consolidated financial information is available that is evaluated regularly by the chief operating decision maker in assessing performance and allocating resources. The Company's operations as a whole reflect the level at which the business is managed and how the Company's chief operating decision maker assesses performance internally.

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Recently Issued Accounting Standards Not Yet Adopted

FASB Accounting Standard Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“Topic 606”) was issued May 2014 and updates the principles for recognizing revenue. This ASU will supersede most of the existing revenue recognition requirements in GAAP. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation, and recognizing revenue in line with the pattern of transfer. Additionally, disclosures required for revenue recognition will include qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments, and assets recognized from costs to obtain or fulfill a contract. Such disclosures are more extensive than what is required under existing GAAP.

The guidance is effective for the Company beginning in the first quarter of the fiscal year ending September 30, 2019 (“fiscal 2019”). The Company has identified key personnel to evaluate the guidance and approve a transition method. The Company has assessed that the impact of the new guidance may result in a change of the Company's revenue recognition model for electronics manufacturing services from "point in time" upon physical delivery to an "over time" model and believes this transition may have a material impact on the Company's consolidated financial statements upon adoption primarily as it recognizes an increase in contract assets for unbilled receivables with a corresponding reduction in inventories. The Company has commenced implementation in accordance with the planned effective date. The new guidance allows for two transition methods in application: (i) retrospective to each prior reporting period presented, or (ii) modified retrospective with the cumulative effect of adoption recognized on October 1, 2018, the first day of the Company's fiscal 2019. The Company will utilize the modified retrospective approach upon adoption of the new guidance.

FASB ASU 2016-02, “Leases” was issued in February 2016. The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. For public entities, the new guidance is effective for annual periods beginning after December 15, 2018, or the Company's fiscal year ending September 30, 2020, and interim periods within those annual periods. Early adoption is permitted for all entities. The Company is evaluating the impact this ASU will have on its consolidated financial statements.

NOTE 2—ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary follows of activity in the allowance for doubtful accounts during the nine months ended June 29, 2018 and June 30, 2017:

Allowance for doubtful accounts	Nine Months Ended June 29, 2018	June 30, 2017
(in thousands)		
Allowance, beginning of period	$75	$ 226
Change in provision for doubtful accounts	(42)	(169)
Write-offs	—	15
Allowance, end of period	$33	$ 72

NOTE 3—INVENTORIES

A summary of inventory by category at period end follows:

Inventories	June 29, 2018	September 30, 2017
(in thousands)		
Raw materials	$14,804	$ 8,964
Work-in-process	9,566	5,080
Finished goods	1,704	1,561
Total inventories	$26,074	$ 15,605

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NOTE 4—PROPERTY, PLANT AND EQUIPMENT, NET

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

Property, Plant and Equipment	June 29, 2018	September 30, 2017
(in thousands)		
Land and improvements	$788	$ 788
Buildings and improvements	7,314	8,910
Building under capital lease	7,750	5,750
Machinery and equipment	28,800	27,947
Furniture and fixtures	7,811	7,520
Construction in progress	5,662	4,968
Total property, plant and equipment, at cost	58,125	55,883
Accumulated depreciation	(39,319)	(38,106)
Property, plant and equipment, net	$18,806	$ 17,777

Depreciation expense during the three and nine months ended June 29, 2018 and June 30, 2017 follows:

	Three Months Ended		Nine Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
(in thousands)				
Depreciation expense	$567	$ 624	$1,729	$ 1,921

NOTE 5—CREDIT FACILITIES

A summary of borrowings at period end follows:

			June 29, 2018		September 30, 2017	
Debt	Fixed/ Variable Rate	Maturity Date	Balance	Interest Rate	Balance	Interest Rate
($ in thousands)						
M&T credit facilities:						
Revolving Credit Facility	v	5/5/2022	$14,562	4.84 %	$8,769	3.73 %
Term Loan B	v	5/5/2022	3,851	4.98	5,714	3.99
Celmet Building Term Loan	f	11/7/2018 [1]	—	—	802	4.72
Equipment Line Advances	v	Various [2]	836	5.13	—	—
Total debt, gross			19,249		15,285	
Unamortized debt issuance costs			(277)		(275)	
Total debt, net			18,972		15,010	
Less: current portion			(1,172)		(987)	
Long-term debt			$17,800		$14,023	

[1] The Celmet Building Term Loan was repaid in connection with the sale-leaseback transaction described in Note 12—Capital Lease. Proceeds from the transaction were also used to pay down a portion of Term Loan B.

[2] On July 26, 2018, $750 thousand of Equipment Line Advances matured and were converted to an Equipment Line Term Note, the remaining $86 thousand of Equipment Line Advances mature on September 29, 2018.

M&T Bank Credit Facilities

Effective as of April 20, 2018, the Company and M&T Bank entered into the Fifth Amendment to the Fifth Amended and Restated Credit Facility Agreement, which amended the Fifth Amended and Restated Credit Facility Agreement dated as of December 14, 2015, as amended by various amendments (collectively, the "Credit Facility, as amended").

The Credit Facility, as amended, established a borrowing base computed using monthly borrowing base reports that, if inaccurate, allow M&T Bank, in its discretion, to suspend the making of or limit revolving credit loans. Further, the Credit Facility, as amended, provides for the Company's repurchase of its common stock under certain circumstances without M&T Bank's prior written consent.

The Credit Facility, as amended, is secured by a general security agreement covering the assets of the Company and its subsidiaries, a pledge of the Company's equity interest in its subsidiaries, a negative pledge on the Company's real property, and a guarantee by the Company's subsidiaries, all of which restrict use of these assets to support other financial instruments.

