IEC ELECTRONICS CORP
Form 10-K
November 13, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 2009 or
¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 0-6508

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

Delaware	13-3458955
(State or other jurisdiction of incorporation or organization)	(IRS Employer ID No.)

105 Norton Street, Newark, New York 14513
(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.01 par value	NYSE Amex
(Title of Class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨.

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

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

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

At March 27, 2009, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the shares of Common Stock held by non-affiliates for the registrant was $ 9,558,887(based on the closing price of the registrant’s Common Stock on The Over-the-Counter Bulletin Board on such date). Shares of Common Stock held by each executive officer and director and by each person and entity who beneficially owns more than 10% of the outstanding Common Stock have been excluded in that such person or entity under certain circumstances may be deemed to be an affiliate. Such exclusion should not be deemed a determination or admission by registrant that such individuals or entities are, in fact, affiliates of the registrant.

As of November 9, 2009, there were outstanding 8,750,455 shares of Common Stock.

Documents incorporated by reference:

Portions of IEC Electronics Corp.'s definitive Proxy Statement for the 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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"SAFE HARBOR" CAUTIONARY STATEMENT UNDER THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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 Annual Report on Form 10-K contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of section-27A of the Securities Act of 1933 and section-21E of the Securities Exchange Act of 1934, and are made in reliance upon the protections provided by such Acts for forward-looking statements. These forward-looking statements (such as when we describe what we “believe”, “expect” or “anticipate” will occur, and other similar statements) include, but are not limited to, statements regarding future sales and operating results, future prospects, the capabilities and capacities of business operations, any financial or other guidance and all statements that are not based on historical fact, but rather reflect our current expectations concerning future results and events. The ultimate correctness of these forward-looking statements is dependent upon a number of known and unknown risks and events, and is subject to various uncertainties and other factors that may

cause our actual results, performance or achievements to be different from any future results, performance or achievements expressed or implied by these statements. The following important factors, among others, could affect future results and events, causing those results and events to differ materially from those expressed or implied in our forward-looking statements: business conditions and growth in our customer's industries, the electronic manufacturing services industry and the general economy, variability of operating results, our dependence on a limited number of major customers, the potential consolidation of our customer base, availability of components, dependence on certain industries, variability of customer requirements, our ability to assimilate acquired businesses and to achieve the anticipated benefits of such acquisitions, other economic, business and competitive factors affecting our customers, our industry and business generally and other factors that we may not have currently identified or quantified. 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 elsewhere in this document. All forward-looking statements included in this Report on Form-10-K are made only as of the date of this Report on Form-10-K, and we do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur or which we hereafter become aware of. You should read this document and the documents that we incorporate by reference into this Annual Report on Form-10-K completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements, even if our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

PART I

ITEM 1. BUSINESS

Overview

IEC Electronics Corp.,("IEC", "we", "our", “us” the “Company”), is a premier provider of electronic manufacturing services,(“EMS”), to advanced technology companies. We specialize in the custom manufacture of high reliability, complex circuit cards, system level assemblies and a wide array of custom cable/wire harness assemblies. We excel where quality is paramount and where low to medium volume, high mix production is the norm. We utilize state-of-the art, automated circuit card assembly equipment coupled with a full complement of high reliability manufacturing stress testing technologies. We have created a “high intensity response culture” to react and adapt to our customer’s ever-changing needs. Our customer focused approach offers a high degree of flexibility while simultaneously complying with the industry’s rigorous quality and on-time delivery standards. As a true extension of our customer’s operation, we have applied industry leading Six Sigma and Lean Manufacturing principles to eliminate waste and lower our customer’s total cost of ownership. While many EMS services are viewed as a commodity, we have set ourselves apart through an uncommon mix of features including:

- A world class Technology Center that combines a dedicated prototype manufacturing center with an on-site Materials Analysis Lab (headed by two staff PhD’s) for the seamless introduction of complex electronics

- A sophisticated Lean/Sigma continuous improvement program supported by five certified Six Sigma Blackbelts delivering best-in-class results

- Industry-leading Web Portal providing real-time access to a wide array of critical customer data

- In-house custom functional test development to support complex system-level assembly, test, troubleshoot and end-order fulfillment

IEC Electronics Corp., a Delaware corporation, is the successor by merger in 1990 to IEC Electronics Corp., a New York corporation, which was organized in 1966. On May 30, 2008, IEC acquired all of the stock of Val-U-Tech Corp., a wire and cable-harness inter-connect business, located in Victor, New York. Val-U-Tech was renamed IEC Electronics Wire and Cable, Inc. (“Wire and Cable”) during 2009. IEC Electronics Wire and Cable, Inc. is a premier cable and wire harness manufacturer specializing in high-reliability applications for companies in the military, medical, industrial and transportation market sectors. Wire and Cable manufactures a diverse portfolio of custom cable/wire harness assemblies, mechanical sub-assemblies, circuit card assemblies and box builds with an emphasis on perfect quality delivered precisely on time.

