

Edgar Filing: IEH CORPORATION - Form 10QSB

IEH CORPORATION  
Form 10QSB  
February 09, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
-----

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended December 26, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

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

Commission File No. 0-5258

IEH CORPORATION  
(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of  
incorporation or organization)

1365549348  
(I.R.S. Employer  
Identification Number)

140 58th Street, Suite 8E, Brooklyn, New York 11220  
(Address of principal executive office)

Registrant's telephone number, including area code: (718) 492-4440

-----  
Former name, former address and former fiscal year,  
if changed since last report.

Check whether the Issuer: (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

2,303,468 shares of Common Shares, par value \$.01 per share, were outstanding as  
of December 26, 2003.

IEH CORPORATION

CONTENTS

Page  
Number  
-----

# Edgar Filing: IEH CORPORATION - Form 10QSB

Part I - FINANCIAL INFORMATION

ITEM 1- FINANCIAL STATEMENTS

Balance Sheets as of December 26, 2003 (Unaudited) and March 28, 2003	1
Statement of Operations (Unaudited) for the three and nine months ended December 26, 2003 and December 27, 2002.	3
Statement of Cash Flows (Unaudited) for the nine months ended December 26, 2003 and December 27, 2002.	4
Notes to Financial Statements (Unaudited)	6

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	15
---------------------------------------------------------------------------------------------------	----

Part II - OTHER INFORMATION

1

IEH CORPORATION

BALANCE SHEETS

As of December 26, 2003 and March 28, 2003

	Dec. 26, 2003 ----- (Unaudited)	March 28, 2003 ----- (Note 1)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,824	\$ 5,565
Accounts receivable, less allowances for doubtful accounts of \$10,062 at December 26, 2003 and March 28, 2003	551,396	769,845
Inventories (Note 3)	920,600	1,089,075
Prepaid expenses and other current assets (Note 4)	34,256	53,722
	-----	-----
Total current assets	1,509,076	1,918,207
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation and amortization of \$5,942,565 at December 26, 2003 and \$5,788,365 at March 28, 2003		
	1,148,420	1,119,513
	-----	-----
	1,148,420	1,119,513
	-----	-----
OTHER ASSETS:		
Other assets	42,551	42,430
	-----	-----
	42,551	42,430
	-----	-----

Edgar Filing: IEH CORPORATION - Form 10QSB

Total assets	\$2,700,047	\$3,080,150
	=====	=====

See accompanying notes to financial statements

2

IEH CORPORATION

BALANCE SHEETS

As of December 26, 2003 and March 28, 2003

Dec. 26,  
2003

-----  
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts receivable financing (Note 7)	\$ 661,390
Notes payable, equipment, current portion (Note 6)	11,903
Accrued corporate income taxes	22,600
Due to union health and welfare plan, current portion (Note 9)	16,328
Accounts payable	687,993
Pension plan payable, current portion (Note 9)	78,000
Other current liabilities (Note 5)	122,070
	-----

Total current liabilities	1,600,284
	-----

LONG-TERM LIABILITIES:

Pension Plan payable, less current portion (Note 9)	158,000
Notes payable, equipment, less current portion (Note 6)	13,374
Due to union health and welfare plan, less current portion (Note 9)	--
	-----

Total long-term liabilities	171,374
	-----

Total liabilities	1,771,658
	-----

STOCKHOLDERS' EQUITY:

Common stock, \$.01 par value; 10,000,000 shares authorized; 2,303,468 shares issued and outstanding at December 26, 2003 and March 28, 2003	23,035
Capital in excess of par value	2,744,573
Retained earnings (Deficit)	(1,839,219)
	-----

Total stockholders' equity	928,389
	-----

Total liabilities and stockholders' equity	\$ 2,700,047
	=====

# Edgar Filing: IEH CORPORATION - Form 10QSB

See accompanying notes to financial statements

3

## IEH CORPORATION STATEMENT OF OPERATIONS (Unaudited)

	Nine Months Ended		Three Months Ended	
	Dec. 26, 2003	Dec. 27, 2002	Dec. 26, 2003	Dec. 27, 2002
REVENUE, net sales	\$ 3,739,711	\$ 3,562,562	\$ 1,225,891	\$ 1,176,891
COSTS AND EXPENSES				
Cost of products sold	2,709,927	2,629,573	893,956	880,956
Selling, general and administrative	714,441	618,262	238,429	210,429
Interest expense	81,230	98,116	24,862	31,230
Depreciation and amortization	154,200	151,200	51,600	50,429
	3,659,798	3,497,151	1,208,847	1,173,144
OPERATING INCOME	79,913	65,411	17,044	2,429
OTHER INCOME	278	237	225	225
INCOME BEFORE INCOME TAXES	80,191	65,648	17,269	3,654
PROVISION FOR INCOME TAXES	12,600	12,600	4,200	4,200
NET INCOME	\$ 67,591	\$ 53,048	\$ 13,069	\$ (1,546)
BASIC AND DILUTED EARNINGS PER SHARE	\$ .029	\$ .023	\$ .006	\$ (.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES				
OUTSTANDING (in thousands)	2,303	2,303	2,303	2,303