Individual debt facilities provided under the Credit Facility, as amended, are described below:

a) Revolving Credit Facility ("Revolver"): At June 29, 2018, up to $22.0 million was available through May 5, 2022. The maximum amount the Company may borrow is determined based on a borrowing base calculation described below.
b) Term Loan B: $14.0 million was borrowed on January 18, 2013. Principal was being repaid in 120 equal monthly installments of $117 thousand. Pursuant to an amendment to the Credit Facility, the principal was modified from $8.0 million to $6.0 million and principal is being repaid in equal monthly installments of $71 thousand plus a balloon payment of $0.6 million. The maturity date of the loan is May 5, 2022. The proceeds of the sale-leaseback transaction described in Note 12—Capital Lease were used to pay down a portion of the loan.
c) Celmet Building Term Loan: $1.3 million was borrowed on November 8, 2013 pursuant to an amendment to the 2013 Credit Agreement. The proceeds were used to reimburse the Company's cost of purchasing its Rochester, New York facility. Principal was being repaid in 59 equal monthly installments of $11 thousand plus a balloon payment of $672 thousand due at maturity on November 7, 2018. The loan was repaid in connection with the sale-leaseback transaction described in Note 12—Capital Lease.
d) Equipment Line Advances: Up to $1.5 million is available through May 5, 2022. Interest only is paid until maturity. Principal is due six months after borrowing or can be converted to an Equipment Line Term Loan. On July 26, 2018, $0.8 million of Equipment Line Advances matured and was converted to an Equipment Line Term Note and is being repaid in 36 equal monthly installments of $21 thousand. The maturity date of the Equipment Line Term Note is July 26, 2021.

Borrowing Base

At June 29, 2018, under the Credit Facility, as amended, the maximum amount the Company can borrow under the Revolver was the lesser of (i) 85% of eligible receivables plus a percentage of eligible inventories (up to a cap of $7.0 million) or (ii) $22.0 million at June 29, 2018 and September 30, 2017. Pursuant to the Credit Facility, as amended, the cap on eligible inventories at June 29, 2018 was $8.0 million.

At June 29, 2018, the upper limit on Revolver borrowings was $22.0 million, with $7.4 million available. At September 30, 2017, the upper limit on Revolver borrowings was $16.0 million with $7.2 million available. Average Revolver balances amounted to $11.8 million during the nine months ended June 29, 2018.

Interest Rates

Under the Credit Facility, as amended, variable rate debt accrues interest at LIBOR plus the applicable marginal interest rate that fluctuates based on the Company's Fixed Charge Coverage Ratio, as defined below. At June 29, 2018, the applicable marginal interest rate was 2.75% for the Revolver and 3.00% for Term Loan B and Equipment Line Advances. At September 30, 2017, the applicable marginal interest rate was 2.50% for the Revolver and 2.75% for Term Loan B. Changes to applicable margins and unused fees resulting from the Fixed Charge Coverage Ratio generally become effective mid-way through the subsequent quarter.

The Company incurs quarterly unused commitment fees ranging from 0.250% to 0.375% of the excess of $22.0 million over average borrowings under the Revolver. Fees incurred amounted to $5.3 thousand and $16.5 thousand during the three and nine months ended June 29, 2018, respectively. Fees incurred amounted to $11.7 thousand and $43.6 thousand during the three and nine months ended June 30, 2017, respectively. The fee percentage varies based on the Company’s Fixed Charge Coverage Ratio, as defined below.

Financial Covenants

The Credit Facility, as amended, contains various affirmative and negative covenants including financial covenants. As of September 30, 2017, the Company had to maintain a Maximum Capital Expenditures requirement and a minimum fixed charge coverage ratio (“Fixed Charge Coverage Ratio”). The Fixed Charge Coverage Ratio compares (i) EBITDAS minus unfinanced capital expenditures minus tax expense, to (ii) the sum of interest expense, principal payments, payments on all capital lease obligations and dividends, if any (fixed charges). “EBITDAS” is defined as earnings before interest, taxes, depreciation, amortization and non-cash stock compensation expense. The Fixed Charge Coverage Ratio which was initially measured for a trailing six months ended September 30, 2017 and was measured for a trailing twelve months ended June 29, 2018 as a minimum of 1.10 times. The Fixed Charge Coverage Ratio was the only covenant in effect at June 29, 2018. The Credit Facility, as amended, also provides for customary events of default, subject in certain cases to customary cure periods, in which the outstanding balance and any unpaid interest would become due and payable.

Effective as of August 2, 2018, the Company and M&T Bank entered into the Sixth Amendment to the Fifth Amended and Restated Credit Facility Agreement (the “Sixth Amendment”), that amended the Credit Facility, as amended. The Sixth Amendment waived any event of default for the fiscal quarter ended June 29, 2018 and modified the definition of applicable margin for the fiscal quarter ending September 30, 2018. For the fiscal quarter ending September 30, 2018, the applicable margin interest rate is fixed at 3.00% for the Revolver and 3.25% for Term Loan B. Accordingly, there was no event of default under the Credit Facility, as amended, for the quarter ended June 29, 2018.

Contractual Principal Payments

A summary of contractual principal payments under IEC’s borrowings at June 29, 2018 for the next five years follows:

Debt Repayment Schedule		Contractual Principal Payments
(in thousands)		
Twelve months ended June		
2019		$ 1,172
2020		1,107
2021		1,107
2022	(1)	15,863
2023		—
		$ 19,249

(1) Includes Revolver balance of $14.6 million at June 29, 2018.

NOTE 6—FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Carried at Historical Cost

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

The Company's debt is carried at historical cost on the condensed consolidated balance sheets. The fair value and carrying value of the Celmet Building Term Loan as of September 30, 2017 were each $0.8 million. As described in Note 12—Capital Lease, the Celmet Building Term Loan was repaid on May 11, 2018.