IEC is a world-class ISO 9001-2000, AS9100 and ISO13485 certified company. The AS9100 certification enables IEC to service the military and commercial aerospace markets. The ISO13485 certification supports the quality requirements of the medical device markets. We are also ITAR registered and NSA approved under the COMSEC standard. Our manufacturing processes encompass the best aspects of Lean Manufacturing and Six Sigma Principles. Many customers consider these certifications crucial when qualifying an EMS provider. Our state-of-the-art Technology Center includes prototype assembly, design engineering services, and an Advanced Materials Technology Laboratory.

We continually evaluate emerging technologies and maintain a technology road map to ensure relevant processes and advances in new equipment are available to our customers when commercial and design factors so indicate. The current generation of interconnection technologies includes chip scale packaging and ball grid array (BGA) assembly techniques. We have placed millions of plastic and ceramic BGA's since 1994. Future advances will be directed by

our Technology Center, which combines Prototype and Pilot Build Services with the capabilities of our Advanced Materials Technology Laboratory and our Design Engineering Group.

Our experienced workforce has a high level of technical expertise. Our emphasis is on building the most challenging complex systems serving original equipment manufacturers ("OEMs") with advanced electronics technology. IEC has positioned itself as a leader of lead-free solder assembly technology through early development and technical publications. Lead-free was mandated by July 2006 for many electronic products sold in Europe.

Our executive offices are located at 105 Norton Street, Newark, New York 14513. Our telephone number is (315)331-7742, and our Internet address is www.iec-electronics.com.

Electronics Manufacturing Services: The Industry

The EMS industry specializes in providing program management, technical support and manufacturing expertise required to take a product from the early design and prototype stages through volume production and distribution. Primarily as a response to rapid technological change and increased competition in the electronics industry, OEMs have recognized that by utilizing EMS providers they can improve their competitive position, realize an improved return on investment and concentrate on their core competencies such as research, product design and development and marketing. In addition, EMS providers allow OEMs to bring new products to market rapidly and adjust more quickly to fluctuations in product demand; avoid additional investment in plant, equipment and personnel; reduce inventory and other overhead costs; and establish known unit costs over the life of a contract. Many OEMs now consider EMS providers an integral part of their business and manufacturing strategy.

OEMs increasingly require EMS providers to provide complete turnkey manufacturing and material handling services, rather than working on a consignment basis in which the OEM supplies all materials and the EMS provider supplies labor. Turnkey contracts involve design, manufacturing and engineering support, the procurement of all materials, and sophisticated in-circuit and functional testing and distribution.

IEC's Strategy

Our strategy is to cultivate strong manufacturing partnerships with established and emerging OEMs in the ruggedized industrial, communications, medical, homeland security, and military and aerospace industries that require high reliability final assemblies. These long-term business partnerships involve the joint development of manufacturing and support strategies with OEM customers and promote customer satisfaction. In implementing this strategy, we offer our customers a full range of manufacturing solutions through flexibility in production, high quality and fast-turnaround manufacturing services and computer-aided testing.

We generally enter into formal agreements with our significant customers. These agreements generally provide for fixed prices for one year, absent any customer changes which impact cost of labor or material, and rolling forecasts of customer requirements. After establishing an OEM relationship, we offer our consultation services with respect to the manufacturability and testability of the product design. We often recommend design changes to reduce manufacturing costs and to improve the quality of the finished assemblies.

Products and Services

We manufacture a wide range of assemblies, which are incorporated into many different products. We provide electronic manufacturing services primarily for wireless communication systems, test diagnostic equipment, military and defense systems, transportation products, and medical systems and instrumentation. During the fiscal year ended September 30, 2009 we provided electronics and cable harness manufacturing services to approximately 80 different customers. We provide our services to multiple divisions and product lines of many of our customers and typically manufacture successive product generations for our customers. In some cases, we are the sole contract manufacturer for the customer site or division, providing all services, prototype through box build and functional test.

