IEC ELECTRONICS CORP
Form 10-Q
August 05, 2014

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

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 27, 2014
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____

Commission File Number 0-6508

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

Delaware	13-3458955
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

105 Norton Street, Newark, New York 14513
(Address of Principal Executive Offices) (Zip Code)

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

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x 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. See the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, $0.01 par value – 10,055,267 shares as of August 1, 2014

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 27, 2014 and SEPTEMBER 30, 2013
(in thousands, except share and per share data)

	June 27, 2014 (unaudited)	September 30, 2013
ASSETS		
Current assets:		
Cash	$679	$2,499
Accounts receivable, net of allowance	23,245	27,945
Inventories, net	21,152	21,904
Deferred income taxes	1,382	1,382
Other current assets	2,107	610
Total current assets	48,565	54,340
Fixed assets, net	18,489	17,946
Intangible assets, net	2,456	2,647
Goodwill	2,005	2,005
Deferred income taxes	12,634	11,652
Other long term assets	238	345
Total assets	$84,387	$88,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$2,908	$2,778
Accounts payable	14,340	16,508
Accrued payroll and related expenses	2,869	2,464
Other accrued expenses	947	811
Customer deposits	928	187
Total current liabilities	21,992	22,748
Long-term debt	31,578	34,026
Other long-term liabilities	153	167
Total liabilities	53,723	56,941
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value: 500,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value: Authorized: 50,000,000 shares Issued: 11,072,821 and 11,006,749 shares, respectively Outstanding: 10,053,956 and 9,991,291 shares, respectively	111	110

Additional paid-in capital	44,132	43,802
Retained earnings/(accumulated deficit)	(12,129)	(10,483)
Treasury stock, at cost: 1,018,865 and 1,015,458 shares, respectively	(1,450)	(1,435)
Total stockholders' equity	30,664	31,994
Total liabilities and stockholders' equity	$84,387	$88,935

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

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IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
THREE and NINE MONTH PERIODS ENDED JUNE 27, 2014 and JUNE 28, 2013
(unaudited; in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Net sales	$32,992	$35,154	$99,934	$101,824
Cost of sales	29,112	29,995	87,675	89,601
Gross profit	3,880	5,159	12,259	12,223
Selling and administrative expenses	3,195	3,446	10,938	11,803
Restatement and related expenses	102	1,106	2,516	1,106
Operating profit/(loss)	583	607	(1,195)	(686)
Interest and financing expense	558	10	1,410	648
Other expense/(income)	—	(9)	18	47
Income/(loss) before income taxes	25	606	(2,623)	(1,381)
Provision for/(benefit from) income taxes	3	224	(977)	(518)
Net income/(loss)	$22	$382	$(1,646)	$(863)
Net income/(loss) per common and common equivalent share:				
Basic	$—	$0.04	$(0.17)	$(0.09)
Diluted	—	0.04	(0.17)	(0.09)
Weighted average number of common and common equivalent shares outstanding:				
Basic	9,838,872	9,702,446	9,816,974	9,675,120
Diluted	9,902,017	9,810,707	9,816,974	9,675,120

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS of CHANGES in STOCKHOLDERS' EQUITY
NINE MONTHS ENDED JUNE 27, 2014 and JUNE 28, 2013
(unaudited; in thousands)

	Common Stock, par $0.01	Additional Paid-In Capital	Retained Earnings (Deficit) (restated)	Treasury Stock, at cost	Total Stockholders' Equity (restated)
Balances, September 30, 2012	$109	$43,075	$(953)	$(1,435)	$40,796
Net loss	—	—	(863)	—	(863)
Stock-based compensation	—	494	—	—	494
Forfeitures	(1)	1	—	—	—
Directors' fees paid in stock	—	10	—	—	10
Restricted (non-vested) stock grants	1	(1)	—	—	—
Exercise of stock options	—	60	—	—	60
Shares withheld for payment of taxes upon vesting of restricted stock	—	(29)	—	—	(29)
Employee stock plan purchases	—	98	—	—	98
Balances, June 28, 2013	$109	$43,708	$(1,816)	$(1,435)	$40,566

	Common Stock, par $0.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, September 30, 2013	$110	$43,802	$(10,483)	$(1,435)	$31,994
Net loss	—	—	(1,646)	—	(1,646)
Stock-based compensation	—	378	—	—	378
Restricted (non-vested) stock grants, net of forfeitures	1	(1)	—	—	—
Exercise of stock options		32	—	(15)	17
Shares withheld for payment of taxes upon vesting of restricted stock	—	(79)	—	—	(79)
Balances, June 27, 2014	$111	$44,132	$(12,129)	$(1,450)	$30,664

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS of CASH FLOWS
NINE MONTHS ENDED JUNE 27, 2014 and JUNE 28, 2013
(unaudited; in thousands)

	Nine Months Ended	
	June 27, 2014	June 28, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$(1,646)	$(863)
Non-cash adjustments:		
Stock-based compensation	378	494
Depreciation and amortization	3,625	3,574
Directors' fees paid in stock	—	10
Reserve for doubtful accounts	220	117
Deferred tax expense/benefit	(982)	(901)
Changes in assets and liabilities:		
Accounts receivable	4,480	132
Inventory	752	(3,974)
Other current assets	(1,497)	(399)
Other long term assets	81	(288)
Accounts payable	(2,634)	1,436
Accrued expenses	541	(452)
Customer deposits	741	(134)
Other long term liabilities	(14)	185
Net cash flows from operating activities	4,045	(1,063)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(3,806)	(4,357)
Proceeds from (net cost of) disposal of fixed assets	323	—
Net cash flows from investing activities	(3,483)	(4,357)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from revolving line of credit	43,513	43,284
Repayments of revolving line of credit	(44,971)	(33,825)
Borrowings under other loan agreements	1,300	24,000
Repayments under other loan agreements	(2,160)	(27,688)
Debt issuance costs	(2)	(39)
Proceeds from exercise of stock options	17	60
Proceeds from employee stock plan purchases	—	98
Shares withheld for payment of taxes upon vesting of restricted stock	(79)	(29)
Net cash flows from financing activities	(2,382)	5,861
Net increase/(decrease) in cash and cash equivalents	(1,820)	441
Cash and cash equivalents, beginning of period	2,499	2,662
Cash and cash equivalents, end of period	$679	$3,103
Supplemental cash flow information:		
Interest paid	$1,177	$782

Income taxes paid	12	367
Non-cash transactions		
Fixed assets purchased with extended payment terms	466	—

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—OUR BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our Business

IEC Electronics Corp. ("IEC", "we", "our", “us”, “Company”) is a premier provider of electronic contract manufacturing services (“EMS”) to companies in various industries that require advanced technology. We specialize in the custom manufacture of high reliability, complex circuit boards and system-level assemblies; a wide array of cable and wire harness assemblies capable of withstanding extreme environments; and precision metal components. We excel where quality and reliability are of paramount importance and when low-to-medium volume, high-mix production is the norm. We utilize state-of-the-art, automated circuit board assembly equipment together with a full complement of high-reliability manufacturing stress testing methods. With our customers at the center of everything we do, we have created a high-intensity, rapid response culture capable of reacting and adapting to their ever-changing needs. Our customer-centric approach offers a high degree of flexibility while simultaneously complying with rigorous quality and on-time delivery standards. While many EMS services are viewed as commodities, we believe we set ourselves apart through an uncommon mix of capabilities including:

- A technology center that combines dedicated prototype manufacturing with an on-site Materials Analysis Lab, enabling the seamless transition of complex electronics from design to production.
- In-house, custom, functional testing and troubleshooting of complex system-level assemblies in support of end-order fulfillment.
- A laboratory that enables us to assist customers in mitigating the risk of purchasing counterfeit parts through our subsidiary, Dynamic Research and Testing Laboratories, LLC (“DRTL”).
- Build-to-print precision sheet metal and complex wire harness assemblies supporting just-in-time delivery of critical end-market, system-level electronics.
- A Lean/Six Sigma continuous improvement program supported by a team of Six Sigma Blackbelts delivering best-in-class results.
- Proprietary software-driven Web Portal providing customers real-time access to a wide array of operational data.

Generally Accepted Accounting Principles

IEC's financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, as set forth in the Financial Accounting Standards Board's (“FASB”) Accounting Standards Codification (“ASC”).

Fiscal Calendar

The Company’s fiscal year ends on September 30th, and the first three quarters end generally on the Friday closest to the last day of the calendar quarter.

Consolidation

The consolidated financial statements include the accounts of IEC and its wholly owned subsidiaries: IEC Electronics Wire and Cable, Inc. (“Wire and Cable”); IEC Electronics Corp-Albuquerque ("Albuquerque"); Dynamic Research and Testing Laboratories, LLC (“DRTL”); and Southern California Braiding, Inc. (“SCB”). The Celmet unit ("Celmet") operates as a division of IEC. All significant intercompany transactions and accounts are eliminated in consolidation.

Unaudited Financial Statements

The accompanying unaudited financial statements for the nine months ended June 27, 2014 and June 28, 2013 have been prepared in accordance with GAAP for interim financial information. In the opinion of management, all adjustments required for a fair presentation of the information have been made. The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Reclassifications

Prior year financial statement amounts are reclassified as necessary to conform to the current year presentation. Such reclassifications generally involve transfers of individual accounts from one financial statement line-item to another, without affecting income before or after taxes.

Cash and Cash Equivalents

The Company's cash and cash equivalents principally represent deposit accounts with Manufacturers and Traders Trust Company ("M&T Bank"), a banking corporation headquartered in Buffalo, NY.

Allowance for Doubtful Accounts

The Company establishes an allowance for doubtful accounts receivable based on the age of outstanding invoices and management's evaluation of collectability. Accounts are written off after all reasonable collection efforts have been exhausted and management concludes that likelihood of collection is remote.

Inventory Valuation

Inventories are stated at the lower of cost or market value under the first-in, first-out method. The Company regularly assesses slow-moving, excess and obsolete inventory and maintains balance sheet reserves in amounts required to reduce the recorded value of inventory to lower of cost or market.

Property, Plant and Equipment

Property, plant and equipment (“PP&E”) are stated at cost and are depreciated over various estimated useful lives using the straight-line method. Maintenance and repairs are charged to expense as incurred, while renewals and improvements are capitalized. At the time of retirement or other disposition of PP&E, cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded in earnings.

Depreciable lives generally used for PP&E are presented in the table below. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the improvement.

PP&E Lives	Estimated Useful Lives (years)
Land improvements	10
Buildings and improvements	5 to 40
Machinery and equipment	3 to 5
Furniture and fixtures	3 to 7

Intangible Assets

Intangible assets (other than goodwill) are those that lack physical substance and are not financial assets. Such assets held by IEC were acquired in connection with business combinations and represent economic benefits associated with acquired customer relationships, a non-compete agreement, and a property tax abatement. Values assigned to individual intangible assets are amortized using the straight-line method over their estimated useful lives. During the fourth quarter of fiscal 2013, an impairment charge of $2.4 million related to SCB’s customer relationships was recorded. The impairment analysis and resulting charge are further discussed in Note 6 – Intangible Assets.

Reviewing Long-Lived Assets for Potential Impairment

ASC 360-10 (Property, Plant and Equipment) and 350-30 (Intangibles) require the Company to test long-lived assets (PP&E and definitive lived assets) for recoverability whenever events or circumstances indicate that the carrying amount may not be recoverable. If carrying value exceeds undiscounted future cash flows attributable to an asset, it is considered impaired and the excess of carrying value over fair value must be charged to earnings. No impairment charges were recorded by IEC for property, plant and equipment during fiscal 2013 or the first nine months of fiscal 2014. Refer to Note 6 – Intangible Assets for further discussion of the impairment charge recorded in the fourth quarter of fiscal 2013.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired in a business combination. Under ASC 350, goodwill is not amortized but is reviewed for impairment at least annually or when events or circumstances indicate that carrying value may exceed fair value. The Company may elect to precede a quantitative review for impairment with a qualitative assessment of the likelihood that fair value of a particular reporting unit exceeds carrying value. If the qualitative assessment leads to a conclusion that it is more than 50 percent likely that fair value exceeds carrying value, no further testing is required. In the event of a less favorable outcome, the Company is required to proceed with quantitative testing.

The quantitative process entails comparing the overall fair value of the unit to which goodwill relates to carrying value. If fair value exceeds carrying value, no further assessment of potential impairment is required. If fair value of the unit is less than carrying value, a valuation of the unit's individual assets and liabilities is required to determine whether or not goodwill is impaired. Goodwill impairment losses are charged to earnings. During the fourth quarter of fiscal 2013, an impairment charge of $11.8 million related to SCB's goodwill was recorded. The impairment analysis and resulting charge are further discussed in Note 7 – Goodwill.

Most of IEC's recorded goodwill relates to SCB acquired in December 2010, and a lesser portion relates to Celmet, which was acquired in July 2010.

Leases

At the inception of a lease covering equipment or real estate, the lease agreement is evaluated under criteria discussed in ASC 840-10-25 (Leases). Leases meeting one of four key criteria are accounted for as capital leases and all others are treated as operating leases. Under a capital lease, the discounted value of future lease payments becomes the basis for recognizing an asset and a borrowing, and lease payments are allocated between debt reduction and interest. For operating leases, payments are recorded as rent expense. Criteria for a capital lease include (i) transfer of ownership during the lease term; (ii) existence of a bargain purchase option under terms that make it likely to be exercised; (iii) a lease term equal to 75 percent or more of the economic life of the leased property; and (iv) minimum lease payments that equal or exceed 90 percent of the fair value of the property.