The fair value of the remainder of the Company’s debt approximated carrying value at June 29, 2018 and September 30, 2017 as it is variable rate debt.

NOTE 7—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. The warranty reserve is included in other accrued expenses on the consolidated balance sheet.

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

Warranty Reserve	Nine Months Ended June 29, 2018	June 30, 2017
(in thousands)		
Reserve, beginning of period	$153	$ 180
Provision	213	100
Warranty costs	(199)	(125)
Reserve, end of period	$167	$ 155

NOTE 8—STOCK-BASED COMPENSATION

The 2010 Omnibus Incentive Compensation Plan ("2010 Plan") was approved by the Company's stockholders at the January 2011 Annual Meeting. 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. The Company also has an employee stock purchase plan ("ESPP"), adopted in 2011, that provides for the purchase of Company common stock at a discounted stock purchase price. Under the 2010 Plan, up to 2,000,000 shares of common stock may be issued over a term of ten years. Under the ESPP, 150,000 shares of common stock may be issued over a term of ten years.

Stock-based compensation expense recorded under the 2010 Plan, totaled $0.1 million and $0.3 million for the three and nine months ended June 29, 2018, respectively. Stock-based compensation expense recorded under the 2010 Plan, totaled $0.2 million and $0.5 million for the three and nine months ended June 30, 2017, respectively.

At June 29, 2018, there were 491,710 remaining shares available to be issued under the 2010 Plan and 100,765 remaining shares available to be issued under the ESPP.

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 2010 Plan and ESPP 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 2010 Plan is generally seven years. The volatility rate is based on the historical volatility of IEC's common stock.

Assumptions used in the Black-Scholes model and the estimated value of options granted during the nine months ended June 29, 2018 and June 30, 2017 follows:

Valuation of Options	Nine Months Ended June 29, 2018	June 30, 2017
Assumptions for Black-Scholes:		
Risk-free interest rate	2.31 %	1.50 %

Expected term in years	5.5	4.0
Volatility	38 %	39 %
Expected annual dividends	none	none
Value of options granted:		
Number of options granted	20,000	57,500
Weighted average fair value per share	$1.53	$1.19
Fair value of options granted (000s)	$31	$68

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

	Nine Months Ended			
	June 29, 2018		June 30, 2017	
Stock Options	Number of Options	Wgtd. Avg. Exercise Price	Number of Options	Wgtd. Avg. Exercise Price
Outstanding, beginning of period	743,045	$ 4.27	759,795	$ 4.43
Granted	20,000	4.00	57,500	3.64
Exercised	1,400	4.08	—	—
Forfeited	(90,000)	4.75	(33,000)	5.58
Expired	(10,500)	5.24	(29,750)	5.04
Outstanding, end of period	661,145	$ 4.18	754,545	$ 4.29
For options expected to vest				
Number expected to vest	653,922	$ 4.18	735,846	$ 4.30
Weighted average remaining contractual term, in years	3.7		4.7	
Intrinsic value (000s)		$ 1,099		$ —
For exercisable options				
Number exercisable	450,358	$ 4.28	326,972	$ 4.44
Weighted average remaining contractual term, in years	3.4		4.1	
Intrinsic value (000s)		$ 721		$ —
For non-exercisable options				
Expense not yet recognized (000s)		$ 205		$ 447
Weighted average years to be recognized	1.5		2.1	
For options exercised				
Intrinsic value (000s)		$ 2		$ —

Restricted (Non-vested) Stock

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

	Nine Months Ended			
	June 29, 2018		June 30, 2017	
Restricted (Non-vested) Stock	Number of Non-vested Shares	Wgtd. Avg. Grant Date Fair Value	Number of Non-vested Shares	Wgtd. Avg. Grant Date Fair Value
Outstanding, beginning of period	109,695	$ 4.01	115,950	$ 4.16
Granted	44,878	4.29	39,576	3.79
Vested	(37,557)	4.10	(29,948)	4.26
Shares withheld for payment of taxes upon vesting of restricted stock	(1,743)	3.70	(1,036)	3.86
Forfeited	(9,490)	4.20	—	—
Outstanding, end of period	105,783	$ 4.09	124,542	$ 4.02
For non-vested shares				
Expense not yet recognized (000s)		$ 353		$ 402
Weighted average remaining years for vesting	1.9		1.9	
For shares vested				
Aggregate fair value on vesting dates (000s)		$ 173		$ 113

Stock Issued to Board Members

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

Restricted Stock Units

Holders of IEC restricted stock units do not have voting and dividend rights as of the date of grant, and, until vested, the unit may be forfeited and cannot be sold or otherwise transferred. At the end of the vesting period, which is typically three years, holders will receive shares of the Company's common stock and have all the rights and privileges of any other common stockholder of the Company. The fair value of a restricted stock unit is the market value of the underlying shares of the Company's stock on the date of grant and that value is recognized as stock compensation expense over the vesting period.

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

	Years Ended			
	June 29, 2018		June 30, 2017	
Restricted Stock Units	Number of Non-vested Units	Wgtd. Avg. Grant Date Fair Value	Number of Non-vested Units	Wgtd. Avg. Grant Date Fair Value
Outstanding, beginning of period	267,999	$ 4.03	112,809	$ 4.64
Granted	102,864	4.28	155,190	3.58
Vested	—	—	—	—
Forfeited	(151,341)	4.08	—	—
Outstanding, end of period	219,522	$ 4.11	267,999	$ 4.03
For non-vested shares				

Expense not yet recognized (000s)	$ 371	$ 692
Weighted average remaining years for vesting	2.5	2.0

NOTE 9—INCOME TAXES

Provision for income taxes during each of the three and nine months ended June 29, 2018 and June 30, 2017 follows:

	Three Months Ended		Nine Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
(in thousands)				
Income tax expense/(benefit)	$ —	$ 43	$ (1,005)	$ 43

Except as described below related to the federal Alternative Minimum Tax ("AMT"), the Company has recorded a full valuation allowance on all deferred tax assets as of June 29, 2018. Although a full valuation allowance has been recorded for all deferred tax assets, including net operating loss carryforwards ("NOLs"), these NOLs remain available to the Company to offset future taxable income and reduce cash tax payments. IEC had federal gross NOLs for income tax purposes of approximately $32.9 million at September 30, 2017, expiring mainly in years 2022 through 2035. The Company also has additional state NOLs available in several jurisdictions in which it files state tax returns.

