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IEC ELECTRONICS CORP  
Form 10-K  
November 16, 2006

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

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2006 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  
(State or other jurisdiction of  
incorporation or organization)

13-3458955  
(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: None

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

Common Stock, \$.01 par value  
(Title of Class)

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

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

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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one)

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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

The aggregate market value of shares of common stock held by non-affiliates of the registrant was approximately \$8,610,414 as of November 9, 2006, based upon 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 5% 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 registrant.

As of November 10, 2006, there were outstanding 8,426,778 shares of Common Stock.

Documents incorporated by reference:

Portions of IEC Electronics Corp.'s Proxy Statement for the 2007 Annual Meeting of Stockholders are incorporated 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

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, 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.

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## PART I

### ITEM 1. BUSINESS

#### Overview

IEC Electronics Corp. ("IEC", "We", "Our", the "Company") is an independent electronics manufacturing services ("EMS") provider of complex printed circuit board assemblies and electronic products and systems. We provide

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high quality electronics manufacturing services with state-of-the-art manufacturing capabilities. Utilizing automated manufacturing and test equipment, IEC provides manufacturing services employing surface mount technology ("SMT") and pin-through-hole ("PTH") interconnection technologies. As an independent full-service EMS provider, we offer our 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. Our strategy is to cultivate strong manufacturing relationships with established and emerging original equipment manufacturers ("OEMs").

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.

IEC is a world-class ISO:9001-2000 certified company. Our manufacturing processes encompass the best aspects of Lean Manufacturing and Six Sigma Principles. IEC is an FDA registered contract manufacturer of medical devices, is ITAR registered and compliant, and is COMSEC certified. Many customers consider these certifications crucial when qualifying their EMS providers.

Our New York facility is self-certified to previously recognized British Approvals Board Telecommunications standards, allowing us to provide manufacturing and test services to manufacturers producing telecommunication equipment destined for shipment to the European Common Market. Our state-of-the-art 10,000 square foot Technology Center includes pilot build, prototype assembly, design engineering services, and an Advanced Materials Technology Laboratory.

We continually evaluate emerging technology and maintain a technology road map to ensure relevant processes 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 BGA's since 1994 and added Ceramic BGA placement for networking customers to our service offerings in fiscal 2001. 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 is supported by our Design Engineering Group.

Our experienced workforce has a high level of technical expertise. Our emphasis is on building the most challenging complete systems serving original equipment manufacturers 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](http://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

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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.

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### IEC's Strategy

Our strategy is to cultivate strong manufacturing partnerships with established and emerging OEMs in the electronics industry. 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 telecommunications and wireless communication systems, test diagnostic equipment, military and defense systems, transportation products, alternative energy equipment, and medical instrumentation. During the fiscal year ended September 30, 2006 we provided electronics manufacturing services to approximately 25 different customers. We provide our services to multiple divisions and product lines of many of our customers and typically manufacture for a number of each customer's successive product generations. 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

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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 have a Master Distribution Program in place with Arrow Electronics. This alliance has the benefit of reducing lead time on program parts, reducing the quotation process timetable, providing competitive pricing, providing some protection during periods of component allocation, providing better payment terms, reducing overhead cost, providing access to in-house stores and providing access to global resources. We also have preferred supplier partnership agreements in place for commodities such as printed circuit boards, metals, and cable harnesses

### Marketing and Sales

Our sales increased during 2006, primarily due to the addition of several new customers. These customers are expected to generate further revenue growth during 2007. 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 aligning with our core areas of expertise. For example, we are focusing on customers developing complex, advanced technology products for a wide array of market sectors ranging from toxic gas monitoring and detection through satellite communications, medical, military and general industrial.

Typically, the demand profiles associated with these customers are in the low to moderate volume range with high variability of mix requirements and 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.

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Overall, our sales efforts are supported by advertising in trade media, sales literature, Internet website, customer presentations, participation in trade shows and direct mail promotions. 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 are one of our largest sources of new opportunities.

### Backlog

Our backlog as of September 30, 2006 and 2005 was approximately \$21.7 million and \$2.5 million, respectively. Backlog consists of contracts or purchase orders with delivery dates scheduled within the next 12 months. 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 substantial fluctuations in backlog from period to period.

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### 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 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

IEC's employees numbered 240 at November 9, 2006, including 205 employees engaged in manufacturing, 23 in engineering, and 12 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.

### 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 factors, including:

- o adverse changes in general economic conditions
- o the level and timing of customer orders and the accuracy of their forecasts
- o the level of capacity utilization of our manufacturing facility and associated fixed costs
- o the composition of the costs of revenue between materials, labor and manufacturing overhead
- o price competition
- o our level of experience in manufacturing a particular product
- o the degree of automation used in our assembly process
- o the efficiencies achieved in managing inventories and fixed assets
- o fluctuations in materials costs and availability of materials
- o the timing of expenditures in anticipation of increased sales, customer product delivery requirements and shortages of

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components or labor.

The volume and timing of orders placed by our customers may vary due to variation in demand for our customers' products, our customers' inventory management, new product introductions and manufacturing strategy changes, and consolidations among our customers. In the past, changes in customer orders have had a significant effect on our results of operations due to corresponding changes in the level of overhead absorption. Any one or a combination of these factors could adversely affect our annual and quarterly results of operations in the future.

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BECAUSE WE DEPEND ON A LIMITED NUMBER OF CUSTOMERS, A REDUCTION IN SALES TO ANY ONE OF OUR CUSTOMERS COULD CAUSE A SIGNIFICANT DECLINE IN OUR REVENUE.

A small number of customers are responsible for a significant portion of our net sales. During fiscal 2006, 2005, and 2004, our five largest customers accounted for 66%, 67% and 76% of consolidated net sales, respectively. The percentage of IEC's sales to its major customers may fluctuate from period to period.

We are dependent upon the continued growth, viability and financial stability of our customers whose industries have experienced rapid technological change, short product life cycles, consolidation, and pricing and margin pressures. Any consolidation among our customers could further reduce the number of customers that generate a significant percentage of our revenues and exposes us to increased risks relating to dependence on a small number of customers. A significant reduction in sales to any of our customers or a customer exerting significant pricing and margin pressures on us, would have a material adverse effect on our results of operations. We cannot assure you that present or future customers will not terminate their manufacturing arrangements with us or significantly change, reduce or delay the amount of manufacturing services ordered from us. If they do, it could have a material adverse effect on our results of operations. In addition, we generate significant account receivables in connection with providing manufacturing services to our customers. If one or more of our customers were to become insolvent or otherwise were unable to pay for the manufacturing services provided by us, our operating results and financial condition would be adversely affected.

OUR CUSTOMERS MAY BE ADVERSELY AFFECTED BY RAPID TECHNOLOGICAL CHANGE.

Our customers compete in markets that are characterized by rapidly changing technology, evolving industry standards and continuous improvements in products and services. These conditions frequently result in short product life cycles. Our success will depend largely on the success achieved by our customers in developing and marketing their products. If technologies or standards supported by our customers' products become obsolete or fail to gain widespread commercial acceptance, our business could be materially adversely affected.

WE DEPEND ON THE ELECTRONICS INDUSTRY, WHICH CONTINUALLY PRODUCES TECHNOLOGICALLY ADVANCED PRODUCTS WITH SHORT LIFE CYCLES; OUR INABILITY TO CONTINUALLY MANUFACTURE SUCH PRODUCTS ON A COST-EFFECTIVE BASIS WOULD HARM OUR BUSINESS.