In June 2008, IEC entered into a sale-leaseback arrangement with M&T Bank under which fixed assets with a net book value of $2.0 million and an original cost of $15.6 million were sold to M&T Bank and were leased back under a five-year operating lease. The sold assets were removed from the accounts and a minimal loss on the transaction was amortized over the initial lease term. During the third quarter of fiscal 2013, the operating lease terminated and the assets were repurchased for $0.4 million pursuant to a purchase option in the sale-leaseback arrangement.

Legal Contingencies

When legal proceedings are brought or claims are made against us and the outcome is uncertain, ASC 450-10 (Contingencies) requires that we determine whether it is probable that an asset has been impaired or a liability has been incurred. If such impairment or liability is probable and the amount of loss can be reasonably estimated, the loss must be charged to earnings. No material charges for legal contingencies have been recorded by IEC during fiscal 2013 or the first nine months of fiscal 2014.

When it is considered probable that a loss has been incurred, but the amount of loss cannot be estimated, disclosure but not accrual of the probable loss is required. Disclosure of a loss contingency is also required when it is reasonably possible, but not probable, that a loss has been incurred.

Customer Deposits

Customer deposits represent amounts invoiced to customers for which the revenue has not yet been earned and therefore represent a commitment for the Company to deliver goods or services in the future. Deposits are generally short term in nature and are recognized as revenue when earned.

Grants from Outside Parties

Grants from outside parties are recorded as other long-term liabilities and are amortized over the same period during which the associated fixed assets are depreciated.

Derivative Financial Instruments

The Company actively monitors its exposure to interest rate risk and from time to time uses derivative financial instruments to manage the impact of this risk. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the interest rate, nor does the Company use derivative instruments where it does not have underlying exposures. The Company manages its hedging position and monitors the credit ratings of counterparties and does not anticipate losses due to counterparty nonperformance.

Management believes its use of derivative instruments to manage risk is in the Company's best interest. However, the Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. The Company's instruments are recorded in the consolidated balance sheets at fair value in other assets or other long-term liabilities.

Fair Value Measurements

Under ASC 825 (Financial Instruments), the Company is required to disclose the fair value of financial instruments for which it is practicable to estimate value. The Company's financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities, borrowings and an interest rate swap agreement. IEC believes that recorded value approximates fair value for all cash, accounts receivable, accounts payable and accrued liabilities.

ASC 820 (Fair Value Measurements and Disclosures) defines fair value, establishes a framework for measurement, and prescribes related disclosures. ASC 820 defines fair value as the price that would be received upon sale of an asset or would be paid to transfer a liability in an orderly transaction. Inputs used to measure fair value are categorized under the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs are observable market data.

Level 3: Model-derived valuations in which one or more significant inputs are unobservable.

The Company deems a transfer between levels of the fair value hierarchy to have occurred at the beginning of the reporting period. There were no such transfers during fiscal 2013 or the first nine months of fiscal 2014.

Revenue Recognition

The Company's revenue is principally derived from the sale of electronic products built to customer specifications, but also from other value-added support services and repair work. Revenue from product sales is recognized when (i) goods are shipped or title and risk of ownership have passed, (ii) the price to the buyer is fixed or determinable, and (iii) realization is reasonably assured. Service revenue is generally recognized once the service has been rendered. For material management arrangements, revenue is generally recognized as services are rendered. Under such arrangements, some or all of the following services may be provided: design, bid, procurement, testing, storage or other activities relating to materials the customer expects to incorporate into products that it manufactures. Value-added support services revenue, including material management and repair work revenue, amounted to less than 5% of total revenue in fiscal 2013 and the first nine months of fiscal 2014.

Provisions for discounts, allowances, rebates, estimated returns and other adjustments are recorded in the period the related sales are recognized.

Stock-Based Compensation

ASC 718 (Stock Compensation) requires that compensation expense be recognized for equity awards based on fair value as of the date of grant. For stock options, the Company uses the Black-Scholes pricing model to estimate grant date fair value. Costs associated with stock awards are recorded over requisite service periods, generally the vesting period. If vesting is contingent on the achievement of performance objectives, fair value is accrued over the period the objectives are expected to be achieved only if it is considered probable that the objectives will be achieved. The Company also has an employee stock purchase plan ("ESPP") that provides for discounted stock purchase price. Compensation expense related to the discount is recognized as employees contribute to the plan. On May 21, 2013, the Compensation Committee of the Company’s Board of Directors suspended operation of the ESPP indefinitely in connection with the restatement of the Company’s financial statements described herein (including unavailability of the registration statement covering shares offered under the plan due to the failure of the Company to be current in its filings with the SEC until the Company filed its Form 10-K on December 24, 2013).

Restatement and Related Expenses

Restatement and related expenses represents third-party expenses arising from the restatement further discussed in Note 2 - Restatement of Consolidated Financial Statements. These expenses include legal and accounting fees incurred by the Company from external counsel and independent accountants directly attributable to the restatement as well as other matters arising from the restatement including those more fully described in Note 17 - Litigation.

Income Taxes and Deferred Taxes

ASC 740 (Income Taxes) requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns, but not in both. Deferred tax assets are also established for tax benefits associated with tax loss and tax credit carryforwards. Such deferred balances reflect tax rates that are scheduled to be in effect, based on currently enacted legislation, in the years the book/tax differences reverse and tax loss and tax credit carryforwards are expected to be realized. An allowance is established for any deferred tax asset for which realization is not likely.

ASC 740 also prescribes the manner in which a company measures, recognizes, presents, and discloses in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the position will be sustained following examination by taxing authorities, based on technical merits of the position. The Company believes that it has no material uncertain tax positions.

Any interest or penalties incurred are reported as interest expense. The Company’s income tax filings are subject to audit by various tax jurisdictions and current open years are fiscal 2010 through fiscal 2012. The federal income tax audit for fiscal 2011 recently concluded and did not have a material impact on the financial statements.

Earnings Per Share

Basic earnings per common share are calculated by dividing income available to common stockholders by the weighted average number of shares outstanding during each period. Diluted earnings per common share add to the denominator incremental shares resulting from the assumed exercise of all potentially dilutive stock options, as well as restricted (non-vested) stock, restricted stock units (“RSU’s”) and anticipated issuance through the employee stock purchase plan. Options, restricted stock and RSU’s are primarily held by directors, officers and certain employees. A summary of shares used in earnings per share (“EPS”) calculations follows.

Shares for EPS Calculation	Three Months Ended June 27, 2014	Three Months Ended June 28, 2013	Nine Months Ended June 27, 2014	Nine Months Ended June 28, 2013
Weighted average shares outstanding	9,838,872	9,702,446	9,816,974	9,675,120
Incremental shares	63,145	108,261	—	—
Diluted shares	9,902,017	9,810,707	9,816,974	9,675,120
Anti-dilutive shares excluded	125,500	164,850	504,738	547,680

As a result of the net loss for the nine months ended June 27, 2014 and June 28, 2013, the Company calculated diluted earnings per share using weighted average basic shares outstanding, as using diluted shares would be anti-dilutive to loss per share.

Dividends

IEC does not pay dividends on its common stock, as it is the Company's current policy to retain earnings for use in the business. Furthermore, the Company’s Fourth Amended and Restated Credit Facility Agreement with M&T Bank includes certain restrictions on paying cash dividends.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from management's estimates.

Statements of Cash Flows

The Company presents operating cash flows using the indirect method of reporting under which non-cash income and expense items are removed from net income.

Comprehensive Income

IEC has no items of other comprehensive income ("OCI") in any period presented in the accompanying financial statements, and in accordance with ASC 220-10-15, is not required to present captions for OCI or comprehensive income in the statements.

Recently Issued Accounting Standards

FASB ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)," was issued July 2013 and is effective for fiscal years beginning after December 15, 2013. ASU 2013-11 provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. The Company does not anticipate a significant impact upon adoption.

FASB ASU 2013-12, "Definition of a Public Business Entity (An Addition to the Master Glossary)," was issued December 2013 and the amendment provides a single definition of public business entity for use in future financial accounting and reporting guidance. There is no actual effective date for the amendment, however, the term public business entity will be used in future ASUs. The ASU did not have a significant impact to the Company.

FASB ASU 2014-06, "Technical Corrections and Improvements related to the Glossary Terms," The new guidance is designed to clarify the Master Glossary of the Codification. ASU 2014-06 is not intended to significantly change U.S. GAAP and there was no significant impact to the Company upon adoption.

FASB ASU 2014-09, "Revenue from Contracts with Customers," was issued May 2014 and updates the principles for recognizing revenue. The ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. This ASU also amends the required disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for annual periods beginning after December 15, 2016, including interim periods within that period. Early adoption is not permitted under U.S. GAAP. The Company is determining its implementation approach and evaluating the potential impacts of the new standard on its existing revenue recognition policies and procedures.

FASB ASU 2014-12, "Compensation - Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period," was issued June 2014. This guidance was issued to resolve diversity in accounting for performance targets. A performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition and should not be reflected in the award's grant date fair value. Compensation cost should be recognized over the required service period, if it is probable that the performance condition will be achieved. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The Company does not anticipate a significant impact upon adoption.

Note 2—RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

We restated our consolidated financial statements for the fiscal year ended September 30, 2012, and the interim fiscal quarters and year to date periods within the year ended September 30, 2012, included in the Company's Annual Report on Form10-K/A and the fiscal quarter ended December 28, 2012, as reported in the Company's Quarterly Report on Form 10-Q/A for that fiscal quarter.

The Company identified an error in accounting for work-in-process inventory at SCB, one of its wholly owned subsidiaries. During the quarter ended March 29, 2013 the Company began to analyze the cost structure of SCB including labor, overhead and selling and administrative expenses. Throughout the second half of fiscal 2012 and the first half of fiscal 2013 SCB's expenses incurred increased each period. Over the same period, the labor and overhead capitalized into work-in-process inventory also increased. The Company initially believed the increase in capitalized work-in-process labor and overhead resulted from unfavorable variances due to increased expenses in relation to revenue during those periods. Upon further review, it was determined the Company overcapitalized labor and overhead costs in SCB's work-in-process inventory. The overcapitalization was a result of failure to accurately factor in the stage of completion for the work-in-process inventory.

Note 3—ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary follows of activity in the allowance for doubtful accounts during the nine months ended June 27, 2014 and June 28, 2013.

Allowance for Doubtful Accounts	Nine Months Ended June 27, 2014	June 28, 2013
(in thousands)		
Allowance, beginning of period	$452	$406
Provision for doubtful accounts	257	135
Write-offs	(37)	(18)
Allowance, end of period	$672	$523

Note 4—INVENTORIES

A summary of inventory by category at period end follows:

Inventories	June 27, 2014	September 30, 2013
(in thousands)		
Raw materials	$13,364	$14,841
Work-in-process	8,594	7,564
Finished goods	1,376	1,449
Total inventories	23,334	23,854
Reserve for excess/obsolete inventory	(2,182)	(1,950)
Inventories, net	$21,152	$21,904

Note 5—FIXED ASSETS

A summary of fixed assets and accumulated depreciation at period end follows:

Fixed Assets	June 27, 2014	September 30, 2013
(in thousands)		
Land and improvements	$1,601	$1,601
Buildings and improvements	13,192	11,070
Leasehold improvements	1,411	1,411
Machinery and equipment	26,748	25,963
Furniture and fixtures	7,035	6,165
Construction in progress	596	835
Total fixed assets, at cost	50,583	47,045
Accumulated depreciation	(32,094)	(29,099)
Fixed assets, net	$18,489	$17,946

Depreciation expense during the three and nine months periods follows:

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
(in thousands)				
Depreciation expense	$1,141	$1,096	$3,406	$3,161

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Results of the impairment analysis in the fourth quarter of fiscal 2013 related to the SCB reporting unit, more fully described in Note 6 – Intangible Assets and Note 7 – Goodwill, did not result in a fixed asset impairment as undiscounted cash flows exceeded the carrying value of the assets.

Note 6—INTANGIBLE ASSETS

IEC's intangible assets (other than goodwill) were acquired in connection with purchases of SCB in the first quarter of fiscal 2011 and Albuquerque in fiscal 2010.

Among SCB’s key attributes as an acquisition candidate were the relationships established with a number of military and defense contractors. The anticipated profitability of those relationships was considered by IEC in arriving at an amount to offer for the firm and also became the basis for allocating a portion of the purchase price to a related customer relationship intangible asset. Based upon several key assumptions and a detailed analysis of value, $5.9 million was allocated to this intangible asset. The asset is being amortized over its 15-year estimated useful life, using the straight-line method.

For the reasons set forth in Note 7 – Goodwill below, the Company recorded an impairment of the customer relationship intangible asset in the fourth quarter of fiscal 2013. As part of the impairment determination, future cash flows of SCB’s customer relationships existing at acquisition date were projected based on estimates of future revenues, operating income and other factors, such as working capital and capital expenditures. Factors taken into consideration in arriving at these estimates include historical results since acquisition, industry data and expected challenging market conditions as described more fully in Note 7 – Goodwill. The projections do not include possible future benefits from customer relationships existing at acquisition date that may positively impact other reporting units, including Albuquerque, in the future. The discount rates used in our discounted cash flow method were based on a weighted average cost of capital determined from relevant market comparisons, adjusted upward for risks specific to the reporting unit. An estimated attrition rate was calculated based on the reporting unit’s historical revenue. Based on the results of this test, we recognized an impairment charge of $2.4 million for customer relationships. An impairment analysis for intangible assets was not necessary prior to the fourth quarter of fiscal 2013 for the same reasons a goodwill impairment charge was not recorded prior to the fourth quarter of fiscal 2013 as described in Note 7 - Goodwill.

