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IEC ELECTRONICS CORP
Form 10-Q
July 26, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

Commission File Number 0-6508

IEC ELECTRONICS CORP.

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

Delaware

13-3458955

(State or other jurisdiction of 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:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

Large accelerated filer Accelerated filer Non-Accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

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

Common Stock, \$0.01 Par Value - 8,397,209 shares as of July 25, 2006.

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PART 1 FINANCIAL INFORMATION

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Part 1. Financial Information
Item 1 -- Financial Statements

IEC ELECTRONICS CORP.
BALANCE SHEETS
JUNE 30, 2006 AND SEPTEMBER 30, 2005

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(in thousands)

| | JUNE 30, 2006 | SEPTEMBER 30, 2005 |
|--|---------------|--------------------|
| ASSETS | (Unaudited) | |
| CURRENT ASSETS: | | |
| Cash | \$ -- | \$ 461 |
| Accounts receivable (net of allowance for Doubtful accounts of \$53 and \$35 respectively) | 3,114 | 2,344 |
| Inventories | 2,721 | 630 |
| Deferred income taxes | 250 | 250 |
| Other current assets | 124 | 279 |
| Total current assets | 6,209 | 3,964 |
| FIXED ASSETS: | | |
| Land and land improvements | 707 | 707 |
| Building and improvements | 4,089 | 4,080 |
| Machinery and equipment | 22,856 | 22,582 |
| Furniture and fixtures | 4,165 | 4,138 |
| SUB-TOTAL GROSS PROPERTY | 31,817 | 31,507 |
| LESS ACCUMULATED DEPRECIATION | (30,549) | (30,000) |
| | 1,268 | 1,507 |
| OTHER NON-CURRENT ASSETS | 32 | 67 |
| | \$ 7,509 | \$ 5,538 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short term borrowings | \$ 1,894 | \$ 345 |
| Accounts payable | 1,879 | 918 |
| Accrued payroll and related expenses | 182 | 264 |
| Other accrued expenses | 375 | 399 |
| Total current liabilities | 4,330 | 1,926 |
| LONG TERM VENDOR NOTES | 16 | 57 |
| LONG TERM BANK DEBT | 423 | 535 |
| TOTAL LIABILITIES | 4,769 | 2,518 |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, \$.01 par value, Authorized - 500,000 shares; None issued or outstanding | -- | -- |
| Common stock, \$.01 par value, Authorized - 50,000,000 shares; Issued - 8,397,209 and 8,292,450 shares | 84 | 83 |
| Treasury Shares at Cost 412,873 and 573 Shares, Respectively | (223) | (11) |
| Additional paid-in capital | 38,601 | 38,533 |
| Accumulated deficit | (35,722) | (35,585) |
| Total shareholders' equity | 2,740 | 3,020 |
| | \$ 7,509 | \$ 5,538 |

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

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IEC ELECTRONICS CORP.
STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND JULY 1, 2005
(in thousands, except share and per share data)

| | 3 MONTHS ENDED JUNE 30, 2006 | 3 MONTHS ENDED JULY 1, 2005 |
|-------------------------------------|---------------------------------|--------------------------------|
| | ----- (Unaudited) | ----- (Unaudited) |
| Net sales | \$ 5,379 | \$ 4,040 |
| Cost of sales | 4,624 | 3,336 |
| | ----- | ----- |
| Gross profit | 755 | 704 |
| | ----- | ----- |
| Selling and administrative expenses | 557 | 492 |
| Restructuring charge | -- | 65 |
| | ----- | ----- |
| Operating profit | 198 | 147 |
| Interest and financing expense | (106) | (79) |
| Gain (loss) on sale of fixed assets | (13) | 10 |
| Other income | -- | -- |
| | ----- | ----- |
| Net income before income taxes | 79 | 78 |
| Provision for income taxes | -- | -- |
| | ----- | ----- |
| Net income (loss) | \$ 79 | \$ 78 |
| | ===== | ===== |

Net income (loss) per common and common equivalent share:

| | | |
|---------|---------|---------|
| Basic | \$ 0.01 | \$ 0.01 |
| Diluted | \$ 0.01 | \$ 0.01 |

Weighted average number of common and common equivalent shares outstanding:

| | | |
|---------|-----------|-----------|
| Basic | 7,968,527 | 8,270,266 |
| Diluted | 8,334,810 | 8,539,802 |