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

- o the inability of our customers to adapt to rapidly changing



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technology and evolving industry standards, which result in short product life cycles;

- o the inability of our customers to develop and market their products, some of which are new and untested;
- o the potential that our customers' products may become obsolete or the failure of our customers' products to gain widespread commercial acceptance; and
- o recessionary periods in our customers' markets.

If any of these factors materialize or if we are unable to offer technologically advanced, cost effective, quick response manufacturing service to customers, demand for our services would decline and our business would suffer.

MOST OF OUR CUSTOMERS DO NOT COMMIT TO LONG-TERM PRODUCTION SCHEDULES, WHICH MAKES IT DIFFICULT FOR US TO SCHEDULE PRODUCTION AND ACHIEVE MAXIMUM EFFICIENCY OF OUR MANUFACTURING CAPACITY.

The volume and timing of sales to our customers may vary due to:

- o variation in demand for our customers' products
- o our customers' attempts to manage their inventory
- o electronic design changes
- o changes in our customers' manufacturing strategy
- o acquisitions of or consolidations among customers
- o recessionary conditions in customers' industries

Due in part to these factors, most of our customers do not commit to firm production schedules for more than one quarter in advance. Our inability to forecast the level of customer orders with certainty makes it difficult to schedule production and maximize utilization of manufacturing capacity. In the past, we have been required to increase staffing and other expenses in order to meet the anticipated demand of our customers. Anticipated orders from many of our customers have, in the past, failed to materialize or delivery schedules have been deferred as a result of changes in our customers' business needs, thereby adversely affecting our results of operations. On other occasions, our customers have required rapid increases in production, which have placed an excessive burden on our resources. Such customer order fluctuations and deferrals could have a material adverse effect on us in the future.

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OUR CUSTOMERS MAY CANCEL THEIR ORDERS, CHANGE PRODUCTION QUANTITIES OR DELAY PRODUCTION.

Electronics manufacturing service providers must provide increasingly rapid product turnaround for their customers. We generally do not obtain firm, long-term purchase commitments from our customers and we continue to experience reduced lead-times in customer orders. Customers may cancel their orders, change production quantities or delay production for a number of reasons. The success of our customers' products in the market affects our business. Cancellations, reductions or delay by a significant customer or by a group of customers could

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negatively impact our operating results.

In addition, we make significant decisions, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimate of customer requirements. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products reduces our ability to accurately estimate the future requirements of those customers. Because many of our costs and operating expenses are relatively fixed, a reduction in customer demand can harm our gross margins and operating results. On occasion, customers may require rapid increases in production, which can stress our resources and reduce operating margins.

WE COMPETE WITH NUMEROUS PROVIDERS OF ELECTRONIC MANUFACTURING SERVICES, INCLUDING OUR CURRENT OR POTENTIAL CUSTOMERS WHO MAY DECIDE TO MANUFACTURE ALL OF THEIR PRODUCTS INTERNALLY.

The electronic manufacturing services business is highly competitive. We compete against numerous domestic and foreign manufacturers with global operations as well as those who operate on a local or regional basis. Many of our competitors have international operations and some have substantially greater manufacturing, financial, research and development, and marketing resources than us. We also face potential competition from the manufacturing operations of our current and potential customers, who are continually evaluating the merits of manufacturing products internally versus the advantages of outsourcing.

INCREASED COMPETITION MAY RESULT IN DECREASED DEMAND OR PRICES FOR OUR SERVICES.

We may be operating at a cost disadvantage compared to manufacturers who have greater direct buying power from component suppliers, distributors and raw material suppliers or who have lower cost structures as a result of their geographic location or the services they provide. As a result, competitors may have a competitive advantage. Our manufacturing processes are generally not subject to significant proprietary protection, and companies with greater resources or a greater market presence may enter our market or increase their competition with us. We also expect our competitors to continue to improve the performance of their current products or services, to reduce their current products or service sales prices and to introduce new products or services that may offer greater performance and improved pricing. Any of these could cause a decline in sales, loss of market acceptance of our products or services, profit margin compression, or loss of market share.

IF WE DO NOT MANAGE OUR BUSINESS EFFECTIVELY, OUR PROFITABILITY COULD DECLINE.

Our ability to manage our business effectively will require us to continue to implement and improve our operational, financial and management information systems; continue to develop the management skills of our managers and supervisors; and continue to train, motivate and manage our employees. Our failure to effectively do so could have a material adverse effect on our results of operations.

WE DEPEND ON A LIMITED NUMBER OF SUPPLIERS FOR COMPONENTS THAT ARE CRITICAL TO OUR MANUFACTURING PROCESSES. A SHORTAGE OF THESE COMPONENTS OR AN INCREASE IN THEIR PRICE COULD INTERRUPT OUR OPERATIONS AND REDUCE OUR PROFITS.

Substantially all of our net revenue is derived from turnkey manufacturing in which we provide materials procurement. While many of our customer contracts permit quarterly or other periodic adjustments to pricing based on decreases and increases in component prices and other factors, we typically bear the risk of component price increases that occur between any such re-pricing or, if such re-pricing is not permitted, during the balance of the term of the particular

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customer contract. Accordingly, certain component price increases could adversely affect our gross profit margins. Almost all of the products we manufacture require one or more components that are available from a limited number of suppliers. Some of these components are allocated from time to time in response to supply shortages. In some cases, supply shortages will substantially curtail production of all assemblies using a particular component. In addition, at various times industry wide shortages of electronic components have occurred. Such circumstances have produced insignificant levels of short-term interruption of our operations, but could have a material adverse effect on our results of operations in the future.

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### OUR TURNKEY MANUFACTURING SERVICES INVOLVE INVENTORY RISK

Most of our services are provided on a turnkey basis, where we purchase some or all of the materials required for designing, product assembling and manufacturing. These services involve greater resource investment and inventory risk management than consignment services, where the customer provides materials. Accordingly, various component price increases and inventory obsolescence could adversely affect our selling price, gross margins and operating results. In our turnkey operations, we must order parts and supplies based on customer forecasts, which may be for a larger quantity of product than is included in the firm orders ultimately received from those customers. Customers' cancellation or reduction of orders can result in expenses to us. While our customer agreements typically include provisions which require customers to reimburse us for excess inventory specifically ordered to meet their forecasts, we may not be able to collect on these obligations. In that case, we could have excess inventory and/or cancellation or return charges from our supplies.

### PRODUCTS WE MANUFACTURE MAY CONTAIN DESIGN OR MANUFACTURING DEFECTS, WHICH COULD RESULT IN REDUCED DEMAND FOR OUR SERVICES AND LIABILITY CLAIMS AGAINST US.

We manufacture products to our customers' specifications, which are highly complex and may, at times, contain design or manufacturing errors or failures. Despite our quality control and quality assurance efforts, defects may occur. Defects in the products we manufacture, whether caused by a design, manufacturing or component failure or error, may result in delayed shipments to customers or reduced or cancelled customer orders and may affect our business reputation. In addition, these defects may result in liability claims against us. Even if customers or component suppliers are responsible for the defects, they may be unwilling or unable to assume responsibility for any costs or payments.

### WE MAY NOT BE ABLE TO MAINTAIN OUR ENGINEERING, TECHNOLOGICAL AND MANUFACTURING PROCESS EXPERTISE.

The markets for our manufacturing and engineering services are characterized by rapidly changing technology and evolving process development. The continued success of our business will depend upon our ability to:

- o hire, retain and expand our qualified engineering and technical personnel;
- o maintain technological leadership;
- o develop and market manufacturing services that meet changing customer needs; and

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- o successfully anticipate or respond to technological changes in manufacturing processes on a cost-effective and timely basis.

