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IEH CORPORATION
Form 10QSB
August 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 June 25, 2004

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

1365549348

(State or other jurisdiction of
incorporation or organization)

(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 June 25, 2004 and August 4, 2004.

IEH CORPORATION

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IEH CORPORATION

BALANCE SHEETS

As of June 25, 2004 and March 26, 2004

| | June 25, 2004 ----- (Unaudited) | March 26, 2004 ----- (Note 1) |
|-----------------|--|--|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 1,499 | \$ 4,480 |

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| | | |
|---|--------------|--------------|
| Accounts receivable, less allowances for doubtful accounts of \$10,062 at June 25, 2004 and March 26, 2004 | 594,377 | 586,491 |
| Inventories (Note 3) | 1,058,000 | 1,014,598 |
| Prepaid expenses and other current assets (Note 4) | 25,613 | 16,616 |
| | ----- | ----- |
| Total current assets | 1,679,489 | 1,622,185 |
| | ----- | ----- |
| PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation and amortization of \$6,041,865 at June 25, 2004 and \$5,991,765 at March 26, 2004 | 1,162,534 | 1,130,026 |
| | ----- | ----- |
| | 1,162,534 | 1,130,026 |
| | ----- | ----- |
| OTHER ASSETS: | | |
| Other assets | 41,404 | 41,356 |
| | ----- | ----- |
| | 41,404 | 41,356 |
| | ----- | ----- |
| Total assets | \$ 2,883,427 | \$ 2,793,567 |
| | ===== | ===== |

See accompanying notes to financial statements

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IEH CORPORATION

BALANCE SHEETS

As of June 25, 2004 and March 26, 2004

| | June 25, 2004 | March 26, 2004 |
|---|------------------|-------------------|
| | ----- | ----- |
| | Unaudited) | (Note 1) |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts receivable financing (Note 7) | \$ 574,315 | \$ 645,096 |
| Notes payable, equipment, current portion (Note 6) | 8,742 | 8,936 |
| Accrued corporate income taxes | 14,732 | 14,500 |
| Due to union health and welfare plan, current portion (Note 9) | 21,700 | 32,200 |
| Accounts payable | 1,018,474 | 738,105 |
| Pension plan payable, current portion (Note 9) | 59,000 | 56,000 |
| Other current liabilities (Note 5) | 137,145 | 159,339 |
| | ----- | ----- |
| Total current liabilities | 1,834,108 | 1,654,176 |
| | ----- | ----- |
| LONG-TERM LIABILITIES: | | |
| Pension Plan payable, less current portion (Note 9) | 115,000 | 149,000 |
| Notes payable, equipment, less current portion (Note 6) | 9,130 | 11,170 |
| | ----- | ----- |
| Total long-term liabilities | 124,130 | 160,170 |

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| | | |
|---|-------------|-------------|
| Total liabilities | 1,958,238 | 1,814,346 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, \$.01 par value; 10,000,000 shares authorized; | | |
| 2,303,468 shares issued and outstanding at June 25, 2004 and March 26, 2004 | 23,035 | 23,035 |
| Capital in excess of par value | 2,744,573 | 2,744,573 |
| Retained earnings (Deficit) | (1,842,419) | (1,788,387) |
| Total stockholders' equity | 925,189 | 979,221 |
| Total liabilities and stockholders' equity | \$2,883,427 | \$2,793,567 |

See accompanying notes to financial statements

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IEH CORPORATION

STATEMENT OF OPERATIONS
(Unaudited)

| | Three Months Ended | |
|--|--------------------|------------------|
| | June 25, 2004 | June 27, 2003 |
| REVENUE, net sales | \$ 1,172,388 | \$ 1,222,252 |
| COSTS AND EXPENSES | | |
| Cost of products sold | 905,073 | 903,989 |
| Selling, general and administrative | 243,583 | 242,856 |
| Interest expense | 23,519 | 29,798 |
| Depreciation and amortization | 50,100 | 50,700 |
| | 1,222,275 | 1,227,343 |
| OPERATING INCOME (LOSS) | (49,887) | (5,091) |
| OTHER INCOME | 55 | 33 |
| INCOME (LOSS) BEFORE INCOME TAXES | (49,832) | (5,058) |
| PROVISION FOR INCOME TAXES | (4,200) | (4,200) |
| NET INCOME (LOSS) | \$ (54,032) | \$ (9,258) |
| BASIC AND DILUTED EARNINGS (LOSS) PER SHARE | \$ (.023) | \$ (.004) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands) | 2,303 | 2,303 |