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

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IEC ELECTRONICS CORP.
STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED JUNE 30, 2006 AND JULY 1, 2005
(in thousands, except share and per share data)

| | 9 MONTHS ENDED JUNE 30, 2006 | 9 MONTHS ENDED JULY 1, 2005 |
|--|---------------------------------|--------------------------------|
| | ----- (Unaudited) | ----- (Unaudited) |

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| | | |
|-------------------------------------|-----------|-----------|
| Net sales | \$ 14,566 | \$ 14,946 |
| Cost of sales | 12,861 | 12,829 |
| | ----- | ----- |
| Gross profit | 1,705 | 2,117 |
| | ----- | ----- |
| Selling and administrative expenses | 1,555 | 1,708 |
| Restructuring charge | -- | 120 |
| | ----- | ----- |
| Operating profit | 150 | 289 |
| | | |
| Interest and financing expense | (277) | (278) |
| Gain (loss) on sale of fixed assets | (10) | 195 |
| Other income | -- | 28 |
| | ----- | ----- |
| Net income before income taxes | (137) | 234 |
| | | |
| Provision for income taxes | -- | -- |
| | ----- | ----- |
| Net income (loss) | \$ (137) | \$ 234 |
| | ===== | ===== |

Net income (loss) per common and common equivalent share:

| | | |
|---------|-----------|---------|
| Basic | \$ (0.02) | \$ 0.03 |
| Diluted | \$ (0.02) | \$ 0.03 |

Weighted average number of common and common equivalent shares outstanding:

| | | |
|---------|-----------|-----------|
| Basic | 7,968,527 | 8,251,586 |
| Diluted | 7,968,527 | 8,524,227 |

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

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IEC ELECTRONICS CORP.
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JUNE 30, 2006 AND JULY 1, 2005
(in thousands)

| | 9 MONTHS ENDED JUNE 30, 2006 | 9 MONTHS ENDED JULY 1, 2005 |
|--|---------------------------------|--------------------------------|
| | ----- (Unaudited) | ----- (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ (137) | \$ 234 |
| Non-cash adjustments: | | |
| Compensation Expense - Stock Options | 32 | -- |
| Depreciation | 584 | 761 |
| Loss (Gain) on sale of fixed assets | 10 | (195) |
| Issuance of director's fees in stock | 18 | 16 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (769) | 1,538 |
| Inventories | (2,091) | 818 |
| Other current assets | 156 | 18 |
| Accounts payable | 961 | (1,092) |

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| | | |
|--|---------|---------|
| Accrued expenses | (106) | (368) |
| | ----- | ----- |
| Net cash flows from operating activities | (1,342) | 1,730 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of property | 5 | 195 |
| Purchases of plant, property & equipment | (327) | (130) |
| | ----- | ----- |
| Net cash flows from investing activities | (322) | 65 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments under loan agreements | (287) | (316) |
| Borrowings (payments) on line of credit | 1,682 | (1,025) |
| Proceeds from exercise of stock options | 20 | 5 |
| Purchase of Treasury Stock | (212) | -- |
| | ----- | ----- |
| Net cash flows from financing activities | 1,203 | (1,336) |
| | ----- | ----- |
| Change in cash and cash equivalents | (461) | 459 |
| Cash and cash equivalents at beginning of period | 461 | -- |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ -- | \$ 459 |
| | ===== | ===== |

Supplemental Disclosures of Cash Flow Information:

| | | |
|----------------------------------|--------|--------|
| Cash paid during the period for: | | |
| Interest | \$ 232 | \$ 275 |
| Income taxes | \$ -- | \$ -- |

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

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IEC ELECTRONICS CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Business and Summary of Significant Accounting Policies

IEC Electronics Corp. ("IEC", the "Company") is an independent electronics manufacturing services ("EMS") provider of complex printed circuit board assemblies and electronic products and systems. The Company provides high quality electronics manufacturing services with state-of-the-art manufacturing capabilities and production capacity. Utilizing automated manufacturing and test machinery and equipment, IEC provides manufacturing services employing surface mount technology ("SMT") and pin-through-hole ("PTH") interconnection technologies. As an independent full-service EMS provider, the Company offers its customers a wide range of manufacturing services, on either a turnkey or consignment basis. These services include product development, prototype assembly, material procurement, volume assembly, test engineering support, statistical quality assurance, order fulfillment and repair services. The Company's strategy is to cultivate strong manufacturing relationships with established and emerging original equipment manufacturers ("OEMs").