See accompanying notes to financial statements

4

IEH CORPORATION

Edgar Filing: IEH CORPORATION - Form 10QSB

STATEMENT OF CASH FLOWS  
Increase (Decrease) in Cash  
(Unaudited)

	Nine Months Ended	
	Dec. 26, 2003	Dec. 27, 2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 67,591	\$ 53,048
	-----	-----
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	154,200	151,200
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	218,449	(81,605)
(Increase) decrease inventories	168,475	(43,861)
(Increase) decrease in prepaid expenses and other current assets	19,466	(5,013)
(Increase) decrease in other assets	(121)	1,188
Increase (decrease) in accounts payable	(329,429)	18,030
Increase (decrease) in other current liabilities	(37,763)	(33,394)
Increase (decrease) in accrued corporate income taxes	5,800	12,600
Increase (decrease) in union health and welfare plan	(27,500)	(22,500)
Increase (decrease) in due to pension plan payable	(8,000)	--
	-----	-----
Total adjustments	163,577	(3,355)
	-----	-----
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	231,168	49,693
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	(183,107)	(160,086)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	\$ (183,107)	\$ (160,086)
	=====	=====

See accompanying notes to financial statements

IEH CORPORATION

STATEMENT OF CASH FLOWS  
Increase (Decrease) in Cash  
(Unaudited)

Nine Months Ended  
-----  
Dec. 26,            Dec. 27,

Edgar Filing: IEH CORPORATION - Form 10QSB

	2003	2002
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable	\$ 16,790	\$ --
Principal payments on notes payable	(16,323)	(18,966)
Proceeds from accounts receivable financing	(51,269)	155,748
Increase (decrease) on loan payable	--	(25,289)
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(50,802)	111,493
	-----	-----
INCREASE (DECREASE) IN CASH	(2,741)	1,100
CASH, beginning of period	5,565	2,875
	-----	-----
CASH, end of period	\$ 2,824	\$ 3,975
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION, cash paid during the nine months for:		
Interest	\$ 73,517	\$ 89,369
	=====	=====
Income Taxes	\$ --	\$ 943
	=====	=====

See accompanying notes to financial statements

6

IEH CORPORATION

NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

Note 1- INTERIM RESULTS AND BASIS OF PRESENTATION

The accompanying unaudited financial statements as of December 26, 2003 and December 27, 2002 and for the nine month periods then ended have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Items 303 and 310 of Regulation S-B. In the opinion of management, the unaudited financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of December 26, 2003 and December 27, 2002 and the results of operations and cash flows for the nine month periods then ended. The financial data and other information disclosed in these notes to the interim financial statements related to these periods are unaudited. The results for the nine months ended December 26, 2003, are not necessarily indicative of the results to be expected for any subsequent quarter or the entire fiscal year. The balance sheet at March 28, 2003 has been derived from the audited financial statements at that date.

Certain information and footnote disclosures normally included in

## Edgar Filing: IEH CORPORATION - Form 10QSB

financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations. The Company believes, however, that the disclosures in this report are adequate to make the information presented not misleading in any material respect. The accompanying financial statements should be read in conjunction with the audited financial statements of IEH Corporation as of March 28, 2003 and notes thereto included in the Company's report on Form 10-KSB as filed with the Securities and Exchange Commission.

### Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Description of Business:

The Company is engaged in the design, development, manufacture and distribution of high performance electronic printed circuit connectors and specialized interconnection devices. Electronic connectors and interconnection devices are used in providing electrical connections between electronic component assemblies. The Company develops and manufactures connectors which are designed for a variety of high technology and high performance applications, and are primarily utilized by those users who require highly efficient and dense (the space between connection pins with the connector) electrical connections.

The Company is continuously redesigning and adapting its connectors to meet and keep pace with developments in the electronics industry and has, for example, developed connectors for use with flex-circuits now being used in aerospace programs, computers, air-borne communications systems, testing systems and other areas. The Company also services its connectors to meet specified product requirements.

7

## IEH CORPORATION

### NOTES TO FINANCIAL STATEMENTS (Unaudited)

### Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### Accounting Period:

The Company maintains an accounting period based upon a 52-53 week year which ends on the nearest Friday in business days to March 31st. For the year ending March 26, 2004, the year is comprised of 52 weeks. The year ended March 28, 2003 was comprised of 52 weeks.

#### Revenue Recognition:

Revenues are recognized at the shipping date of the Company's products.

The Company's policy with respect to customer returns and allowances as well as product warranty is as follows:

The Company will accept a return of defective product within one year from shipment for repair or replacement at the Company's

## Edgar Filing: IEH CORPORATION - Form 10QSB

option. If the product is repairable, the Company at its own cost will repair and return it to the customer. If unrepairable, the Company will either offer an allowance against payment or will reimburse the customer for the total cost of the product.