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See accompanying notes to financial statements

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IEH CORPORATION

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

| | Three months Ended | |
|--|--------------------|------------------|
| | June 25, 2004 | June 27, 2003 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ (54,032) | \$ (9,258) |
| | ----- | ----- |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 50,100 | 50,700 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (7,886) | 151,770 |
| (Increase) decrease inventories | (43,402) | 34,075 |
| (Increase) decrease in prepaid expenses and other current assets | (8,997) | (1,330) |
| (Increase) decrease in other assets | (48) | (856) |
| Increase (decrease) in accounts payable | 280,369 | (85,514) |
| Increase (decrease) in other current liabilities | (22,194) | (36,925) |
| Increase (decrease) in accrued corporate income taxes | 232 | (998) |
| Increase (decrease) in union health and welfare plan | (10,500) | -- |
| Increase (decrease) in due to pension plan payable | (31,000) | (7,500) |
| | ----- | ----- |
| Total adjustments | 206,674 | 103,422 |
| | ----- | ----- |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 152,642 | 94,164 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of fixed assets | (82,608) | (62,538) |
| | ----- | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | \$ (82,608) | \$ (62,538) |
| | ===== | ===== |

See accompanying notes to financial statements

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IEH CORPORATION

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

| | Three months Ended | |
|---|--------------------|------------------|
| | June 25, 2004 | June 27, 2003 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase in notes payable | \$ -- | \$ 16,790 |
| Principal payments on notes payable | (2,234) | (5,139) |
| Proceeds from accounts receivable financing | (70,781) | (44,234) |
| | (73,015) | (32,583) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | | |
| | (2,981) | (957) |
| CASH, beginning of period | 4,480 | 5,565 |
| CASH, end of period | \$ 1,499 | \$ 4,608 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION, cash paid during the three months for: | | |
| Interest | \$ 16,555 | \$ 20,813 |
| | ===== | ===== |
| Income Taxes | \$ 3,968 | \$ 5,198 |
| | ===== | ===== |

See accompanying notes to financial statements

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IEH CORPORATION

NOTES TO FINANCIAL STATEMENTS (Unaudited)

Note 1- INTERIM RESULTS AND BASIS OF PRESENTATION

The accompanying unaudited financial statements as of June 25, 2004 and June 27, 2003 and for the three 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 June 25, 2004 and June 27, 2003 and the results of operations and cash flows for the three month periods then ended. The financial data and other information disclosed in these notes to the interim financial

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statements related to these periods are unaudited. The results for the three months ended June 25, 2004, are not necessarily indicative of the results to be expected for any subsequent quarter or the entire fiscal year. The balance sheet at March 26, 2004 has been derived from the audited financial statements at that date.

Certain information and footnote disclosures normally included in 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 26, 2004 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.

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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 was comprised of 52 weeks.

Revenue Recognition:

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

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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.

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 June 25, 2004 or March 26, 2004.

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.

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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

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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 three months ended June 25, 2004 and June 27, 2003, 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. 144, "Accounting For The Impairment or Disposal of Long-Lived Assets", 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. 144. There were no, long-lived asset impairments recognized by the Company for the three months ended June 25, 2004 and June 27, 2003.

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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

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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 three months ended June 25, 2004 and June 27, 2003.

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:

| | June 25, 2004 | March 26, 2004 |
|------------------|------------------|-------------------|
| Raw materials | \$ 719,334 | \$ 689,851 |
| Work in progress | 204,617 | 196,182 |
| Finished goods | 134,049 | 128,565 |
| | ----- | ----- |
| | \$1,058,000 | \$1,014,598 |
| | ===== | ===== |

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 June 25, 2004 was \$12,000. At March 26, 2004, the balance of this reserve was \$0. Inventories at June 25, 2004 and March 26, 2004 are recorded net of this reserve.

