

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2019

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. 0-5278

IEH CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

13-5549348

(I.R.S. Employer Identification No.)

140 58th Street, Suite 8E

Brooklyn, New York

(Address of principal executive offices)

11220

(Zip Code)

(718) 492-4440

(Registrant's telephone number, including area code)

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	IEHC	OTC QX Market Place

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

- Large accelerated filer
- Accelerated filer
- Non-accelerated filer
- Smaller Reporting Company
- (Do not check if a smaller reporting company)
- Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

2,360,251 shares of Common Shares, par value \$.01 per share, were issued and outstanding as of February 14, 2020.

IEH CORPORATION
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IEH CORPORATION
PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

IEH CORPORATION
BALANCE SHEETS

As of December 31, 2019 and March 29, 2019

	<u>December 31, 2019</u>	<u>March 29, 2019</u>
	<i>(Unaudited)</i>	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 8,191,969	\$ 7,080,126
Accounts receivable	5,776,564	3,833,090
Inventories	14,108,916	12,021,443
Prepaid expenses and other current assets	<u>271,540</u>	<u>534,897</u>
Total Current Assets	<u>28,348,989</u>	<u>23,469,556</u>
PROPERTY, PLANT AND EQUIPMENT	<u>2,331,705</u>	<u>2,560,607</u>
OTHER ASSETS:		
Right of use Asset-Leasehold	158,833	—
Other assets	<u>54,489</u>	<u>54,489</u>
Total Other Assets	<u>213,322</u>	<u>54,489</u>
Total Assets	<u><u>\$ 30,894,016</u></u>	<u><u>\$ 26,084,652</u></u>

IEH CORPORATION

BALANCE SHEETS (Continued)

As of December 31, 2019 and March 29, 2019

	December 31, 2019	March 29, 2019
	<u>(Unaudited)</u>	<u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 246,706	\$ 480,012
Due to commercial finance company	381,871	334,306
Customer advance payments	—	348,230
Accrued corporate income taxes	1,844,650	1,676,428
Deferred lease liability - net of long term	165,395	—
Other current liabilities	<u>2,025,287</u>	<u>977,420</u>
Total Current Liabilities	<u>4,663,909</u>	<u>3,816,396</u>
Total Liabilities	<u>4,663,909</u>	<u>3,816,396</u>
SHAREHOLDERS' EQUITY:		
Common stock, \$.01 par value; 10,000,000 shares authorized; 2,360,251 shares issued and outstanding at December 31, 2019 and 2,323,468 shares issued and outstanding at March 29, 2019	23,603	23,235
Capital in excess of par value	5,165,588	3,802,672
Retained earnings	<u>21,040,916</u>	<u>18,442,349</u>
Total Shareholders' Equity	<u>26,230,107</u>	<u>22,268,256</u>
Total Liabilities and Shareholders' Equity	<u>\$ 30,894,016</u>	<u>\$ 26,084,652</u>

IEH CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

For the Three and Nine Months Ended December 31, 2019 and December 28, 2018

	Three Months Ended		Nine Months Ended	
	December. 31, 2019	December. 28, 2018	December. 31, 2019	December. 28, 2018
REVENUE, net sales	\$ 8,424,657	\$ 5,977,835	\$ 23,542,266	\$ 21,619,017
COSTS AND EXPENSES				
Cost of products sold	5,270,795	3,790,188	14,143,666	12,415,830
Selling, general and administrative	1,469,198	985,043	4,699,640	3,063,345
Depreciation	237,764	84,000	697,717	309,600
	6,977,757	4,859,231	19,541,023	15,788,775
OPERATING INCOME	1,446,900	1,118,604	4,001,243	5,830,242
Other income	6,025	5,417	22,899	8,579
Interest expense	(17,263)	(40,904)	(51,006)	(56,456)
OTHER INCOME AND (EXPENSE), NET	(11,238)	(35,487)	(28,107)	(47,877)
INCOME BEFORE INCOME TAXES	1,435,662	1,083,117	3,973,136	5,782,365
PROVISION FOR INCOME TAXES	587,550	294,237	1,374,511	1,787,896
NET INCOME	\$ 848,112	\$ 788,880	\$ 2,598,625	\$ 3,994,469
BASIC EARNINGS PER SHARE	\$ 0.36	\$ 0.34	\$ 1.11	\$ 1.72
FULLY DILUTED EARNINGS PER SHARE	\$ 0.31	\$ 0.33	\$ 0.99	\$ 1.66
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)	2,349	2,323	2,334	2,321
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – FULLY DILUTED (in thousands)	2,769	2,427	2,616	2,407

IEH CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

For the Three and Nine Months Ended December 31, 2019 and December 28, 2018

<u>For the Three Months Ended December 31, 2019</u>	<u>Common Stock</u>		<u>Capital in Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balances at September 27, 2019	2,331,751	\$ 23,318	\$ 4,734,382	\$ 20,192,804	\$ 24,950,504
Stock based compensation – Amortization of stock options	—	—	260,491	—	260,491
Exercise of stock option	28,500	285	170,715	—	171,000
Net income	—	—	—	848,112	848,112
Balances at December 31, 2019	<u>2,360,251</u>	<u>\$ 23,603</u>	<u>\$ 5,165,588</u>	<u>\$ 21,040,916</u>	<u>\$ 26,230,107</u>

<u>For the Three Months Ended December 28, 2018</u>	<u>Common Stock</u>		<u>Capital in Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balances at September 28, 2018	2,323,468	\$ 23,235	\$ 3,773,004	\$ 16,487,162	\$ 20,283,401
Stock based compensation – Amortization of stock options	—	—	21,206	—	21,206
Net income	—	—	—	788,880	788,880
Balances at December 28, 2018	<u>2,323,468</u>	<u>\$ 23,235</u>	<u>\$ 3,794,210</u>	<u>\$ 17,276,042</u>	<u>\$ 21,093,487</u>

IEH CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Continued)
(Unaudited)