Most of the Company's products are custom ordered by customers for a specific use. The Company provides engineering services as part of the relationship with its customers in developing the custom product. The Company is not obligated to provide such engineering service to its customers. The Company does not charge separately for these services.

### Inventories:

Inventories are stated at cost, on a first-in, first-out basis, which does not exceed market value.

### Concentration of Credit Risk:

The Company maintains cash balances at one bank. Amounts on deposit are insured by the Federal Deposit Insurance Corporation up to \$100,000 in aggregate. There were no uninsured balances at either December 26, 2003 or March 28, 2003.

### Property, Plant and Equipment:

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The Company provides for depreciation and amortization using the Modified Accelerated Cost Recovery System (MACRS) method over the estimated useful lives (5-7 years) of the related assets.

Maintenance and repair expenditures are charged to operations, and renewals and betterments are capitalized. Items of property, plant and equipment which are sold, retired or otherwise disposed of are removed from the asset and accumulated depreciation or amortization account. Any gain or loss thereon is either credited or charged to operations.

8

## IEH CORPORATION

### NOTES TO FINANCIAL STATEMENTS (Unaudited)

#### Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

### Income Taxes:

The Company follows the policy of treating investment tax credits as a reduction in the provision for federal income tax in the year in which the credit arises or may be utilized. Deferred income taxes arise from temporary differences resulting from different depreciation methods used for financial and income tax purposes. The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes".

### Net Income Per Share:



## Edgar Filing: IEH CORPORATION - Form 10QSB

The Company has adopted the provisions of SFAS No. 128, "Earnings Per Share", which requires the disclosure of "basic" and "diluted" earnings (loss) per share. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted earnings per share is similar to basic earnings per share except that the weighted average number of common shares outstanding is increased to reflect the dilutive effect of potential common shares, such as those issuable upon the exercise of stock or warrants, as if they had been issued. For the nine months ended December 26, 2003 and December 27, 2002, there were no items of potential dilution that would impact on the computation of diluted earnings or loss per share.

### Fair Value of Financial Instruments:

The carrying value of the Company's financial instruments, consisting of accounts receivable, accounts payable, and borrowings, approximate their fair value due to the relatively short maturity (three months) of these instruments.

### 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, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual amounts could differ from those estimates.

### Impairment of Long-Lived Assets:

SFAS No. 121, "Accounting For The Impairment of Long-Lived Assets To Be Disposed Of", requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company has adopted SFAS No. 121. There were no, long-lived asset impairments recognized by the Company for the nine months ended December 26, 2003 and December 27, 2002.

9

## IEH CORPORATION

### NOTES TO FINANCIAL STATEMENTS (Unaudited)

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

### Reporting Comprehensive Income:

The Company has adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income". This statement established standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in an entity's financial statements. This Statement requires an entity to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. There were

## Edgar Filing: IEH CORPORATION - Form 10QSB

no material items of comprehensive income to report for the nine months ended December 26, 2003 and December 27, 2002.

### Segment Information:

The Company has adopted the provisions of SFAS No. 131, "Disclosures About Segment of An Enterprise and Related Information." This Statement requires public enterprises to report financial and descriptive information about its reportable operating segments and establishes standards for related disclosures about product and services, geographic areas, and major customers. The adoption of SFAS No. 131 did not affect the Company's presentation of its results of operations or financial position.

### Effect of New Accounting Pronouncements:

The Company does not believe that any recently issued but not yet effective accounting standards, have a material effect on the Company's financial position, results of operations or cash flows.

### Note 3 - INVENTORIES:

Inventories are comprised of the following:

	Dec. 26, 2003	March 28, 2003
	-----	-----
Raw materials	\$ 599,863	\$ 709,647
Work in progress	237,607	281,075
Finished goods	83,130	98,353
	-----	-----
	\$ 920,600	\$ 1,089,075
	=====	=====

Inventories are priced at the lower of cost (first-in, first-out method) or market, whichever is lower. The Company has established a reserve for obsolescence to reflect net realizable inventory value. The balance of this reserve as of December 26, 2003 was \$36,000. At March 28, 2003, the balance of this reserve was \$0.

Inventories at December 26, 2003 and March 28, 2003 are recorded net of this reserve.