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:

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| | June 25, 2004 | March 26, 2004 |
|-------------------------|------------------|-------------------|
| | ----- | ----- |
| Prepaid insurance | \$ 10,408 | \$ 11,030 |
| Prepaid corporate taxes | 5,489 | 5,489 |
| Other current assets | 9,716 | 97 |
| | ----- | ----- |
| | \$ 25,613 | \$ 16,616 |
| | ===== | ===== |

Note 5 - OTHER CURRENT LIABILITIES:

Other current liabilities are comprised of the following:

| | June 25, 2004 | March 26, 2004 |
|-------------------------------|------------------|-------------------|
| | ----- | ----- |
| Payroll and vacation accruals | \$ 52,645 | \$ 87,964 |
| Sales commissions | 12,271 | 9,705 |
| Other | 72,229 | 61,670 |
| | ----- | ----- |
| | \$ 137,145 | \$ 159,339 |
| | ===== | ===== |

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 June 25, 2004 amounted to \$17,872.

Aggregate future principal payments are as follows:

| | |
|------------------------------|-----------|
| Fiscal year ending March 31, | |
| 2005 | \$ 6,869 |
| 2006 | 4,392 |
| 2007 | 3,358 |
| 2008 | 3,253 |
| | ----- |
| | \$ 17,872 |
| | ===== |

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 June 25, 2004 the amount outstanding with the factor was \$574,315 as compared to \$645,096 at March 26, 2004. The loan is

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secured by the Company's accounts receivables and inventories.

Note 8- 2001 EMPLOYEE STOCK OPTION PLAN:

On June 21, 2001 the Company's shareholders approved the 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 June 25, 2004 no options had been granted under the plan.

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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, | |
| 2005 | \$ 84,573 |
| 2006 | 112,764 |
| 2007 | 112,764 |
| 2008 | 112,764 |
| 2009 | 112,764 |
| 2010 | 112,764 |
| 2011 | 75,176 |
| | ----- |
| | \$ 723,569 |
| | ===== |

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The rental expense for the three months ended June 25, 2004 for this lease was \$28,191.

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 \$15,420 for the three months ended June 25, 2004 and \$14,117 for the three months ended June 27, 2003.

As of June 25, 2004, 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 \$21,700.

The total amount due of \$21,700 is reported on the accompanying balance sheet as a current liability.

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IEH CORPORATION

NOTES TO FINANCIAL STATEMENTS (Unaudited)

Note 9 - COMMITMENTS (continued):

In June 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 9 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

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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, 2004 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 |

Additionally, the Company has made balloon payments of \$25,000 each on January 1, 2004 and May 1, 2004. The Company is also obligated to make additional balloon payments of \$25,000 each on May 1, 2005 and 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 June 25, 2004 was \$174,000. The balance of \$174,000 is reported on the accompanying balance sheet as follows: \$59,000 as a current liability and \$115,000 as a long-term liability.

Note 10 - CHANGES IN STOCKHOLDERS' EQUITY:

Retained earnings (deficit) increased by \$54,032, which represents the net loss for the three months ended June 25, 2004.

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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, 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

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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.

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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 June 25, 2004 or March 26, 2004.

Property, Plant and Equipment:

Property, plant and equipment is 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

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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 three months ended June 25, 2004 and June 27, 2003, 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.

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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. 144, "Accounting For The Impairment or Disposal of Long-Lived Assets", 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. 144. There were no, long-lived asset impairments recognized by the Company for the three months ended June 25, 2004 and June 27, 2003.

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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 three months ended June 25, 2004 and June 27, 2003.

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.

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IEH CORPORATION

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

RESULTS OF OPERATIONS

For the three months ended June 25, 2004 compared to the three months ended June 27, 2003:

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 Ended | |
|---|--------------------|------------------|
| | June 25, 2004 | June 27, 2003 |
| Operating Revenues (in thousands) | \$ 1,172 | \$ 1,222 |
| Operating Expenses: (as a percentage of operating revenues) | 77.2% | 74.0% |
| Cost of Products Sold | 20.7% | 19.8% |
| Selling, General and Administrative | 2.0% | 2.4% |
| Interest Expense | 4.3% | 4.2% |
| Depreciation and Amortization | | |
| Total Costs and Expenses | 104.2% | 100.4% |
| Operating Income (loss) | (4.2%) | (.4%) |

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| | | |
|-----------------------------------|--------|-------|
| Other Income | -- | -- |
| | ----- | ----- |
| Income (loss) before Income Taxes | (4.2%) | (.4%) |
| Income Taxes | (.4%) | (.3%) |
| | ----- | ----- |
| Net Income (loss) | (4.6%) | (.7%) |
| | ===== | ===== |

COMPARATIVE ANALYSIS-THREE MONTHS

Operating revenues for the three months ended June 25, 2004 amounted to \$1,172,388, reflecting a 4.08% decrease versus the comparative three months ended June 27, 2003 operating revenues of \$1,222,252. The decrease is a direct result of a decrease in commercial, governmental and military orders during the quarter ended June 25, 2004.

Cost of products sold amounted to \$905,073 for the three months ended June 25, 2004 or 77.2% of operating revenues. This reflected an increase of \$1,084 or .1% of the cost of products sold of \$903,989 or 74.0% for the three months ended June 27, 2003.

Selling, general and administrative expenses for the three months ended June 25, 2004 were \$243,583 or 20.7% of revenues compared to \$242,856 or 19.8% of revenues for the comparable three-month period ended June 27, 2003. This reflected an increase of \$727 or .3% and reflects increases in administrative expenses.

Interest expense was \$23,519 or 2.0% of revenues for the period ended June 25, 2004 as compared to \$29,798 or 2.4% of revenues in the three-month period ended June 27, 2003. The decrease in interest is associated with the Company's full repayment of its loans payable.

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IEH CORPORATION

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

COMPARATIVE ANALYSIS -THREE MONTHS (Continued)

Depreciation and amortization of \$50,100 or 4.3% of revenues was reported for the three-month period ended June 25, 2004. This reflects a decrease of \$600 or 1.2% from the comparable three-month period ended June 27, 2003 of \$50,700 or 4.2% of revenues. The decrease is a result of some equipment becoming fully depreciated.

The Company reported a net loss of \$54,032 for the three months ended June 25, 2004, representing basic loss per common share of \$.023 as compared to a basic loss of \$9,258 or \$.004 per common share for the three months ended June 27, 2003.

LIQUIDITY AND CAPITAL RESOURCES

The Company reported working capital deficit as of June 25, 2004 of \$154,619 as compared to a working capital deficit of \$31,991 at March 26, 2004. The increase in working capital deficit of \$122,628 was attributable to the following items:

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| | |
|---|--------------|
| Net income (loss) | |
| (excluding depreciation and amortization) | \$ (3,932) |
| Capital expenditures | (82,608) |
| Other transactions | (36,088) |
| | ----- |
| | \$ (122,628) |
| | ===== |

As a result of the above, the current ratio (current assets to current liabilities) was .92 to 1.0 as of June 25, 2004 as compared to .98 to 1.0 at March 26, 2004. Current liabilities at June 25, 2004 were \$1,834,108 as compared to \$1,654,176 at March 26, 2004.

The Company expended \$82,608 in capital expenditures in the three months ended June 25, 2004. Depreciation and amortization for the three months ended June 25, 2004 was \$50,100.

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 June 25, 2004 the amount outstanding was \$574,315 as compared to \$645,096 at March 26, 2004.

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.

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IEH CORPORATION

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

LIQUIDITY AND CAPITAL RESOURCES (continued)

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 \$14,117 for the three months ended June 25, 2004 and \$15,420 for the three months ended June 27, 2003.

As of June 25, 2004, the Company reported arrears with respect to its contributions to the Union's Health & Welfare plan. The amount due the Health & Welfare plan was \$21,700.

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The total amount due of \$21,700 is reported on the accompanying balance sheet as a current liability.

In June 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 9 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.

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IEH CORPORATION

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

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, 2004 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 |

Additionally, the Company has made balloon payments of \$25,000 each on January 1, 2004 and May 1, 2004. The Company is also obligated to make additional balloon payments of \$25,000 each on May 1, 2005 and 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 June 25, 2004 was \$174,000. The balance of \$174,000 is reported on the accompanying balance sheet as follows: \$59,000 as a current liability and the balance of \$115,000 as a long-term liability.

EFFECTS OF INFLATION

The Company does not view the effects of inflation to have a material effect

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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.

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IEH CORPORATION

Item 3 Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer/Controller, conducted an evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c)) within 90 days of the filing date of this Report on Form 10-QSB. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer/Controller 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 Report on Form 10-QSB has been made known to them.

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 Purchases of Securities

Not applicable

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Shareholders

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No matters were submitted to shareholders during the fiscal quarter covered by this Report.

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Item 5. Other Matters.

None

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

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)

August 6, 2004

/s/ Michael Offerman

Michael Offerman
President

August 6, 2004

/s/ Robert Knoth

Robert Knoth
Chief Financial Officer/Controller