Materials Management

We generally procure material only to meet specific contract requirements. In addition, our agreements with our significant customers generally provide for cancellation charges equal to the costs, which are incurred by us as a result of a customer's cancellation of contracted quantities. Our internal systems provide effective controls for all materials, whether purchased by us or provided by the customer, through all stages of the manufacturing process, from receiving to final shipment.

Availability of Components

Substantially all of our net sales are derived from turnkey manufacturing in which we provide both materials procurement and assembly services. We are well positioned with supplier relationships and material procurement expertise to acquire needed materials. However, availability of customer-consigned parts and unforeseen shortages of components on the world market are beyond our control and could adversely affect revenue levels and operating efficiencies.

Suppliers

We operate in a strategic partnership arrangement with our key distribution suppliers. These strategic partnerships and associated automated trading methodologies provide benefits such as better payment terms, consignment or bonded inventories, reduced procurement lead-time, competitive pricing, reduced quotation processing, some protection during periods of supply allocation and opens access to global resources. We also have preferred supplier partnership agreements in place for custom commodities such as printed circuit boards and metals.

Marketing and Sales

Our sales increased during 2009, primarily due to the addition of several new customers, and increased market share with existing customers. These customers, along with the customers we anticipate adding, are expected to generate further revenue growth during 2010. We utilize a direct sales force as well as a nationwide network of Manufacturers Representatives. Through this hybrid sales approach, we execute a focused sales strategy targeting only those customers with product profiles aligned with our core areas of expertise. For example, we focus on customers developing complex, advanced technology products for a wide array of market sectors ranging from satellite communications, medical, military and ruggedized industrial.

Typically, the demand profiles associated with these customers are in the low to moderate volume range with high variability of quantity and mix requirements for end item configurations. In fact, these products often represent emerging technologies requiring high intensity of manufacturing support to seamlessly transfer them from the early product development stage through prototyping onto volume manufacturing. As these products exit the product development phase, specialized capabilities are required to support rapid response prototyping requirements in a dynamic engineering change environment. As a result, the usual industry outsourcing models associated with these customers rarely include supply alternatives in low cost labor regions such as Asia and Mexico.

Our sales efforts are driven by focused marketing and sales activities in targeted areas supported by customer presentations. Sales leads resulting from these marketing activities are assigned to a representative covering a customer's location for qualification and further development. Referrals by existing customers continue to be one of our sources of new opportunities.

Backlog

During fiscal 2009 our backlog remained solid, an excellent result given the commercial turbulence of the last year. We closed the year with backlog of $41.4 million as compared to a fiscal 2008 closing backlog of $43.9 million. Backlog consists of two categories; orders, and firm forecasted commitments. We also receive orders during the quarter, to ship in the same period, that do not appear in our backlog information. Substantially, the entire current backlog is expected to be shipped within our current fiscal year. Variations in the magnitude and duration of contracts received by us, and customer delivery requirements may result in fluctuations in backlog from period to period.

Governmental Regulation

Our operations are subject to certain federal, state and local regulatory requirements relating to environmental, waste management, health and safety matters. Management believes that our business is operated in compliance with all applicable regulations promulgated by the Occupational Safety and Health Administration and the Environmental Protection Agency and corresponding state agencies, which respectively, pertain to health and safety in the work place and the use, discharge, and storage of chemicals employed in the manufacturing process. Current costs of compliance are not material to us. However, new or modified requirements, not presently anticipated, could be adopted creating additional expense for us.

Employees

The Company added 18 employees during fiscal 2009. IEC's employees numbered 368 at September 30, 2009, including 295 employees engaged in manufacturing and manufacturing support, 38 in engineering, and 35 in administrative and marketing functions. None of our employees are covered by a collective bargaining agreement. We have not experienced any work stoppages and believe that our employee relations are good. We have access to a large work force by virtue of our northeast location midway between Rochester and Syracuse, two upstate

New York industrial cities. IEC's employees numbered 350 at September 30, 2008, including 300 employees engaged in manufacturing and manufacturing support, 28 in engineering, and 22 in administrative and marketing functions.

Patents and Trademarks

We hold patents unrelated to electronics manufacturing services and also employ various registered trademarks. We do not believe that either patent or trademark protection is material to the operation of our business.

ITEM 1A. RISK FACTORS

OUR OPERATING RESULTS MAY FLUCTUATE DUE TO A NUMBER OF FACTORS, MANY OF WHICH ARE BEYOND OUR CONTROL.

Our annual and quarterly results may vary significantly depending on various factors, including, but not limited to, the following:

- adverse changes in general economic conditions
- the level and timing of customer orders and the accuracy of their forecasts
- the level of capacity utilization of our manufacturing facility and associated fixed costs
- price competition
- market acceptance of our customers products
- business conditions in our customers' end markets
- our level of experience in manufacturing a particular product
- change in the sales mix of our customers
- the efficiencies achieved in managing inventories and fixed assets
- fluctuations in materials costs and availability of materials
- the timing of expenditures in anticipation of future orders
- changes in cost and availability of labor and components
- our effectiveness in managing manufacturing process.

The EMS industry is impacted by the state of the U.S. and global economies, which are both impacted by world events. An economic slowdown, in particular in the industries served by us, may result in our customers reducing their forecasts. The demand for our services could weaken, which in turn could substantially influence our sales, capacity utilization, margins and financial results. Historically, we have seen periods, such as in fiscal 2003 and 2002, when EMS industry sales were adversely affected by a slowdown in wireless/networking and wireless infrastructure sectors as a result of reduced end-market demand and reduced availability of capital to fund existing and emerging technologies.

WE DEPEND ON A RELATIVELY SMALL NUMBER OF CUSTOMERS, AND IF WE LOSE ANY OF THESE CUSTOMERS OUR SALES AND OPERATING RESULTS COULD DECLINE SIGNIFICANTLY.

A small number of customers are responsible for a significant portion of our net sales. During fiscal 2009, 2008, and 2007, our five largest customers accounted for 55%, 62%, and 61% of net sales, respectively. During fiscal 2009, 2008, and 2007, our single largest customer in each year accounted for 15%, 21%, and 26% of net sales, respectively. The percentage of IEC's sales to its major customers may fluctuate from period to period. Our principal

customers have varied from period to period, and our principal customers may not continue to purchase services from us at the current levels, or at all.

WE DEPEND ON THE ELECTRONICS INDUSTRY, WHICH CONTINUALLY PRODUCES TECHNOLOGICALLY ADVANCED PRODUCTS WITH SHORT LIFE CYCLES.

Factors affecting the electronics industry in general could seriously harm our customers and, as a result, us. These factors include:

- the inability of our customers to adapt to rapidly changing technology and evolving industry standards, which result in short product life cycles;

- the inability of our customers to develop and market their products, some of which are new and untested;

- the potential that our customers' products may become obsolete or the failure of our customers' products to gain widespread commercial acceptance; and

- recessionary periods in our customers' markets.

OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION MAY BE ADVERSELY AFFECTED BY GLOBAL ECONOMIC AND FINANCIAL MARKETS CONDITIONS.

Current global economic and financial markets conditions, including severe disruptions in the credit markets and the potential for a significant and prolonged global economic recession, may materially and adversely affect our results of operations and financial condition. These conditions may also materially impact our customers and suppliers. Economic and financial market conditions that adversely affect our customers may cause them to terminate existing purchase orders or to reduce the volume of products they purchase from us in the future. We may have significant balances owing from customers that operate in cyclical industries and under leveraged conditions that may impair the collectability of those receivables. Failure to collect a significant portion of those receivables could have a material adverse effect on our results of operations and financial condition. Adverse economic and financial credit terms our suppliers extend to us, such as shortening the required payment period for outstanding accounts receivable or reducing the maximum amount of trade credit available to us could have an adverse effect on our results of operations and financial condition. Changes of this type could significantly affect our liquidity and could have a material adverse effect on our results of operations and financial condition. If we are unable to successfully anticipate changing economic and financial markets conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected.

FALILURE TO MANAGE GROWTH AND CONTRACTION, IF ANY, MAY SERIOUSLY HARM OUR BUSINESS

In late 2006 and early 2007 we expanded our operations and added many new employees. These actions resulted in additional costs and start-up inefficiencies. If we are unable to effectively manage the currently anticipated growth or if the anticipated net sales are not realized, our operating results could be adversely affected.

ENERGY PRICE INCREASES MAY NEGATIVELY IMPACT OUR RESULTS OF OPERATIONS

Certain of the components used in our manufacturing activities are petroleum-based. In addition, we, along with our suppliers and customers, rely on various energ