Revenue Recognition

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The Company's net revenue is derived from the sale of electronic products built to customer specifications. The Company also derives revenue from design services and repair work. Revenue from sales is generally recognized, net of estimated product return costs, when goods are shipped; title and risk of ownership have passed; the price to the buyer is fixed or determinable; and recovery is reasonably assured. Service related revenues are recognized upon completion of the services. The Company assumes no significant obligations after product shipment.

Allowance for Doubtful Accounts

The Company establishes an allowance for uncollectable trade accounts receivable based on the age of outstanding invoices and management's evaluation of collectibility of outstanding balances.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. The Company's cash and cash equivalents are held and managed by institutions that follow the Company's investment policy. The fair value of the Company's financial instruments approximates carrying amounts due to the relatively short maturities and variable interest rates of the instruments, which approximate current market interest rates.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. The major classifications of inventories are as follows at period end (in thousands):

| | June 30, 2006 | September 30, 2005 |
|-----------------|---------------|--------------------|
| | ----- | ----- |
| | (Unaudited) | |
| Raw materials | \$1,504 | \$ 432 |
| Work-in-process | 1,216 | 197 |
| Finished goods | 1 | 1 |
| | ----- | ----- |
| | \$2,721 | \$ 630 |
| | ===== | ===== |

Unaudited Financial Statements

The accompanying unaudited financial statements as of June 30, 2006, and for the three and nine months ended June 30, 2006 have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments considered necessary for a fair presentation, which consist solely of normal recurring adjustments, have been included. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's September 30, 2005 Annual Report on Form 10-K.

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IEC ELECTRONICS CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Earnings Per Share

Net income per share is computed in accordance with Statement of Financial

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Accounting Standards No. 128, "Earnings Per Share". Basic earnings per share is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding for each period. Diluted earnings per common share is calculated by adjusting the weighted-average shares outstanding, assuming conversion of all potentially dilutive stock options.

New Pronouncements

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs" (SFAS 151). This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to costs of conversion be based upon the normal capacity of the production facilities. The provisions of SFAS 151 are effective for inventory cost incurred in fiscal years beginning after June 15, 2005. The Company has adopted these provisions at the beginning of fiscal 2006. The adoption of SFAS No. 151 did not have an impact on our financial statements.

On December 16, 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29". SFAS No. 153 replaces the exception from fair value measurement in APB Opinion No. 29 for nonmonetary exchanges of similar productive assets with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is to be applied prospectively, and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance of SFAS No. 153. The adoption of SFAS No. 153 did not have a material impact on our financial statements.

In December 2004, the FASB issued SFAS No. 123R, Share Based Payments, which requires companies to measure compensation cost for all share-based payments, including employee stock options. SFAS No. 123R was effective as of the first fiscal period beginning after June 15, 2005. In March 2005, the SEC issued SAB No. 107 regarding the SEC's interpretation of SFAS No. 123R and the valuation of share-based payments for public companies. The Company adopted SFAS No. 123R on October 1, 2005, and the adoption did not have a material impact on the Company's financial statements. See Note 3 to these financial statements for further discussion regarding stock based compensation.

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 changes the requirements of the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any of the existing accounting pronouncements. We do not believe adoption of SFAS No. 154 will have a material effect on our consolidated financial position, results of operations or cash flows.

(2) Financing Agreements

The Company's financing agreements contain various affirmative and negative covenants including, among others, limitations on the amount available under the revolving line of credit relative to the borrowing base, capital expenditures,

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fixed charge coverage ratios, and minimum earnings before interest, taxes, depreciation and amortization (EBITDA). The Company was compliant with these covenants on June 30, 2006.

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IEC ELECTRONICS CORP. NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

(3) Stock Option Plans

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment". SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the financial statements based on their fair values. That expense will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period). We adopted SFAS No. 123R effective beginning October 1, 2005 using the Modified Prospective Application Method. Under this method, SFAS No. 123R applies to new awards and to awards modified, repurchased or cancelled after the effective date. The impact of adopting SFAS No. 123R was an increase of \$32,000 to selling and administrative expenses for the period ending June 30, 2006.