There has been no further impairment of SCB customer relationships in the first nine months of fiscal 2014.

In connection with the SCB acquisition, IEC also allocated $100 thousand to an intangible asset representing the estimated value of a five-year, non-compete agreement entered into with SCB’s selling shareholders. This intangible asset is being amortized evenly over its contractual life, and no impairment has been taken for this asset since the SCB acquisition.

As for Albuquerque, its building and land were acquired subject to an Industrial Revenue Bond (“IRB”) that exempts the property from real estate taxes for the term of the IRB. The tax abatement was valued at $360 thousand at date of acquisition, and such value is being amortized over the 9.2 year exemption period that remained as of the acquisition date. No impairment has been taken for this asset since the Albuquerque acquisition.

A summary of intangible assets by category and accumulated amortization at period end follows:

Intangible Assets (in thousands)	June 27, 2014	September 30, 2013

Customer relationships - SCB	$5,900	$5,900
Property tax abatement - Albuquerque	360	360
Non-compete agreement - SCB	100	100
Total intangibles	6,360	6,360
Accumulated amortization	(1,492)	(1,301)
Accumulated impairment - customer relationships	(2,412)	(2,412)
Intangible assets, net	$2,456	$2,647

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Amortization expense during the three and nine months ended June 27, 2014 and June 28, 2013 follows:

Amortization Expense	Three Months Ended June 27, 2014	Three Months Ended June 28, 2013	Nine Months Ended June 27, 2014	Nine Months Ended June 28, 2013
(in thousands)				
Intangible amortization expense	$64	$113	$191	$339

A summary of amortization expense for the next five years follows:

Future Amortization	Estimated future amortization
(in thousands)	
Twelve months ended March 28,	
2015	$254
2016	243
2017	234
2018	234
2019 and thereafter	1,491

Note 7—GOODWILL

Goodwill balances resulting from the acquisitions of SCB in the first quarter of fiscal 2011 and Celmet in fiscal 2010 were $13.7 million and $0.1 million, respectively, prior to the impairment described below.

Since its acquisition, SCB has operated as a reporting unit of the Company, primarily in the aerospace & defense (previously disclosed as military & aerospace) market sector. Due to changing circumstances, the Company determined it was necessary to perform a quantitative assessment which resulted in an impairment charge recorded in the fourth quarter of fiscal 2013.

The Company performs its annual impairment test for SCB goodwill during the third quarter. Prior to the fourth quarter of fiscal 2013, these tests indicated no impairment. During the third quarter of fiscal 2013, we performed a qualitative impairment analysis as permitted by ASC 350 – Intangibles – Goodwill and Other. We considered several factors including operating results in recent periods, backlog, market sector and macro-economic conditions and revenue. At the time, we anticipated improved operating margins in future periods. Government activities were not expected to have a significant impact on SCB as the majority of the programs that SCB's customers participate in involve complex, advanced technology including unmanned vehicles, space defense and space exploration – and, as such, were more likely delayed as opposed to permanently cut. Revenue growth also was expected to have a positive impact on operating margins due to improved leverage on existing overhead, selling and administrative costs. The Company therefore determined it was not more likely than not that goodwill was impaired.

Since acquisition, operating expenses at the SCB reporting unit were at a level that would support anticipated higher revenue volumes. Although revenue at the reporting unit increased in fiscal 2013 over fiscal 2012, growth was slower than projected at acquisition date. During the second and third quarters of fiscal 2013, the Company made an effort to increase margins by implementing operational improvements at the reporting unit to reduce costs and improve efficiencies. Notwithstanding improvements, SCB continued to experience poor operating performance. As a result, the Company made strategic decisions during the fourth quarter of fiscal 2013 to direct more revenue from existing and new customers in the aerospace & defense market sector to our Albuquerque reporting unit. This change in strategy was to improve leverage of expenses at Albuquerque while reducing expenses at SCB. The change in strategy is expected to be limited, managed growth planned for the SCB reporting unit for the foreseeable future, with future additional growth in this market sector planned to occur at our other locations.

As part of the strategic change noted above, the Company has reduced planned operating expenses in order to better align them with current revenue volumes and planned reduced growth at the SCB reporting unit. Fiscal 2014 measures to improve operating results include planned operational efficiencies, reduction of square footage leased and reduction of personnel, administrative, selling and other discretionary costs. These changes are beginning to take effect in fiscal 2014; however it will take some time to realize the full impact. In the fourth quarter of fiscal 2013, forecasts for the SCB reporting unit for fiscal 2014 included lower revenue and operating margin projections based on the Company’s plans to manage the level of operations at this reporting unit while continuing to grow business in the aerospace & defense market sector at other reporting units.

Additionally, by the fourth quarter of fiscal 2013, uncertainties relative to the aerospace & defense market sector intensified over those in the third quarter of fiscal 2013. Federal government indecision regarding funding of budget deficits resulted in a partial government shut-down during October 2013. This followed Department of Defense spending reductions that already occurred as a result of sequestration in the spring of 2013. A temporary suspension of the debt ceiling put an end to the October 2013 shutdown. At the time the Company was performing its impairment analysis, the temporary suspension was scheduled to end in February 2014. At that time, there was the possibility of another partial shut-down and further cuts that could take effect in calendar 2014 if further sequestration could not be avoided. Although instability has continued to be evident, the Company continues to believe government funding for the majority of our customers' programs that we support is more likely delayed as opposed to permanently cut.

As a result of the factors described above, the Company determined it was necessary to perform a quantitative step one goodwill impairment analysis as of the fourth quarter of fiscal 2013. The fair value of the SCB reporting unit was estimated using discounted cash flows, which is an income approach. The discount rates used were based on a weighted average cost of capital determined from relevant market comparisons, adjusted upward for risks specific to the reporting unit. Future cash flows were projected based on estimates of future revenues, operating income and other factors, such as working capital and capital expenditures. Factors taken into consideration in arriving at these estimates included historical results since acquisition, industry data, and expected challenging market conditions. The projections did not include possible future benefits from customer relationships that may positively impact other reporting units, including Albuquerque, in the future. Despite the planned changes described above, projections still indicated low operating margins, and the carrying value of the SCB reporting unit exceeded the fair value estimated in step one of the impairment analysis. It was therefore necessary to perform step two to determine the amount of the impairment.

The step two analysis was performed utilizing the same factors in the step one analysis described above. The fair value of the assets and liabilities of the reporting unit were estimated and the residual fair value of the reporting unit was compared to the carrying value of goodwill. Based on the results of the step two analysis, the Company recognized a goodwill impairment charge of $11.8 million in the fourth quarter of fiscal 2013.

In the time after the Company performed its impairment analysis and prior to the filing of our Form 10-K for the year ended September 30, 2013, Congress considered a proposed framework that would avoid another partial government shut-down and further sequestration in 2014. However, at that time, details as to exactly how any agreement would impact the Company's customers would take time to emerge. Absent more clarity, the Company did not modify its impairment analysis.

There has been no further impairment of SCB goodwill during the first nine months of fiscal 2014.

As for the goodwill from the Celmet acquisition, there has been no impairment since acquisition date.

A summary of the total goodwill and accumulated impairment at period end follows:

Goodwill	June 27, 2014	September 30, 2013
(in thousands)		
Goodwill	$13,810	$13,810
Accumulated impairment	(11,805)	(11,805)
Goodwill, net	$2,005	$2,005

Note 8—CREDIT FACILITIES

A summary of borrowings at period end follows:

Debt (in thousands)	Fixed/ Variable Rate	Maturity Date	June 27, 2014 Balance	Interest Rate (1)	September 30, 2013 Balance	Interest Rate (1)
M&T credit facilities:						
Revolving Credit Facility	v	1/18/2016	$9,803	4.44 %	$11,261	3.19 %
Term Loan A	f	2/1/2022	8,426	3.98	9,259	3.98
Term Loan B	v	2/1/2023	12,133	3.40	13,184	2.68
Albuquerque Mortgage Loan	v	2/1/2018	2,800	4.69	3,000	3.44
Celmet Building Term Loan	f	11/7/2018	1,224	4.72	—	—
Other credit facilities:						
Albuquerque Industrial Revenue Bond	f	3/1/2019	100	5.63	100	5.63
Total debt			34,486		36,804	
Less: current portion			(2,908)		(2,778)	
Long-term debt			$31,578		$34,026	

(1) Rates noted above are before impact of interest rate swap.

M&T Bank Credit Facilities

On January 18, 2013, the Company and M&T Bank entered into the Fourth Amended and Restated Credit Facility Agreement ("2013 Credit Agreement"), replacing a prior agreement dated December 17, 2010 ("2010 Credit Agreement"). Many of the terms, conditions and covenants remained unchanged from the 2010 Credit Agreement. For the variable rate debt, the applicable margin is the interest rate added to Libor and is based on the Debt to EBITDARS Ratio. Borrowings under the 2013 Credit Agreement are secured by, among other things, the assets of IEC and its subsidiaries.

Individual debt facilities provided under the 2013 Credit Agreement are described below:

a) Revolving Credit Facility ("Revolver"): Up to $20 million is available through January 18, 2016. The Company may borrow up to the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories or (ii) $20 million. At IEC's election, another 35% of eligible inventories may be included in the borrowing base for limited periods of time during which a higher rate of interest is charged on the Revolver. Borrowings based on inventory balances are further limited to a cap of $3.75 million, or when subject to the higher percentage limit, $4.75 million. At June 27, 2014, the upper limit on Revolver borrowings was $20.0 million. Average available balances amounted to $10.8 million and $13.7 million during the nine months ended June 27, 2014 and June 28, 2013, respectively.

The Company incurs quarterly unused commitment fees ranging from 0.125% to 0.500% of the excess of $20.0 million over average borrowings under the Revolver. Fees incurred amounted to $40.5 thousand and $23.0 thousand during the nine months ended June 27, 2014 and June 28, 2013, respectively. The fee percentage varies based on IEC's ratio of debt to EBITDARS.

b) Term Loan A: $10.0 million was borrowed on January 18, 2013. Principal is being repaid in 108 monthly installments of $93 thousand.

c)

Term Loan B: $14.0 million was borrowed on January 18, 2013. Principal is being repaid in 120 monthly installments of $117 thousand.

d) Albuquerque Mortgage Loan: $4.0 million was borrowed on December 16, 2009. The loan is secured by real property in Albuquerque, NM, and principal is being repaid in monthly installments of $22 thousand plus a balloon payment due at maturity.

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e) Energy Loan: $0.2 million was borrowed on April 2, 2008, for which interest at a fixed rate of 2.08% is subsidized by the State of New York. Principal was being repaid in 60 equal monthly installments and the loan was paid in full during April 2013.

On November 8, 2013, the Company obtained an amendment to the 2013 Credit Agreement (the "Celmet Building Amendment") for the Celmet Building Term Loan for $1.3 million. The proceeds were used to reimburse the Company's cost of purchasing the Rochester, New York facility.

The 2013 Credit Agreement also contains various affirmative and negative covenants including financial covenants. The Company is required to maintain (i) a minimum level of quarterly EBITDARS, (ii) a ratio of total debt to twelve month EBITDARS ("Debt to EBITDARS Ratio") that is below a specified limit, and (iii) a minimum fixed charge coverage ratio ("Fixed Charge Coverage Ratio") as described in the tables below. The terms of the 2013 Credit Agreement did not require measurement of financial covenants for the first quarter of fiscal 2013. For the purpose of calculating compliance with the covenants, IEC's operating lease obligation to M&T Bank for certain equipment sold to the bank on June 27, 2008 and leased back for a period of five years, was treated as debt. During the third quarter of fiscal 2013, the operating lease terminated and the assets were repurchased pursuant to a purchase option in the sale-leaseback arrangement.