Although we believe that our operations provide the assembly and testing technologies, equipment and processes that are currently required by our customers, we cannot be certain that we will develop the capabilities required by our customers in the future. The emergence of new technology industry standards or customer requirements may render our equipment, inventory or processes obsolete or noncompetitive. In addition, we may have to acquire new assembly and testing technologies and equipment to remain competitive. The acquisition and implementation of new technologies and equipment may require significant expense or capital investment, which could reduce our operating margins and our operating results. Our failure to anticipate and adapt to our customers' changing technological needs and requirements could have an adverse effect on our business.

WE DO NOT HAVE EMPLOYMENT AGREEMENTS WITH ANY OF OUR KEY PERSONNEL, THE LOSS OF WHICH COULD HURT OUR OPERATIONS.

Our continued success depends largely on the efforts and skills of our key managerial and technical employees. The loss of the services of certain of these key employees or an inability to attract or retain qualified employees could have a material adverse effect on us. We do not have employment agreements or non-competition agreements with our key employees.

COMPLIANCE OR THE FAILURE TO COMPLY WITH CURRENT AND FUTURE ENVIRONMENTAL REGULATIONS COULD CAUSE US SIGNIFICANT EXPENSE.

We are subject to a variety of federal, state, local and foreign environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals used during our manufacturing process. If we fail to comply with any present and future regulations, we could be subject to future liabilities or the suspension of production. In addition, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment, or to incur other significant expenses to comply with environmental regulations.

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THE AGREEMENTS GOVERNING OUR EXISTING DEBT CONTAIN VARIOUS COVENANTS THAT IMPACT UPON THE OPERATION OF OUR BUSINESS.

The agreements and instruments governing our existing debt and our secured credit facility contain various restrictive covenants that, among other things, require us to comply with or maintain certain financial tests and ratios including, among others, limitations on the amount available under the revolving line of credit relative to the borrowing base, capital expenditures and minimum earnings before interest, taxes, depreciation and amortization (EBITDA) and restrict our ability to:

- o incur debt;
- o incur or maintain liens;
- o make acquisitions of businesses or entities;
- o make investments, including loans, guarantees and advances;

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- o engage in mergers, consolidations or certain sales of assets;
- o engage in transactions with affiliates; and
- o pay dividends or engage in stock redemptions.

Our credit facilities are secured by a general security agreement covering receivables, inventory, equipment, intangibles, investment property and deposit accounts and indirectly by a first mortgage on our Newark plant.

Our ability to comply with covenants contained in our existing debt and our secured credit facility may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Our failure to comply with our debt-related covenants could result in an acceleration of our indebtedness and cross-defaults under our other indebtedness, which may have a material adverse effect on our financial condition. We are currently in compliance with all of our covenants.

### OUR STOCK PRICE MAY BE VOLATILE DUE TO FACTORS BEYOND OUR CONTROL

Our common stock is traded on the Over-the-Counter Bulletin Board. The market price of our common stock has fluctuated substantially in the past and could fluctuate substantially in the future, based on a variety of factors, including future announcements concerning us or our key customers or competitors, government regulations, litigation, changes in earnings estimates by analysts, fluctuations in quarterly operating results, or general conditions in the EMS industry.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable

### ITEM 2. PROPERTIES

Our administrative and manufacturing facility is located in Newark, New York and contains an aggregate of approximately 300,000 square feet.

### ITEM 3. LEGAL PROCEEDINGS

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 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 IEC and Vishay Intertechnology, Inc. ("Vishay"). The action alleges cause 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 IEC 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 attorney's fees. IEC 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. IEC has made a motion for

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summary judgment which is pending. 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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### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of fiscal 2006, no matters were submitted to vote of security holders.

### EXECUTIVE OFFICERS OF THE REGISTRANT

IEC's executive officers as of September 30, 2006, were as follows:

| Name                  | Age | Position  |
|-----------------------|-----|---|
| W. Barry Gilbert      | 60  | President, Chairman of the Board, and Chief Executive Officer |
| Jeffrey T. Schlarbaum | 40  | Vice President of Sales and Marketing                         |
| Brian H. Davis        | 52  | Vice President, Chief Financial Officer and Controller        |
| Donald S. Doody       | 40  | Vice President of Operations                                  |

W. Barry Gilbert has served as Chief Executive Officer since June 2002. He has been a director of IEC since February 1993, and Chairman of the Board since February 2001. He is an adjunct faculty member at the William E. Simon Graduate School of Business Administration of the University of Rochester. Mr. Gilbert previously held the position of President of the Thermal Management Group of Bowthorpe (now known as Spirent) and was corporate Vice President and President of the Analytical Products Division of Milton Roy Company, a manufacturer of analytical instrumentation.

Jeffrey T. Schlarbaum joined IEC in May 2004 as Vice President of Sales and Marketing. He has over 15 years of sales experience in the electronics industry most recently serving as Regional Vice President of Sales for Plexus Corp., a contract manufacturer of electronics products, Neenah, Wisconsin. Prior to that, he worked as Vice President of Sales, Eastern Region for MCMS as well as holding various senior sales and marketing management positions with MACK Technologies and Conner Peripherals. He holds a Bachelors of Business Administration degree from National University, and an MBA from Pepperdine University.

Brian H. Davis joined IEC in April 2003 as Vice President, Chief Financial Officer and Controller. Mr. Davis previously served as Vice President of Finance at Thermo Spectronic, a manufacturer of laboratory equipment located in Rochester, NY. Prior to that, Mr. Davis functioned in various Controller and General Management positions with Life Sciences International and Milton Roy Company. He holds a B.S. in Accounting from the Pennsylvania State University, and an MBA from the Rochester Institute of Technology.

Donald S. Doody joined IEC in November 2004 and has more than 8 years of experience in the contract electronics manufacturing industry. He started his career with GE Transportation and Industrial Systems and became a Master Black Belt/Supplier Quality Engineer. Mr. Doody was a senior manufacturing engineer at Plexus Corporation, then became VP/GM of MCMS's North Carolina facility. When

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Plexus acquired MCMS he became responsible for leading Lean Manufacturing and Six Sigma initiatives throughout the company. Mr. Doody holds a Bachelor's in Engineering from the State University of New York, Buffalo and a Master's degree in Industrial Science from Colorado State University.

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### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

##### (a) Market Information.

IEC's Common Stock is listed on The Over the Counter Bulletin Board ("OTCBB") under the symbol IECE.OB.

The following table sets forth, for the fiscal quarter indicated, the high and low closing prices for the Common Stock as reported on the OTCBB. These quotations reflect inter-dealer prices, without mark-up, mark-down or commission, and may not represent actual transactions.

| Quarter<br>-----                    | High<br>----- | Low<br>----- |
|-------------------------------------|---------------|--------------|
| October 1, 2004 - December 31, 2004 | \$0.75        | \$0.43       |
| January 1, 2005 - April 1, 2005     | \$0.78        | \$0.45       |
| April 2, 2005 - July 1, 2005        | \$0.68        | \$0.43       |
| July 2, 2005 - September 30, 2005   | \$0.85        | \$0.51       |
| October 1, 2005 - December 30, 2005 | \$0.74        | \$0.41       |
| December 31, 2005 - March 31, 2006  | \$0.93        | \$0.55       |
| April 1, 2005 - June 30, 2006       | \$0.85        | \$0.60       |
| July 1, 2006 - September 30, 2006   | \$1.15        | \$0.77       |

The closing price of IEC's Common Stock on the OTCBB on November 9, 2006, was \$1.30 per share.

##### (b) Holders.

As of November 9, 2006, there were approximately 149 holders of record of IEC's Common Stock. Many of our shares of Common Stock are held by brokers and other institutions, and we are unable to estimate the number of these stockholders.