For the Three and Nine Months Ended December 31, 2019 and December 28, 2018

<u>For the Nine Months Ended December 31, 2019</u>	<u>Common Stock</u>		<u>Capital in Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balances at March 29, 2019	2,323,468	\$ 23,235	\$ 3,802,672	\$ 18,442,348	\$ 22,268,255
Stock based compensation – Amortization of stock options	—	—	1,159,284	—	1,159,284
Exercise of stock options	36,783	368	203,632	—	204,000
Net income	—	—	—	2,598,568	2,598,568
Balances at December 31, 2019	<u>2,360,251</u>	<u>\$ 23,603</u>	<u>\$ 5,165,588</u>	<u>\$ 21,040,916</u>	<u>\$ 26,230,107</u>

<u>For the Nine Months Ended December 28, 2018</u>	<u>Common Stock</u>		<u>Capital in Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balances at March 30, 2018	2,303,468	\$ 23,035	\$ 3,767,608	\$ 13,281,573	\$ 17,072,216
Stock based compensation – Amortization of stock options	—	—	26,802	—	26,802
Exercise of 75,000 options by surrendering 55,000 Shares of common stock	20,000	200	(200)	—	—
Net income	—	—	—	3,994,469	3,994,469
Balances at December 28, 2018	<u>2,323,468</u>	<u>\$ 23,235</u>	<u>\$ 3,794,210</u>	<u>\$ 17,276,042</u>	<u>\$ 21,093,487</u>

IEH CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

For the Nine Months Ended December 31, 2019 and December 28, 2018

	Nine Months Ended	
	December 31, 2019	December 28, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	<u>\$ 2,598,625</u>	<u>\$ 3,994,469</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	697,717	309,600
Stock based compensation expense	1,159,284	26,802
Changes in assets and liabilities:		
Increase in accounts receivable	(1,943,474)	1,517,791
Increase in inventories	(2,087,473)	(677,892)
Increase in excess payments to commercial finance company	—	154,960
Decrease in prepaid expenses and other current assets	263,357	373,711
Increase in right of use asset leasehold	(158,833)	—
Increase in deferred lease liability	165,395	—
Decrease in accounts payable	(233,363)	(535,684)
Decrease in customer advance payments	(348,230)	—
Increase in other current liabilities	1,047,867	331,196
Increase in accrued corporate taxes	168,221	486,330
Total adjustments	<u>(1,269,532)</u>	<u>1,986,814</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,329,093</u>	<u>5,981,283</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	<u>(468,815)</u>	<u>(528,088)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>\$ (468,815)</u>	<u>\$ (528,088)</u>

IEH CORPORATION

STATEMENTS OF CASH FLOWS (continued)
(Unaudited)

For the Nine Months Ended December 31, 2019 and December 28, 2018

	Nine Months Ended	
	December 31, 2019	December 28, 2018
CASH FLOWS FROM FINANCING ACTIVITIES:		
Activity from commercial financing company	\$ 47,565	\$ 228,757
Exercise of Options for cash	<u>204,000</u>	<u>—</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>251,565</u>	<u>228,757</u>
INCREASE IN CASH	1,111,843	5,681,952
CASH, beginning of period	<u>7,080,126</u>	<u>1,407,013</u>
CASH, end of period	<u>\$ 8,191,969</u>	<u>\$ 7,088,965</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	<u>\$ 48,592</u>	<u>\$ 54,956</u>
Income Taxes	<u>\$ 953,365</u>	<u>\$ 694,040</u>

IEH CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Note 1- DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION:

Description of Business

The Company designs, develops and manufactures printed circuit connectors for high performance applications. We have also developed a high performance plastic circular connector line. All of our connectors utilize the HYPERBOLOID contact design, a rugged, high-reliability contact system ideally suited for high-stress environments. We believe we are the only independent producer of HYPERBOLOID printed circuit board connectors in the United States.

Our customers consist of Original Equipment Manufacturers (“OEMs”), companies manufacturing medical equipment and distributors who resell our products to OEMs. We sell our products directly and through regional representatives and distributors located in all regions of the United States, Canada, Israel, India, various Pacific Rim countries, South Korea and the European Union.

The customers we service are in the Military, Aerospace, Space, Medical, Oil & Gas, Industrial, Test Equipment and Commercial Electronics markets. We appear on the Military Qualified Product Listing (“QPL”) to MIL-DTL-55302 and supply customer requested modifications to this specification. Sales to the commercial electronic (inclusive of aerospace, space, oil & gas, medical & miscellaneous) and military markets were 49.9% and 50.1%, respectively, of the Company’s net sales for the year ended March 29, 2019. Our offering of QPL items has recently been expanded to include additional products.

The standard printed circuit board connectors we produce are continually being expanded and utilized in many of the military programs being built today. We have recently received approval for additional products that the Company can offer under the Military Qualified Product Listing.

The Company created many new products that are innovative designs and employ new technologies. The Company continues to be successful because of its ability to assist its customers and create a new design, including engineering drawing packages, in a relatively short period of time.

Basis of Presentation

The accompanying unaudited financial statements for the three and nine months ended December 31, 2019 have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q. In the opinion of management, these 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 31, 2019 and the results of operations and cash flows for the three and nine months 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 three and nine months ended December 31, 2019, are not necessarily indicative of the results to be expected for any subsequent quarter or the entire fiscal year. The balance sheet at March 29, 2019 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 GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). 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 and notes thereto of IEH Corporation for the fiscal year ended March 29, 2019 included in the Company’s Annual Report on Form 10-K as filed with the SEC on July 12, 2019.

IEH CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Note 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Accounting Period:

On February 11, 2020, the Audit Committee of the Board of Directors of the Company adopted a resolution approving a change in the fiscal year end from a 52-53 week year ending on the last Friday of March to a calendar year ending on March 31. In addition, each applicable fiscal quarter, which previously ended on the last Friday of each of June, September, December and March would now, beginning with the third fiscal quarter ending on December 31, 2019, change to a calendar fiscal quarter ending on June 30, September 30, December and March 31, respectively. Accordingly, the Company's current calendar year will end on March 31, 2020 and thereafter each March 31. The Company does not intend to adjust operating results for prior periods.