On May 15, 2013 we obtained an amendment to the 2013 Credit Agreement (the "First 2013 Amendment") which modified the Debt to EBITDARS Ratio and Fixed Charge Coverage Ratio covenants, and on August 6, 2013 we obtained a further amendment to the 2013 Credit Agreement (the "Second 2013 Amendment," and together with the First 2013 Amendment, the "2013 Amendments") which modified the Debt to EBITDARS Ratio, as shown in the table below. On December 13, 2013 and February 4, 2014 we obtained further amendments to the 2013 Credit Agreement (the "First 2014 Amendment" and "Second 2014 Amendment", respectively, and together the "2014 Amendments") which modified the ratios as follows:

Debt to EBITDARS Ratio: (a)	
2013 Credit Agreement, before 2013 Amendments:	
3/31/2013 through and including 9/29/2013	< 3.00 to 1.00
9/30/2013 and thereafter	<2.75 to 1.00
2013 Credit Agreement, after First 2013 Amendment:	
6/28/2013 through and including 12/27/2013	< 3.25 to 1.00
12/28/2013 through and including 3/28/2014	<3.00 to 1.00
3/29/2014 and thereafter	< 2.75 to 1.00
2013 Credit Agreement, after Second 2013 Amendment:	
6/28/2013 through and including 12/27/2013	< 3.50 to 1.00
12/28/2013 through and including 3/28/2014	<3.00 to 1.00
3/29/2014 and thereafter	< 2.75 to 1.00
2013 Credit Agreement, after First 2014 Amendment:	
12/13/2013 through and including 3/27/2014	< 4.50 to 1.00
3/28/2014 through and including 6/26/2014	<3.50 to 1.00
6/27/2014 through and including 9/29/2014	<3.25 to 1.00
09/30/2014 and thereafter	< 2.75 to 1.00
2013 Credit Agreement, after Second 2014 Amendment:	
12/26/2014 through and including 3/26/2015	< 4.50 to 1.00
3/27/2015 through and including 6/25/2015	<3.50 to 1.00
6/26/2015 through and including 9/29/2015	<3.25 to 1.00
09/30/2015 and thereafter	< 2.75 to 1.00
Fixed Charge Coverage Ratio: (b)	
2013 Credit Agreement, before 2013 Amendments:	
3/31/2013 and thereafter	≥ 1.25 to 1.00
2013 Credit Agreement, after First 2013 Amendment:	
6/28/2013	>0.95 to 1.00
9/30/2013	>1.00 to 1.00
12/27/2013	>1.15 to 1.00
3/28/2014 and thereafter	>1.25 to 1.00
2013 Credit Agreement, after First 2014 Amendment:	
3/28/2014 through and including 6/26/2014	≥0.90 to 1.00
06/27/2014 through and including 9/29/2014	≥1.10 to 1.00
9/30/2014 and thereafter	≥1.25 to 1.00
2013 Credit Agreement, after Second 2014 Amendment:	
12/26/2014 through and including 3/26/2015	≥1.00 to 1.00
03/27/2014 through and including 6/25/2015	≥1.15 to 1.00

6/26/2015 and thereafter	≥1.25 to 1.00

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(a) The ratio of debt to earnings before interest, taxes, depreciation, amortization, rent expense and non-cash stock compensation expense.

(b) The ratio compares (i) 12 month EBITDA plus non-cash stock compensation expense minus unfinanced capital expenditures minus cash taxes paid, to (ii) the sum of interest expense, principal payments, sale-leaseback payments and dividends, if any (fixed charges).

The Second 2013 Amendment also amended two definitions used in the calculation of the financial covenants, including: (i) the definition of net income, to add back, through the fiscal quarter ending June 27, 2014, up to $1.1 million of legal and accounting fees associated with the restatement, and (ii) the definition of interest expense as related to Rate Management Transactions (defined in the 2013 Credit Agreement), to be "the net cash cost or benefit associated with Rate Management Transactions net cash benefit or loss".

The Second 2014 Amendment also modified the Quarterly EBITDARS covenant to be equal to or greater than $1.25 million for the fiscal quarter ending March 28, 2014, and $1.5 million for each fiscal quarter thereafter.

At June 27, 2014, the Company was in compliance with the Quarterly EBITDARS covenant. At March 28, 2014, the Company was not in compliance with the Quarterly EBITDARS covenant. At December 27, 2013, the Company was not in compliance with Quarterly EBITDARS covenant or the Debt to EBITDARS Ratio. At September 30, 2013, the Company was not in compliance with the Debt to EBITDARS Ratio and Fixed Charge Coverage Ratio. The Company has obtained waivers from M&T Bank with respect to such noncompliance. The First 2014 Amendment did not require measurement of the Fixed Charge Coverage Ratio in the first quarter of fiscal 2014. The Second 2014 Amendment does not require measurement of the Debt to EBITDARS ratio or the Fixed Charge Coverage ratio for any quarter during fiscal 2014.

The waivers received by the Company for failure to comply with the financial covenants during fiscal 2013 and the first and second quarters of fiscal 2014 did not affect the quarterly calculation of the applicable interest rate margin for the Revolver and Albuquerque Mortgage Loan and the Revolver unused fees. However, the Second 2013 Amendment modified the ranges of applicable margins and unused fees by increasing both the lower and upper limit of each range with respect to the applicable debt facility. The applicable margins are determined based on the Debt to EBITDARS Ratio. Changes to applicable margins and unused fees resulting from the Debt to EBITDARS Ratio generally become effective mid-way through the subsequent quarter. The higher Debt to EBITDARS Ratio calculated as of March 29, 2013 resulted in an increase of 0.75% in the effective rate applicable to the Revolver and Albuquerque Mortgage Loan and an increase of 0.375% in the unused commitment fee for the Revolver. The higher Debt to EBITDARS Ratio calculated as of June 28, 2013, in conjunction with the Second 2013 Amendment resulted in an increase of 0.25% in the effective rate applicable to those two loans and the unused commitment fee for the Revolver remained unchanged. However, the First 2014 Amendment fixed the applicable margin for the Revolver at 4.25%, for the Albuquerque Mortgage Loan at 4.50% and Term Loan B at 3.25% and the unused fee at 0.50%, in each case for the period December 13, 2013 through December 13, 2014 and if the Company is not compliant with financial covenants on December 13, 2014, during the period of non-compliance. The Second 2014 Amendment further fixed the applicable margins at the rates noted in the First 2014 Amendment through March 27, 2015 and if the Company is not compliant with financial covenants on March 27, 2015, during the period of non-compliance.

Significant modifications made in the 2013 Credit Agreement and subsequent amendments to the financing arrangements previously in effect under the 2010 Credit Agreement, and subsequent amendments, include:

- Consolidation of all outstanding term debt, except the Albuquerque Mortgage Loan and the Energy Loan, and an $8.9 million portion of outstanding loans under the Revolver, into two new and increased term loans, described below ("Term Loan A" and "Term Loan B");
-

Creation of a new Term Loan A in the original principal amount of $10.0 million, bearing interest at the fixed rate of 3.98% per annum, payable in equal monthly principal payments of $93 thousand each plus accrued interest, with a final maturity date of February 1, 2022;

- Creation of a new Term Loan B in the original principal amount of $14.0 million, bearing interest at a variable rate equal to 2.50% above the Libor in effect from time to time, payable in equal monthly principal payments of $117 thousand each plus accrued interest, with a final maturity date of February 1, 2023. The First 2014 Amendment modified the applicable margin to 3.25% until December 13, 2014. Thereafter, the applicable margin will revert back to the rate range defined in the 2013 Credit Agreement provided that the Company is compliant with all the covenants. If however, the Company is non-compliant with any of the covenants the applicable margin will remain fixed at 3.25% until the Company has become compliant with all the covenants. The Second 2014 Amendment modified the applicable margin to 3.25% until March 27, 2015. Thereafter, the applicable margin will revert back to the rate range defined in the 2013 Credit Agreement provided that the Company is compliant with all the covenants. If however, the Company is non-compliant with any of the covenants the applicable margin will remain fixed at 3.25% until the Company has become compliant with all the covenants;

- Extension of the maturity date of the Albuquerque Mortgage Loan from December 16, 2014 to February 1, 2018, with no change to the monthly principal payments of $22 thousand each plus accrued interest;
- Modification of the interest rate applicable to the Albuquerque Mortgage Loan from (i) a range on the applicable quarterly adjustment date of 2.50% to 3.75% above Libor based upon the Company's then Debt to EBITDARS Ratio (ranging from 1.75:1.00 or less to 3.25:1.00 or greater), to (ii) a range on the applicable quarterly adjustment date of 2.00% to 3.25% above Libor based upon the Company's then Debt to EBITDARS Ratio (ranging from 0.75:1.00 or less to 2.75:1.00 or greater). The Second 2013 Amendment modified the interest rate to a range on the applicable quarterly adjustment date of 2.25% to 3.75% above Libor based upon the Company's then Debt to EBITDARS Ratio (ranging from 1.25:1.00 or less to 3.25:1.00 or greater). The First 2014 Amendment modified the applicable margin to 4.50% until December 13, 2014. Thereafter, the applicable margin would have reverted back to the rate range defined in the Second 2013 Amendment provided that the Company was compliant with all the covenants. If however, the Company was non-compliant with any of the covenants the applicable margin would have remained fixed at 4.50% until the Company became compliant with all the covenants. The Second 2014 Amendment modified the applicable margin to 4.50% until March 27, 2015. Thereafter, the applicable margin will revert back to the rate range defined in the Second 2013 Amendment provided that the Company is compliant with all the covenants. If however, the Company is non-compliant with any of the covenants the applicable margin will remain fixed at 4.50% until the Company has become compliant with all the covenants;
- Continuation of the Revolver in the maximum available principal amount of the lesser of $20.0 million or the amount available under the borrowing base (the formula for which, and interest rate surcharge applicable to optional over-base advances, remains unchanged), with an outstanding principal balance immediately after the closing of $3.7 million;
- Extension of the maturity date of the Revolver from December 17, 2013 to January 18, 2016;
- Modification of the interest rate applicable to the Revolver from (i) a range on the applicable quarterly adjustment date of 2.25% to 3.50% above Libor based upon the Company's then Debt to EBITDARS Ratio (ranging from 1.75:1.00 or less to 3.25:1.00 or greater), to (ii) a range on the applicable quarterly adjustment date of 1.75% to 3.00% above Libor based upon the Company's then Debt to EBITDARS Ratio (ranging from 0.75:1.00 or less to 2.75:1.00 or greater). The Second 2013 Amendment modified the interest rate to a range on the applicable quarterly adjustment date of 2.00% to 3.50% above Libor based upon the Company's then Debt to EBITDARS Ratio (ranging from 1.25:1.00 or less to 3.25:1.00 or greater). The First 2014 Amendment modified the applicable margin to 4.25% until December 13, 2014. Thereafter, the applicable margin would have reverted back to the rate range defined in the Second 2013 Amendment provided that the Company was compliant with all the covenants. If however, the Company was non-compliant with any of the covenants the applicable margin would have remained fixed at 4.25% until the Company became compliant with all the covenants. The Second 2014 Amendment modified the applicable margin to 4.25% until March 27, 2015. Thereafter, the applicable margin will revert back to the rate range defined in the Second 2013 Amendment provided that the Company is compliant with all the covenants. If however, the Company is non-compliant with any of the covenants the applicable margin will remain fixed at 4.25% until the Company has become compliant with all the covenants;
- Modification of the unused fee applicable to the Revolver from (i) a range on the applicable quarterly adjustment date of 0.125% to 0.500% based upon the Company's then ratio of Debt to EBITDARS (ranging from 1.75:1.00 or less to 3.25:1.00 or greater), to (ii) a range on the applicable quarterly adjustment date of 0.125% to 0.500% based upon the Company's then ratio of Debt to EBITDARS (ranging from 0.75:1.00 or less to 2.75:1.00 or greater). The Second 2013 Amendment modified the unused fee to a range on the applicable quarterly adjustment date of 0.250% to 0.500% based upon the Company's then Debt to EBITDARS Ratio (ranging from 1.25:1.00 or less to 3.25:1.00 or greater). The First 2014 Amendment modified the unused fee to a fixed rate of 0.50% until December 13, 2014. Thereafter, the unused fee would have reverted back to the fee range defined in the Second 2013 Amendment provided that the Company was compliant with all the covenants. If however, the Company was non-compliant with any of the covenants the unused fee would have remained at the fixed rate of 0.50% until the Company became compliant with all the covenants. The Second 2014 Amendment modified the unused fee to a fixed rate of 0.50% until March 27, 2015. Thereafter, the unused fee will revert back to the fee range defined in the Second 2013 Amendment

provided that the Company is compliant with all the covenants. If however, the Company is non-compliant with any of the covenants the unused fee will remain at the fixed rate of 0.50% until the Company has become compliant with all the covenants;

- Elimination of mandatory prepayments based upon excess cash flow;
- Continuation, unchanged, of existing financial covenants requiring minimum quarterly EBITDARS, a maximum Debt to twelve month EBITDARS ratio, and minimum Fixed Charge Coverage Ratio, all measured at the end of each quarter commencing with the quarter ending in June 2013 (but later modified in the 2013 and 2014 Covenant Amendments); and

- Modification of the prohibition against dividends and stock repurchases to permit an aggregate maximum of $3.5 million of such distributions prior to February 1, 2023 absent default at the time of the applicable payment.

In connection with the 2013 Credit Agreement, on January 18, 2013, the Company and M&T Bank entered into an interest rate swap arrangement ("Swap Transaction"). The Swap Transaction is for a notional amount of $14.0 million with an effective date of February 1, 2013 and a termination date of February 1, 2023. The Swap Transaction is designed to reduce the variability of future interest payments with respect to Term Loan B by effectively fixing the annual interest rate payable on the loan's outstanding principal. Pursuant to the swap transaction, the Company's one month Libor rate is swapped for a fixed rate of 1.32%. When the swap fixed rate is added to the Term Loan B spread of 2.50%, the Company's interest rate applicable to Term Loan B is effectively fixed at 3.82%. The 2014 Amendments temporarily modified the Term Loan B spread to 3.25% which results in an effectively fixed rate of 4.57%.

The 2010 Credit Agreement provided for various debt facilities as detailed below. The revolving credit facility and term loan borrowings under the 2010 Credit Agreement bore interest at Libor plus a margin that varied between 2.25% and 3.75% based on the Company's Debt to EBITDARS Ratio.

The 2010 Credit Agreement was modified on November 17, 2011 by a letter agreement that extended the Equipment Line of Credit to December 17, 2013 and made all loans under such line due and payable no later than that date. The 2010 Credit Agreement required prepayments of term loans equal to 50% of excess cash flow for fiscal years ending after September 30, 2010 and the letter agreement changed that requirement to fiscal years ending after September 30, 2011.