##### (c) Dividends.

IEC has never paid dividends on its Common Stock. It is the current policy of the Board of Directors of IEC to retain earnings for use in our business. Certain financial covenants set forth in IEC's current loan agreement prohibit IEC from paying cash dividends. We do not plan to pay cash dividends on our Common Stock in the foreseeable future.

##### (d) Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information concerning IEC's equity compensation plans as of September 30, 2006.

Number of securities

Number of s  
remaining ava

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| Plan Category                    | to be issued upon<br>exercise of<br>outstanding options,<br>warrants and rights | Weighted-average<br>exercise price of<br>outstanding options,<br>warrants and rights | future issuance<br>of equity compensations<br>(excluding shares<br>reflected in |
|----------------------------------|---|--|---|
|                                  | (a)   | (b)  | (c)   |
| Equity compensation plans:       |   |  |   |
| approved by security holders     | 1,459,459   | \$0.68   | 363,4   |
| not approved by security holders | --  | NA   |   |
| Total                            | 1,459,459   | \$0.68   | 363,4   |

Issuance of Unregistered Securities: Not Applicable

Repurchases of IEC Securities: We repurchased no shares during the last quarter of fiscal 2006.

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Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL DATA  
(in thousands, except per share data)

| Years Ended September 30,                                    | 2006     | 2005     | 2004      | 2003     | 2002        |
|--|----------|----------|-----------|----------|-------------|
| INCOME STATEMENT DATA  |          |          |           |          |             |
| Net sales  | \$22,620 | \$19,066 | \$27,701  | \$48,201 | \$ 39,365   |
| Gross profit (loss)  | \$ 2,753 | \$ 2,630 | \$ 1,987  | \$ 5,508 | \$ 2,297    |
| Operating income (loss)                                      | \$ 598   | \$ 346   | \$ (759)  | \$ 2,652 | \$ (3,026)  |
| Net income (loss)  | \$ 215   | \$ 285   | \$ (828)  | \$ 2,597 | \$ (10,979) |
| Net income (loss) per common and<br>common equivalent share: |          |          |           |          |             |
| Basic  | \$ 0.03  | \$ 0.03  | \$ (0.10) | \$ 0.33  | \$ (1.43)   |
| Diluted  | \$ 0.03  | \$ 0.03  | \$ (0.10) | \$ 0.31  | \$ (1.43)   |
| Common and common<br>equivalent shares                       |          |          |           |          |             |
| Basic  | 7,973    | 8,261    | 8,119     | 7,899    | 7,692       |
| Diluted  | 8,276    | 8,571    | 8,119     | 8,274    | 7,692       |
| BALANCE SHEET DATA   |          |          |           |          |             |
| Working capital (deficiency)                                 | \$ 2,202 | \$ 2,038 | \$ 726    | \$ 1,428 | \$ (3,572)  |
| Total assets   | \$11,718 | \$ 5,538 | \$ 8,530  | \$10,506 | \$ 15,065   |
| Long-term debt, including<br>current maturities              | \$ 4,164 | \$ 937   | \$ 2,366  | \$ 2,667 | \$ 4,396    |
| Shareholders' equity   | \$ 3,092 | \$ 3,020 | \$ 2,616  | \$ 3,414 | \$ 799      |

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



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## MANAGEMENT'S DISCUSSION OF OPERATIONS

The information in this Management's Discussion & Analysis should be read in conjunction with the accompanying consolidated financial statements, the related Notes to Financial Statements and the Five-Year Summary of Financial Data. Forward-looking statements in this Management's Discussion and Analysis are qualified by the cautionary statement preceding Item 1 of this Form 10K.

### Overview

During 2003, we received notification from our largest customer that they planned to move most of their contract assembly work offshore. During 2004, we received similar notification from our second largest customer. We subsequently restructured our organization to align resources more closely with our customer requirements. We refocused our sales efforts on high technology products that are less likely to migrate to offshore suppliers. We have since added several new customers that have contributed to our sales growth. Our backlog has grown to its highest level since the restructuring, and we expect revenue and profitability growth to continue in 2007.

### Analysis of Operations

#### Sales (dollars in millions)

| For Year Ended September 30, | 2006   | 2005   | 2004   |
|------------------------------|--------|--------|--------|
| -----                        | -----  | -----  | -----  |
| Net sales                    | \$22.6 | \$19.1 | \$27.7 |

The 19% increase in fiscal 2006 net sales compared to fiscal year 2005 was due to the addition of several new customers. The 31% decrease in fiscal 2005 net sales compared to fiscal year 2004 was primarily due to a reduction in business from two major customers that accounted for more than 50% of our 2004 business.

#### Gross Profit and Selling and Administrative Expenses (as a % of Net Sales)

| For Year Ended September 30,        | 2006  | 2005  | 2004  |
|-------------------------------------|-------|-------|-------|
| -----                               | ----- | ----- | ----- |
| Gross profit                        | 12.1% | 13.8% | 7.2%  |
| Selling and administrative expenses | 9.5%  | 11.4% | 9.0%  |

Gross profit as a percentage of sales was 12.1% in fiscal 2006 as compared to 13.8% in fiscal 2005. The decrease was primarily due to product mix. Material cost as a percent of sales is much higher on some of our new large volume orders.

Gross profit as a percentage of sales was 13.8% in fiscal 2005 as compared to 7.2% in fiscal 2004. The increase was attributable to favorable product mix and productivity gains associated with our restructuring efforts. The improvement was also due in part to high bad debt expense during fiscal 2004.

Selling and administrative expenses as a percentage of sales decreased to 9.5% in fiscal 2006 compared to 11.4% in fiscal 2005. Expenses were relatively flat year over year, but they were lower on a percentage basis during 2006 due to higher sales volumes.

Selling and administrative expenses decreased by \$0.3 million in fiscal 2005 compared to fiscal 2004. As a percentage of sales, selling and administrative expenses increased to 11.4% in fiscal 2005 compared to 9.0% in fiscal 2004. The percentage increase was due to expenses being spread over fewer sales dollars.

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## Other Income and Expense (dollars in millions)

| For Year Ended September 30,   | 2006  | 2005  | 2004  |
|--------------------------------|-------|-------|-------|
| -----                          | ----  | ----  | ----  |
| Interest and financing expense | \$0.4 | \$0.4 | \$0.4 |
| Other income                   | \$ -- | \$0.3 | \$0.3 |

Interest and financing expense was \$0.4 million during 2006, 2005 and 2004. The average debt balance was higher in 2006 compared to 2005, resulting in a \$99,000 increase in interest expense. This was offset by \$99,000 in reduced fees and amortization of loan origination costs.

The average debt was lower in 2005 compared to 2004, but interest expense was relatively flat on a year over year basis. This is because the reported figure includes both interest on money that is being borrowed at negotiated rates of interest, plus fees and amortization of loan origination costs. The fees and amortization costs were relatively fixed over both periods.

We had other income of \$0.3 million during both fiscal 2005 and 2004. Other income during those periods was primarily attributable to gains on the sale of excess equipment.

## Income Taxes (as a % of income (loss) before income taxes)

| For Year Ended September 30, | 2006 | 2005 | 2004 |
|------------------------------|------|------|------|
| -----                        | ---- | ---- | ---- |
| Effective tax rate           | --%  | --%  | --%  |

We continue to maintain a \$20 million valuation allowance against our net deferred tax assets including the net operating loss carryforward.