For the three month period ended July 1, 2005, and the nine month period ended July 1, 2005, the following table includes disclosures required by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," and illustrates the effect on net earnings and net earnings per share as if we had applied the fair value recognition provisions of SFAS No. 123 (unaudited):

| | 3 MONTHS ENDED JULY 1, 2005 | 9 MONTHS ENDED JULY 1, 2005 |
|--|--------------------------------|--------------------------------|
| Net earnings, as reported | \$ 78 | \$ 234 |
| Deduct: Compensation Cost using the Fair value method, net of tax | \$ (4) | \$ (54) |
| Pro forma net earnings | \$ 74 | \$ 180 |
| Earnings per share: | | |
| Basic - as reported | \$ 0.01 | \$ 0.03 |
| Basic - pro forma | \$ 0.01 | \$ 0.02 |
| Diluted - as reported | \$ 0.01 | \$ 0.03 |
| Diluted - pro forma | \$ 0.01 | \$ 0.02 |

During the three and nine months ended June 30, 2006 the Company issued 2,500 and 27,500 options, respectively. During the three and nine months ended July 1, 2005, the Company issued 414,000 and 528,000 options, respectively. The fair value of each option issued during these periods was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | 3 MO. ENDED JUN 30, 2006 | 9 MO. ENDED JUN 30, 2006 | 3 MO. ENDED JUL 1, 2005 | 9 MO. ENDED JUL 1, 2005 |
|-------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|
| Risk free interest rate | 5.0% | 4.4% | 3.9% | 3.8% |

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| | | | | |
|---------------------------|---------|---------|---------|---------|
| Expected term | 7 years | 5 years | 5 years | 6 years |
| Volatility | 101.5% | 113.7% | 124.9% | 126.0% |
| Expected annual dividends | none | none | none | none |

The weighted average fair value of options granted during the three months ended June 30, 2006 was \$.51 with an aggregate total value of \$1,275. The weighted average fair value of options granted during the nine months ended June 30, 2006 was \$.50 with an aggregate total value of \$13,775. The weighted average fair value of options granted during the three months ended July 1 2005 was \$.48 with an aggregate value of \$200,760. The weighted average fair value of options granted during the nine months ended July 1 2005 was \$.49 with an aggregate value of \$251,100.

(4) Litigation

Except as set forth below, there are no material legal proceedings pending to which IEC or any of its subsidiaries is a party or to which any of IEC's or its subsidiaries' property is subject. To our knowledge, there are no material legal proceedings to which any director, officer or affiliate of IEC, or any beneficial owner of more than 5 percent (5%) of Common Stock, or any associate of any of the foregoing, is a party adverse to IEC or any of its subsidiaries.

On August 13, 2003, General Electric Company ("GE") commenced an action in the state of Connecticut against the Company and Vishay Intertechnology, Inc. ("Vishay"). The complaint was amended on February 13, 2004. The action alleges causes of action for breach of a manufacturing services contract, which had an initial value of \$4.4 million, breach of express warranty, breach of implied warranty and a violation of the Connecticut Unfair Trade Practices Act. Vishay supplied a component that the Company used to assemble printed circuit boards for GE that GE contends failed to function properly requiring a product recall. GE claims damages "in excess of \$15,000" plus interest and attorneys' fees. The Company made a motion to dismiss the action in Connecticut for lack of jurisdiction. During the pendency of the motion, IEC filed for a protective cross claim against Vishay, and GE filed a second action against IEC and Vishay in New York State Supreme Court as a protective measure in the event that its Connecticut action were dismissed. In March 2006, the New York action was voluntarily discontinued by consent of all the parties. IEC and Vishay are proceeding to defend GE's Connecticut action on the merits and IEC is proceeding with its cross claim against Vishay. The position of the Company is that the contract with GE was substantially completed and that it has meritorious defenses and basis for a cross claim against Vishay.

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IEC ELECTRONICS CORP.
NOTES TO FINANCIAL STATEMENTS
MARCH 30, 2006

(5) Restructuring

During May 2004, the Company commenced a restructuring initiative in an attempt to more closely align resources to customer requirements. During the first nine months of 2005, the Company paid \$120,000 in severance and hiring costs related to this initiative.