10

### IEH CORPORATION

#### NOTES TO FINANCIAL STATEMENTS (Unaudited)

### Note 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS:

Prepaid expenses and other current assets are comprised of the following:

	Dec. 26, 2003	March 28, 2003
	-----	-----
Prepaid insurance	\$ 17,707	\$ 49,816

Edgar Filing: IEH CORPORATION - Form 10QSB

Prepaid corporate taxes	5,288	3,737
Other current assets	11,261	169
	-----	-----
	\$ 34,256	\$ 53,722
	=====	=====

Note 5 - OTHER CURRENT LIABILITIES:

Other current liabilities are comprised of the following:

	Dec. 26, 2003	March 28, 2003
	-----	-----
Payroll and vacation accruals	\$ 34,991	\$ 77,622
Sales commissions	10,781	13,795
Other	76,298	68,416
	-----	-----
	\$ 122,070	\$ 159,833
	=====	=====

Note 6 - NOTES PAYABLE EQUIPMENT:

The Company financed the acquisition of new computer equipment and software with notes payable. The notes are payable over a sixty month period. The balance remaining at December 26, 2003 amounted to \$25,277.

Aggregate future principal payments are as follows:

Fiscal year ending March 31,	
2004	\$ 4,145
2005	9,991
2006	4,102
2007	3,136
Thereafter	3,903
	-----
	\$ 25,277
	=====

IEH CORPORATION

NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

Note 7- ACCOUNTS RECEIVABLE FINANCING:

The Company has an accounts receivable financing agreement with a factor which bears interest at 2.5% above prime with a minimum of 12% per annum. At December 26, 2003 the amount outstanding with the factor was \$661,390 as compared to \$712,659 at March 28, 2003. The loan is secured by the Company's accounts receivables and inventories.

Note 8- 2001 EMPLOYEE STOCK OPTION PLAN:

On December 21, 2001 the Company's shareholders approved the

## Edgar Filing: IEH CORPORATION - Form 10QSB

adoption of the Company's 2001 Employees Stock Option Plan to provide for the grant of options to purchase up to 750,000 shares of the Company's common stock to all employees, including senior management.

Options granted to employees under this plan may be designated as options which qualify for incentive stock option treatment under Section 422A of the Internal Revenue Code, or options which do not so qualify.

Under this plan, the exercise price of an option designated as an Incentive Stock Option shall not be less than the fair market value of the Company's common stock on the day the option is granted. In the event an option designated as an incentive stock option is granted to a ten percent (10%) shareholder, such exercise price shall be at least 110 Percent (110%) of the fair market value or the Company's common stock and the option must not be exercisable after the expiration of five years from the day of the grant.

Exercise prices of non incentive stock options may be less than the fair market value of the Company's common stock.

The aggregate fair market value of shares subject to options granted to a participant(s), which are designated as incentive stock options, and which become exercisable in any calendar year, shall not exceed \$100,000. As of December 26, 2003 no options had been granted under the plan.

12

### IEH CORPORATION

#### NOTES TO FINANCIAL STATEMENTS (Unaudited)

#### Note 9 - COMMITMENTS:

The Company exercised its option to renew its lease on the premises for 10 years. The original lease ran through August 23, 2001.

The Company is obligated under this renewal through August 23, 2011, at minimum annual rentals as follows:

Fiscal year ending March,

2004	\$	28,191
2005		112,764
2006		112,764
2007		112,764
2008		112,764
2009		112,764
2010		112,764
2011		75,176
		-----
	\$	779,951
		=====

The rental expense for the nine months ended December 26, 2003 for this lease was \$84,573.

## Edgar Filing: IEH CORPORATION - Form 10QSB

The Company has a collective bargaining multi-employer pension plan with the United Auto Workers of America, Local 259. Contributions are made in accordance with a negotiated labor contract and are based on the number of covered employees employed per month. With the passage of the Multi-Employer Pension Plan Amendments Act of 1990 ("The Act"), the Company may become subject to liabilities in excess of contributions made under the collective bargaining agreement. Generally, these liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the Plan.

The Company has not taken any action to terminate, withdraw or partially withdraw from the Plan nor does it intend to do so in the future. Under the Act, liabilities would be based upon the Company's proportional share of the Plan's unfunded vested benefits, which is currently not available. The amount of accumulated benefits and net assets of such Plan also is not currently available to the Company. The total contributions charged to operations under this pension plan were \$37,705 for the nine months ended December 26, 2003 and \$32,785 for the nine months ended December 27, 2002.

As of December 26, 2003, the Company reported arrears with respect to its contributions to the Union's Health and Welfare plan. The amount due the Health and Welfare plan was \$16,328.

The total amount due of \$16,328 is reported on the accompanying balance sheet as a current liability.

13

### IEH CORPORATION

#### NOTES TO FINANCIAL STATEMENTS (Unaudited)

#### Note 9 - COMMITMENTS (continued):

In December 1993, the Company and Local 259 entered into a verbal agreement whereby the Company would satisfy this debt by the following payment schedule:

The sum of \$2,500 will be paid by the Company each month in satisfaction of the current arrears until this total debt has been paid. Under this agreement, the projected payment schedule for arrears will satisfy the total debt in 7 months.

On June 30, 1995, the Company applied to the Pension Benefit Guaranty Corporation ("PBGC") to have the PBGC assume all of the Company's responsibilities and liabilities under its Salaried Pension Plan. On April 26, 1996, the PBGC determined that the Salaried Pension Plan did not have sufficient assets available to pay benefits which were and are currently due under the terms of the Plan.