## Restructuring Charge (dollars in millions)

| For Year Ended September 30, | 2006  | 2005  | 2004  |
|------------------------------|-------|-------|-------|
| -----                        | ----  | ----  | ----  |
|                              | \$0.0 | \$0.1 | \$0.3 |

During May 2004, the Company commenced a restructuring initiative in an attempt to more closely align resources to customer requirements. The Company recorded \$119,000 of expenses during fiscal 2005, and \$257,000 of expenses during fiscal 2004. The restructuring resulted in the reduction of 57 employees. The annual savings to IEC was \$1,865,000. All payments were made by November 30, 2005. The Company has subsequently resumed growth in revenues and employment levels.

## Liquidity and Capital Resources

Cash Flow provided by (used in) operating activities was (\$3.1) million for the fiscal year ended September 30, 2006 compared to \$1.9 million and (\$0.7) million for fiscal 2005 and fiscal 2004 respectively. During fiscal 2006, we also used \$407,000 to purchase new equipment (investing activities) and \$212,000 to repurchase Company stock (financing activities). The decrease in operating cash flows for fiscal 2006 compared to fiscal 2005 was due to higher accounts receivable and inventory related to a substantial increase in customer orders. The increase in operating cash flows for fiscal 2005 compared to fiscal 2004 was due to lower accounts receivable and inventory related to a modest decrease in

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customer orders.

Working capital at September 30, 2006 was \$2.2 million, compared to \$2.0 million in the same period of the prior year. At September 30, 2006 we had a \$3.6 million balance under our revolving credit facility. The maximum borrowing limit under our revolving credit facility is limited to the lesser of (i) \$5.5 million or (ii) an amount equal to the sum of 85% of the receivables borrowing base and 35% of the inventory borrowing base. On September 30, 2006, the remaining availability under the collateralized portion of our line of credit was \$0.9 million. We also had access to a \$1.0 million overline that was not being utilized on September 30, 2006. Additional availability on the overline was \$0.4 million on September 30, 2006. We believe that our liquidity is adequate to cover operating requirements for the next 12 months.

We also have a term loan of \$535,000 that is secured by a first mortgage on the IEC plant in Newark, New York. The loan is payable in 39 monthly installments of \$12,500 that commenced October 1, 2005, and a final payment of the remaining balance on January 1, 2009. The loan has an interest rate of prime plus 1.0%.

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, and minimum earnings before interest, taxes, depreciation and amortization (EBITDA). We were compliant with these covenants at September 30, 2006.

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### 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, 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 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

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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 IEC's financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact IEC's financial position or its results of operations.

### Impact of Inflation

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

### RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2009. The Company is currently evaluating the impact of SFAS 157 on its consolidated financial statements, but the Company does not expect this to have a material impact.

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 had no impact on our financial statements.

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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

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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 had no 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.

### ITEM 7A. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated herein by reference to pages 25 through 35 of this Form 10-K and is indexed under Item 15(a) (1) and (2).

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements on accounting and financial disclosure matters.

### ITEM 9A CONTROLS AND PROCEDURES

#### (a) Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of IEC's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K as required by Rule 13a-15 under the Securities

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Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that IEC's disclosure controls and procedures are effective as of the end of the period covered by this Annual Report on Form 10-K to provide reasonable assurance that information required to be disclosed by IEC in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC rules and forms and that such information is accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding disclosures.

### (b) Changes in internal control over financial reporting

In connection with the evaluation described above, our management, including our Chief Executive Officer and Chief Financial Officer, identified no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2006, that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

### ITEM 9B OTHER INFORMATION

None

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## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is presented under the caption entitled "Election of Directors - Nominees for Election as Directors" contained in the definitive proxy statement issued in connection with the 2007 annual Meeting of Stockholders and is incorporated in this report by reference thereto. The information regarding Executive Officers of the Registrant is found in Part I of this report.

IEC has adopted a Code of Business Conduct and Ethics (the "Code"), which applies to all of its directors, officers (including IEC's Chief Executive Officer, Chief Financial Officer, and other senior financial officers), and employees. The Code, a copy of which was filed as Exhibit 14 to IEC's Current Report on Form 8-K filed on September 1, 2004, may be viewed on IEC's website, [www.iec-electronics.com](http://www.iec-electronics.com), under its "Investor Relations - Corporate Governance" captions, and is available in print (free of charge) to any person upon request to Chief Financial Officer, IEC Electronics Corp., 105 Norton Street, Newark, NY 14513, telephone (315) 331-7742. Any amendment to, or waiver of, a provision of the Code which applies to IEC's Chief Executive Officer, Chief Financial Officer, or other senior financial officers and relates to the elements of a "code of ethics" as defined by the Securities and Exchange Commission will also be posted on the website.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is presented under the caption entitled "Executive Officer Compensation" contained in the definitive proxy statement issued in connection with the 2007 Annual Meeting of Stockholders and is incorporated in this report by reference thereto, except, however, the sections entitled "Performance Graph" and "Report of the Compensation Committee of the Board of Directors" are not incorporated in this report by reference.

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## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is presented under the caption entitled "Security Ownership of Certain Beneficial Owners and Management" contained in the definitive proxy statement issued in connection with the 2007 Annual Meeting of Stockholders and is incorporated in this report by reference thereto.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is presented under the caption "Executive Officer Compensation - Certain Transactions" contained in the definitive proxy statement issued in connection with the 2007 Annual Meeting of Stockholders and is incorporated in this report by reference thereto.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is presented under the caption "Independent Public Accountants" contained in the definitive proxy statement issued in connection with the 2007 Annual Meeting of Stockholders and is incorporated in this report by reference thereto.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) The following documents are filed as part of this report and as response to Item 8:

|  | Page |
|--|------|
|  | ---- |
| (1) Financial Statements and Supplementary Schedules   |      |
| Report of Independent Public Accountants.....  | 22   |
| Consolidated Balance Sheets as of<br>September 30, 2006 and 2005.....  | 23   |
| Consolidated Statements of Operations for the years<br>ended September 30, 2006, 2005 and 2004 .....   | 24   |
| Consolidated Statements of Comprehensive Income (Loss) and<br>Shareholders' Equity for the years ended September 30, 2006,<br>2005 and 2004..... | 25   |
| Consolidated Statements of Cash Flows for the years<br>ended September 30, 2006, 2005 and 2004.....  | 26   |
| Notes to Consolidated Financial Statements.....  | 27   |
| Selected Quarterly Financial Data (unaudited).....   | 35   |

All other schedules are either inapplicable or the information is included in the financial statements and, therefore, have been omitted.

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- (2) Financial Statement Schedules required to be filed by Item 8 of this Form 10-K:  
     Valuation of Qualifying Accounts..... 35
- (3) Exhibits

| Exhibit No. | Title   |
|-------------|---|
| 3.1         | Amended and Restated Certificate of Incorporation of DFT Holdings Corp. (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, Registration No. 33-56498)   |
| 3.2         | Amended Bylaws of IEC Electronics Corp. (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended September 30, 2002).   |
| 3.3         | Agreement and Plan of Merger of IEC Electronics into DFT Holdings Corp. (Incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1, Registration No. 33-56498)   |
| 3.4         | Certificate of Merger of IEC Electronics Corp. into DFT Holdings Corp. - New York. (Incorporated by reference to Exhibit 3.4 to the Company's Registration Statement on Form S-1, Registration No. 33-56498)  |
| 3.5         | Certificate of Ownership and Merger merging IEC Electronics Corp. into DFT Holdings Corp. - Delaware. (Incorporated by reference to Exhibit 3.5 to the Company's Registration Statement on Form S-1, Registration No. 33-56498)   |
| 3.6         | Certificate of Merger of IEC Acquisition Corp. into IEC Electronics Corp. (Incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form S-1, Registration No. 33-56498)   |
| 3.7         | Certificate of Amendment of Certificate of Incorporation of IEC Electronics Corp. filed with the Secretary of State of the State of Delaware on Feb. 26, 1998 (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 27, 1998)  |
| 3.8         | Certificate of Designations of the Series A Preferred Stock of IEC Electronics Corp. filed with the Secretary of State of the State of Delaware on June 3, 1998. (Incorporated by reference to Exhibit 3.8 of the Company's Annual Report on Form 10-K for the year ended September 30, 1998) |
| 4.1         | Specimen of Certificate for Common Stock. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, Registration No. 33-56498)   |
| 4.2         | Rights Agreement dated as of June 2, 1998 between IEC Electronics Corp. and ChaseMellon Shareholder Services. LLC., as Rights Agents (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated June 2, 1998)  |
| 10.1*       | Form of Indemnity Agreement. (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 1993)  |
| 10.2*       | IEC Electronics Corp. 1993 Stock Option Plan, as amended  |



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(Incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended September 30, 1998)

- 10.3\* Form of Incentive Stock Option Agreement (Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8, Registration No. 33-79360)
- 10.4\* Form of Non-Statutory Stock Option Agreement (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8, Registration No. 33-79360)
- 10.5\* Form of Non-Employee Director Stock Option Agreement (Incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8, Registration No. 33-79360)
- 10.6\* IEC Electronics Corp. 2001 Stock Option and Incentive Plan, as amended on November 17, 2004 (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 333-122181).
- 10.7 Loan Agreement between IEC Electronics Corp., and Keltic Financial Partners, LLP, dated January 14, 2003 (Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended September 30, 2003)
- 10.8 First Amendment, dated as of March 23, 2004, to the Loan Agreement dated January 14, 2003, by and between Keltic Financial Partners, LP and IEC Electronics Corp. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 26, 2004).

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- 10.9 Second Amendment, dated as of January 7, 2005, to the Loan Agreement dated January 14, 2003, as amended by the First Amendment to the Loan Agreement, dated March 23, 2004, by and between Keltic Financial Partners, L.P. and IEC Electronics Corp. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 13, 2005).
- 10.10 Third Amendment dated as of September 30, 2005 to Loan Agreement dated January 14, 2003, as amended by the First Amendment to the Loan Agreement, dated March 23, 2004, and subsequently amended by the Second Amendment to the Loan Agreement dated January 7, 2005, by and between Keltic Financial Partners, L.P. and IEC Electronics Corp. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 6, 2005).
- 10.11 Waiver, dated as of June 25, 2004 to the Loan Agreement, dated January 14, 2003, by and between Keltic Financial Partners, LP and IEC Electronics Corp. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 25, 2004).
- 10.12 Fourth Amendment dated as of September 12, 2006 to the Loan Agreement dated January 14, 2003, as amended by the First Amendment to the Loan Agreement dated March 23, 2004, a Second Amendment to the Loan Agreement dated as of January 27, 2005 and a Third Amendment to the Loan Agreement dated September 30, 2005, by

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and between IEC Electronics and Keltic Financial Partners, L.P. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 2, 2006).

|        |   |    |
|--------|---|----|
| 10.13* | Form of challenge award option agreement granted to senior management in Fiscal 2005 (Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended September 30, 2005).                                      |    |
| 10.14* | Form of Sales Restriction Agreement between IEC Electronics Corp. and certain option holders, dated as of August 24, 2005 (Incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended September 30, 2005). |    |
| 14     | Code of Business Conduct and Ethics (Incorporated by Reference to Exhibit 14 to the Company's Current Report on Form 8-K filed on September 1, 2004)  |    |
| 21.1   | Subsidiaries of IEC Electronics Corp. ....  | 34 |
| 23.1   | Consent of Rotenberg & Co., LLP .....   | 35 |
| 31.1   | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 .....  | 36 |
| 31.2   | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 .....  | 37 |
| 32.1   | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.....   | 38 |

\*Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 16, 2006.

IEC Electronics Corp.

By: /s/ W. Barry Gilbert

-----  
W. Barry Gilbert  
Chief Executive Officer and  
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature            | Title                       | Date              |
|----------------------|-----------------------------|-------------------|
| -----                | -----                       | -----             |
| /s/ W. Barry Gilbert | Chief Executive Officer and | November 16, 2006 |

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|  |  |                   |
|--|--|-------------------|
| -----<br>(W. Barry Gilbert)                              | Chairman of the Board  |                   |
| /s/ Brian H. Davis<br>-----<br>(Brian H. Davis)          | Vice President,<br>Chief Financial Officer<br>and Controller | November 16, 2006 |
| -----<br>(David J. Beaubien)                             | Director   | November 16, 2006 |
| /s/Jerold L. Zimmerman<br>-----<br>(Jerold L. Zimmerman) | Director   | November 16, 2006 |
| /s/Eben S. Moulton<br>-----<br>(Eben S. Moulton)         | Director   | November 16, 2006 |
| /s/Justin L. Vigdor<br>-----<br>(Justin L. Vigdor)       | Director   | November 16, 2006 |
| /s/James C. Rowe<br>-----<br>(James C. Rowe)             | Director   | November 16, 2006 |

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors  
and Stockholders  
IEC Electronics Corp.  
Newark, New York

We have audited the accompanying consolidated balance sheets of IEC Electronics Corp. and Subsidiaries (a Delaware corporation) as of September 30, 2006 and 2005, and the related consolidated statements of operations, comprehensive income (loss) and shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our

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opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IEC Electronics Corp. and Subsidiaries as of September 30, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Rotenberg & Co., LLP

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 Rotenberg & Co., LLP  
 Rochester, New York  
 October 26, 2006

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IEC ELECTRONICS CORP. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 SEPTEMBER 30, 2006 AND 2005  
 (in thousands)

ASSETS

|  | 2006      | 2005     |
|--|-----------|----------|
|  | -----     | -----    |
| CURRENT ASSETS:  |           |          |
| Cash   | \$ --     | \$ 461   |
| Accounts receivable (net allowance for doubtful<br>Accounts of \$59 and \$35 respectively) | 4,941     | 2,344    |
| Inventories  | 5,114     | 630      |
| Deferred income taxes  | 250       | 250      |
| Other current assets   | 124       | 279      |
|  | -----     | -----    |
| Total Current Assets   | 10,429    | 3,964    |
| FIXED ASSETS:  |           |          |
| Land and land improvements   | \$ 707    | 707      |
| Building and improvements  | 4,089     | 4,080    |
| Machinery and equipment  | 22,164    | 22,582   |
| Furniture and fixtures   | 4,170     | 4,138    |
|  | -----     | -----    |
| SUB-TOTAL GROSS PROPERTY   | 31,130    | 31,507   |
| LESS ACCUMULATED DEPRECIATION  | (29,870)  | (30,000) |
|  | -----     | -----    |
| OTHER NON-CURRENT ASSETS   | 1,260     | 1,507    |
|  | 29        | 67       |
|  | -----     | -----    |
| Total Assets   | \$ 11,718 | \$ 5,538 |

LIABILITIES AND SHAREHOLDERS' EQUITY

|                                      | 2006     | 2005   |
|--------------------------------------|----------|--------|
|                                      | -----    | -----  |
| CURRENT LIABILITIES:                 |          |        |
| Short term borrowings                | \$ 3,765 | \$ 345 |
| Accounts payable                     | 3,853    | 918    |
| Accrued payroll and related expenses | 265      | 264    |
| Other accrued expenses               | 344      | 399    |

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|   |           |          |
|---|-----------|----------|
| Total current liabilities                       | 8,227     | 1,926    |
| Long term vendor payable                        | 14        | 57       |
| Long term bank debt                             | 385       | 535      |
| TOTAL LIABILITIES                               | 8,626     | 2,518    |
| SHAREHOLDERS' EQUITY:                           |           |          |
| Preferred stock, \$.01 par value, Authorized    |           |          |
| - 500,000 shares; Issued and outstanding - none | --        | --       |
| Common stock, \$.01 par value, Authorized       |           |          |
| - 50,000,000 shares; Issued - 8,401,133 and     |           |          |
| 8,292,450 shares                                | 84        | 83       |
| Treasury Shares at Cost 412,873 and 573 shares  | (223)     | (11)     |
| Additional paid-in capital                      | 38,601    | 38,533   |
| Accumulated deficit                             | (35,370)  | (35,585) |
| Total shareholders' equity                      | 3,092     | 3,020    |
|   | \$ 11,718 | \$ 5,538 |

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

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IEC ELECTRONICS CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006, 2005 AND 2004  
(in thousands, except per share and share data)

|   | 2006      | 2005      | 2004      |
|---|-----------|-----------|-----------|
| Net sales   | \$ 22,620 | \$ 19,066 | \$ 27,701 |
| Cost of sales   | 19,867    | 16,436    | 25,714    |
| Gross profit  | 2,753     | 2,630     | 1,987     |
| Operating expenses  |           |           |           |
| Selling and administrative expenses   | 2,155     | 2,165     | 2,489     |
| Restructuring charge  | --        | 119       | 257       |
| Total operating expenses  | 2,155     | 2,284     | 2,746     |
| Operating income (loss)   | 598       | 346       | (759)     |
| Interest and financing expense  | (378)     | (363)     | (386)     |
| Other income  | (5)       | 302       | 316       |
| Net income (loss) before income taxes                                       | 215       | 285       | (828)     |
| (Benefit from) provision for income taxes                                   | --        | --        | --        |
| Net income (loss)   | \$ 215    | 285       | \$ (828)  |
| Net income (loss) per common and common equivalent share:                   |           |           |           |
| Basic Income (loss) available to common shareholders                        | \$ 0.03   | \$ 0.03   | \$ (0.10) |
| Diluted Income (loss) available to common shareholders                      | \$ 0.03   | \$ 0.03   | \$ (0.10) |
| Weighted average number of common and common equivalent shares outstanding: |           |           |           |

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|         |           |           |           |
|---------|-----------|-----------|-----------|
| Basic   | 7,973,199 | 8,260,595 | 8,118,587 |
| Diluted | 8,275,961 | 8,570,520 | 8,118,587 |

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

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IEC ELECTRONICS CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) AND SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2006, 2005 AND 2004  
(in thousands)

|  | Comprehensive<br>Income (Loss) | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Tr  |
|--|--------------------------------|-----------------|----------------------------------|-----------------------------------|---|-----|
|  | -----                          | -----           | -----                            | -----                             | -----   | --- |
| BALANCE,   |                                |                 |                                  |                                   |   |     |
| September 30, 2003   |                                | \$80            | \$38,479                         | \$ (35,042)                       | \$ (92)   |     |
| Shares issued under<br>Directors and Employee<br>Stock Plan              |                                | \$ 2            | \$ 28                            | --                                | --  |     |
| Net Loss   | \$ (828)                       | --              | --                               | \$ (828)                          | --  |     |
| Other comprehensive<br>Loss, currency<br>translation adjustments         | \$ --                          | --              | --                               | --                                | \$ --   |     |
|  | -----                          | -----           | -----                            | -----                             | -----   |     |
| Comprehensive income   | \$ (828)                       |                 |                                  |                                   |   |     |
| BALANCE,   |                                |                 |                                  |                                   |   |     |
| September 30, 2004   |                                | \$82            | \$38,507                         | \$ (35,870)                       | \$ (92)   |     |
| Shares issued under<br>Directors and Employee<br>Stock Plan              |                                | \$ 1            | \$ 26                            | --                                | --  |     |
| Net Income   | \$ 285                         | --              | --                               | \$ 285                            | --  |     |
| Other comprehensive<br>Income, currency<br>translation adjustments       | \$ 92                          | --              | --                               | --                                | \$ 92   |     |
|  | -----                          | -----           | -----                            | -----                             | -----   |     |
| Comprehensive income   | \$ 377                         |                 |                                  |                                   |   |     |
| BALANCE,   |                                |                 |                                  |                                   |   |     |
| September 30, 2005   |                                | \$83            | \$38,533                         | \$ (35,585)                       | \$ --   |     |
| Shares issued and expensed<br>Under Directors and<br>Employee Stock Plan |                                | \$ 1            | \$ 68                            | --                                | --  |     |
| Net Income   | \$ 215                         | --              | --                               | \$ 215                            | --  |     |
| Purchase of Treasury<br>Stock  |                                | --              | --                               | --                                | --  |     |
| Other comprehensive<br>Income, currency<br>translation adjustments       | \$ --                          | --              | --                               | --                                | \$ --   |     |
|  | -----                          | -----           | -----                            | -----                             | -----   |     |
| Comprehensive income   | \$ 215                         |                 |                                  |                                   |   |     |
| BALANCE,   |                                |                 |                                  |                                   |   |     |
| September 30, 2006   |                                | \$84            | \$38,601                         | \$ (35,370)                       | \$ --   |     |

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

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IEC ELECTRONICS CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006, 2005 AND 2004  
(in thousands)

|   | 2006<br>----- | 2005<br>----- | 2004<br>----- |
|---|---------------|---------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>              |               |               |               |
| Net income (loss)   | \$ 215        | \$ 285        | \$ (828)      |
| Non-cash adjustments:                                     |               |               |               |
| Compensation Expense - Stock Options                      | 27            | --            | --            |
| (Income) from discontinued operations                     | --            | (28)          | --            |
| Depreciation and amortization                             | 676           | 1,016         | 1,138         |
| (Gain) loss on sale of fixed assets                       | 5             | (270)         | (298)         |
| Issuance of directors fees in stock                       | 27            | 21            | 17            |
| Changes in operating assets and liabilities:              |               |               |               |
| Accounts receivable                                       | (2,597)       | 1,366         | 294           |
| Inventories   | (4,484)       | 1,253         | (249)         |
| Deferred income taxes                                     | --            | --            | --            |
| Other current assets                                      | 155           | 3             | 46            |
| Accounts payable  | 2,935         | (1,336)       | (487)         |
| Accrued expenses  | (54)          | (459)         | (323)         |
|   | -----         | -----         | -----         |
| Net cash flows from operating activities                  | (3,095)       | 1,851         | (690)         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>              |               |               |               |
| Purchases of property, plant and equipment                | (407)         | (239)         | (113)         |
| Proceeds from sale of property                            | 11            | 270           | 298           |
|   | -----         | -----         | -----         |
| Net cash flows from investing activities                  | (396)         | 31            | 185           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>              |               |               |               |
| Repayments under loan agreements                          | (346)         | (403)         | (1,326)       |
| Borrowings (payments) on line of credit                   | 3,573         | (1,025)       | 1,025         |
| Purchase of Treasury Stock                                | (212)         | --            | --            |
| Proceeds from exercise of stock options                   | 15            | 7             | 13            |
|   | -----         | -----         | -----         |
| Net cash flows from financing activities                  | 3,030         | (1,421)       | (288)         |
| Change in cash and cash equivalents                       | (461)         | 461           | (793)         |
| Cash and cash equivalents, beginning of year              | 461           | --            | 793           |
|   | -----         | -----         | -----         |
| Cash and cash equivalents, end of year                    | \$ --         | \$ 461        | \$ --         |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b> |               |               |               |
| Cash paid during the year for:                            |               |               |               |
| Interest  | \$ 340        | \$ 260        | \$ 386        |
| Income taxes, net of refunds received                     | \$ --         | \$ --         | \$ --         |

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

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## IEC ELECTRONICS CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2006, 2005 AND 2004

### 1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Business

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 is a significant provider of high quality electronics manufacturing services with state-of-the-art manufacturing capabilities. Utilizing computer controlled manufacturing and test machinery and equipment, the Company 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 and management services, on either a turnkey or consignment basis, including design, prototype, material procurement and control, manufacturing and test engineering support, statistical quality assurance, complete resource management and distribution. The Company's strategy is to cultivate strong manufacturing relationships with established and emerging original equipment manufacturers ("OEMs").

#### Consolidation

All significant intercompany transactions and accounts have been eliminated.

#### Revenue Recognition

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 reasonable 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 which 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.

#### Long-Lived Assets

The Company evaluates its long-lived assets for financial impairment on a regular basis in accordance with Statement of Financial Accounting Standards No.



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144, "Accounting for the Impairment or Disposal of Long-Lived Assets." IEC evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group).

### Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable and payable, accrued liabilities, and debt. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value. The fair value of the Company's debt is estimated based upon similar market rate debt issues.

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### Earnings Per Share

Net income (loss) per common share is computed in accordance with SFAS No. 128, "Earnings Per Share". Basic earnings per common share are 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 are calculated by adjusting the weighted-average shares outstanding assuming conversion of all potentially dilutive stock options, warrants and convertible securities.

### Stock Based Compensation

The Company adopted SFAS No. 123(R) on October 1, 2005 using the modified Prospective Application Method. Prior to October 1, 2005, the Company accounted for stock-based awards in accordance with APB Opinion No. 25. For the fiscal year ended September 30, 2006, the Company recorded stock-based compensation expense for the cost of stock options issued under its Stock Option and Incentive Plan. The Company's expensing of stock-based compensation decreased both our basic and diluted net income per share by less than \$0.01 for the fiscal year ended September 30, 2006.

Under the provisions of APB Opinion No. 25, the Company was not required to recognize compensation expense for the cost of stock options. The following table illustrates the effect on net income and net income per share as if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation -- Transition and Disclosure for the fiscal years ended September 30 (in thousands, except per share data):

|  | 2005    | 2004      |
|--|---------|-----------|
| Net earnings, as reported  | \$ 285  | \$ (828)  |
| Deduct: Compensation Cost using the<br>Fair value method, net of tax | \$(199) | \$ (133)  |
| Pro forma net earnings   | \$ 86   | \$ (961)  |
| Earnings per share:  |         |           |
| Basic - as reported  | \$0.03  | \$ (0.10) |
| Basic - pro forma  | \$0.01  | \$ (0.12) |
| Diluted - as reported  | \$0.03  | \$ (0.10) |
| Diluted - pro forma  | \$0.01  | \$ (0.12) |

During 2006, 2005, and 2004 the Company issued 27,500, 643,000, and

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244,000 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:

|                           | 2006    | 2005    | 2004    |
|---------------------------|---------|---------|---------|
| Risk free interest rate   | 4.4%    | 3.9%    | 3.4%    |
| Expected term             | 4 years | 4 years | 5 years |
| Volatility                | 72%     | 54%     | 118%    |
| Expected annual dividends | none    | none    | none    |

The weighted average fair value of options granted during 2006 was \$.27 with an aggregate total value of \$7,000. The weighted average fair value of options granted during 2005 was \$.54 with an aggregate total value of \$201,000. The weighted average fair value of options granted during 2004 was \$1.09 with an aggregate value of \$234,000. There were no dividends. Forfeitures are recognized as they occur.

On August 24, 2005, the Board of Directors approved accelerated vesting on stock options with an exercise price of \$0.90 or higher because it was believed that these options no longer served their intended purpose. Approximately 184,000 options were vested due to this decision.

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### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassifications

Certain amounts in 2005 and 2004 have been reclassified to conform with the 2006 presentation.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2009. The Company is currently evaluating the impact of SFAS 157 on its consolidated financial statements, but the Company does not expect this to have a material impact.

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.

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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 had no 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 had no 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. INVENTORIES

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

|                 | 2006    | 2005  |
|-----------------|---------|-------|
|                 | -----   | ----- |
| Raw Materials   | \$3,270 | \$432 |
| Work-in-process | 1,836   | 197   |
| Finished goods  | 8       | 1     |
|                 | -----   | ----- |
|                 | \$5,114 | \$630 |

### 3. PROPERTY, PLANT, AND EQUIPMENT

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Property, plant, and equipment 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; renewals and improvements are capitalized. At the time of retirement or other disposition of property, plant, and equipment, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other income.

Depreciation and amortization was \$0.7 million, \$1.0 million, and \$1.1 million for the years ended September 30, 2006, 2005 and 2004, respectively.

The principal depreciation and amortization lives used are as follows:

| Description                | Estimated<br>Useful Lives |
|----------------------------|---------------------------|
| -----                      | -----                     |
| Land improvements          | 10 years                  |
| Buildings and improvements | 5 to 40 years             |
| Machinery and equipment    | 3 to 5 years              |
| Furniture and fixtures     | 3 to 7 years              |

#### 4. RESTRUCTURING

During May 2004, the Company commenced a restructuring initiative to more closely align resources to customer requirements. The Company recorded \$119,000 of expenses during fiscal 2005, and \$257,000 of expenses during fiscal 2004. The restructuring resulted in the reduction of 57 employees. The annual savings to IEC was \$1,865,000. All payments were made by November 30, 2005. The Company has subsequently resumed growth in revenues and employment levels.

#### 5. CREDIT FACILITIES:

Debt consists of the following at September 30 (in thousands):

|                          | 2006    | 2005  |
|--------------------------|---------|-------|
|                          | -----   | ----  |
| Short Term Borrowings    | \$3,765 | \$345 |
| Long Term Vendor Payable | 14      | 57    |
| Long Term Bank Debt      | 385     | 535   |
|                          | -----   | ----  |
|                          | \$4,164 | \$937 |

Under the terms of the current agreement with Keltic, IEC has a line of credit with a maximum borrowing limit up to \$5.5 million based upon advances on eligible accounts receivable and inventory. The Company also has a \$0.5 million term loan that is secured by the Company's real estate. In addition, Keltic will make additional temporary advances to IEC of up to \$1.0 million, provided that these temporary advances are repaid within 60 days, and that no temporary advances shall be outstanding for a period of 30 days between each advance. The loans have an interest rate of prime plus 1%, except for prime plus 2% on temporary advances. The prime rate at September 30, 2006 was 8.25%. The combined balance on the Keltic loans at September 30, 2006 was \$4.1 million.

The Keltic loan agreement contains various affirmative and negative covenants including limitations on the amount available under the revolving line of credit relative to the borrowing base, capital expenditures, and minimum earnings before interest, taxes, depreciation and amortization (EBITDA). The Company was compliant with these covenants as of September 30, 2006.

Aggregate maturities on term debt are as follows (in thousands):

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|       | Vendor<br>Agreements | Real Estate<br>Loan |
|-------|----------------------|---------------------|
|       | -----                | -----               |
| 2007  | \$42                 | \$150               |
| 2008  | 11                   | 150                 |
| 2009  | 3                    | 235                 |
|       | ---                  | ---                 |
| Total | \$56                 | \$535               |

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