Correction of an Immaterial Misstatement in a Prior Period Financial Statement:

During the third quarter of 2019, the Company identified certain adjustments required to correct and disclose stock based compensation expense related to an option that was granted to its President and Chief Executive Officer on July 29, 2019. The Company had omitted the disclosure and expense related to this option. This omission resulted in an understatement of selling, general and administrative expense of \$884,667 for the three and six months ended September 27, 2019, and overstatement of income tax expense by \$396,911 for the three and six months ended September 27, 2019 and an overstatement of net income by \$487,756 for the three and six months ended September 27, 2019.

Based on an analysis of Accounting Standards Codification ("ASC") 250 – "Accounting Changes and Error Corrections" ("ASC 250"), Staff Accounting Bulletin 99 – "Materiality" ("SAB 99") and Staff Accounting Bulletin 108 – "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), the Company determined that these errors were immaterial to the previously issued financial statements, and as such no restatement was necessary. Correcting prior period financial statements for immaterial errors would not require previously filed reports to be amended. Such correction may be made the next time the registrant files the prior period financial statements. Accordingly, the misstatements were corrected during the period ended December 31, 2019 in the accompanying balance sheet as of December 31, 2019 and statements of operations for the nine months ended December 31, 2019.

The effect of these revisions on the Company's balance sheet as of September 27, 2019 is as follows:

	As previously reported at <u>September 27, 2019</u>	Adjustment – <u>debit/(credit)</u>	As revised at <u>September 27, 2019</u>
Accrued corporate income taxes	2,747,407	396,911	2,350,496
Capital in excess of par value	3,849,715	(884,667)	4,734,382
Retained Earnings	20,680,560	487,756	20,192,804

IEH CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

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

Revenue Recognition:

In May 2014, the Financial Accounting Standards Board issued ASC 606 “Revenue from Contracts with Customers” that, as amended on August 12, 2015, became effective for annual report periods beginning after December 15, 2017.

The core principle underlying ASC 606, is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” ASC 606-10-05-4 sets out the following steps for an entity to follow when applying the core principle to its revenue generating transactions:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations
- Recognize revenue when (or as) each performance obligation is satisfied

The Company’s disaggregated revenue, as of December 31, 2019 and December 28, 2018, respectively, by geographical location is as follows:

	<u>Three Months Ended December 31, 2019</u>	<u>Three Months Ended December 28, 2018</u>	<u>Nine Months Ended December 31, 2019</u>	<u>Nine Months ended December 28, 2018</u>
Domestic	\$ 6,908,219	\$ 4,901,825	\$ 19,304,658	\$ 17,727,594
International	<u>1,516,438</u>	<u>1,076,010</u>	<u>4,237,608</u>	<u>3,891,423</u>
Total	<u>\$ 8,424,657</u>	<u>\$ 5,977,835</u>	<u>\$ 23,542,266</u>	<u>\$ 21,619,017</u>

The Company does not offer any discounts, credits or other sales incentives. Historically, the Company has not had an issue with uncollectible accounts receivable.

The Company will accept a return of defective products 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 product.

The Company provides engineering services as part of the relationship with its customers in developing custom products. The Company is not obligated to provide such engineering service to its customers. The Company does not invoice its customers separately for these services.

Concentration of Credit Risk:

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable.

Under the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Federal Deposit Insurance Corporation (FDIC) will permanently insure all accounts maintained with each financial institution up to \$250,000 in the aggregate. The Company does maintain cash balances in excess of insured limits.

IEH CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

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

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 Double Declining Balance 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 accounts. Any gain or loss thereon is either credited or charged to operations.

Earnings Per Share:

The Company accounts for earnings per share pursuant to ASC Topic 260, "Earnings per Share", which requires disclosure on the Financial Statements of "basic" and "diluted" earnings per share. Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding plus common stock equivalents (if dilutive) related to stock options for each year. As the Company reported net income for both the three months and nine months ended December 31, 2019 and December 28, 2018, respectively, basic and diluted income per share are calculated separately as follows:

	Three months ended <u>12/31/2019</u>	Three months ended <u>12/28/2018</u>	Nine months ended <u>12/31/2019</u>	Nine months ended <u>12/28/2018</u>
NET INCOME	\$ 848,112	\$ 788,880	\$ 2,598,625	\$ 3,994,469
BASIC EARNINGS PER COMMON SHARE	<u>\$ 0.36</u>	<u>\$ 0.34</u>	<u>\$ 1.11</u>	<u>\$ 1.72</u>
FULLY DILUTED EARNINGS PER SHARE	<u>\$ 0.31</u>	<u>\$ 0.33</u>	<u>\$ 0.99</u>	<u>\$ 1.66</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-BASIC	2,348,718	2,323,468	2,333,573	2,320,632
DILUTIVE EFFECT OF OPTIONS GRANTED	<u>420,448</u>	<u>103,825</u>	<u>282,481</u>	<u>86,568</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING- FULLY DILUTED	<u>2,769,166</u>	<u>2,427,293</u>	<u>2,616,054</u>	<u>2,407,200</u>

IEH CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

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

Fair Value of Financial Instruments:

The carrying value of the Company's financial instruments approximate their fair value due to the relatively short maturity of these instruments.

Use of Estimates:

The preparation of financial statements in conformity with GAAP 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. The Company utilizes estimates with respect to determining the useful lives of fixed assets, the fair value of stock based instruments as well as in the calculation of inventory obsolescence. Actual amounts could differ from those estimates.

Stock Based Compensation Plan:

Compensation expense for stock options granted to directors, officers and key employees is based on the fair value of the award on the measurement date, which is the date of the grant. The expense is generally recognized ratably over the vesting period of the award. The fair value of stock options is estimated using a Black-Scholes valuation model. The fair value of any other stock awards is generally the market price of the Company's common stock on the date of the grant.

Leases:

ASC 2016-02 Leases (Topic 842) – In February 2016, the FASB issued ASC 2016-02, which requires lessees to recognize all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating leases or finance leases. The classification is based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. Accordingly, we have adopted ASC 2016-02 as of March 30, 2019.