Individual debt facilities that were provided under the 2010 Credit Agreement are described below:

a) Revolving Credit Facility ("Revolver"): Up to $20.0 million was available through December 17, 2013. The Company could borrow up to the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories or (ii) $20.0 million. At IEC's election, another 35% of eligible inventories would be included in the borrowing base for limited periods of time during which a higher rate of interest would be charged on the Revolver. Borrowings based on inventory balances were further limited to a cap of $3.75 million, or when subject to the higher percentage limit, $4.75 million.

b) SCB Term Loan: $20.0 million was borrowed on December 17, 2010 and principal was being repaid in 60 equal monthly installments. This loan was paid off during January 2013.

c) Albuquerque Term Loan: $5.0 million was borrowed on December 16, 2009, and principal was being repaid in 60 equal monthly installments. This loan was paid off during January 2013.

d) Albuquerque Mortgage Loan: $4.0 million was borrowed on December 16, 2009. The loan is secured by real property in Albuquerque, NM, and principal was being repaid in 60 monthly installments of $22,000 thousand plus a balloon payment due at maturity. The maturity date of the mortgage loan was modified from December 16, 2014 to February 1, 2018; with no change to the monthly principal payments of $22 thousand each plus accrued interest.

e) Celmet Term Loan: $2.0 million was borrowed on July 30, 2010, and principal was being repaid in 60 equal monthly installments. This loan was paid off during January 2013.

f) Equipment Line of Credit: Up to $1.5 million, reduced by outstanding loans, was available through December 17, 2013. The line was available for purchases of capital equipment. Borrowings under the line were supported by individual notes that specify interest and principal repayment terms. The Company had the option to select whether the interest rate was fixed or variable. Equal payments of principal were being made over 48 months for two of the loans and over 60 months for one loan. These loans were paid off during January 2013.

g) Energy Loan: $0.2 million was borrowed on April 2, 2008 under this facility, for which interest at a fixed rate of 2.08% was subsidized by the State of New York. Principal was being repaid in 60 equal monthly installments and the loan was paid in full during April 2013.

Other Credit Facilities

h) Seller Notes: The May 2008 acquisition of Wire and Cable was financed in part by three promissory notes payable to the sellers totaling $3.8 million. These notes were subordinated to borrowings under the Credit Agreement and were being repaid in quarterly installments of $160 thousand, including interest. Effective October 1, 2011, the interest rate on the notes was reduced from 4.0% to 3.0% without altering any other terms of the borrowings. The seller notes were paid in full during June 2013.

i) Albuquerque Industrial Revenue Bond: When IEC acquired Albuquerque, the Company assumed responsibility for a $100 thousand Industrial Revenue Bond issued by the City of Albuquerque. Interest on the bond is paid semiannually, and principal is due in its entirety at maturity.

A summary of contractual principal payments under IEC's borrowings for the next five years taking into consideration the 2013 Credit Agreement follows

Debt Repayment Schedule	Contractual Principal Payments
(in thousands)	
Twelve months ended June 27,	
2015	$2,908
2016 (1)	12,711
2017	2,908
2018	4,641
2019 and thereafter	11,318
	$34,486

(1) Includes Revolver balance of $9.8 million at June 27, 2014

Note 9—DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Risk Management

In connection with the 2013 Credit Agreement, on January 18, 2013, the Company and M&T Bank entered into an interest rate swap arrangement ("Swap Transaction"). The Swap Transaction is for a notional amount of $14.0 million with an effective date of February 1, 2013 and a termination date of February 1, 2023. The Swap Transaction is designed to reduce the variability of future interest payments with respect to Term Loan B by effectively fixing the annual interest rate payable on outstanding principal of Term Loan B. Pursuant to the interest rate swap, the Company's one month Libor rate is swapped for a fixed rate of 1.32%. As more fully described in Note 8 – Credit Facilities, the applicable margin on Term Loan B is fixed at 3.25% until March 27, 2015. When the swap fixed rate is added to the Term Loan B Spread of 3.25%, the Company's interest rate applicable to Term Loan B is effectively fixed at 4.57%.

The fair value of the interest rate swap agreement represented an asset of $0.2 million at June 27, 2014 and was estimated based on Level 2 inputs. The Company did not designate the swap as a cash flow hedge at inception and therefore, the gains or losses from the changes in fair value of the derivative instrument are recognized in earnings for the period ended June 27, 2014 within interest expense.

The fair value of the interest rate swap of $0.2 million and $0.3 million is recorded in other long term assets in the Consolidated Balance Sheet at June 27, 2014 and September 30, 2013, respectively.

Note 10—FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Carried at Fair Value

The Company's interest rate swap agreement is recorded on the balance sheet as either an asset or a liability measured at fair value. The Company estimates the fair value of its interest rate swap agreement based on Level 2 valuation inputs, including fixed interest rates, Libor implied forward interest rates and the remaining time to maturity. At June 27, 2014, the interest rate swap agreement is an asset of $0.2 million.

Financial Instruments Carried at Historical Cost

The Company’s long-term debt is not quoted. Fair value was estimated using a discounted cash flow analysis based on Level 2 valuation inputs, including borrowing rates the Company believes are currently available to it for loans with similar terms and maturities.

The Company’s debt is carried at historical cost on the balance sheet. The fair value and carrying value of Term Loan A at June 27, 2014 are $7.1 million and $8.4 million, respectively. The fair value of the remainder of the Company’s debt approximated carrying value at June 27, 2014 as it is variable rate debt. The fair value and carrying value of Term Loan A at

September 30, 2013 are $7.6 million and $9.3 million, respectively. The fair value of the remainder of the Company's debt approximated carrying value at September 30, 2013 as it is variable rate debt.

Note 11—WARRANTY RESERVES

IEC generally warrants its products and workmanship for up to twelve months from date of sale. As an offset to warranty claims, the Company is sometimes able to obtain reimbursement from suppliers for warranty-related costs or losses. Based on historical warranty claims experience and in consideration of sales trends, a reserve is maintained for estimated future warranty costs to be incurred on products and services sold through the balance sheet date.

A summary of additions to and charges against IEC's warranty reserves during the period follows:

Warranty Reserve	Nine Months Ended June 27, 2014	June 28, 2013
(in thousands)		
Reserve, beginning of period	$219	$388
Provision	235	(88)
Warranty costs	(221)	(70)
Reserve, end of period	$233	$230

Note 12—DEFERRED GRANTS

The Company received grants for certain facility improvements from state and local agencies in which the Company operates. These grants reimburse the Company for a portion of the actual cost or provide in kind services in support of capital projects. During the year ended September 30, 2013, the Company received grant proceeds of $0.2 million, from such grant programs.

One of the Company's grants is a loan to grant agreement. The Company has signed a promissory note, which will be forgiven if certain employment targets are obtained at future dates. If the employment targets are not obtained, the Company is obligated to repay the loan with interest. As the Company intends to comply with these agreements, the Company has recorded the funds received as a deferred amount within other long-term liabilities on the balance sheet.

The Company is also the recipient of matching grants from two local governmental agencies related to certain renovations for one of its operating locations. One agency is contributing in kind services and property of $0.1 million while the other is contributing cash of $0.1 million to match expenditures by the Company of at least the same amount.

The grants will be amortized over the useful lives of the related fixed assets when there is reasonable assurance that the Company will meet the employment targets. The Company recorded amortization of $5 thousand and $14 thousand for the deferred grants for the three and nine months ended June 27, 2014, respectively. There was no amortization recorded for the deferred grants for the nine months ended June 28, 2013.

Note 13—STOCK-BASED COMPENSATION

The 2010 Omnibus Incentive Compensation Plan ("2010 Plan") was approved by the Company's stockholders at the January 2011 Annual Meeting of the Shareholders. This plan replaced IEC's 2001 Stock Option and Incentive Plan ("2001 Plan"), which expired in December 2011. The 2010 Plan, which is administered by the Compensation Committee of the Board of Directors, provides for the following types of awards: incentive stock options, nonqualified options, stock appreciation rights, restricted shares, restricted stock units, performance compensation awards, cash incentive awards, director stock and other equity-based and equity-related awards. Awards are generally granted to certain members of management and employees, as well as directors. Under the 2010 Plan, up to 2,000,000 common shares may be issued over a term of ten years.

Stock-based awards granted through December 2011, were made under the 2001 Plan. Awards granted after December 2011, were made under the 2010 Plan and future awards will be made under the 2010 Plan.

Stock compensation expense recorded under the plans totaled $0.4 million and $0.5 million for the nine months ended June 27, 2014 and June 28, 2013, respectively. Expenses relating to stock options that comply with certain U.S. income tax rules are neither deductible by the Company nor taxable to the employee. Further information regarding awards granted under the 2001 Plan, 2010 Plan and employee stock purchase plan is provided below.

Stock Options

When options are granted, IEC estimates fair value using the Black-Scholes option pricing model and recognizes the computed value as compensation cost over the vesting period, which is typically four years. The contractual term of options granted under the plan is generally seven years.

Assumptions used in the Black-Scholes model and the estimated value of options granted during the nine months ended June 27, 2014 and June 28, 2013 follows:

Valuation of Options	Nine Months Ended June 27, 2014		June 28, 2013	
Assumptions for Black-Scholes:				
Risk-free interest rate	1.31	%	0.55	%
Expected term in years	4.1		4.0	
Volatility	49	%	49	%
Expected annual dividends	none		none	
Value of options granted:				
Number of options granted	45,500		50,000	
Weighted average fair value per share	$1.62		$2.65	
Fair value of options granted (000's)	$74		$133	

A summary of stock option activity, together with other related data, follows:

	Nine Months Ended			
	June 27, 2014		June 28, 2013	
Stock Options	Number of Options	Wgtd. Avg. Exercise Price	Number of Options	Wgtd. Avg. Exercise Price
Outstanding, beginning of period	246,383	$4.38	280,789	$3.81
Granted	45,500	4.12	50,000	6.91
Exercised	(18,093)	1.49	(30,150)	2.00
Shares withheld for payment of taxes upon exercise of stock option	(3,407)	1.69	—	—
Forfeited	(23,283)	5.71	(45,756)	5.52
Expired	(2,850)	5.04	(8,500)	2.01
Outstanding, end of period	244,250	$4.51	246,383	$4.38
For options expected to vest				
Number expected to vest	220,987	$4.49	233,070	$4.28
Weighted average remaining term, in years	3.4		3.8	
Intrinsic value (000s)		$176		$155
For exercisable options				
Number exercisable	125,650	$3.59	106,783	$2.33
Weighted average remaining term, in years	2.0		2.0	
Intrinsic value (000s)		$166		$155
For non-exercisable options				
Expense not yet recognized (000s)		$171		$221
Weighted average years to be recognized	2.6		2.6	
For options exercised				
Intrinsic value (000s)		$59		$131

Changes in the number of non-vested options outstanding, together with other related data, follows:

	Nine Months Ended			
	June 27, 2014		June 28, 2013	
Stock Options	Number of Options	Wgtd. Avg. Grant Date Fair Value	Number of Options	Wgtd. Avg. Grant Date Fair Value
Non-vested, beginning of period	138,350	$2.51	157,150	$2.42
Granted	45,500	1.62	50,000	2.65
Vested	(41,967)	2.51	(21,794)	2.27
Forfeited	(23,283)	2.30	(45,756)	2.50
Non-vested, end of period	118,600	$2.20	139,600	$2.51

Restricted (Non-vested) Stock

Holders of IEC restricted stock have voting and dividend rights as of the date of grant, but until vested the shares may be forfeited and cannot be sold or otherwise transferred. At the end of the vesting period, which is typically four or five years (three years in the case of directors), holders have all the rights and privileges of any other IEC common stockholder. The fair value of a share of restricted stock is its market value on the date of grant, and that value is recognized as stock compensation expense over the vesting period.

A summary of restricted stock activity, together with related data, follows:

	Nine Months Ended			
	June 27, 2014		June 28, 2013	
Restricted (Non-vested) Stock	Number of Non-vested Shares	Wgtd. Avg. Grant Date Fair Value	Number of Non-vested Shares	Wgtd. Avg. Grant Date Fair Value
Outstanding, beginning of period	275,474	$5.96	339,939	$5.66
Granted	155,703	4.05	88,208	6.86
Vested	(80,971)	5.74	(47,774)	4.98
Shares withheld for payment of taxes upon vesting of restricted stock	(18,615)	4.28	(4,441)	4.70
Forfeited	(71,103)	5.88	(74,635)	5.68
Outstanding, end of period	260,488	$5.15	301,297	$6.12
For non-vested shares				
Expense not yet recognized (000s)		$725		$939
Weighted average remaining years for vesting		3.0		2.9
For shares vested				
Aggregate fair value on vesting dates (000s)		$421		$344

Employee Stock Purchase Plan

The Company administers an employee stock purchase plan ("ESPP") that provides for a discounted stock purchase price. On May 21, 2013, the Compensation Committee of the Company's Board of Directors suspended operation of the ESPP indefinitely in connection with the restatement of the Company's financial statements described herein (including unavailability of the registration statement covering shares offered under the plan due to the failure of the Company to be current in its filings with the SEC until the Company filed its Form 10-K on December 24, 2013). The Company anticipates that operations under the ESPP will be resumed with the purchase period beginning October 2014. There were no employee contributions or compensation expense recognized under the ESPP during the nine months ended June 27, 2014. Employee contributions to the plan, net of withdrawals were $50 thousand for the nine months ended June 28, 2013. Compensation expense recognized under the ESPP was $6 thousand for the nine months ended June 28, 2013.