The PBGC further determined that pursuant to the provisions of the Employment Retirement Income Security Act of 1974, as amended ("ERISA"), that the Plan must be terminated in order to protect the interests of the Plan's participants. Accordingly, the PBGC proceeded pursuant to ERISA to have the Plan terminated and the PBGC appointed as statutory trustee, and to have July 31, 1995

## Edgar Filing: IEH CORPORATION - Form 10QSB

established as the Plan's termination date.

The Company and the PBGC negotiated a settlement on the entire matter and on July 2, 2001, an agreement was reached whereby the Company's liability to the PBGC was reduced to \$244,000. The Company will make monthly payments to the PBGC as follows:

September 1, 2003 to August 1, 2004	\$2,000 per month
September 1, 2004 to August 1, 2006	\$3,000 per month
September 1, 2006 to August 1, 2007	\$4,000 per month

In addition, to the above referenced monthly payments, the Company will make balloon payments of \$25,000 each on the following dates:

January 1, 2004  
May 1, 2004  
May 1, 2005  
January 1, 2006

The Company also granted the PBGC a lien on the Company's machinery and equipment.

As a result of this agreement the amount due the PBGC was restated to \$244,000. The balance as of December 26, 2003 was \$236,000. The balance of \$236,000 is reported on the accompanying balance sheet as follows: \$78,000 as a current liability and \$158,000 as a long-term liability.

14

### IEH CORPORATION

#### NOTES TO FINANCIAL STATEMENTS (Unaudited)

##### Note 10 - CHANGES IN STOCKHOLDERS' EQUITY:

Retained earnings (deficit) decreased by \$67,591, which represents the net income for the nine months ended December 26, 2003.

15

### IEH CORPORATION

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements contained in this report which are not historical facts may be considered forward-looking information with respect to plans, projections, or future performance of the Company as defined under the Private Securities litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those projected. The words "anticipate", "believe", "estimate", "expect", "objective", and "think" or similar expressions used herein are intended to identify forward-looking statements. The forward-looking statements are based on the Company's current views and assumptions and involve risks and uncertainties that include, among other things, the effects of the Company's business, actions of competitors, changes in laws and regulations, including accounting standards,

## Edgar Filing: IEH CORPORATION - Form 10QSB

employee relations, customer demand, prices of purchased raw material and parts, domestic economic conditions, including housing starts and changes in consumer disposable income, and foreign economic conditions, including currency rate fluctuations. Some or all of the facts are beyond the Company's control.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related footnotes which provide additional information concerning the Company's financial activities and condition.

### CRITICAL ACCOUNTING POLICIES

#### Accounting Period:

The Company maintains an accounting period based upon a 52-53 week year which ends on the nearest Friday in business days to March 31st.

#### Revenue Recognition:

Revenues are recognized at the shipping date of the Company's products.

The Company's policy with respect to customer returns and allowances as well as product warranty is as follows:

The Company will accept a return of defective product within one year from shipment for repair or replacement at the Company's option.

If the product is repairable, the Company at its own cost will repair and return it to the customer. If unrepairable, the Company will either offer an allowance against payment or will reimburse the customer for the total cost of the product.

Most of the Company's products are custom ordered by customers for a specific use. The Company provides engineering services as part of the relationship with its customers in developing the custom product. The Company is not obligated to provide such engineering service to its customers. The Company does not charge separately for these services.

#### Inventories:

Inventories are stated at cost, on a first-in, first-out basis, which does not exceed market value.

16

### IEH CORPORATION

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CRITICAL ACCOUNTING POLICIES (CONTINUED)

#### Concentration of Credit Risk:

The Company maintains cash balances at one bank. Amounts on deposit are insured by the Federal Deposit Insurance Corporation up to \$100,000 in aggregate. There were no uninsured balances at either December 26, 2003 or March 28, 2003.

#### Property, Plant and Equipment:

Property, plant and equipment is stated at cost less accumulated depreciation

## Edgar Filing: IEH CORPORATION - Form 10QSB

and amortization. The Company provides for depreciation and amortization using the Modified Accelerated Cost Recovery System (MACRS) method over the estimated useful lives (5-7 years) of the related assets.

Maintenance and repair expenditures are charged to operations, and renewals and betterments are capitalized. Items of property, plant and equipment which are sold, retired or otherwise disposed of are removed from the asset and accumulated depreciation or amortization account. Any gain or loss thereon is either credited or charged to operations.

### Income Taxes:

The Company follows the policy of treating investment tax credits as a reduction in the provision for federal income tax in the year in which the credit arises or may be utilized. Deferred income taxes arise from temporary differences resulting from different depreciation methods used for financial and income tax purposes. The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes".

### Net Income Per Share:

The Company has adopted the provisions of SFAS No. 128, "Earnings Per Share", which requires the disclosure of "basic" and "diluted" earnings (loss) per share. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during each period.

Diluted earnings per share is similar to basic earnings per share except that the weighted average number of common shares outstanding is increased to reflect the dilutive effect of potential common shares, such as those issuable upon the exercise of stock or warrants, as if they had been issued. For the nine months ended December 26, 2003 and December 27, 2002, there were no items of potential dilution that would impact on the computation of diluted earnings or loss per share.

### Fair Value of Financial Instruments:

The carrying value of the Company's financial instruments, consisting of accounts receivable, accounts payable, and borrowings, approximate their fair value due to the relatively short maturity (three months) of these instruments.

17

## IEH CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### CRITICAL ACCOUNTING POLICIES (CONTINUED)

##### 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, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual amounts could differ from those estimates.

##### Impairment of Long-Lived Assets:

SFAS No. 121, "Accounting For The Impairment of Long-Lived Assets To Be Disposed



## Edgar Filing: IEH CORPORATION - Form 10QSB

Of", requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company has adopted SFAS No. 121. There were no, long-lived asset impairments recognized by the Company for the nine months ended December 26, 2003 and December 27, 2002.

### Reporting Comprehensive Income:

The Company has adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income". This statement established standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in an entity's financial statements. This Statement requires an entity to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. There were no material items of comprehensive income to report for the nine months ended December 26, 2003 and December 27, 2002.

### Segment Information:

The Company has adopted the provisions of SFAS No. 131, "Disclosures About Segment of An Enterprise and Related Information." This Statement requires public enterprises to report financial and descriptive information about its reportable operating segments and establishes standards for related disclosures about product and services, geographic areas, and major customers. The adoption of SFAS No. 131 did not affect the Company's presentation of its results of operations or financial position.

18

## IEH CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

For the nine months ended December 26, 2003 compared to the nine months ended December 27, 2002

The following table sets forth for the periods indicated, percentages for certain items reflected in the financial data as such items bear to the revenues of the Company:

	Nine Months Ended	
	Dec. 26, 2003	Dec. 2002
Operating Revenues (in thousands)	\$ 3,740	\$ 3,740
Operating Expenses: (as a percentage of operating revenues)		
Cost of Products Sold	72.46%	72.46%
Selling, General and Administrative	19.10%	19.10%
Interest Expense	2.17%	2.17%

## Edgar Filing: IEH CORPORATION - Form 10QSB

Depreciation and Amortization	4.12%	-----	
			-----
Total Costs and Expenses	97.85%	-----	9
			-----
Operating Income (loss)	2.15%		
Other Income	.01%	-----	
			-----
Income (loss) before Income Taxes	2.16%		
Income Taxes	.34%	-----	
			-----
Net Income (loss)	1.82%	=====	=====

### COMPARATIVE ANALYSIS-NINE MONTHS

Operating revenues for the nine months ended December 26, 2003 amounted to \$3,739,711 reflecting a 5% increase versus the comparative nine months operating revenues of \$3,562,562. The increase is a direct result of an increase in commercial, governmental and military sales, during the nine months ended December 26, 2003 as compared to the nine months ended December 27, 2002.

Cost of products sold amounted to \$2,709,927, for the nine months ended December 26, 2003 or 72.46% of operating revenues. This reflected an increase of \$80,354 or 3% over the cost of products sold of \$2,629,573 or 73.8% of operating revenues for the nine months ended December 27, 2002.

Selling, general and administrative expenses were \$714,441 or 19.10% of revenues for the nine months ended December 26, 2003 as compared to \$618,262 or 17.4% of revenues for the comparable nine month period ended December 27, 2002. The increase of \$96,179 or 15.6% was primarily due to an increase in travel during the nine months ended December 26, 2003.

19

### IEH CORPORATION

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS (Continued)

#### COMPARATIVE ANALYSIS-NINE MONTHS (Continued)

Interest expense was \$81,230 or 2.17% of revenues for the period ended December 26, 2003 as compared to \$98,116 or 2.8% of revenues in the nine months period ended December 27, 2002.

Depreciation and amortization of \$154,200 or 4.12% of revenues were reported for the nine months period ended December 26, 2003. This reflects a minimal increase from the comparable nine months period ended December 27, 2002 of \$151,200 or 4.2% of revenues.

The Company reported net income of \$67,591 for the nine months ended December

## Edgar Filing: IEH CORPORATION - Form 10QSB

26, 2003, representing basic earnings per common share of \$.029 as compared to a net income of \$53,048 or \$.023 per common share for the nine months ended December 27, 2002.

### COMPARATIVE ANALYSIS-THREE MONTHS

For the three months ended December 26, 2003 compared to the three months ended December 27, 2002:

The following table sets forth for the periods indicated, percentages for certain items reflected in the financial data as such items bear to the revenues of the Company:

	Three Months End	
	Dec. 26, 2003	Dec. 2002
Operating Revenues (in thousands)	\$ 1,226	\$
Operating Expenses: (as a percentage of operating revenues)		
Cost of Products Sold	72.92%	
Selling, General and Administrative	19.40%	
Interest Expense	2.03%	
Depreciation and Amortization	4.21%	
Total Costs and Expenses	98.56%	
Operating Income (loss)	1.44%	
Other Income	.02%	
Income (loss) before Income Taxes	1.46%	
Income Taxes	.34%	
Net Income (loss)	1.12%	

20

### IEH CORPORATION

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### COMPARATIVE ANALYSIS -THREE MONTHS (Continued)

Operating revenues for the three months ended December 26, 2003 amounted to \$1,225,891, reflecting a 4.24% increase versus the comparative three months ended December 27, 2002 operating revenues of \$1,176,074. The increase is a direct result of an increase in commercial, governmental and military orders

## Edgar Filing: IEH CORPORATION - Form 10QSB

during the quarter ended December 26, 2003.

Cost of products sold amounted to \$893,956 for the three months ended December 26, 2003 or 72.92% of operating revenues. This reflected an increase of \$13,812 or 1.57% of the cost of products sold of \$880,144 or 74.8% for the three months ended December 27, 2002. The increase represents the additional cost necessary to support the increase in sales.

Selling, general and administrative expenses for the three months ended December 26, 2003 were \$238,429 or 19.40% of revenues compared to \$210,739 or 17.9% of revenues for the comparable three-month period ended December 27, 2002. This reflected an increase of \$27,690 or 13.14% and reflects increases in administrative and travel expenses.

Interest expense was \$24,862 or 2.03% of revenues for the period ended December 26, 2003 as compared to \$31,841 or 2.7% of revenues in the three-month period ended December 27, 2002. The decrease in interest is associated with the Company's full repayment of its loans payable.

Depreciation and amortization of \$51,600 or 4.21% of revenues was reported for the three-month period ended December 26, 2003. This reflects an increase of \$1,200 or 2.38% from the comparable three-month period ended December 27, 2002 of \$50,400 or 4.3% of revenues. The increase is a result of new equipment purchased during the period ended December 26, 2003.

The Company reported net income of \$13,069 for the three months ended December 26, 2003, representing basic earnings per common share of \$.006 as compared to a basic loss of \$1,192 or \$.001 per common share for the three months ended December 27, 2002.

### LIQUIDITY AND CAPITAL RESOURCES

The Company reported working capital deficit as of December 26, 2003 of \$91,208 as compared to a working capital deficit of \$74,495 at March 28, 2003. The increase in working capital deficit of \$16,713 was attributable to the following items:

Net income (loss)	
(excluding depreciation and amortization)	\$ 67,591
Capital expenditures	(183,107)
Other transactions	98,803
	-----
	\$ (16,713)
	=====

As a result of the above, the current ratio (current assets to current liabilities) was .94 to 1.0 as of December 26, 2003 as compared to .97 to 1.0 at March 28, 2003. Current liabilities at December 26, 2003 were \$1,600,284 as compared to \$1,992,702 at March 28, 2003.

The Company expended \$183,107 in capital expenditures in the nine months ended December 26, 2003. Depreciation and amortization for the nine months ended December 26, 2003 was \$154,200.

## Edgar Filing: IEH CORPORATION - Form 10QSB

### LIQUIDITY AND CAPITAL RESOURCES (continued)

The Company has an accounts receivable financing agreement with a factor which bears interest at 2.5% above prime with a minimum of 12% per annum. The agreement had an initial term of one year and will automatically renew for successive one year terms, unless terminated by the Company or Lender upon receiving sixty days prior notice. The loan is secured by the Company's accounts receivable and inventories. At December 26, 2003 the amount outstanding was \$661,390 as compared to \$712,659 at March 28, 2003.

The Company has a collective bargaining multi-employer pension plan with the United Auto Workers of America, Local 259. Contributions are made in accordance with a negotiated labor contract and are based on the number of covered employees employed per month.

With the passage of the Multi-Employer Pension Plan Amendments Act of 1990 ("The Act"), the Company may become subject to liabilities in excess of contributions made under the collective bargaining agreement. Generally, these liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the Plan.

The Company has not taken any action to terminate, withdraw or partially withdraw from the Plan nor does it intend to do so in the future. Under the Act, liabilities would be based upon the Company's proportional share of the Plan's unfunded vested benefits which is currently not available.

The amount of accumulated benefits and net assets of such Plan also is not currently available to the Company. The total contributions charged to operations under this pension plan were \$37,705 for the nine months ended December 26, 2003 and \$32,785 for the nine months ended December 27, 2002.

As of December 26, 2003, the Company reported arrears with respect to its contributions to the Union's Health & Welfare plan. The amount due the Health & Welfare plan was \$16,328.

The total amount due of \$16,328 is reported on the accompanying balance sheet as a current liability.

In December 1993, the Company and Local 259 entered into a verbal agreement whereby the Company would satisfy this debt by the following payment schedule:

The sum of \$2,500 will be paid by the Company each month in satisfaction of the current arrears until this total debt has been paid. Under this agreement, the projected payment schedule for arrears will satisfy the total debt in 7 months.

On June 30, 1995, the Company applied to the Pension Benefit Guaranty Corporation ("PBGC") to have the PBGC assume all of the Company's responsibilities and liabilities under its Salaried Pension Plan. On April 26, 1996, the PBGC determined that the Salaried Pension Plan did not have sufficient assets available to pay benefits which were and are currently due under the terms of the Plan.

## Edgar Filing: IEH CORPORATION - Form 10QSB

### LIQUIDITY AND CAPITAL RESOURCES (continued)

The PBGC further determined that pursuant to the provisions of the Employment Retirement Income Security Act of 1974, as amended ("ERISA"), that the Plan must be terminated in order to protect the interests of the Plan's participants. Accordingly, the PBGC proceeded pursuant to ERISA to have the Plan terminated and the PBGC appointed as statutory trustee, and to have July 31, 1995 established as the Plan's termination date.

The Company and the PBGC negotiated a settlement on the entire matter and on July 2, 2001, an agreement was reached whereby the Company's liability to the PBGC was reduced to \$244,000. The Company will make monthly payments to the PBGC as follows:

September 1, 2003 to August 1, 2004	\$2,000 per month
September 1, 2004 to August 1, 2006	\$3,000 per month
September 1, 2006 to August 1, 2007	\$4,000 per month

In addition, to the above referenced monthly payments, the Company will make balloon payments of \$25,000 each on the following dates:

January 1, 2004  
May 1, 2004  
May 1, 2005  
January 1, 2006

The Company also granted the PBGC a lien on the Company's machinery and equipment.

As a result of this agreement the amount due the PBGC was restated to \$244,000. The balance as of December 26, 2003 was \$236,000. The balance of \$236,000 is reported on the accompanying balance sheet as follows: \$78,000 as a current liability and the balance of \$158,000 as a long-term liability.

### EFFECTS OF INFLATION

The Company does not view the effects of inflation to have a material effect upon its business. Increases in costs of raw materials and labor costs have been offset by increases in the price of the Company's products, as well as reductions in costs of production, reflecting management's efforts in this area.

While the Company has in the past increased its prices to customers, it has maintained its relative competitive price position. However, significant decreases in government, military subcontractor spending has provided excess production capacity in the industry which has tightened pricing margins.

The Company does not view the effects of inflation to have a material effect upon its business. Increases in costs of raw materials and labor costs have been offset by increases in the price of the Company's products, as well as reductions in costs of production, reflecting management's efforts in this area.

While the Company has in the past increased its prices to customers, it has maintained its relative competitive price position. However, significant decreases in government, military subcontractor spending have provided excess production capacity in the industry which has tightened pricing margins.

Item 3 Controls and Procedures

## Edgar Filing: IEH CORPORATION - Form 10QSB

Our management, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-14 (c)) within 90 days of the filing date of this Quarterly Report on Form 10-Q (the "Evaluation Date"). Based on their evaluation, our chief executive officer and chief financial officer have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that all material information required to be filed in this Quarterly Report on Form 10-Q has been made known to them in a timely fashion.

### Changes in Internal Controls

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date set forth above.

## PART II OTHER INFORMATION

### Item 1 Legal Proceedings

The Company is not involved in any legal proceedings which may have a material effect upon the Company, its financial condition or operations.

### Item 2. Changes in Securities and Use or Proceeds

Not applicable

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Submission of Matters to a Vote of Shareholders

The Company's Annual Meeting of Shareholders was held on Friday October 10, 2003 for record holders as of Friday, August 29, 2003. The only matter acted upon was the election of one director to the Board of Directors for a two year term.

The only director elected was Alan Gottlieb who received 1,944,082 votes (94%) and of which only 107,326 withheld their votes.

An aggregate of 2,051,408 shares were present in person or by proxy at the meeting, representing approximately 89% of the total shares outstanding

### Item 5. Other Matters.

None

24

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

Item 31.1 Certifications Pursuant to Section 302 of the Sarbanes Oxley Act

Item 31.2 Certifications Pursuant to Section 302 of the Sarbanes Oxley Act

Edgar Filing: IEH CORPORATION - Form 10QSB

Item 32.1 Certification Pursuant to Section 906 of the Sarbanes Oxley Act

Item 32.2 Certification Pursuant to Section 906 of the Sarbanes Oxley Act

(b) Reports on Form 8-K during Quarter

None

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has duly cause this report on Form 10QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

IEH CORPORATION  
(Registrant)

January 30, 2004  
-----

/s/ Michael Offerman  
-----

Michael Offerman  
President

January 30, 2004  
-----

/s/ Robert Knoth  
-----

Robert Knoth  
Chief Financial Officer