On our balance sheet operating leases are reported as operating lease right-of-use ("ROU") assets and deferred lease liabilities. ROU assets represent our right to use an underlying asset for the lease term and deferred lease liabilities represent our obligation to make lease payments over time arising from the lease. Operating lease ROU assets and deferred lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As our contracted leases do not provide an implicit rate, we do use an incremental borrowing rate based on the information available at the transition date and commencement date in determining the present value of lease payments. This is the rate that we would have to pay if borrowing on a collateralized basis over a similar term to each lease. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company leases space for its corporate offices and its manufacturing facility located at 140 58th Street, Suite 8 E, Brooklyn, New York. The lease commenced on December 1, 2010 and expires on November 30, 2020.

Presented below are the balances of the ROU asset and the corresponding deferred lease liability and resultant amortization as of December 31, 2019 and March 30, 2019. The present value of the ROU was calculated using an interest rate of six (6%) percent.

	ROU Asset	Deferred Lease Liability	Amortization
December 31, 2019	\$ 158,833	\$ 165,395	\$ 143,124
March 30, 2019	301,957	301,957	—

IEH CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

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

Leases: (continued)

Future lease commitments as of December 31, 2019 were as follows:

<u>Fiscal year</u>	
2020 (3 months)	\$ 48,180
2021	<u>128,480</u>
Total lease commitments	<u>\$ 176,660</u>

Note 3- INVENTORIES:

Inventories were comprised of the following as of:

	<u>December 31, 2019</u>	<u>March 29, 2019</u>
Raw materials	\$ 10,941,582	\$ 7,053,896
Work in progress	2,739,934	2,797,006
Finished goods	<u>427,400</u>	<u>2,170,541</u>
	<u>\$ 14,108,916</u>	<u>\$ 12,021,443</u>

The Company recognized \$162,000 for the nine months ended December 31, 2019 and December 28, 2018, respectively, as a reduction of inventory due to obsolescence. The Company recognized \$54,000 for the three months ended December 31, 2019 and December 28, 2018, respectively, as a reduction of inventory due to obsolescence.

Note 4- PREPAID EXPENSES AND OTHER CURRENT ASSETS:

Prepaid expenses and other current assets were comprised of the following as of:

	<u>December 31, 2019</u>	<u>March 29, 2019</u>
Prepaid insurance	\$ 32,587	\$ 106,801
Prepaid payroll liabilities	232,605	289,311
Other prepaid expenses and Other Current Assets	<u>6,348</u>	<u>138,785</u>
	<u>\$ 271,540</u>	<u>\$ 534,897</u>

IEH CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Note 5- PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment were comprised of the following as of:

	December 31, 2019	March 29, 2019
Computers	\$ 536,409	\$ 502,723
Leasehold improvements	988,024	934,648
Machinery and equipment	6,826,425	6,657,875
Tools and dyes	4,212,909	3,999,705
Furniture and fixture	179,071	179,072
Website development cost	9,785	9,785
	<u>12,752,623</u>	<u>12,283,808</u>
Less: accumulated depreciation and amortization	<u>(10,420,918)</u>	<u>(9,723,201)</u>
	<u>\$ 2,331,705</u>	<u>\$ 2,560,607</u>

Depreciation expense for the nine months ended December 31, 2019 and December 28, 2018 was \$697,717 and \$309,600, respectively. Depreciation expense for the three months ended December 31, 2019 and December 28, 2018 was \$237,764 and \$84,000, respectively.

Note 6- ACCOUNTS RECEIVABLE FINANCING:

The Company has an accounts receivable financing agreement with a non-bank lending institution (“Financing Company”), whereby it can borrow up to 80 percent of its eligible receivables (as defined in the financing agreement) at an interest rate of 2.5% above JP Morgan Chase’s publicly announced rate with a minimum rate of 6% per annum.

The financing agreement has an initial term of one year and will automatically renew for successive one-year terms, unless terminated by the Company or its lender upon receiving 60 days’ prior notice. Funds advanced by the Financing Company are secured by IEH’s accounts receivable.

As of December 31, 2019, the Company reported a liability to its Financing Company of \$381,871, and at March 29, 2019, the Company had reported a liability to its Financing Company of \$334,306.

Note 7- OTHER CURRENT LIABILITIES:

Other current liabilities were comprised of the following as of:

	December 31, 2019	March 29, 2019
Payroll and vacation accruals	\$ 775,492	\$ 831,187
Due to Commercial Finance Company	1,173,359	—
Sales commissions	67,637	80,553
Other current liabilities	8,799	65,680
	<u>\$ 2,025,287</u>	<u>\$ 977,420</u>

IEH CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 8- 2011 EQUITY INCENTIVE PLAN:

The Company established a stock based compensation plan in 2011. As of December 31, 2019, the total authorized stock based instruments (including stock options) was 750,000 and 255,000 stock based instruments (including stock options) remain available for future issuance.

On July 29, 2019, the Board of Directors granted David Offerman, the Company's President and Chief Executive Officer an option to purchase 225,000 shares of the Company's common stock under the 2011 Equity Incentive Plan, in connection with his employment agreement dated as of July 29, 2019. (See Note 2 – Correction of an Immaterial Misstatement in a Prior Period Financial Statement). The option has an exercise price of \$20.00 per share, expires ten years from the date of grant, and vests in three equal annual installments of 75,000 options each, with the first vesting installment occurring on the date of grant. The option had a fair value on the date of grant of \$2,274,858.

The Company determined the fair value of the stock option grant based upon the assumptions as provided below:

	<u>For the Nine Months Ended December 31, 2019</u>
Stock price	\$ 20.00
Exercise price	\$ 20.00
Dividend yield	0%
Expected volatility	55%
Risk-Free interest rate, per annum	1.69%
Expected life (in years)	5.50

The following table summarizes the option activity for the nine months ended December 31, 2019:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding at March 29, 2019	185,000	\$ 6.05	\$ 6.05	7.75	\$ 1,832
Granted	10,000	13.00	13.00		
Granted	225,000	20.00	20.00		
Exercised	<u>(37,783)</u>	<u>6.00</u>	<u>6.00</u>		
Outstanding at December 31, 2019	<u>382,217</u>	<u>\$ 14.50</u>	<u>\$ 14.50</u>	8.09	\$ 3,250
Exercisable at December 31, 2019	<u>230,217</u>	<u>\$ 6.51</u>	<u>\$ 6.51</u>	8.09	

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock at December 31, 2019.

As of December 31, 2019 there was a total of \$1,200,620 of unrecognized compensation expense related to unamortized stock options. This cost is expected to be recognized through 2021 over a weighted average period of 1.59 years.

The Company's stock based compensation expense was \$260,491 and \$1,159,284 during the three and nine months ended December 31, 2019 and \$21,206 and \$26,802 during the three and nine months ended December 28, 2018.

IEH CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Note 8- 2011 EQUITY INCENTIVE PLAN: (continued)

During the quarter ended September 27, 2019, three individuals opted to exercise some of their options, including 3,783 of such options exercised by the Company's Chief Executive Officer by means of a cashless exercise using 1,000 previously issued shares of the Company's common stock. During the quarter ended December 31, 2019, five individuals opted to exercise some of their options. Consequently, the issued and outstanding number of shares of the Company's common stock increased by 28,500 shares to 2,360,251 shares. During the quarter ended December 31, 2019, 10,000 options were granted to a senior employee of the Company. For the nine months ended December 31, 2019, a total of 235,000 options were granted including 225,000 options granted to the Company's Chief Executive Officer.

Note 9- CASH BONUS PLAN:

In 1987, the Company adopted a cash bonus plan ("Cash Bonus Plan") for non-union, management and administrative staff. Contributions to the Cash Bonus Plan are made by the Company only when the Company is profitable for the fiscal year. The Company accrued a contribution of \$81,000 for each of the three months ended December 31, 2019 and December 28, 2018. The Company accrued a contribution provision of \$243,000 for the nine months ended December 31, 2019 and the nine months ended December 28, 2018.

Note 10- COMMITMENTS AND CONTINGENCIES:

The Company has a collective bargaining multi-employer pension plan ("Multi-Employer Plan") with the United Auto Workers of America, Local 259 ("UAW"). Contributions are made by the Company 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 Amendment Act of 1990 (the "1990 Act"), the Company may become subject to liabilities in excess of contributions made under the collective bargaining agreement. Generally, these are contingent upon termination, withdrawal, or partial withdrawal from the Multi-Employer Plan.

Based upon such Plan's information and data as of December 31, 2018 furnished to the Company (including, without limitation, unfunded vested benefits, accumulated benefits and net assets), such Plan is fully funded. Based thereupon, the Company's proportional share of the liability through December 31, 2018 is fully funded. The total contributions charged to operations under the provisions of the Multi-Employer Plan were \$9,497 and \$13,105 for the three months ended December 31, 2019 and December 28, 2018, respectively, and \$36,255 and \$50,153 for the nine months ended December 31, 2019 and December 28, 2018, respectively. The Company has not taken any action to terminate, withdraw or partially withdraw from the Multi-Employer Plan nor does it intend to do so in the future.

Note 11- REVENUE FROM MAJOR CUSTOMERS:

During the three months ended December 31, 2019, two customers accounted for \$2,548,988 constituting approximately 30% of the Company's net sales. One of those customers accounted for approximately 17% of the Company's net sales while the second customer accounted for approximately 13% of the Company's net sales. During the three months ended December 28, 2018 one customer accounted for \$1,002,255 constituting approximately 17% of the Company's net sales. During the nine months ended December 31, 2019, three customers accounted for \$9,189,430 or approximately 39% of the Company's net sales. One of those customers accounted for approximately 15% of the Company's net sales while the second and third customers accounted for approximately 13% and 11% of the Company's net sales, respectively. During the nine months ended December 28, 2018, three customers accounted for \$8,102,144 or approximately 38% of the Company's net sales. One of the customers accounted for approximately 14% of the Company's net sales while the second and third customers accounted for approximately 13% and 11% of the Company's net sales, respectively.

IEH CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 11- REVENUE FROM MAJOR CUSTOMERS: *(continued)*

As of December 31, 2019, two customers represented approximately 19% and 14%, respectively, of the Company's account receivables. As of March 29, 2019, one customer represented approximately 24% of the Company's account receivables. There was no concentration for purchases.

Note 12- SUBSEQUENT EVENTS:

The Company has evaluated all subsequent events through February 14, 2020, the date the financial statements were available to be issued. Based on this evaluation, the Company has determined that no subsequent events have occurred which require disclosure through the date that these financial statements were available to be issued.

IEH CORPORATION

PART I: FINANCIAL INFORMATION

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act") and Section 27A of the Securities Act of 1933 (the "Securities Act"). Statements contained in this report which are not statements of 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.

Except as may be required by applicable law, we do not undertake or intend to update or revise our forward-looking statements, and we assume no obligation to update any forward-looking statements contained in this report as a result of new information or future events or developments. Thus, you should not assume that our silence over time means that actual events are bearing out as expressed or implied in such forward-looking statements. You should carefully review and consider the various disclosures we make in this report and our other reports filed with the SEC that attempt to advise interested parties of the risks, uncertainties and other factors that may affect our business. The following discussion and analysis should be read in conjunction with the financial statements and related footnotes included elsewhere in this quarterly report which provide additional information concerning the Company's financial activities and condition.

Description of Business

The Company designs, develops and manufactures printed circuit connectors for high performance applications. We have also developed a high performance plastic circular connector line. All of our connectors utilize the HYPERBOLOID contact design, a rugged, high-reliability contact system ideally suited for high-stress environments. We believe we are the only independent producer of HYPERBOLOID printed circuit board connectors in the United States.

Our customers consist of Original Equipment Manufacturers ("OEMs"), companies manufacturing medical equipment and distributors who resell our products to OEMs. We sell our products directly and through regional representatives and distributors located in all regions of the United States, Canada, Israel, India, various Pacific Rim countries, South Korea and the European Union.

The customers we service are in the Military, Aerospace, Space, Medical, Oil & Gas, Industrial, Test Equipment and Commercial Electronics markets. We appear on the Military Qualified Product Listing "QPL" to MIL-DTL-55302 and supply customer requested modifications to this specification. Sales to the commercial electronic (inclusive of aerospace, space, oil & gas, medical & miscellaneous) and military markets were 49.9% and 50.1%, respectively, of the Company's net sales for the year ended March 29, 2019. Our offering of "QPL" items has recently been expanded to include additional products.

The accompanying unaudited financial statements for the three and nine months ended December 31, 2019 have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") for interim financial information and with the instructions to Form 10-Q. In the opinion of management, these 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 31, 2019 and the results of operations and cash flows for the three and nine months 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 three and nine months ended December 31, 2019, are not necessarily indicative of the results to be expected for any subsequent quarter or the entire fiscal year. The balance sheet at March 29, 2019 has been derived from the audited financial statements at that date.

IEH CORPORATION

PART I: FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Forward-Looking Statements *(continued)*

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). 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 and notes thereto of IEH Corporation for the fiscal year ended March 29, 2019 included in the Company's Annual Report on Form 10-K as filed with the SEC on July 12, 2019 and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Business New Product Development:

The Company created many new products that are innovative designs and employ new technologies. The Company continues to be successful because of its ability to assist its customers and create a new design, including engineering drawing packages, in a relatively short period of time. The Company will continue to support its customers to the best of its ability.

The standard printed circuit board connectors we produce are continually being expanded and utilized in many of the military programs being built today. We have recently received approval for additional products that the Company can offer under the Military Qualified Product Listing "QPL."

Critical Accounting Policies

As discussed in our Form 10-K for the fiscal year ended March 29, 2019, the discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates. Our most critical accounting policies and estimates relate to revenue recognition; leases; stock based compensation and income taxes (including uncertain tax positions). Please see accounting principles as disclosed in footnote 2 the accompanying financial statements.

Provision for Income Taxes

The income tax provision for three months ended December 31, 2019 and December 28, 2018 reflect effective tax rates of 34.6%, respectively. The Company's effective tax rate for the nine months ended December 31, 2019 and December 28, 2018 was 34.6%, respectively.

IEH CORPORATION

PART I: FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations

Comparative Analysis-Nine Months Ended December 31, 2019 and December 28, 2018

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

Relationship to Total Revenues	December 31, 2019	December 28, 2018
Revenues (in thousands)	<u>\$ 23,542</u>	<u>\$ 21,619</u>
Operating Expenses: (as a percentage of Revenues)		
Costs of Products Sold	60.08%	57.43%
Selling, General and Administrative	19.96%	14.17%
Interest Expense	0.22%	0.26%
Depreciation and amortization	<u>2.96%</u>	<u>1.43%</u>
TOTAL COSTS AND EXPENSES	<u>83.22%</u>	<u>73.29%</u>
Operating Income	16.78%	26.71%
Other Income	<u>0.10%</u>	<u>0.04%</u>
Income before Income Taxes	16.88%	26.75%
Income Taxes	<u>(5.84%)</u>	<u>(8.27%)</u>
Net Income	<u>11.04%</u>	<u>18.48%</u>

IEH CORPORATION

PART I: FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Results of Operations *(continued)*

Comparative Analysis-Nine Months Ended December 31, 2019 and December 28, 2018 *(continued)*

Revenues for the nine months ended December 31, 2019 amounted to \$23,542,266 reflecting a 8.90% increase versus \$21,619,017 for the nine months ended December 28, 2018. The increase in revenues of \$1,923,249 can be attributed to the completion of a large customer contract which was fulfilled by the end of the first fiscal quarter of this year.

Cost of products sold were \$14,143,666 for the nine months ended December 31, 2019 or 60.08% of revenues. This reflected an increase of \$1,727,836 or 13.90% in the cost of products sold from \$12,415,830 or 57.43% of operating revenues for the nine months ended December 28, 2018. The increase in cost of products sold can be attributed to an increase in payroll and related fringe costs as a result of the Company hiring additional employees engaged in the manufacturing process.

Selling, general and administrative expenses were \$4,699,640 or 19.96% of revenues for the nine months ended December 31, 2019 compared to \$3,063,345 or 14.17% of revenues for the nine months ended December 28, 2018. This increase of \$1,636,295 can be attributed primarily to an increase in general and administrative salaries.

Interest expense was \$51,006 for the nine months ended December 31, 2019. For the months ended December 28, 2018, interest expense was \$56,456 or 0.26% of revenues. The decrease can be attributed to a decrease in interest rates during the current nine-month period.

Depreciation and amortization of \$697,717 or 2.96% of revenues was reported for the nine months ended December 31, 2019 as compared to \$309,600 or 1.43% of operating revenues for the nine months ended December 28, 2018. The increase is due to newly acquired fixed assets of \$468,814 being put into service during the current nine-month period.

The Company reported net income of \$2,598,625 for the nine months ended December 31, 2019 as compared to net income of \$3,994,469 for the nine months ended December 28, 2018. The decrease in net income for the current nine-month period can be attributed primarily to the decrease in operating revenues for the current nine month period, related to the previously mentioned completed contract in the first quarter of the last fiscal year.

IEH CORPORATION

PART I: FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Results of Operations *(continued)*

Comparative Analysis-Three Months Ended December 31, 2019 and December 28, 2018

Results of Operations

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

Relationship to Total Revenues	December 31, 2019	December 28, 2018
	\$ 8,425	\$ 5,978
Revenues (in thousands)		
Operating Expenses: (as a percentage of Revenues)		
Costs of Products Sold	62.56%	63.40%
Selling, General and Administrative	17.44%	16.48%
Interest Expense	0.20%	0.68%
Depreciation and amortization	2.82%	1.41%
TOTAL COSTS AND EXPENSES	83.02%	81.97%
Operating Income	16.97%	18.03%
Other Income	0.07%	0.09%
Income before Income Taxes	17.04%	18.12%
Income Taxes	(6.97%)	(4.92%)
Net Income	10.07%	13.20%

Revenues for the three months ended December 31, 2019 amounted to \$8,424,657 reflecting a 40.93% increase versus \$5,977,835 for the three months ended December 28, 2018. The increase in revenues of \$2,446,822 can be attributed to increased marketing efforts and sales management support along with successful penetration into new markets and continued cultivation of our existing customer base.

Cost of products sold were \$5,270,795 for the three months ended December 31, 2019 or 62.56% of revenues. This reflected an increase of \$1,480,607 or 39.06% in the cost of products sold from \$3,790,188 or 63.40% of revenues for the three months ended December 28, 2018. The increase in cost of products sold can be attributed to an increase in payroll and related fringe costs as a result of the Company hiring additional employees engaged in the manufacturing process.

IEH CORPORATION

PART I: FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Results of Operations *(continued)*

Comparative Analysis-Three Months Ended December 31, 2019 and December 28, 2018 *(continued)*

Selling, general and administrative expenses were \$1,469,198 or 17.44% of revenues for the three months ended December 31, 2019 compared to \$985,043 or 16.48% of revenues for the three months ended December 28, 2018. This comparative increase of \$484,155 can be attributed primarily to an increase in general and administrative salaries.

Interest expense was \$17,263 for the three months ended December 31, 2019 or 0.20% of revenues. For the three months ended December 28, 2018, interest expense was \$40,904 or 0.68% of revenues. The decrease can be attributed to a decrease in interest rates during the current three-month period.

Depreciation and amortization of \$237,764 or 2.82% of revenues was reported for the three months ended December 31, 2019 as compared to \$84,000 or 1.41% of revenues for the three months ended December 28, 2018. The increase is due to additional fixed assets put into service during the current quarter.

The Company reported net income of \$848,112 for the three months ended December 31, 2019 as compared to net income of \$788,880 for the three months ended December 28, 2018. The increase in net income for the current three-month period can be attributed primarily to the increase in operating revenues for the current period.

Liquidity and Capital Resources

The Company reported working capital of \$23,685,080 as of December 31, 2019, compared to a working capital of \$19,653,160 as of March 29, 2019. The improvement in working capital was principally attributed to an increase of \$4,031,920 comprised of the following items:

Net Income	\$ 2,598,625
Depreciation	697,717
Capital Expenditure	(468,815)
Recognition of Stock Based Compensation Expense	1,159,284
Other	45,109
Total	<u>\$ 4,031,920</u>

For the nine months ended December 31, 2019, the Company utilize cash of \$468,815 in capital expenditures for the acquisition of property plant and equipment.

The Company has an accounts receivable financing agreement with a non-bank lending institution ("Financing Company") whereby it can borrow up to 80 percent of its eligible receivables (as defined in the financing agreement) at an interest rate of 2.5% above JP Morgan Chase's publicly announced prime rate with a minimum rate of 6% per annum.

The financing agreement has an initial term of one year and will automatically renew for successive one-year terms, unless terminated by the Company or its lender upon receiving 60 days' prior notice. Funds advanced by the Financing Company are secured by the Company's accounts receivables.

As of December 31, 2019 and March 29, 2019, the Company had reported a liability to its Financing Company of \$381,871 and \$334,306, respectively.

IEH CORPORATION

PART I: FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Liquidity and Capital Resources (continued)

Management has been consistently reviewing its collection practices and policies for outstanding receivables and has revised its collection procedures to a more aggressive collection policy. The Company has not historically had an issue with uncollectable accounts receivables. As a consequence of this new policy the Company's experience is that its customers have been remitting payments on a more consistent and timelier basis. The Company reviews the collectability of all accounts receivable on a monthly basis.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a "smaller reporting company" as defined by Regulation S-K and as such, are not required to provide this information contained in this item pursuant to Regulation S-K.

Item 4. Controls and Procedures

Evaluations of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15e and 15d-15e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures throughout the period covered by this report were not effective at the reasonable assurance level to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding disclosure.

Management determined that a misstatement and lack of disclosure in the second quarter regarding the employment agreement and option grant to the Chief Executive Officer, represented a material weakness in the disclosure controls and procedures.

Mitigation of Material Weakness

Our Chief Executive Officer and Chief Financial Officer are currently evaluating the conditions which resulted in the misstatement in the Form 10-Q for the three and nine months ended September 27, 2019, and are developing and implementing a plan of remediation. As a first step in implementing such a plan, the Company engaged a SEC reporting consultant who assisted the Company with the accounting for such transactions and revisions to the Company's disclosures. The Company's management will continue to actively review, evaluate and implement changes where necessary to its internal controls and procedures, including controls to ensure that the information properly record transactions is adequately communicated on a timely basis.

A controls system cannot provide absolute assurance, however, that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Management's Report on Internal Control over Financial Reporting

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal controls over financial reporting is a process designed by, or under the supervision of our principal executive officer and principal financial officer, or persons performing similar functions, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal controls over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; and

IEH CORPORATION

PART I: FINANCIAL INFORMATION

Item 4. Controls and Procedures *(continued)*

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this evaluation, management used the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As stated above, with respect to the analysis and determination of the misstatement and lack of disclosure in the second quarter and based on our evaluation under the framework in Internal Control—Integrated Framework, our management has concluded that our internal controls over financial reporting, as amended, were not effective as of December 31, 2019. In response to the conclusion stated above, management is developing and implementing a plan of remediation.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer does not expect that our disclosure controls and procedures or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There were no changes, other than described above, in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal controls that occurred during the fiscal quarter ended December 31, 2019 that materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

IEH CORPORATION
PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to or aware of any pending or threatened legal proceedings which, in the opinion of the Company's management, would result in any material adverse effect on its results of operations or its financial condition.

Item 1a. Risk Factors

You should carefully consider the risks described below, together with all of following risk factors and the other information included in this report, in considering our business herein as well as the information included in other reports and prospects. The risks and uncertainties described below are not the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations, financial condition and/or operating results. If any of the matters or events described in the following risks actually occurs, our business, financial condition or results of operations could be harmed. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment due to any of these risks.

Risks Related to Our Business

Failure to increase our revenue and keep our expenses consistent with revenues could prevent us from achieving and maintaining profitability.

We have generated net income of \$5,160,776, \$2,598,625, and \$1,473,976, respectively, for the fiscal years ended March 29, 2019, March 30, 2018 and March 31, 2017 and \$2,328,211 for the nine months ended December 31, 2019. We have expended, and will continue to be required to expend, substantial funds to pursue product development projects, enhance our marketing and sales efforts and to effectively maintain business operations. Therefore, we will need to generate higher revenues to achieve and maintain profitability and cannot assure you that we will be profitable in any future period.

Our capital requirements are significant and we have historically partially funded our operations through the financing of our accounts receivable.

We have an existing accounts receivable financing agreement with a non-bank lending institution whereby we can borrow up to 80 percent of our eligible receivables at an interest rate of 2.5% above JP Morgan Chase's publicly announced prime rate with a minimum rate of 6% per annum. No assurances can be given that this financing agreement will continue into the future. If we are unable to continue with this agreement, our cash flow might adversely be affected.

Our success is dependent on the performance of our management and the cooperation, performance and retention of our executive officers and key employees.

Our business and operations are substantially dependent on the performance of our senior management team and executive officers. If our management team is unable to perform it may adversely impact our results of operations and financial condition. We do not maintain "key person" life insurance on any of our executive officers. The loss of one or several key employees could seriously harm our business. Any reorganization or reduction in the size of our employee base could harm our ability to attract and retain other valuable employees critical to the success of our business.

If we lose key personnel or fail to integrate replacement personnel successfully, our ability to manage our business could be impaired.

Our future success depends upon the continued service of our key management, technical, sales, finance, and other critical personnel. We cannot assure you that we will be able to retain them. Key personnel have left our Company in the past and there likely will be additional departures of key personnel from time to time in the future. The loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of Company initiatives, the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, and the results of our operations. In addition, hiring, training, and successfully integrating replacement sales and other personnel could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful, which could negatively impact future revenues.

IEH CORPORATION

PART II: OTHER INFORMATION

Item 1a. Risk Factors *(continued)*

Our reported financial results could be adversely affected by changes in financial accounting standards or by the application of existing or future accounting standards to our business as it evolves.

As a result of the enactment of the Sarbanes-Oxley Act and the review of accounting policies by the SEC and national and international accounting standards bodies, the frequency of accounting policy changes may accelerate. Possible future changes to accounting standards, could adversely affect our reported results of operations.

Risks Related to Our Common Stock

Our stock price is volatile and could decline; we have a very limited trading market.

The price of our common stock has been, and is likely to continue to be, volatile. For example, our stock price during the fiscal year ended March 29, 2019 traded as low as \$7.30 per share and as high as \$22.00 per share. During the nine-month period ended December 31, 2019, our common stock traded in the range of \$16.05 per share to \$24.97 per share. During the three-month period ended December 31, 2019, our common stock traded in the range of \$19.56 per share to \$24.97 per share. We cannot assure you that your initial investment in our common stock will not decline.

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

Not applicable

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosure

None

IEH CORPORATION

PART II: OTHER INFORMATION

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

Exhibit 10.1	Employment Agreement, dated as of July 29, 2019, between the Company and David Offerman (filed as Exhibit 10.1 to Current Report on Form 8-K, dated July 29, 2019).
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to 17CFR240.13a-14(a) or 17CFR240.15d-14(a)*
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to 17CFR240.13a-14(a) or 17CFR240.15d-14(a)*
Exhibit 32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 17CFR240.13a-14(b) or 17CFR240.15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code*
Exhibit 101.INS	XBRL Instance Document*
Exhibit 101.SCH	XBRL Taxonomy Extension Schema*
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Label Document*

*Submitted electronically herewith

Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following formatted in XBRL (Extensible Business Reporting Language): (i) Statement of Operations for the nine months ended December 31, 2019 and December 28, 2018; (ii) Balance Sheets as of December 31, 2019 and March 29, 2019; (iii) Statements of Cash Flows for the nine months ended December 31, 2019 and December 28, 2018; (iv) Statements of Changes in Stockholders' Equity for the three and nine months ended December 31, 2019 and December 28, 2019; and (v) Notes to Financial Statements for the nine months ended December 31, 2019.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to the Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

IEH CORPORATION
(Registrant)

February 14, 2020

/s/ David Offerman
David Offerman
President and Chief Executive Officer
(Principal Executive Officer)

February 14, 2020

/s/ Robert Knoth
Robert Knoth
Chief Financial Officer (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, David Offerman, certify that:

1. I have reviewed this quarterly report of Form 10-Q of IEH Corporation for the quarter ended December 31, 2019.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared; and
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based upon such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, as set forth in Item 4 – Controls and Procedures; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ David Offerman

David Offerman

President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Robert Knoth, certify that:

1. I have reviewed this quarterly report of Form 10-Q of IEH Corporation for the quarter ended December 31, 2019.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared; and
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based upon such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, as set forth in Item 4 – Controls and Procedures; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Robert Knoth

Robert Knoth

Chief Financial Officer (Principal Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2004**

In connection with the Quarterly Report of IEH Corporation (the “Company”) on Form 10-Q for the quarter ending December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), David Offerman, President and Chief Executive Officer (Principal Executive Officer) and Robert Knoth, Chief Financial Officer (Principal Accounting Officer) of the Company, respectfully certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2004, that:

1. The Report fully complies with the requirements of the Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David Offerman

David Offerman
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Robert Knoth

Robert Knoth
Chief Financial Officer
(Principal Accounting Officer)

Dated: February 14, 2020

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Company for purposes of Section 18 of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906 has been provided to IEH Corporation and will be retained by IEH Corporation and furnished to the Securities and Exchange Commission or its staff upon request.