Stock Issued to Board Members

In addition to annual grants of restricted stock, included in the table above, Board members may elect to have their meeting fees paid in the form of shares of the Company's common stock. In connection with the restatement of the Company's financial statements described herein (including unavailability of the registration statement covering shares offered under the plan due to the failure of the Company to be current in its filings with the SEC until the Company filed its Form 10-K on December 24, 2013), the Company determined not to pay any meeting fees in stock during the period since May 21, 2013. During the nine months ended June 28, 2013, board members were granted 1,480 shares of common stock, as payment of such meeting fees, in addition to cash payments. The Company recognized stock-based compensation expense related to Board members meeting fees of $10 thousand during the nine months ended June 28, 2013.

Note 14—RETIREMENT PLAN

The Company administers a retirement savings plan for the benefit of its eligible employees and their beneficiaries under the provisions of Sections 401(a) and (k) of the Internal Revenue Code. Eligible employees may contribute a portion of their compensation to the plan, and the Company is permitted to make discretionary contributions as determined by the Board of Directors. For the Albuquerque unit, the Company contributes 25% of the first 6% contributed by employees. Company contributions on behalf of Albuquerque employees totaled $27 thousand and $24 thousand during the nine months ended June 27, 2014 and June 28, 2013, respectively. There were no other Company contributions to the plan during the periods.

Note 15—INCOME TAXES

Provision for income taxes during the nine months ended June 27, 2014 and June 28, 2013 follows:

Income Tax Provision/Benefit	Three Months Ended June 27, 2014	Three Months Ended June 28, 2013	Nine Months Ended June 27, 2014	Nine Months Ended June 28, 2013
(in thousands)				
Provision for/(benefit from) income taxes	$3	$224	$(977)	$(518)

IEC has federal and state net operating loss carryforwards ("NOLs") for income tax purposes of approximately $16.2 million and $26.1 million, respectively, at September 30, 2013, expiring mainly in years 2021 through 2025.

In addition, $1.2 million of New York State investment tax and other credits are available to the Company as carryforwards, expiring in various years through 2028. These credits cannot be utilized until the New York net operating loss carryforward is exhausted. We have recorded a valuation allowance for these credits to the extent that we believe it is more likely than not that the tax benefit will not be realized. If the credits expire unused, the related deferred tax asset and offsetting valuation allowance will be reduced.

Note 16—MARKET SECTORS AND MAJOR CUSTOMERS

A summary of sales, according to the market sector within which IEC's customers operate, follows:

% of Sales by Sector	Three Months Ended June 27, 2014	Three Months Ended June 28, 2013	Nine Months Ended June 27, 2014	Nine Months Ended June 28, 2013
Aerospace & Defense (previously Military & Aerospace)	50%	47%	50%	51%
Medical	22%	21%	19%	19%
Industrial	22%	21%	25%	21%
Communications & Other	6%	11%	6%	9%
	100%	100%	100%	100%

Two individual customers represented 10% or more of sales for the nine months ended June 27, 2014. One customer in the Industrial sector represented 15% of sales and one customer in the Medical sector represented 12% of sales. For the nine months ended June 28, 2013, one customer in the Industrial sector represented 16% of sales. Three individual customers represented 10% or more of receivables and accounted for 37% of outstanding balances at June 27, 2014. No individual customer represented 10% or more of receivables at June 28, 2013.

Credit risk associated with individual customers is periodically evaluated by analyzing the entity's financial condition and payment history. Customers generally are not required to post collateral.

Note 17—LITIGATION

As discussed in Note 2 to these consolidated financial statements, the Company restated its financial statements. In connection with the restatement, the Audit Committee conducted an independent review of the underlying facts and circumstances, and the Company is responding to a formal investigation by the staff of the SEC relating to the restatement and other matters and an amended complaint in a consolidated shareholder class action originally filed June 28, 2013 in the United States District Court, Southern District of New York, against the Company and its CEO and former CFO seeking unspecified compensatory damages. While the Company believes the complaint is without merit, it is too early to determine the potential outcome.

From time to time, the Company may be involved in other legal actions in the ordinary course of its business, but management does not believe that any such other proceedings commenced through the date of these financial statements, individually or in the aggregate, will have a material adverse effect on the Company's financial position.

Note 18—COMMITMENTS AND CONTINGENCIES

Leases

The Company is obligated under non-cancelable operating leases, primarily for manufacturing equipment, buildings and office equipment. Leases for buildings occupied by IEC expire in September 2018. These operating leases generally contain renewal options and require the Company to pay executory costs such as taxes, insurance and maintenance.

A summary of minimum lease obligations through the remainder of the lease terms follows:

Future Rental Obligations	Contractual Lease Payments
(in thousands)	
Twelve months ending June 27,	
2015	$325
2016	324
2017	299
2018	272
2019	71

Rent expense during the three and nine month periods follows:

	Three Months Ended		Nine Months Ended	
Rent Expense	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
(in thousands)				
Rent expense	$90	$293	$339	$946

Purchase Commitments

During August 2011, one of IEC's operating units entered into a five-year agreement with one of its suppliers to purchase a minimum volume of materials in exchange for receiving favorable pricing on the unit's purchases. In the event the unit's cumulative purchases do not equal or exceed stated minimums, the supplier has a right to terminate the agreement and the IEC unit would be obligated to pay an early termination fee that declines from $365 thousand to zero over the term of the agreement. As of the date of this Form 10-Q, the Company expects to exceed minimum purchase requirements under the agreement, thereby avoiding any termination fee.

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

The information in this Management's Discussion and Analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and notes. All references to Notes are to the accompanying consolidated financial statements and Notes included in this Quarterly Report on Form 10-Q ("Form 10-Q").

Forward-Looking Statements

References in this report to "IEC", the "Company", "we", "our", or "us" mean IEC Electronics Corp. and its subsidiaries excep where the context otherwise requires. This 10-Q contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934, and are made in reliance upon the protections provided by such Acts for forward-looking statements. These forward-looking statements (such as when we describe what we "believe", "expect" or "anticipate" will occur, and other similar statements) include, but are not limited to, statements regarding future sales and operating results, future prospects, the capabilities and capacities of business operations, any financial or other guidance and all statements that are not based on historical fact, but rather reflect our current expectations concerning future results and events. The ultimate correctness of these forward-looking statements is dependent upon a number of known and unknown risks and events and is subject to various uncertainties and other factors that may cause our actual results, performance or achievements to be different from any future results, performance or achievements expressed or implied by these statements.

The following important factors, among others, could affect future results and events, causing those results and events to differ materially from those views expressed or implied in our forward-looking statements: business conditions and growth or contraction in our customers' industries, the electronic manufacturing services industry and the general economy; variability of our operating results; our ability to control our material, labor and other costs; our dependence on a limited number of major customers; the potential consolidation of our customer base; availability of component supplies; dependence on certain industries; variability and timing of customer requirements; uncertainties as to availability and timing of governmental funding for our customers; the types and mix of sales to our customers; our ability to assimilate acquired businesses and to achieve the anticipated benefits of such acquisitions; unforeseen product failures and the potential product liability claims that may be associated with such failures; the availability of capital and other economic, business and competitive factors affecting our customers, our industry and business generally; failure or breach of our information technology systems; natural disasters; and other factors that we may not have currently identified or quantified. Additional risks and uncertainties resulting from the restatement of our financial statements included in our Annual Report on Form 10-K/A and in our Quarterly Report on Form 10-Q/A filed on July 3, 2013 could, among others, (i) cause us to incur substantial additional legal, accounting and other expenses, (ii) result in additional shareholder, governmental or other actions, or adverse consequences from the consolidated shareholder action or the formal investigation being conducted by the Securities and Exchange Commission ("SEC"), (iii) cause our customers, including the government contractors with which we deal, to lose confidence in us or cause a default under our contractual arrangements, (iv) cause a default under the Company's arrangements with M&T Bank with respect to which, if the Bank chooses to exercise its remedies, the Company may not be able to obtain replacement financing or continue its operations, (v) result in delisting of the Company's stock from NYSE MKT (the "Exchange") if the Company fails to meet any Exchange listing standard, or fails to comply with its listing agreement with the Exchange, or (vi) result in additional failures of the Company's internal controls if the Company's remediation efforts are not effective (despite its remediation of the material weakness identified in 2013). Any one or more of such risks and uncertainties could have a material adverse effect on us or the value of our common stock.

All forward looking statements included in this Form 10-Q are made only as of the date of this Form 10-Q. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. New risks and uncertainties arise from time to time and we cannot predict those events or how they may affect us. When considering these risks, uncertainties and assumptions, you should keep in mind the cautionary statements contained elsewhere in this report and in any documents incorporated herein by reference. In particular, you should consider the Risk Factors identified in Item 1 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013 and in the Company's subsequently filed SEC reports. You should read this document and the documents that we incorporate by reference into this Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Overview

IEC Electronics Corp. conducts business directly, as well as through its subsidiaries and divisions, Wire and Cable, Albuquerque, SCB, Celmet and DRTL described in Note 1 – Our Business and Summary of Significant Accounting Policies – Our Business and Consolidation.

We specialize in the custom manufacture of high reliability, complex circuit boards and system-level assemblies; a wide array of cable and wire harness assemblies capable of withstanding extreme environments; and precision metal components. We primarily serve the aerospace & defense (previously discussed as military & aerospace), medical, industrial and communications markets. We focus on developing relationships with customers who manufacture advanced technology products and who are unlikely to utilize offshore suppliers due to the proprietary nature of their products, governmental restrictions or volume considerations.

IEC is ISO 9001:2008 certified. Four of our units (IEC and Wire and Cable in Newark, NY; Albuquerque in NM; and SCB in Bell Gardens, CA) are AS9100 certified to serve the military and commercial aerospace market sector, and are ITAR registered. In addition, the Company's locations in Newark, NY and Albuquerque, NM are Nadcap accredited for electronics manufacturing to support the most stringent quality requirements of the aerospace industry and the Newark, NY location is ISO 13485 certified to serve the medical market sector. Our Newark, NY location is also an NSA approved supplier under the COMSEC standard and its environmental systems are ISO 14001:2004 certified. DRTL in Albuquerque, NM is ISO 17025 accredited, which is the international standard covering testing and calibration laboratories. Albuquerque and SCB also perform work per NASA-STD-8739 and J-STD-001ES space standards.

Prior Restatement

The Company previously disclosed in its Annual Report on Form 10-K/A ("Form 10-K/A") and Quarterly Report on Form 10-Q/A ("Form 10-Q/A"), both filed with the Securities and Exchange Commission (the "SEC") on July 3, 2013, that it restated its financial statements for the periods described therein because the Company was incorrectly accounting for work-in-process inventory at one of its subsidiaries, SCB. The Company restated: (i) its previously issued consolidated financial statements for the fiscal year ended September 30, 2012 ("FY 2012"), as included in the Company's Annual Report on Form 10-K for FY 2012, as well as the unaudited interim consolidated financial statements as of and for the fiscal quarter and year-to-date periods ended December 30, 2011 ("Q1-2012"), March 30, 2012 ("Q2-2012") and June 29, 2012 ("Q3-2012") (collectively, the "2012 Restated Periods") as included in its Quarterly Reports on Form 10-Q for Q-1 2012, Q-2 2012 and Q-3 2012, and (ii) its previously issued financial statements for the quarter ended December 28, 2012 ("Q1-2013") as included in its Quarterly Report on Form 10-Q for Q1-2013.

Three Months Results

A summary of selected income statement amounts for the three months ended follows:

Income Statement Data	Three Months Ended June 27, 2014	Three Months Ended June 28, 2013
(in thousands)		
Net sales	$32,992	$35,154
Gross profit	3,880	5,159
Selling and administrative expenses	3,195	3,446
Restatement and related expenses	102	1,106
Interest and financing expense	558	10
Other expense/(income)	—	(9)
Income/(loss) before income taxes	25	606
Provision for/(benefit from) income taxes	3	224
Net income/(loss)	$22	$382

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A summary of sales, according to the market sector within which IEC's customers operate, follows:

% of Sales by Sector	Three Months Ended June 27, 2014	June 28, 2013
Aerospace & Defense (previously Military & Aerospace)	50%	47%
Medical	22%	21%
Industrial	22%	21%
Communications & Other	6%	11%
	100%	100%

Revenue decreased in the third quarter of fiscal 2014 by $2.2 million or 6.1% as compared to the third quarter of the prior fiscal year. A decrease in the communications & other market sector of $1.8 million, as well as slight decreases in each of our other market sectors aggregated to $2.2 million.

The net decrease in the communications & other market sector of $1.8 million is primarily due to a decrease in revenue of $1.7 million from one customer as a result of converting from turnkey manufacturing to a customer furnished materials program. Lower revenue due to fluctuations in demand from two other customers was partially offset by a temporary increase in demand from another customer as they transition to a new product.

The net decrease in the industrial market sector of $0.2 million was primarily due to demand fluctuations. One customer's revenue decreased $0.9 million due to lower end customer demand caused primarily by market conditions. A new customer increased revenue for the industrial market sector by $0.3 million and increases in demand for two existing customers also partially offset the decrease.

Various increases and decreases for our aerospace & defense customers resulted in a net decrease of $0.1 million. Decreases of $3.0 million resulted from decreased end customer demand for several of our customers, some of which were due to delays in government funding. The winding down of three programs caused $1.9 million of the decrease and the decision to end a customer relationship caused a decrease of $0.5 million. Several increases offset most of the decreases. New programs with existing customers increased revenue by $2.7 million and new customers increased revenue by $1.3 million. Increased demand from three existing customers of $1.2 million also partially offset the decreases.