(6) Treasury Shares

On November 11, 2005, the Board of Directors authorized the Company to purchase up to 10% of its outstanding common stock, at a price not to exceed

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\$1.00 per share and a maximum aggregate price not to exceed \$425,000. This repurchase program remains in effect until November 10, 2006. During the fiscal quarter ended December 30, 2005, the Company purchased 412,300 shares at a cost of \$212,000. During the fiscal quarter ended June 30, 2006, the Company purchased 45,000 shares at a cost of \$29,250. These were privately negotiated transactions.

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

Results of Operations - Three Months Ended June 30, 2006, Compared to the Three Months Ended July 1, 2005.

Net sales for the three month period ended June 30, 2006, were \$5.4 million, compared to \$4.0 million for the comparable period of the prior fiscal year, an increase of 33 percent. The increase in sales is due to the addition of several new customers, and an increase in orders from existing customers.

Our five largest customers accounted for 70% of our sales for the quarter ended June 30, 2006, and 75% of our sales for the quarter ended July 1, 2005. We continue to diversify our sales base and reduce our dependency on any one customer.

Gross profit was \$0.8 million or 14 percent of sales for the three month period ended June 30, 2006, versus \$0.7 million or 17 percent of sales in the comparable period of the prior fiscal year. The decrease in gross profit percentage was primarily due to lower margins associated with higher volume orders, and slightly higher overhead costs required to support future growth.

Selling and administrative expenses were \$0.6 million for the three month period ended June 30, 2005, and \$0.6 million for the comparable period of the prior fiscal year. Selling and administrative expenses were 10 percent of sales during the current period, compared to 14 percent of sales during the same quarter of the prior fiscal year. The percentage reduction is due to fixed costs being spread over more sales.

Restructuring costs were \$65,000 for the three month period ended July 1, 2005. The costs were for severance paid to terminated employees.

Interest expense was \$106,000 for the three month period ended June 30, 2006, up from \$79,000 in the comparable period of the prior fiscal year. Interest expense was \$36,000 lower than prior year because certain costs associated with our 2003 refinancing have become fully amortized. This was offset by a \$63,000 increase associated with increased borrowing from our line of credit which has been necessary to support future revenue growth.

We recorded a \$13,000 loss on the disposition of unused equipment during the three months ended June 30, 2006. We had a \$10,000 gain on the sale of excess equipment during the three months ended July 1, 2005.

Net income for the three months ended June 30, 2006 was \$79,000 versus a net income of \$78,000 in the comparable quarter of the prior fiscal year.

Diluted income per share was \$0.01 as compared to diluted income per share of \$0.01 in the comparable quarter of the prior fiscal year.

Accounts receivable decreased by \$1.3 million during the three month period ended June 30, 2006. The decrease occurred because a lower portion of our sales was shipped late in the quarter compared to the prior quarter. Inventory increased by \$0.4 million during the quarter. The increased inventory is to support customer shipments in the next fiscal quarter.

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Results of Operations - Nine Months Ended June 30, 2006, Compared to the Nine Months Ended July 1, 2005.

Net sales for the nine month period ended June 30, 2006, were \$14.6 million, compared to \$14.9 million for the comparable period of the prior fiscal year, a decrease of 3 percent. \$3.3 million of the sales reduction is due to the loss of three customers. This was offset by a \$3.0 million increase in revenues from new and existing customers. We expect this loss to be made up by additional revenues from new customers during the next fiscal quarter.

Our five largest customers accounted for 69% of our sales for the nine months ended June 30, 2006, and 72% of our sales for the nine months ended July 1, 2005. We continue to diversify our sales base and reduce our dependency on any one customer.

Gross profit was \$1.7 million or 12 percent of sales for the nine month period ended June 30, 2006, versus \$2.1 million or 14 percent of sales in the comparable period of the prior fiscal year. The decrease in gross profit percentage was primarily due to start-up costs associated with new customers, lower margins associated with higher volume orders, and slightly higher overhead costs necessary to support future growth.

Selling and administrative expenses were \$1.6 million for the nine month period ended June 30, 2006, and \$1.7 million for the comparable period of the prior fiscal year. Selling and administrative expenses were 11 percent of sales during both fiscal periods. The reduced spending in fiscal 2006 is primarily due to lower commissions paid to our manufacturer's representatives.

Restructuring costs were \$120,000 for the nine month period ended July 1, 2005. The costs were for severance paid to terminated employees.

Interest expense was \$277,000 for the nine month period ended June 30, 2006, down from \$278,000 in the comparable period of the prior fiscal year. Interest expense was \$62,000 lower than prior year because certain costs associated with our 2003 refinancing have become fully amortized. This was offset by a \$61,000 increase associated with increased borrowing from our line of credit which has been necessary to support future revenue growth.

We recorded a \$10,000 loss on the disposition of unused equipment during the nine months ended June 30, 2006 compared to a \$195,000 gain on the sale of excess equipment during the nine months ended July 1, 2005.

Other income for the nine month period ended July 1, 2005 was \$28,000. This was primarily due to an asset tax refund received from our Mexican subsidiary.

Net income (loss) for the nine months ended June 30, 2006 was (\$137,000) versus a net income of \$234,000 in the comparable period of the prior fiscal year.

Diluted income (loss) per share was (\$0.02) as compared to diluted income per share of \$0.02 in the comparable period of the prior fiscal year.

Inventory increased by \$2.1 million during the nine month period ended June 30, 2006. The increase is primarily due to materials purchased to fill new orders that are scheduled to ship during our next fiscal quarter.

Accounts receivable increased by \$0.7 million during the nine month period

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ended June 30, 2006. The increase is primarily due to higher sales compared to the fourth quarter of fiscal 2005.

We purchased \$327,000 of capital equipment during the nine month period ended June 30, 2006.

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Liquidity and Capital Resources

Cash flow provided by (used in) operating activities was (\$1,342,000) for the nine months ended June 30, 2006 compared to \$1,730,000 for the nine months ended July 1, 2005. We also used \$327,000 to purchase new equipment (investing activities) and \$212,000 to repurchase company stock (financing activity) during the nine months ended June 30, 2006. The lower operating cash flow during fiscal 2006 versus 2005 is primarily due to a \$2.1 million increase in inventory and a \$0.7 million increase in accounts receivable. Both increases were due to new customer business activities.

Working capital on June 30, 2006 totaled \$1.9 million, compared to \$1.9 million in the same period of the prior year. At June 30, 2006, we were borrowing \$1.7 million under our revolving credit facility. The maximum borrowing limit under our revolving credit facility is limited to the lesser of (i) \$3.8 million or (ii) an amount equal to the sum of 85% of the receivables borrowing base and 35% of the inventory borrowing base. Availability under the line of credit was \$1.2 million on June 30, 2006. We believe that our liquidity is adequate to cover operating requirements for the next 12 months.

We also have a term loan balance of \$573,000 that is secured by a first mortgage on the IEC plant in Newark, New York (the "Real Estate Loan"). The Real Estate Loan is payable in 39 monthly installments of \$12,500 that commenced on October 1, 2005, and a final payment of the remaining balance on January 1, 2009. The Real Estate Loan has an interest rate of prime plus 2.0%.

The financing agreements contain various affirmative and negative covenants including, among others, limitations on the amount available under the revolving line of credit relative to the borrowing base, capital expenditures, fixed charge coverage ratios, and minimum earnings before interest, taxes, depreciation and amortization (EBITDA). The Company was compliant with these covenants as of June 30, 2006.

Application of Critical Accounting Policies

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for us include revenue recognition, provisions for doubtful accounts, provisions for inventory obsolescence, impairment of long-lived assets, accounting for legal contingencies and accounting for income taxes.

We recognize revenue in accordance with Staff Accounting Bulletin No.101, "Revenue Recognition in Financial Statements." Sales are recorded when products are shipped to customers. Provisions for discounts and rebates to customers, estimated returns and allowances and other adjustments are provided for in the same period the related sales are recorded.

We evaluate our long-lived assets for financial impairment on a regular

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basis in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We evaluate the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated discounted future cash flows associated with them. At the time such evaluations indicate that the future discounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

We are subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies", requires that an estimated loss from a loss contingency should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position or our results of operations.

Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could impact our financial position or our results of operations.

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Impact of Inflation

The impact of inflation on our operations has been minimal due to the fact that we have been able to adjust our bids to reflect any inflationary increases in costs.

New Pronouncements

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs" (SFAS 151). This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to costs of conversion be based upon the normal capacity of the production facilities. The provisions of SFAS 151 are effective for inventory cost incurred in fiscal years beginning after June 15, 2005. The Company adopted these provisions at the beginning of fiscal 2006. The adoption of SFAS No. 151 did not have an impact on our financial statements.

On December 16, 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29". SFAS No. 153 replaces the exception from fair value measurement in APB Opinion No. 29 for nonmonetary exchanges of similar productive assets with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash

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flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is to be applied prospectively, and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance of SFAS No. 153. The adoption of SFAS No. 153 did not have an impact on our financial statements.

In December 2004, the FASB issued SFAS No. 123R, Share Based Payments, which requires companies to measure compensation cost for all share-based payments, including employee stock options. SFAS No. 123R was effective as of the first fiscal period beginning after June 15, 2005. In March 2005, the SEC issued SAB No. 107 regarding the SEC's interpretation of SFAS No. 123R and the valuation of share-based payments for public companies. The Company adopted SFAS No. 123R on October 1, 2005, and the adoption did not have a material impact on the Company's financial statements. See Note 3 to these consolidated financial statements for further discussion regarding stock based compensation.

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 changes the requirements of the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any of the existing accounting pronouncements. We do not believe adoption of SFAS No. 154 will have a material effect on our consolidated financial position, results of operations or cash flows.

Item 3 -- Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative Disclosures about Market Risk represents the risk of loss that may impact the consolidated financial position, results of operations or cash flows of IEC due to adverse changes in financial rates. We are exposed to market risk in the area of interest rates. One exposure is directly related to our Term Loan and Revolving Credit borrowings under the Credit Agreement, due to their variable interest rate pricing. Management believes that interest rate fluctuations will not have a material impact on IEC's results of operations.

Item 4 -- Controls and Procedures

Based on their evaluation as of the end of the period covered by this Report, IEC's Chief Executive Officer and Chief Financial Officer have concluded that IEC's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by IEC in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no changes in IEC's internal control over financial reporting during the third quarter of fiscal 2006 or in other factors that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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Forward-looking Statements

Forward-looking statements in this Form 10-Q include, without limitation, statements relating to the Company's plans, future prospects, strategies, objectives, expectations, intentions and adequacy of resources and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements may be identified by their use of words like "plans", "expects", "aims", "believes", "projects", "anticipates", "intends", "estimates", "will", "should", "could", and other expressions that indicate future events and trends. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others, the following: general economic and business conditions, the timing of orders and shipments, availability of material, product mix, changes in customer requirements and in the volume of sales to principal customers, competition and technological change, the ability of the Company to control manufacturing and operating costs, and satisfactory relationships with vendors. The Company's actual results of operations may differ significantly from those contemplated by such forward-looking statements as a result of these and other factors, including factors set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 2005 and in other filings with the Securities and Exchange Commission.

PART II. OTHER INFORMATION

Item 1 -- Legal Proceedings

The information set forth in Note (4) of the Notes to Financial Statements included in Part I - Item 1 of this Form 10-Q is incorporated by reference.

Item 1A - Risk Factors

There are no material changes to the Risk Factors described under the title "Factors Affecting Future Results" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2005.

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

(c) Issuer Purchases of Equity Securities

On November 11, 2005, the Board of Directors authorized the Company to purchase up to 10% of its outstanding common stock, at a price not to exceed \$1.00 per share and a maximum aggregate price not to exceed \$425,000. This repurchase program, which has not been publicly announced, remains in effect until November 10, 2006. During the fiscal quarter ended June 30, 2006, the Company purchased 45,000 shares at a cost of \$29,250 in one privately negotiated transaction.

| | (a) | (b) | (c) |
|--------------------------------|---|------------------------------------|--|
| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan |
| April 1, 2006 - April 30, 2006 | 0 | 0 | 0 |

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| | | | |
|------------------------------|--------|--------|---|
| May 1, 2006 - May 31, 2006 | 0 | 0 | 0 |
| June 1, 2006 - June 30, 2006 | 45,000 | \$0.65 | 0 |

Item 3 -- Defaults Upon Senior Securities

None.

Item 4 -- Submission of Matters to a Vote of Security Holders

None

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Item 5 -- Other Information

None.

Item 6 -- Exhibits

The following documents are filed as exhibits to this Report:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

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

Dated: July 26, 2006

/s/ W. Barry Gilbert

W. Barry Gilbert
Chairman and
Chief Executive Officer

Dated: July 26, 2006

/s/ Brian H. Davis

Brian H. Davis
Chief Financial Officer and Controller

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