The Company will continue to monitor and evaluate the assumptions and evidence considered in arriving at the above conclusion regarding the valuation allowance, in order to assess whether such conclusion remains appropriate in future periods, given its current operating results in fiscal 2018 and forecasted operating results in fiscal 2019.

As a qualified manufacturer, the Company has a 0% tax rate in New York State.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U.S. corporate income tax rates. As the Company has a September 30 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in an expected U.S. statutory federal rate tax of approximately 24.5% for fiscal 2018, and approximately 21% for subsequent fiscal years. The Tax Act eliminates the domestic manufacturing deduction and moves to a territorial system. In addition, previous paid federal AMT will now be refundable regardless of whether there is future income tax liability before AMT credits. For the nine months ended June 29, 2018, the impact of the Tax Act resulted in the Company recording a net tax benefit of approximately $1 million, resulting from the release of the valuation allowance on the Company's AMT credits. In addition, because the Company recorded a full valuation allowance on its historical NOLs, the resulting change in the deferred tax asset from the lower corporate tax rate was fully offset by the resulting change in the Company's valuation allowance and did not have any impact on the Company's income tax provision for the quarter ended June 29, 2018.

NOTE 10—MARKET SECTORS AND MAJOR CUSTOMERS

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

	Three Months Ended		Nine Months Ended	
% of Sales by Sector	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Aerospace & Defense	60%	53%	62%	49%
Medical	22%	30%	21%	30%
Industrial	18%	17%	17%	21%
	100%	100%	100%	100%

Two individual customers each represented 10% or more of sales for the three months ended June 29, 2018. One customer was from the aerospace & defense sector and represented 25% of sales, while one customer was from the medical sector and represented 11% of sales for the three months ended June 29, 2018. Two individual customers each represented 10% or more of sales for the nine months ended June 29, 2018. One customer was from the aerospace & defense sector which represented 23% of sales, while one customer was from the medical sector and represented 11% of sales for the nine months ended June 29, 2018.

One individual customer represented 10% or more of sales for the three months ended June 30, 2017. This customer was from the medical sector, and represented 18% of sales for the three months ended June 30, 2017. Two individual customers each represented 10% or more of sales for the nine months ended June 30, 2017. One customer was from the medical sector, and represented 15% of sales, and one customer was from the aerospace & defense sector and represented 12% of sales for the nine months ended June 30, 2017.

Three individual customers represented 10% or more of receivables and accounted for 45% of the outstanding balance at June 29, 2018. Three individual customers represented 10% or more of receivables and accounted for 42% of the outstanding balances at September 30, 2017.

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 11—COMMITMENTS AND CONTINGENCIES

Litigation

From time to time, the Company may be involved in legal actions in the ordinary course of its business, but management does not believe that any such proceedings, individually or in the aggregate, will have a material effect on the Company's condensed consolidated financial statements.

NOTE 12—CAPITAL LEASE

Leases

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

As of April 10, 2018, the Company entered into a purchase and sale agreement, with the Purchaser, for the sale of the Company's manufacturing facility located in Rochester, New York (the "Rochester Property"). The Rochester Property was sold for $2.0 million, and the net book value of the assets sold was $1.2 million. The Company recorded a deferred gain of $0.7 million related to the transaction, which is recorded in other long-term liabilities section of the consolidated balance sheet. The proceeds from the transaction were used to pay off the Celmet Building Term Loan and pay down a portion of Term Loan B. In conjunction with this purchase, the Lease was amended to include the Rochester Property. The amended Lease includes both the lease-back of the Rochester and the Albuquerque sites. The two properties are now considered one leased property for all Lease purposes. The lease term for both properties expires on May 31, 2033 and provides for renewals of two successive periods of five years each.

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

Capital Lease Payment Schedule	Contractual Principal Payments
(in thousands)	
Twelve months ended June	
2019	$ 655
2020	668
2021	681
2022	694
2023 and thereafter	7,589
Total capital lease payments	10,287
Less: amounts representing interest	(2,882)
Present value of minimum lease payment	$ 7,405

NOTE 13—INCOME/(LOSS) PER SHARE

The Company applies the two-class method to calculate and present net income/(loss) per share. Certain of the Company's restricted (non-vested) share awards contain non-forfeitable rights to dividends and are considered participating securities for purposes of computing net income/(loss) per share pursuant to the two-class method. Under the two-class method, net earnings are reduced by the amount of dividends declared (whether paid or unpaid) and the remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. As the Company incurred a net loss for the nine months ended June 30, 2017, and losses are not allocated to participating securities under the two-class method, such method is not applicable for the aforementioned interim reporting period.

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 unvested restricted stock and restricted stock units. Options, restricted stock and restricted stock units are primarily held by directors, officers and certain employees.

The Company uses the two-class method to calculate net income per share as both classes share the same rights in dividends. Therefore, basic and diluted earnings per share (“EPS”) are the same for both classes of ordinary shares.

A summary of shares used in the EPS calculations follows (in thousands except share and per share data):

Earnings Per Share	Three Months Ended June 29, 2018	Three Months Ended June 30, 2017	Nine Months Ended June 29, 2018	Nine Months Ended June 30, 2017
Basic net income/(loss) per share:				
Net income/(loss)	$204	$ 806	$1,289	$ (674)
Less: Income attributable to non-vested shares	2	10	13	—
Net income/(loss) available to common stockholders	$202	$ 796	$1,276	$ (674)
Weighted average common shares outstanding	10,243,286	10,193,200	10,221,869	10,176,626
Basic net income/(loss) per share	$0.02	$ 0.08	$0.12	$ (0.07)
Diluted net income/(loss) per share:				
Net income/(loss)	$204	$ 806	$1,289	$ (674)
Shares used in computing basic net income/(loss) per share	10,243,286	10,193,200	10,221,869	10,176,626
Dilutive effect of non-vested shares	313,478	—	245,243	—
Shares used in computing diluted net income/(loss) per share	10,556,764	10,193,200	10,467,112	10,176,626
Diluted net income/(loss) per share	$0.02	$ 0.08	$0.12	$ (0.07)

The diluted weighted average share calculations do not include the following securities, which are not dilutive to the EPS calculations.

	Three Months Ended June 29, 2018	Three Months Ended June 30, 2017	Nine Months Ended June 29, 2018	Nine Months Ended June 30, 2017
Anti-dilutive shares excluded	39,335	925,764	171,791	932,144

NOTE 14—SUBSEQUENT EVENTS

Effective as of August 2, 2018, the Company and M&T Bank entered into the Sixth Amendment to the Fifth Amended and Restated Credit Facility Agreement (the “Sixth Amendment”), that amended the Credit Facility, as amended. The Sixth Amendment waived any event of default for the fiscal quarter ended June 29, 2018 and modified the definition of applicable margin for the fiscal quarter ending September 30, 2018.

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

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

Cautionary Note Regarding Forward-Looking Statements

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

The following important factors, among others, could affect future results and events, causing those results and events to differ materially from those views expressed or implied in our forward-looking statements: business conditions and growth or contraction in our customers’ industries, the electronic manufacturing services industry and the general economy; variability of our operating results; our ability to control our material, labor and other costs; our dependence on a limited number of major customers; the potential consolidation of our customer base; availability of component supplies; dependence on certain industries; variability and timing of customer requirements; technological, engineering and other start-up issues related to new programs and products; uncertainties as to availability and timing of governmental funding for our customers; the impact of government regulations, including FDA regulations; risks related to the accuracy of the estimates and assumptions we used to revalue our net deferred tax assets in accordance with the Tax Act; the types and mix of sales to our customers; litigation and governmental investigations or proceedings arising out of or relating to accounting and financial reporting matters; intellectual property litigation; our ability to maintain effective internal controls over financial reporting; unforeseen product failures and the potential product liability claims that may be associated with such failures; the availability of capital and other economic, business and competitive factors affecting our customers, our industry and business generally; failure or breach of our information technology systems; and natural disasters. Any one or more of such risks and uncertainties could have a material adverse effect on us or the value of our common stock. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections in this Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, and our other filings with the Securities and Exchange Commission (the “SEC”).

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

Overview

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

We are a premier provider of electronic manufacturing services (“EMS”) to advanced technology companies that produce life-saving and mission critical products for the medical, industrial, aerospace and defense sectors. We specialize in delivering technical solutions for the custom manufacturing, product configuration, and verification testing of highly engineered complex products that require a sophisticated level of manufacturing to ensure quality and performance.

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

- Our engineering services include the design, development, and fabrication of customized stress testing platforms to simulate a product’s end application, such as thermal cycling and vibration, in order to ensure reliable performance and avoid catastrophic failure when the product is placed in service.
- Our vertical manufacturing model offers customers the ability to simplify their supply chain by utilizing a single supplier for their critical components including complex printed circuit board assembly (“PCBA”), precision metalworking, and interconnect solutions. This service model allows us to control the cost, lead time, and quality of these critical components which are then integrated into full system assemblies and minimizes our customers’ supply chain risk.
- We provide direct order fulfillment services for our customers by integrating with their configuration management process to obtain their customer orders, customize the product to the specific requirements, functionally test the product and provide verification data, and direct ship to their end customer in order to reduce time, cost, and complexity within our customer's supply chain.
- We are the only EMS provider with an on-site laboratory that has been approved by the Defense Logistics Agency (“DLA”) for their Qualified Testing Supplier List (“QTSL”) program which deems the site suitable to conduct various QTSL and military testing standards including counterfeit component analysis. In addition, this advanced laboratory is utilized for complex design analysis and manufacturing process development to solve challenges and accelerate our customers’ time to market.

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

- Newark, New York - Located approximately one hour east of Rochester, New York, our Newark location is our corporate headquarters and is the largest manufacturing location providing complex circuit board manufacturing, interconnect solutions, and system-level assemblies along with an on-site material analysis laboratory for advanced manufacturing process development.
- Rochester, New York - Focuses on precision metalworking services including complex metal chassis and assemblies.
- Albuquerque, New Mexico - Specializes in the aerospace and defense markets with complex circuit board and system-level assemblies along with a state of the art analysis and testing laboratory which conducts counterfeit component analysis and complex design analysis.

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

We proactively invest in areas we view as important for our continued long-term growth. All of our locations are ISO 9001:2008 certified and ITAR registered. We are Nadcap accredited and AS9100D and AS9100C certified at our Newark and Albuquerque locations, respectively, to support the stringent quality requirements of the aerospace industry. Our Newark location is ISO 13485 certified to serve the medical sector and is an approved supplier by the National Security Agency ("NSA") under the COMSEC standard regarding communications security. Our analysis & testing laboratory in Albuquerque is ISO 17025 accredited, an IPC-approved Validation Services test Laboratory, and is the only on-site EMS laboratory that has been approved by the DLA for their QTSL program which deems the site suitable to conduct various QTSL and military testing standards including counterfeit component analysis. Albuquerque also performs work per NASA-STD-8739 and J-STD-001ES space standards.

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

Employees are our single greatest resource. Our total employees numbered 645, all of which are full time employees, at June 29, 2018. Total employment increased by 40 employees during the third quarter of fiscal 2018. Some of our full-time employees are temporary employees. We make a concerted effort to engage our employees in initiatives that improve our business and provide opportunities for growth, and we believe that our employee relations are good. We have access to large and technically qualified workforces in close proximity to our operating locations in Rochester, NY and Albuquerque, NM.

Three Months Results

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

Income Statement Data	Three Months Ended June 29, 2018	June 30, 2017
(in thousands)		
Net sales	$29,782	$26,489
Gross profit	3,359	3,708
Selling and administrative expenses	2,833	2,604
Interest and financing expense	322	255
Income before income taxes	204	849
Income tax expense	—	43
Net income	$204	$806

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

% of Sales by Sector	Three Months Ended June 29, 2018	June 30, 2017
Aerospace & Defense	60%	53%
Medical	22%	30%
Industrial	18%	17%
	100%	100%

Revenue increased in the third quarter of fiscal 2018 by $3.3 million or 12% as compared to the third quarter of the prior fiscal year. Revenues from the aerospace & defense sector and industrial sector increased by $3.6 million and $0.9 million, respectively, and were partially offset by a decrease in the medical sector of $1.2 million.

Various increases and decreases in sales to our aerospace & defense customers resulted in a net increase of $3.6 million in the third quarter of fiscal 2018. Due to new programs, an existing customer accounted for $5.4 million of the increase. We expect to see continued demand from this customer for the remainder of fiscal 2018. Another $1.1 million of the increase is related to multiple customers with increased demand on existing programs. We saw an increase of $0.8 million related to a production ramp up from one customer. The remaining net decrease of $3.6 million related to changes in demand from various customers.

The net increase in demand in the industrial sector of $0.9 million resulted primarily from increased demand from customers whose end markets have grown and was partially offset by modest decreases in demand from other customers. We also had an increase of $0.2 million related to a new product.

The medical sector decreased by $1.2 million in the third quarter of fiscal 2018 compared to the same period of the prior fiscal year. Revenue increased approximately $1.0 million from one customer whose demand had previously been on hold for over a year while multiple other customers had increased demand of $1.2 million. These increases were offset by volume reductions from multiple customers of $3.2 million. We expect some volatility in the medical sector going forward.

Gross profit for the third quarter of fiscal 2018 decreased to 11.3% of sales versus 14.0% in the third quarter of the prior fiscal year. Customer mix had the most significant impact on gross profit.

Selling and administrative ("S&A") expense increased $0.2 million and represented 9.5% of sales in the third quarter of fiscal 2018 compared to 9.8% of sales in the same quarter of the prior fiscal year. The increase in S&A expense was primarily due to higher wage and related expenses.

Interest expense increased by $0.1 million in the third quarter of fiscal 2018 compared to the same quarter of the prior fiscal year. The weighted average interest rate on our debt was 0.5% higher during the third quarter of fiscal 2018 compared to the third quarter of the prior fiscal year. Our average outstanding debt balances increased by $4.5 million in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 because of higher balances on the Revolving Credit Facility and Equipment Line Advances to fund capital purchases. Cash paid for interest on credit facility debt was approximately $0.3 million and $0.2 million for the third quarter of fiscal 2018 and fiscal 2017, respectively. Detailed information regarding our borrowings is provided in Note 5—Credit Facilities.

With respect to tax payments, in the near term, we expect to be largely sheltered by sizable NOL carryforwards for federal income tax purposes. In the quarter ended June 29, 2018, we did not pay any taxes. At the end of fiscal 2017, the NOL carryforwards amounted to approximately $32.9 million. The NOL carryforwards expire in varying amounts between 2022 and 2035, unless utilized prior to these dates.

Nine Months Results

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

Income Statement Data	Nine Months Ended June 29, 2018	June 30, 2017
(in thousands)		
Net sales	$82,706	$68,833
Gross profit	9,661	7,783
Selling and administrative expenses	8,543	7,711
Interest and financing expense	834	703
Income/(loss) before income taxes	284	(631)
Income tax expense/(benefit)	(1,005)	43
Net income/(loss)	$1,289	$(674)

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

% of Sales by Sector	Nine Months Ended June 29, 2018	June 30, 2017
Aerospace & Defense	62%	49%
Medical	21%	30%
Industrial	17%	21%
	100%	100%

Revenue increased 20%, or $13.9 million, during the first nine months of fiscal 2018 as compared to the prior fiscal period. The increase was mainly driven by an increase in sales in the aerospace & defense sector and industrial sector of $16.9 million and $0.2 million, respectively, partially offset by a decrease of $3.2 million in the medical sector.

Various increases and decreases for our aerospace & defense customers resulted in a net increase in sales of $16.9 million for the first nine months of fiscal 2018 compared to the prior fiscal period. Programs frequently fluctuate in demand or, at times, are discontinued and replaced by new programs. Aggregate increases in sales from existing customers of $20.2 million, of which $16.6 million was driven by new programs with two customers, was partially offset by decreases in revenues from other customers of $4.0 million. We had an increase in sales of $1.4 million from five new customers. However, ending one customer relationship due to low profitability caused an additional sales decrease of $0.6 million during the first nine months of fiscal 2018.

The net increase in sales for the industrial sector was $0.2 million. Various fluctuations in demand from existing customers resulted in an increase in sales of $2.9 million. We also had an increase of $0.1 million related to a new product.

Beginning in fiscal 2017, one of our customers began sourcing more product from an alternate source in China while simultaneously experiencing softer end market demand which decreased our sales by $2.6 million during the first nine months of fiscal 2018.

The net decrease of $3.2 million in sales in the medical sector was primarily due to net decreases in customer demand of $1.2 million and reduction in volume for one legacy program of $1.4 million.

Gross profit increased $1.9 million from 11.3% of sales in the first nine months of fiscal 2017 to 11.7% of sales for the first nine months of fiscal 2018. Customer mix had the most significant impact on gross profit.
S&A expense increased $0.8 million and represented 10.3% of sales in the first nine months of fiscal 2018, compared to 11.2% of sales in the prior fiscal period. The increase in S&A expenses was primarily due to higher wage and related expenses of $0.5 million.
Interest expense increased by $0.1 million in the first nine months of fiscal 2018 compared to the prior fiscal period. The weighted average interest rate on our debt was 0.08% higher during the first nine months of fiscal 2018 compared to the prior fiscal period. Our average outstanding debt balances increased by $2.8 million in the first nine months of fiscal 2018 compared to the prior fiscal period because of higher balances on the Revolving Credit Facility and Equipment Line Advances to fund capital purchases. Cash paid for interest on credit facility debt was approximately $0.6 million and $0.5 million for the first nine months of fiscal 2018 and fiscal 2017, respectively. Detailed information regarding our borrowings is provided in Note 5—Credit Facilities.
On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U.S. corporate income tax rates. As we have a September 30 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in an expected U.S. statutory federal tax rate of approximately 24.5% for fiscal 2018, and approximately 21% for subsequent fiscal years. The impact of the Tax Act may differ from this estimate, possibly materially, due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued and actions we may take as a result of the Tax Act. The Tax Act eliminates the domestic manufacturing deduction and moves to a territorial system. In addition, previous paid federal AMT will now be refundable regardless of whether there is future income tax liability before AMT credits. For the nine months ended June 29, 2018, the impact of the Tax Act resulted in our recording a net tax benefit of approximately $1 million, resulting from the release of the valuation allowance on our AMT credits. In addition, because we recorded a full valuation allowance on our historical NOLs, the resulting change in the deferred tax asset from the lower corporate tax rate was fully offset by the resulting change in our valuation allowance and did not have any impact on our income tax provision for the quarter ended June 29, 2018.

With respect to tax payments, in the near term we expect to be largely sheltered by sizable NOL carryforwards for federal income tax purposes. In the first nine months of fiscal 2018, we did not pay any taxes. At the end of fiscal 2017, the NOL carryforwards amounted to approximately $32.9 million. The NOL carryforwards expire in varying amounts between 2022 and 2035, unless utilized prior to these dates.

Liquidity and Capital Resources

Capital Resources

As of June 29, 2018, there were $0.3 million of outstanding capital expenditure commitments for manufacturing equipment. We generally fund capital expenditures with cash flows from operations, our revolving credit facility and our equipment line advances. Based on our current expectations, we believe that our projected cash flows provided by operations and potential borrowings under the revolving credit facility and equipment line advances, are sufficient to meet our working capital, debt service and capital expenditure requirements for the next twelve months.

Our cash management system provides for the funding of the disbursement accounts on a daily basis as checks are presented for payment. Under this system, outstanding checks in excess of the bank balance create a book overdraft.

Summary of Cash Flows

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

Cash Flow Data	Nine Months Ended June 29, 2018	June 30, 2017
(in thousands)		
Cash, beginning of period	$ —	$ 845
Net cash provided by/(used in):		
Operating activities	(3,748)	(782)
Investing activities	(49)	3,720
Financing activities	3,797	(3,706)
Net cash decrease for the period	—	(768)
Cash, end of period	$ —	$ 77

Operating activities

Cash flows provided by operations, before considering changes in our working capital accounts, was $2.4 million and $1.5 million for the first nine months of fiscal 2018 and fiscal 2017, respectively. Net income of $1.3 million in the first nine months of fiscal 2018 improved compared to the prior year due to the income tax benefit of $1.0 million as a result of the Tax Act. Net loss was $0.7 million during the first nine months of the prior fiscal year.

Working capital used cash flows of $6.1 million and $2.3 million in the first nine months of fiscal 2018 and fiscal 2017, respectively. The change in working capital in the first nine months of fiscal 2018 was primarily due to increases in accounts receivable of $1.7 million and inventory of $10.6 million. These changes were partially offset by an increase in accounts payable of $3.3 million, book overdraft of $1.3 million and accrued expenses of $1.2 million. Accounts receivable increases were primarily due to the increase in sales. Inventory increases were driven by the increases in customer demand to meet increased backlog. The increase in accounts payable was due primarily to an increase of inventory purchases, as well as timing of purchases and payments.

Investing activities

Cash flows used in investing activities were minimal for the first nine months of fiscal 2018 and provided $3.7 million for the first nine months of fiscal 2017. Cash flows used in the first nine months of fiscal 2018 consisted of purchases of equipment and capitalized software costs resulting from the ongoing implementation of a new enterprise resource planning ("ERP") system, offset from the proceeds from the Rochester sale-leaseback transaction. Cash flows provided in the first nine months of fiscal 2017 consisted of proceeds from the Albuquerque sale-leaseback transaction, partially offset by the purchases of equipment and capitalized software costs.

Financing activities

Cash flows provided by financing activities was $3.8 million for the first nine months of fiscal 2018. Cash flows used by financing activities was $3.7 million for the first nine months of fiscal 2017. During the first nine months of fiscal 2018, net borrowings under all credit facilities were $4.0 million, with $5.8 million of net borrowings under the Revolver, as defined below, repayments of $2.7 million for term debt, and $0.8 million of new borrowings related to Equipment Line Advances. Term debt payments were more than normal principal repayments as proceeds from the Rochester sale-leaseback transaction were used to pay down term debt. During the first nine months of fiscal 2017, net repayments under all credit facilities were $3.5 million, with $5.6 million of net borrowings under the Revolver and repayments of $9.1 million for term debt, due largely to the Albuquerque sale-leaseback transaction.

Credit Facilities

At June 29, 2018, borrowings outstanding under the revolving credit facility (the "Revolver") under the Fifth Amendment to the Fifth Amended and Restated Credit Facility Agreement (which amended the Fifth Amended and Restated Credit Facility Agreement dated as of December 14, 2015, as amended by various amendments (collectively, the "Credit Facility, as amended") amounted to $14.6 million, and the upper limit was $22.0 million. The Company believes that its liquidity is sufficient to satisfy anticipated operating requirements during the next twelve months.

The Credit Facility, as amended, contains various affirmative and negative covenants including financial covenants. As of September 30, 2017, the Company had to maintain a Maximum Capital Expenditures requirement and a minimum fixed charge coverage ratio ("Fixed Charge Coverage Ratio"). The Fixed Charge Coverage Ratio compares (i) EBITDAS minus unfinanced capital expenditures minus tax expense, to (ii) the sum of interest expense, principal payments, payments on all capital lease obligations and dividends, if any (fixed charges). "EBITDAS" is defined as earnings before interest, taxes, depreciation, amortization and non-cash stock compensation expense. The Fixed Charge Coverage Ratio was initially measured for a trailing six months ended September 30, 2017 and was measured for a trailing twelve months ended June 29, 2018. The Credit Facility, as amended, also provides for customary events of default, subject in certain cases to customary cure periods, in which the outstanding balance and any unpaid interest would become due and payable.

Pursuant to the Credit Facility, as amended, the Fixed Charge Coverage Ratio covenant of a minimun of 1.10 was the only covenant in effect at June 29, 2018. The Fixed Charge Coverage Ratio was calculated as 0.91 at June 29, 2018.

Effective as of August 2, 2018, the Company and M&T Bank entered into the Sixth Amendment to the Fifth Amended and Restated Credit Facility Agreement (the "Sixth Amendment"), that amended the Credit Facility, as amended. The Sixth Amendment waived any event of default for the fiscal quarter ended June 29, 2018 and modified the definition of applicable margin for the fiscal quarter ending September 30, 2018. The applicable marginal interest rate is fixed at 3.00% for the Revolver and 3.255% for Term Loan B. Accordingly, there was no event of default under the Credit Facility, as amended, for the quarter ended June 29, 2018.

Detailed information regarding our borrowings is provided in Note 5—Credit Facilities.

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 Annual Report on Form 10-K filed for the fiscal year ended September 30, 2017. During the nine months ended June 29, 2018, there have been no material changes to these policies.

Recently Issued Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a result of its financing activities, the Company is exposed to changes in interest rates that may adversely affect operating results. The Company actively monitors its exposure to interest rate risk and from time to time may use derivative financial instruments to manage the impact of this risk. The Company may use derivatives only for the purpose of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the interest rate nor does the Company use derivatives instruments where it does not have underlying exposure. The Company did not have any derivative financial instruments at June 29, 2018 or September 30, 2017.

At June 29, 2018, the Company had $19.2 million of debt, all comprised of variable interest rates. Interest rates on variable loans are based on London interbank offered rate (“LIBOR”). The credit facilities are more fully described in Note 5—Credit Facilities. Interest rates based on LIBOR currently adjust daily, causing interest on such loans to vary from period to period. A sensitivity analysis as of June 29, 2018 indicates that a one-percentage point increase or decrease in our variable interest rates, which represents more than a 10% change, would increase or decrease the Company’s annual interest expense by approximately $0.2 million.

The Company is exposed to credit risk to the extent of non-performance by M&T Bank under the Credit Agreement, as amended. M&T Bank's credit rating (reaffirmed A by Fitch in October 2017) is monitored by the Company, and IEC expects that M&T Bank will perform in accordance with the terms of the Credit Agreement, as amended.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer (our principal executive officer and our principal financial officer), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 29, 2018, the end of the period covered by this Form 10-Q. Based on that evaluation, our Chief Executive Officer concluded that, as of June 29, 2018, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting

The Company is in the process of implementing a financial reporting system, Epicor ERP Software ("Epicor"), as part of a multi-year plan to integrate and upgrade our systems and processes. The implementation has occurred in phases throughout fiscal 2017 and is expected to be completed during fiscal 2018.

As part of the Epicor implementation, certain changes to our processes and procedures have and will continue to occur. These changes will result in changes to our internal control over financial reporting. While Epicor is designed to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as each of the affected areas evolve.

During the quarter ended June 29, 2018, there have been no other changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of control systems

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

Part II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in legal actions in the ordinary course of our business, but management does not believe that any such proceedings individually or in the aggregate, will have a material effect on our condensed consolidated financial statements.

Item 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended September 30, 2017 filed with the SEC on December 6, 2017.

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

INDEX TO EXHIBITS

Exhibit No.	Description
10.1	Fifth Amendment to Fifth Amended and Restated Credit Facility Agreement dated as of April 20, 2018 (incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2018)
10.2*	Sixth Amendment to Fifth Amended and Restated Credit Facility Agreement dated as of August 2, 2018
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive 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.

* Filed herewith.

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)
August 8, 2018	By:	/s/ Jeffrey T. Schlarbaum Jeffrey T. Schlarbaum President & Chief Executive Officer (Principal Executive Officer and Principal Financial Officer)

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