Revenue for the medical market sector decreased $0.1 million primarily due to fluctuations in demand. Lower demand at one of our medical customers was due to the customer awaiting FDA approval for modifications to its existing programs which caused the programs to be put on hold. While the hold was lifted during the third quarter, the customer's testing is still in process. We do not expect revenue related to these programs to ramp up until late in the fourth quarter of this fiscal year or the first quarter of next fiscal year. This decrease was mostly offset by increased demand and a new program at an existing customer as well as a new customer.

Our third quarter gross profit decreased $1.3 million to 11.8% of sales from 14.7% of sales in the third quarter of the prior fiscal year. The primary reason for the decrease was reduced leveraged on fixed manufacturing costs caused by lower sales volume. Throughout fiscal 2013 and the majority of the first quarter of fiscal 2014, we maintained a level of overhead in our business to support higher revenue expected in future periods. Cost reductions implemented during the first quarter of fiscal 2014 decreased our labor and overhead expense. Lower sales volumes as well as unfavorable changes in mix in the third quarter of this fiscal year resulted in lower gross profit compared to the third quarter of the prior fiscal year.

Selling and administrative ("S&A") expense is presented excluding Restatement and related expenses discussed below. S&A expense decreased $0.3 million, and represented 9.7% of sales in the third quarter of fiscal 2014, compared to 9.8% of sales in the same quarter of the prior fiscal year. The decrease in S&A expense was primarily due to lower bad debt expense and consulting fees.

There were no impairment charges during the third quarter of fiscal 2014 or the third quarter of the prior fiscal year. During the fourth quarter of fiscal 2013, we recorded impairment charges of $14.2 million relating to our SCB reporting unit. These charges are discussed in Note 6 - Intangible Assets and Note 7 - Goodwill.

Restatement and related expenses of $0.1 million in the third quarter of fiscal 2014 represent third party legal and accounting fees directly attributable to the restatement as well as other matters arising from the restatement including those more fully described in Note 17-Litigation, partially offset by a $0.4 million portion of an initial insurance reimbursement for certain of those expenses. We anticipate elevated levels of legal expenses due to the restatement and other matters (including the formal SEC investigation and consolidated shareholder class action) for the foreseeable future.

The Company maintains directors and officers liability insurance policies, and the carrier that issued the primary policy has agreed to pay some, but not all, legal expenses related to the formal SEC investigation and consolidated shareholder class action. The Company received an initial reimbursement from the carrier for legal expenses that the carrier has thus far agreed to cover, which were incurred during periods before and during the third fiscal quarter. The carrier has reserved all rights with respect to these and other legal expenses. We are continuing to communicate with the carrier on the scope of coverage, but the ultimate extent and amount of reimbursement remain uncertain.

Interest expense increased by $0.5 million compared to the same quarter of the prior fiscal year. IEC's average outstanding debt balances increased to $33.4 million for the third quarter of fiscal 2014 from $31.7 million for the same quarter of the prior fiscal year. Average borrowings in the third quarter of fiscal 2014 were higher than the third quarter of the prior fiscal year due to the higher revolver borrowing and borrowing in connection with the Celmet building purchase. The weighted average interest rate on IEC's debt, excluding the impact of the interest rate swap, was 0.8% higher than in the third quarter of the prior fiscal year. The net impact of adjusting the swap to fair value also increased interest expense by $0.4 million in the third quarter of the current fiscal year compared to the prior fiscal year. Cash paid for interest was approximately $0.4 million for the third quarter of fiscal 2014 and fiscal 2013. Detailed information regarding our borrowings, including a summary of modifications in the Fourth Amended and Restated Credit Facility Agreement, is provided in Note 8 - Credit Facilities.
The provision for income tax in the third quarter of fiscal 2014 decreased $0.2 million as compared to the third quarter of the prior fiscal year, primarily resulting from a decrease in pretax income. The effective tax rate for the third fiscal quarter is not meaningful due to near break even results.

With respect to tax payments, in the near term IEC expects to be sheltered by sizable net operating loss ("NOL") carryforwards for federal and New York state income tax purposes. At the end of fiscal 2013, the carryforwards amounted to approximately $16.2 million and $26.1 million for federal and New York State, respectively. The carryforwards expire in varying amounts between 2021 and 2025 unless utilized prior to these dates.

Nine Months Results

A summary of selected income statement amounts for the nine months ended follows:

Income Statement Data	Nine Months Ended June 27, 2014	June 28, 2013
(in thousands)		
Net sales	$99,934	$101,824
Gross profit	12,259	12,223
Selling and administrative expenses	10,938	11,803
Restatement and related expenses	2,516	1,106
Interest and financing expense	1,410	648
Other expense/(income)	18	47
Income/(loss) before income taxes	(2,623)	(1,381)
Provision for/(benefit from) income taxes	(977)	(518)
Net income/(loss)	$(1,646)	$(863)

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A summary of sales, according to the market sector within which IEC's customers operate, follows:

% of Sales by Sector	Nine Months Ended June 27, 2014	Nine Months Ended June 28, 2013
Aerospace & Defense (previously Military & Aerospace)	50%	51%
Medical	19%	19%
Industrial	25%	21%
Communications & Other	6%	9%
	100%	100%

Revenue decreased in the first nine months of fiscal 2014 by $1.9 million or 1.9% as compared to the first nine months of the prior fiscal year. Aggregate decreases in the aerospace & defense, communications & other and medical market sectors of $5.7 million were partially offset by an increase of $3.9 million in the industrial market sector.

The net decrease in aerospace & defense revenue was $2.6 million. Aggregate decreases in revenue of $9.7 million resulted from decreased end customer demand for several of our customers, some of which were due to delays in government funding. Decreases of $3.6 million were due to programs at three of our customers that are being phased out over the next decade. In addition, strategic decisions regarding customer relationships caused decreases of $1.8 million and $0.3 million of the decrease was due to a one time order from a new customer in the prior year. These decreases were partially offset by increased volume on existing and new long-term programs from existing customers of $10.9 million. Also partially offsetting the decreases was $1.7 million of revenue from new customers.

The communications & other market sector revenue decreased approximately $2.2 million. This decrease is primarily due to a $1.6 million decrease in revenue from one customer as a result of converting from turnkey manufacturing to a customer furnished materials program. Decreased demand from four customers resulted in a $1.2 million decrease. These decreases were partially offset by a temporary increase in demand of $0.6 million from another customer as they transition to a new product.

Lower demand from one of our medical customers was partially offset by increases from three other customers resulting in a net decrease of $0.8 million. The decreased demand of $7.7 million was due to the customer awaiting FDA approval for modifications to its existing programs which caused the programs to be put on hold. While the hold was lifted during the third quarter, the customer's testing is still in process and is taking longer than anticipated. We do not expect revenue related to these programs to ramp up until late in the fourth quarter of this fiscal year or the first quarter of next fiscal year. Offsetting increases of $6.1 million were the result of volume increases from existing programs and new programs with existing customers. Also partially offsetting the decrease was revenue of $0.8 million from a new customer.

The net increase in the industrial market sector of $3.9 million resulted from fluctuations in demand for existing customers as well as new customers. Increases of $2.4 million were due to higher demand for existing programs at three customers. Three new customers comprised $2.4 million of the increase. These increases were partially offset by a $1.0 million decrease due to lower end customer demand at one of our customers caused in part by market conditions.

Gross profit in the first nine months of fiscal 2014 represents 12.3% of sales compared to 12.0% of sales in the same period of the prior fiscal year. Throughout fiscal 2013 and the majority of the first quarter of fiscal 2014, we maintained a level of overhead in our business to support higher revenue expected in future periods. Cost reductions implemented during the first quarter of fiscal 2014 decreased our labor and overhead expense; however, the full impact was not realized due to lower sales volumes as well as unfavorable changes in mix.

Selling and administrative ("S&A") expense is presented excluding Restatement and related expenses discussed below. S&A expense decreased $0.9 million, and represents 10.9% of sales in the first nine months of fiscal 2014, compared to 11.6% of sales in the same period of the prior fiscal year. The decrease in S&A expense was primarily due to lower wage and bonus expense. Lower wage expense was the result of cost reductions implemented primarily during the first quarter of fiscal 2014. The implementation of these cost reductions also resulted in decreased travel and consulting expenses.

There were no impairment charges during the first nine months of fiscal 2014 or the first nine months of the prior fiscal year. During the fourth quarter of fiscal 2013, we recorded impairment charges of $14.2 million relating to our SCB reporting unit. These charges are more particularly discussed in Note 6 - Intangible Assets and Note 7 - Goodwill.

Restatement and related expenses of $2.5 million in the first nine months of fiscal 2014 represent third party legal and accounting fees directly attributable to the restatement as well as other matters arising from the restatement including those more fully described in Note 17-Litigation, partially offset by a $0.4 million portion of an initial insurance reimbursement for certain of those expenses. We anticipate elevated levels of legal expenses due to the restatement and other matters (including the formal SEC investigation and consolidated shareholder class action) for the foreseeable future.

The Company maintains directors and officers liability insurance policies, and the carrier that issued the primary policy has agreed to pay some, but not all, legal expenses related to the formal SEC investigation and consolidated shareholder class action. The Company received an initial reimbursement from the carrier for legal expenses that the carrier has thus far agreed to cover, which were incurred during periods before and during the third fiscal quarter. The carrier has reserved all rights with respect to these and other legal expenses. We are continuing to communicate with the carrier on the scope of coverage, but the ultimate extent and amount of reimbursement remain uncertain.

Interest expense increased by $0.7 million compared to the first nine months of the prior fiscal year. IEC’s average outstanding debt balances increased to $34.7 million for the first nine months of fiscal 2014 from $30.2 million for the same period of the prior fiscal year. Average borrowings in the first nine months of fiscal 2014 were higher than the same period of the prior fiscal year due to higher revolver borrowings and a new building loan. The weighted average interest rate on IEC's debt for the first nine months of the fiscal year, excluding the impact of the interest rate swap, was 0.6% higher than the same period of the prior fiscal year. The net impact of adjusting the swap to fair value also increased interest expense by $0.4 million in the first nine months of fiscal 2014 compared to the same period of the prior fiscal year. Cash paid for interest was approximately $1.2 million in the first nine months of fiscal 2014 and fiscal 2013. Detailed information regarding our borrowings, including a summary of modifications in the Fourth Amended and Restated Credit Facility Agreement, is provided in Note 8 - Credit Facilities.
The benefit from income taxes was $1.0 million for the first nine months of fiscal 2014 as compared to a benefit from income taxes of $0.5 million for the same period of the prior fiscal year. Three factors impacted the amount of the tax benefit. A larger pretax loss was incurred in fiscal 2014, which was partially offset by a lower effective tax rate. In addition, we recorded a benefit due to a change in state and local tax strategy in the first nine months of fiscal 2014. Excluding this benefit, our effective tax rate is approximately 32%.

Liquidity and Capital Resources

Capital Resources

As of June 27, 2014 outstanding capital expenditure commitments were $0.1 million for manufacturing equipment and building improvements. We generally fund capital expenditures with cash flow from operations and our revolving credit facility.

Summary of Cash Flows

A summary of selected cash flow amounts for the nine months ended follows:

	Nine Months Ended	
Cash Flow Data	June 27, 2014	June 28, 2013
(in thousands)		
Cash and cash equivalents, beginning of period	$2,499	$2,662
Net cash flow from:		
Operating activities	4,045	(1,063)

Investing activities	(3,483)	(4,357)
Financing activities	(2,382)	5,861
Net (decrease) increase in cash and cash equivalents	(1,820)	441
Cash and cash equivalents at end of period	$679	$3,103

Operating activities

Cash flows provided by operations, before considering changes in IEC's working capital accounts, was $1.6 million for the first nine months of fiscal 2014. Cash flow provided by operations, before considering changes in working capital, in the first nine months of fiscal 2013 was $2.4 million. The decrease was primarily driven by a larger net loss of $0.8 million. Working capital provided cash flows of $2.5 million in the first nine months of fiscal 2014 and used cash flows of $3.5 million in the first nine months of fiscal 2013. The change in working capital in the first nine months of fiscal 2014 was due to a decrease in accounts receivable of $4.5 million and a decrease in inventories of $0.8 million offset by an increase in other current assets of $1.5 million and a decrease in accounts payable of $2.6 million. Accounts receivable decreased primarily due to lower revenue in the third quarter of this fiscal year compared to the fourth quarter of the prior fiscal year as well as increased collection efforts during the first nine months of fiscal 2014. The decrease in inventory was primarily due to maintaining inventory levels commensurate with demand as well as converting a customer from turnkey to a customer furnished materials program. Other current assets increased due primarily to test equipment we are building for a customer and recording a receivable for a portion of an initial insurance reimbursement for certain restatement and related expenses. The accounts payable decrease was primarily due to reduced revenue causing lower purchases as well as timing of purchases and payments.

Investing activities

Cash flows used by investing activities were $3.5 million and $4.4 million for the first nine months of fiscal 2014 and 2013, respectively. Cash flows used in the first nine months of fiscal 2014 primarily consisted of the Celmet building purchase of $1.3 million and purchases of equipment. Cash used in the first nine months of fiscal 2013 primarily related to purchases of equipment.

Financing activities

Cash flows used in financing activities were $2.4 million for the first nine months of fiscal 2014 and cash flows provided by financing activities were $5.9 million for the first nine months of fiscal 2013. During the first nine months of fiscal 2014, net repayments under all credit facilities were $2.3 million. Net repayments of the revolver of $1.5 million and other term debt of $2.2 million were partially offset by the borrowings in connection with the purchase of the Celmet building of $1.3 million. Repayments of the revolver were possible due to increased cashflow provided by operations and less equipment purchases during the first nine months of fiscal 2014. In the first nine months of fiscal 2013, net cash flows provided by credit facilities of $5.8 million were necessary to fund operations.

Credit Facilities

At June 27, 2014, borrowings outstanding under the revolving credit facility (“Revolver”) amounted to $9.8 million, and the maximum available was $20.0 million. Borrowings on the Revolver during the current fiscal year were used to fund working capital changes discussed above. The Company believes that its liquidity is sufficient to satisfy anticipated operating requirements during the next twelve months.

The financial covenants in the 2013 Credit Agreement include (i) a minimum level of quarterly EBITDARS, (ii) a ratio of total debt to twelve month EBITDARS (“Debt to EBITDARS Ratio”) that is below a specified limit, and (iii) a minimum fixed charge coverage ratio (“Fixed Charge Coverage Ratio”). EBITDARS is defined as earnings before interest, taxes, depreciation, amortization, rent expense and non-cash stock compensation expense. The 2013 Credit Agreement did not require measurement of financial covenants for the quarter ended December 28, 2012. At March 28, 2014, the Company was not in compliance with the Quarterly EBITDARS covenant. At December 27, 2013, the Company was not in compliance with Quarterly EBITDARS covenant or the Debt to EBITDARS Ratio. The Company was not in compliance with the Debt to EBITDARS Ratio and Fixed Charge Coverage Ratio at September 30, 2013. We have obtained waivers for each period from M&T Bank with respect to such noncompliance. The Second 2014 Amendment, obtained in February 2014, does not require measurement of the Debt to EBITDARS ratio or the Fixed Charge Coverage ratio for any quarter during fiscal 2014. Amendments to the 2013 Credit Agreement obtained in May 2013, August 2013, December 2013 and February 2014, which modified Financial Covenants and related definitions, are more particularly described in Note 8 – Credit Facilities. At June 27, 2014, the Company was in compliance with the Quarterly EBITDARS covenant.

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The calculation of debt covenants follows:

Debt Covenant	Limit at June 27, 2014	September 30, 2013	Calculated Amount At June 27, 2014	September 30, 2013	
Quarterly EBITDARS (000s)	Minimum $1,500	Minimum $1,500	$1,882	$2,354	
Debt to EBITDARS Ratio	Not Measured	Maximum 3.50x	Not Measured	5.20x	(a)
Fixed Charge Coverage Ratio (b)	Not Measured	Minimum 1.00x	Not Measured	0.23x	(a)

(a) Compliance waived.
(b) The ratio compares (i) 12-month EBITDA plus non-cash stock compensation expense, plus permitted fiscal 2013 restatement related expenses minus unfinanced capital expenditures minus cash taxes paid ("Adjusted EBITDA"), to (ii) the sum of interest expense, principal payments, sale-leaseback payments and dividends, if any (fixed charges).

A reconciliation of EBITDARS to Net income follows:

(in thousands)	Three Months Ended June 27, 2014	September 30, 2013
Net income/(loss)	$22	$(8,667)
Restatement related expenses (a)	—	—
Asset impairment (b)	—	14,217
Provision for/(benefit from) income taxes	3	(5,004)
Depreciation and amortization expense	1,208	1,219
Interest expense	558	522
Non-cash stock compensation	91	96
Rent expense - M&T sale-leaseback (c)	—	(29)
EBITDARS	$1,882	$2,354

A reconciliation of Adjusted EBITDA to Net income follows:

(in thousands)	Three Months Ended June 27, 2014	September 30, 2013
Net income/(loss)	$22	$(8,667)
Restatement related expenses (a)	—	—
Asset impairment (b)	—	14,217
Provision for/(benefit from) income taxes	3	(5,004)
Depreciation and amortization expense	1,208	1,219
Interest expense	558	522
Non-cash stock compensation	91	96
Unfinanced capital expenditures	(369)	(746)
Income taxes paid	—	—
Adjusted EBITDA	$1,513	$1,637

(a) Net income as defined by the 2013 Credit Agreement (as amended) is adjusted to add back up to $1.1 million of legal and accounting fees associated with the restatement (all of which were added back in the third quarter of fiscal 2013). There were no restatement related expenses added back to net income for the periods presented in the reconciliation tables above.

(b) Net income as defined by the 2013 Credit Agreement (as amended) is adjusted to exclude the effect of any non-cash loss arising from any write-up or write-down of assets.

(c) During the fourth quarter of fiscal 2013, we were refunded a payment charged in error during the third quarter of fiscal 2013.

EBITDARS and Adjusted EBITDA are non-GAAP financial measures. They should not be considered in isolation or as a measure of the Company's profitability or liquidity; are in addition to, and are not a substitute for, financial measures under GAAP. EBITDARS and Adjusted EBITDA may be different from non-GAAP financial measures used by other companies, and may not be comparable to similarly titled measures reported by other companies. Non-GAAP financial measures have limitations since they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP.

EBITDARS and Adjusted EBITDA do not take into account working capital requirements, capital expenditures, debt service requirements and other commitments, and accordingly, EBITDARS and Adjusted EBITDA are not necessarily indicative of amounts that may be available for discretionary use. We present EBITDARS and Adjusted EBITDA because certain covenants in our credit facilities are tied to these measures. We also view EBITDARS and Adjusted EBITDA as useful measures of operating performance given our large net operating loss carryforward and because, as supplemental measures: (i) they are a basis upon which we assess our liquidity position and performance and (ii) we believe that investors will find the data useful in assessing our ability to service and/or incur indebtedness. We believe that EBITDARS and Adjusted EBITDA, when considered with both our GAAP results and the reconciliation to net income, provides a more complete understanding of our business than could be obtained absent this disclosure.

Off-Balance Sheet Arrangements

IEC is not a party to any material off-balance sheet arrangements.

Application of Critical Accounting Policies

Our application of critical accounting policies are disclosed in our 2013 Annual Report on Form 10-K filed for the fiscal year ended September 30, 2013. During the nine months ended June 27, 2014 there have been no material changes to these policies.

Recently Issued Accounting Standards

See Note 1 - Our Business and Summary of Significant Accounting Policies for further information concerning recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a result of its financing activities, the Company is exposed to changes in interest rates that may adversely affect operating results. The Company actively monitors its exposure to interest rate risk and from time to time uses derivative financial instruments to manage the impact of this risk. The Company uses derivatives only for the purpose of managing risk associated with underlying exposure. The Company does not trade or use instruments with the objective of earning financial gains on the interest rate, nor does the Company use derivatives instruments where it does not have underlying exposure. The Company manages its hedging position and monitors the credit ratings of counterparties and does not anticipate losses due to counterparty nonperformance. Management believes its use of derivative instruments to manage risk is in the Company's best interest. However, the Company's use of derivative financial instruments may result in short-term gains or losses and increased volatility.

At June 27, 2014, the Company had $34.5 million of debt, comprised of $24.7 million with variable interest rates and $9.8 million with fixed interest rates. The Company is party to a swap transaction that effectively fixes an additional $12.1 million of debt, which increased the portion of debt with effectively fixed interest rates from $9.8 million to $21.9 million at June 27, 2014. The credit facilities and related swap transaction are more fully described in Note 8 – Credit Facilities and Note 9 – Derivative Financial Instruments. The rates effectively fixed by the swap transaction continue to vary due to the variable margin based on financial covenant metrics. The variable margins were modified by the First 2014 Amendment to temporarily fix the applicable margin for the twelve-month period commencing December 13, 2013, and thereafter if the Company is not in compliance with its financial covenants, with respect to the Revolver to 4.25% above LIBOR, with respect to the Albuquerque Mortgage Loan to 4.50% above LIBOR and with respect to Term Loan B to 3.25% above LIBOR. The applicable unused fee for the same period was changed to 0.50%. The Second 2014 Amendment extended these temporarily fixed applicable margins and unused fee through March 27, 2015 and thereafter if the Company is not in compliance with its financial covenants. Interest rates on variable loans are based on London interbank offered rate (“Libor”) and currently adjust daily, causing interest on such loans to vary from period to period. A sensitivity analysis as of June 27, 2014 indicates that a one-percentage point increase or decrease in our variable interest rates, which represents more than a 10% change, would increase or decrease the Company's annual interest expense by approximately $0.2 million.

The Company is exposed to credit risk to the extent of non-performance by M&T Bank under the 2013 Credit Agreement and the Swap Transaction. M&T Bank's credit rating (reaffirmed A- by Fitch in October 2013) is monitored by the Company, and

IEC expects that M&T Bank will perform in accordance with the terms of the 2013 Credit Agreement and the Swap Transaction.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

IEC's management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(c) and 15d-15(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 27, 2014, the end of the period covered by this Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 27, 2014, the Company's disclosure controls and procedures were effective.

Changes in internal control over financial reporting

During the nine months ended June 27, 2014, there were no changes in our internal controls that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During fiscal 2013 management identified a material weakness in our internal control over financial reporting related to an error in accounting for work-in-process inventory at SCB, as discussed in greater detail in Item 9A of our 2012 Form 10-K/A. To address this material weakness, we implemented certain remedial measures, as described in our 2012 Form 10-K/A. We consider this material weakness to be fully remediated as management has concluded, through testing, that the applicable controls have operated effectively for a sufficient period of time.

Limitations on the effectiveness of control systems

IEC's management does not expect that our disclosure controls and internal controls will prevent all errors and fraud. Because of inherent limitations in any such control system (e.g. faulty judgments, human error, information technology system error, or intentional circumvention), there can be no assurance that the objectives of a control system will be met under all circumstances. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The benefits of a control system also must be considered relative to the costs of the system and management's judgments regarding the likelihood of potential events. In summary, there can be no assurance that any control system will succeed in achieving its goals under all possible future conditions, and as a result of these inherent limitations, misstatements due to error or fraud may occur and may or may not be detected.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

As discussed in Note 2 – Restatement of Consolidated Financial Statements, the Company restated its financial statements. In connection with the restatement, the Audit Committee conducted an independent review of the underlying facts and circumstances, and the Company is responding to a formal investigation by the staff of the SEC relating to the restatement and other matters and an amended complaint in a consolidated shareholder class action originally filed June 28, 2013 in the United States District Court, Southern District of New York, against the Company and its CEO and former CFO seeking unspecified compensatory damages. While the Company believes the complaint is without merit, it is too early to determine the potential outcome.

From time to time, the Company may be involved in other legal action in the ordinary course of its business, but management does not believe that any such other proceedings commenced through the date of the financial statements included in this Form 10-Q, individually or in the aggregate, will have material adverse effect on the Company's consolidated financial position.

Item 1A. Risk Factors

There are no material changes to the risk factors described in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended September 30, 2013, as filed with the SEC on December 24, 2013.

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

Issuer Purchase of Equity Securities

Period (1)	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
March 29, 2014 – April 25, 2014	407	$4.59	—	—
April 26, 2014 – May 23, 2014	—	—	—	—
May 24, 2014 – June 27, 2014	—	—	—	—
Total	407	$4.59	—	—

(1) The reported periods conform to the Company's fiscal calendar.

(2) The total number of shares purchased in the period consists of shares withheld by the Company in satisfaction of withholding taxes due upon the vesting of restricted stock awards granted under the 2001 Plan. Shares withheld are held as Treasury Shares and are no longer deemed outstanding.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

On July 31, 2014 the Company entered into a Tax Benefit Preservation Plan Rights Agreement, and declared a dividend distribution of one right for each outstanding share of the Company's common stock to stockholders of record at the close of business on August 15, 2014. The Company also filed a Certificate of Designation for a Series A Junior Participating Preferred Stock with the Delaware Department of State. The plan, rights and related matters are more fully described in the Company’s Current Report on Form 8-K filed with the SEC on July 31, 2014, as amended by the Company's Current Report on Form 8-K/A filed with the SEC on August 1, 2014.

Item 6. Exhibits

For the exhibits that are filed herewith or incorporated herein by reference, see the Index to Exhibits located immediately following the signature page to this Report. The Index to Exhibits is incorporated herein by reference.

SIGNATURES

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

	IEC Electronics Corp. (Registrant)
August 5, 2014	/s/ W. Barry Gilbert W. Barry Gilbert Chairman and Chief Executive Officer
August 5, 2014	/s/ Michael T. Williams Michael T. Williams Chief Financial Officer

IEC ELECTRONICS CORP.
Form 10-Q for Quarter Ended June 27, 2014
INDEX TO EXHIBITS

Exhibit No.	Description
10.1*	Employee Stock Purchase Plan Amendment 1, effective May 21, 2014, amending 2011 Employee Stock Purchase Plan filed as Appendix A to the Company's Proxy Statement on Schedule 14A on December 22, 2011.
10.2*	Letter terminating chief financial officer services, effective as of June 1, 2014, with Insero & Company CPAs, PC.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101	The following items from this Quarterly Report on Form 10-Q formatted in Extensible Business Reporting Language: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Income Statements (unaudited), (iii) Consolidated Statements of Changes in Stockholders' Equity (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (v) Notes to Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement.