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IEC ELECTRONICS CORP
Form 10-K/A
May 11, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
Amendment No. 1

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 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)

(IRS Employer Identification No.)

105 Norton Street, Newark, New York 14513
(Address of principal executive offices) (Zip code)

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

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

Common Stock, \$.01 par value

NYSE MKT LLC

(Title of Class)

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At March 28, 2014, the last business day of the registrant's second quarter for the fiscal year ended September 30, 2014, the aggregate market value of the shares of common stock held by non-affiliates of the registrant was \$35,032,117 (based on the

closing price of the registrant's common stock on the NYSE MKT on such date). Shares of common stock held by each executive officer and director and by each person and entity who beneficially owns more than 10% of the outstanding common stock have been excluded in that such person or entity may be deemed to be an affiliate for purposes of this calculation. Such exclusion should not be deemed a determination or admission by registrant that such individuals or entities are, in fact, affiliates of the registrant.

As of May 6, 2015, there were 10,180,308 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of IEC Electronics Corp.'s definitive Proxy Statement filed with the Securities and Exchange Commission on December 16, 2014 in connection with its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K/A.

EXPLANATORY NOTE

References in this Annual Report on Form 10-K/A to "IEC", the "Company", "we", "our", or "us" mean IEC Electronics Corp. and its subsidiaries except where the context otherwise requires.

Background of the 2014 Restatements

This Form 10-K/A restates the Company's previously issued consolidated financial statements for the fiscal year ended September 30, 2014 ("FY 2014"), the ("Original 2014 10-K") and the fiscal quarters ended December 27, 2013 ("Q1-2014"), March 28, 2014 ("Q2-2014") and June 27, 2014 ("Q3-2014"), (collectively, the "Fiscal 2014 Restated Periods").

As previously disclosed in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on February 9, 2015, management concluded and the Audit Committee of the Board of Directors of the Company concurred that the previously issued consolidated financial statements covering the Company's FY 2014, Q2-2014 and Q3-2014 require restatement. These financial statements contained an error in the valuation allowance on deferred income tax assets. The Company should have recorded a full valuation allowance for its deferred tax assets. As such, income tax expense was understated and deferred income tax assets were overstated during Q2-2014 by approximately \$14.0 million. Income tax expense was overstated and deferred income tax assets were understated by \$3.0 thousand and \$1.8 million in Q3-2014 and September 30, 2014 ("Q4-2014"), respectively. For FY 2014 income tax expense was understated and deferred income tax assets were overstated by approximately \$12.3 million.

As further disclosed in the Company's Current Report on Form 8-K filed with the SEC on May 7, 2015, management concluded and the Audit Committee of the Board of Directors of the Company concurred that the previously issued consolidated financial statements covering FY 2014, Q1-2014, Q2-2014 and Q3-2014, require restatement for an additional error. These financial statements contained an error in the estimation of the excess and obsolete inventory reserve at the Company's Albuquerque, NM and Bell Gardens, CA operating locations resulting in an understatement of cost of goods sold and overstatement of inventory. Cost of goods sold was understated by approximately \$0.2 million, \$0.1 million, \$0.1 million and \$0.3 million in Q1-2014, Q2-2014, Q3-2014 and Q4-2014, respectively. Inventory was overstated by approximately \$0.2 million, \$0.4 million, \$0.4 million and \$0.7 million as of the end of Q1-2014, Q2-2014, Q3-2014 and Q4-2014, respectively. For FY 2014 cost of goods sold was understated and inventory was overstated by approximately \$0.7 million.

In addition, the Company has determined that the above-described accounting errors were not detected in a timely manner due to material weaknesses in internal control over financial reporting. The material weaknesses, and the Company's process for remediation thereof, are further described in Part II – Item 9A – Controls and Procedures of this Form 10-K/A.

Implementation of the 2014 Restatements

The restatement of the FY 2014 financial statements (the "2014 Restatements") has been implemented as follows. This Form 10-K/A restates all Fiscal 2014 Restated Periods presented herein, as applicable, to reflect the adjustments applicable to each of those periods. The annual adjustments made as a result of the 2014 Restatements are more fully

described in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K/A. Such adjustments include the Company's restated consolidated balance sheet as of September 30, 2014 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for FY 2014, and are reflected in the information derived therefrom contained in this Form 10-K/A. This Form 10-K/A also includes the impact of such adjustments on the unaudited quarterly financial information for each of the Fiscal 2014 Restated Periods in Note 20—Quarterly Financial Data (Unaudited) of the Notes to the Consolidated Financial Statements included herein.

The Company will not file amendments to its Quarterly Reports on Form 10-Q for Q1-2014, Q2-2014 or Q3-2014. Accordingly, the Company cautions investors that certain information contained in the Quarterly Reports on Form 10-Q previously filed for those interim periods, specifically the consolidated financial statements contained in those reports and the information derived therefrom, should no longer be relied upon.

In addition, the Company's Quarterly Reports on Form 10-Q during its 2015 fiscal year will restate the comparable prior year quarterly information.

Items Amended

This Form 10-K/A amends the Original 10-K Filing to reflect the 2014 Restatements described above. The following items, and no others, have been amended as a result of the restatement:

The Cover Page

"Safe Harbor" Cautionary Statement

Part I, Item 1A, Risk Factors;

Part II, Item 6, Selected Financial Data;

Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations;

Part II, Item 8, Financial Statements and Supplementary Data;

Part II Item 9, Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Part II, Item 9A, Controls and Procedures; and

Part IV, Item 15, Exhibits and Financial Statement Schedules.

Part II, Items 6, 7 and 8 and Part IV, Item 15 include not only information for the full FY 2014 but also for the interim quarterly periods of that year impacted by the restatement, and also include reconciliations of previously filed annual and quarterly financial information to the restated financial information.

The Company's Chief Executive Officer and Chief Financial Officer are providing currently dated certifications in connection with this Form 10-K/A. The certifications are filed as Exhibits 31.1, 31.2 and 32.1.

The Company engaged Crowe Horwath LLP ("Crowe Horwath") to serve as the Company's independent accounting firm for the Company's fiscal year ended September 30, 2015. EFP Rotenberg, LLP ("EFPR") served as the Company's independent registered public accounting firm for FY 2014 and for the fiscal year ended September 30, 2013. EFPR disagrees with the Company's conclusion that a full valuation allowance on deferred tax assets is required as of the second quarter of fiscal 2014. EFPR has declined to take a position regarding the excess and obsolete inventory reserve restatement. The Company has engaged Crowe Horwath to audit its FY 2014 financial statements. This Form 10-K/A includes EFPR's audit report on the fiscal year ended September 30, 2013 and Crowe Horwath's audit report for FY 2014.

Except as required to reflect the effects of the restatement for the items set forth above and disclosure of certain events subsequent to the Original 2014 10-K filing in Note 21—Subsequent Event, the financial statements and other disclosures in this Form 10-K/A do not reflect any events that have occurred since the Original 2014 10-K was filed on November 25, 2014 (or, in the case of the quarterly information reflected in this Form 10-K/A, as of the filing date of the applicable original Quarterly Report on Form 10-Q).

TABLE OF CONTENTS

<u>PART I</u>		<u>6</u>
Item 1.	<u>BUSINESS</u>	<u>7</u>
Item 1A.	<u>RISK FACTORS</u>	<u>10</u>
Item 1B.	<u>UNRESOLVED STAFF COMMENTS</u>	<u>18</u>
Item 2.	<u>PROPERTIES</u>	<u>19</u>
Item 3.	<u>LEGAL PROCEEDINGS</u>	<u>19</u>
Item 4.	<u>MINE SAFETY DISCLOSURES</u>	<u>19</u>
<u>PART II</u>		<u>20</u>
Item 5.	<u>MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>20</u>
Item 6.	<u>SELECTED FINANCIAL DATA</u>	<u>21</u>
Item 7.	<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>21</u>
Item 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>49</u>
Item 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>49</u>
Item 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>98</u>
Item 9A.	<u>CONTROLS AND PROCEDURES</u>	<u>99</u>
Item 9B.	<u>OTHER INFORMATION</u>	<u>102</u>
<u>PART III</u>		<u>102</u>
Item 10.	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	<u>102</u>
Item 11.	<u>EXECUTIVE COMPENSATION</u>	<u>102</u>
Item 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>102</u>
Item 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>103</u>
Item 14.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>103</u>
<u>PART IV</u>		<u>103</u>
Item 15.	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	<u>103</u>
<u>SIGNATURES</u>		<u>103</u>
<u>INDEX TO EXHIBITS</u>		<u>105</u>

“SAFE HARBOR” CAUTIONARY STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

References in this report to “IEC”, the “Company”, “we”, “our”, or “us” mean IEC Electronics Corp. and its subsidiaries except where the context otherwise requires. This Annual Report on Form 10-K/A for the fiscal year ended September 30, 2014 (“Form 10-K/A”) 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: additional information that may arise as a result of the 2014 Restatements; our ability to successfully remediate material weaknesses in our internal controls; litigation and governmental investigations or proceedings arising out of or relating to accounting and financial reporting matters; 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; technological, engineering and other start-up issues related to new programs and products, 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. Any one or more of such risks and uncertainties could have a material adverse effect on us or the value of our common stock. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections elsewhere in this 10-K/A and other filings with the SEC.

All forward-looking statements included in this Form-10-K/A are made only as of the date of this Form 10-K/A. We do not undertake any obligation to, and may not, publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur or which we hereafter become aware of, except as required by law. New risks and uncertainties arise from time to time and we cannot predict these events or how they may affect us. When considering these risks, uncertainties and assumptions, you should keep in mind the cautionary statements contained in this report and any documents incorporated herein by reference. You should read this document and the documents that we incorporate by reference into this Form-10-K/A 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.

PART I

Item 1. BUSINESS

Overview

IEC Electronics Corp. (“IEC”, “we”, “our”, “us”, “Company”) conducts business directly, as well as through its subsidiaries and divisions, Wire and Cable, Albuquerque, SCB and Celmet described below in “Organization and Recent Acquisitions” and DRTL described in this “Overview”.

IEC 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.

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. We have continued to add new customers and markets, and our customer base is stronger and more diverse as a result. We proactively invest in areas we view as important for our continued long-term growth. 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 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. During Fiscal 2014, our Newark, NY and Albuquerque, NM facilities were awarded the IPC-J-STD-001/IPC-A-610 Qualified Manufacturers Listing. DRTL has been certified as an IPC-approved Validation Services Test Laboratory.

The technical expertise of our experienced workforce enables us to build some of the most advanced electronic, wire & cable, and precision metal systems sought by original equipment manufacturers (“OEMs”).

Organization and Recent Acquisitions

We have executed several strategic acquisitions that advanced our capability to support existing and potential customers in the EMS market.

On December 17, 2010, we acquired the assets of Southern California Braiding Co., Inc., a privately held company principally engaged in providing wire and cable products to military and defense markets. The business is now operated through IEC’s subsidiary, Southern California Braiding, Inc. (“SCB”). The acquisition reinforced IEC’s foundation as a premier provider of high-reliability contract manufacturing services. SCB specializes in providing its customers, including military ‘primes’ and NASA, with complex cables and wire harnesses built to withstand the demands of extreme environments. The acquisition further diversified IEC’s customer base, and enables us to complement and expand our existing wire and cable business that itself is the outgrowth of a 2008 acquisition. SCB is located in the Los Angeles metropolitan area (Bell Gardens, CA).

On July 30, 2010, we acquired the assets of Celmet Co., Inc., a privately held manufacturer of metal chassis and assemblies located in Rochester, NY. Celmet operates as a division of IEC (“Celmet”). IEC previously outsourced the manufacture of thousands of such chassis each year, and this acquisition has ensured the Company a steady supply of high quality units. In addition, Celmet serves the same military, medical, industrial and transportation markets as IEC, and the acquisition has enabled us to expand our offerings in those markets.

On December 16, 2009, the Company acquired the stock of General Technology Corporation from Crane International Holdings, Inc. The acquired business employed complementary technologies and served markets similar to IEC’s. In April 2011, the entity’s name was changed to IEC Electronics Corp - Albuquerque (“Albuquerque”). Our Albuquerque operation occupies an important niche in the military and defense markets by supporting its customers in managing their legacy products and programs. Located in Albuquerque, NM, the acquisition broadened IEC’s product mix and further diversified our customer base.

We also conduct business through our subsidiary, IEC Electronics Wire and Cable, Inc. (“Wire and Cable”), located in Newark, New York.

IEC Electronics Corp., a Delaware corporation, is the successor by merger in 1990 to IEC Electronics Corp., a New York corporation, which was originally organized in 1966. Executive offices are located at 105 Norton Street, Newark, New York 14513. Our telephone number is 315-331-7742, and our Internet address is www.iec-electronics.com.

The Electronics Contract Manufacturing Services (“EMS”) Industry

The EMS industry specializes in providing the program management, technical support and manufacturing expertise required to take a product from the early design and prototype stages through volume production and distribution. Primarily as a response to rapid technological change and increased competition in the electronics industry, OEMs have recognized that by utilizing EMS providers they can improve their competitive position, realize an improved return on investment and concentrate on their core competencies such as research, product design and development and marketing. In addition, EMS providers allow OEMs to bring new products to market more rapidly and to adjust more quickly to fluctuations in product demand; avoid additional investment in plant, equipment and personnel; reduce inventory and other overhead costs; and determine known unit costs over the life of a contract. Many OEMs now consider EMS providers valued partners in executing their business and manufacturing strategy.

OEMs increasingly require EMS providers to provide complete turnkey manufacturing and material handling services, rather than working on a consignment basis, in which the OEM supplies all materials and the EMS provider supplies labor. Turnkey contracts involve design, manufacturing and engineering support, the procurement of all materials, sophisticated in-circuit and functional testing, and distribution.

IEC’s Strategy

We endeavor to develop long-term manufacturing partnerships with established and emerging OEMs that value high-reliability final assemblies for their aerospace, defense, medical and industrial businesses. In implementing this strategy, we offer our customers a full range of manufacturing solutions, flexible production, high quality, fast turnaround, and sophisticated computer-aided testing. In the early stages of product or program design, we frequently work with customers to evaluate the manufacturability and testability of their products, with the objective of enhancing quality and reducing the overall cost of ownership for our customers.

Competition

The EMS industry is highly fragmented and characterized by intense competition. We believe that the principal competitive factors in the EMS market include: technology capabilities, quality and range of services, past performance, design, cost, responsiveness and flexibility. 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 are certified to serve the military and commercial aerospace sector as well as the medical sector and hold various accreditations. 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. Our customer-centric approach offers a high degree of flexibility while simultaneously complying with rigorous quality and on-time delivery standards.

We compete against numerous foreign and domestic companies in addition to the internal capabilities of some of our customers. Some of our competitors include Jabil Circuit Inc., Benchmark Electronics, Inc., Plexus Corp. and Ducommun Incorporated. We may face new competitors in the future as the outsourcing industry evolves and existing or start-up companies develop capabilities similar to ours.

Products and Services

We manufacture a wide range of assemblies that are incorporated into many different products, such as aerospace and defense systems, medical devices, industrial equipment and transportation products. Our products are distributed to and through OEMs. We support multiple divisions and product lines for many of our customers and frequently manufacture successive generations of products. In some cases, we are the sole EMS contract manufacturer for the customer site or division.

Materials Management

We generally procure materials to meet specific contract requirements and are often protected by contract terms that call for reimbursement to us in the event a contract is terminated by the customer. Whether purchased by us or supplied by a customer, materials are tracked and controlled by our internal systems throughout the manufacturing process.

Availability of Components

Our revenues are principally derived from turn-key services that involve the acquisition of raw and component materials, often from a limited number of suppliers, to be manufactured in accordance with each customer's specifications. While we believe we are well positioned with supplier relationships and procurement expertise, potential shortages of components in the world market could materially adversely affect our revenue levels or operating efficiencies.

Suppliers

Although we depend on a limited number of key suppliers, as a result of strategic relationships we have established with them, the Company frequently benefits from one or more of the following enhancements: reduced lead-times; competitive pricing; favorable payment terms; and preference during periods of limited supply. We have preferred supplier partnership agreements in place to support our business generally and to ensure access to custom commodities such as printed circuit boards.

For the year ended September 30, 2014, IEC obtained 23% of the materials used in production from two vendors, Arrow Electronics, Inc. and Avnet, Inc. If either of these vendors were to cease supplying us with materials for any reason, we would be forced to find alternative sources of supply. A change in suppliers could cause a delay in availability of products and a possible loss of sales, which could adversely affect operating results.

Marketing and Sales

Revenues have declined since fiscal 2012, primarily as a result of fluctuations in customer demand partially offset by new programs and new customers. We utilize a direct sales force as well as a nationwide network of manufacturer's representatives. Through this hybrid sales approach, we execute a focused sales strategy targeting those customers whose product profiles are aligned with our core areas of expertise. For example, we focus on customers that are developing complex, advanced technology products for a wide array of market sectors ranging from satellite communications to medical, military and ruggedized industrial products.

Typically, the demand profiles associated with these customers are in the low-to-moderate volume range with high variability in required quantities and product mix. These customers' products often employ emerging technologies that require concentrated engineering and manufacturing support from product development through prototyping and on to volume manufacturing, which can result in significant lead times before full production and are difficult to forecast. As a result of the specialized services required, such customers rarely rely on an outsourcing model that focuses primarily on minimizing costs.

To reduce risk, the Company seeks a balanced distribution of business across industry sectors. As indicated in the table that follows, we maintained a relatively balanced distribution.

% of Sales by Sector	Years Ended	
	September 30, 2014	September 30, 2013
Aerospace & Defense (previously Military & Aerospace)	49%	51%
Medical	20%	20%
Industrial	25%	21%
Communications & Other	6%	8%
	100%	100%

Individual customers representing 10% or more of sales included General Electric Company (“GE”) (16%) and Zoll Lifecor Corporation (“Zoll”) (14%) in the 2014 fiscal year, and in fiscal 2013 GE (15%). Two customers represented 10% or more of receivables at September 30, 2014. One customer in the industrial sector and one customer in the medical sector together accounted for 33% of outstanding balances. At September 30, 2013, one customer in the aerospace & defense market sector represented 10% or more of receivables and accounted for 13% of such outstanding balances.

Backlog

Our backlog at the end of fiscal 2014 was 20.8% higher than at the end of fiscal 2013. We closed the year with a backlog of \$105.3 million as compared to \$87.2 million in fiscal 2013. Backlog consists of two categories: purchase orders and firm forecasted commitments. In addition to fulfilling orders and commitments contained in quarter-end backlog reports, we also receive and ship orders within each quarter that do not appear in the period end backlog reports. Variations in the magnitude and duration of contracts as well as customer delivery requirements may result in fluctuations in backlog from period to period. Approximately \$93.4 million of our backlog at September 30, 2014 is expected to be shipped within fiscal 2015, with the remainder expected to ship in future years.

Governmental Regulation

Our operations are subject to certain United States government regulations that control the export and import of defense-related articles and services, as well as federal, state and local regulatory requirements relating to environmental protection, waste management, and employee health and safety matters. Management believes that our business is operated in substantial compliance with all applicable laws and governmental regulations. While current costs of compliance, including compliance with environmental laws, are not material, our expenses could increase if new laws, regulations or requirements were to be introduced. Some of our medical and other customers are highly regulated. Any failure to comply by them, related to products we produce for them, can delay or disrupt their orders from us.

Employees

Employees are our single greatest resource, and the Company added 43 employees during fiscal 2014. IEC’s total employees numbered 994 at September 30, 2014, all of which are full-time. Some of our full-time employees are temporary. None of our employees are covered by a collective bargaining agreement, nor have we experienced any work stoppages. We make a concerted effort to engage our employees in initiatives that improve our business and their opportunities for growth, and we believe that our employee relations are good. We have access to large and technically qualified workforces in close proximity to all of our operating locations: Rochester and Syracuse, NY; Albuquerque, NM; and Los Angeles, CA.

Patents and Trademarks

We hold two patents related to counterfeit detection, one of which is not yet published. We employ various registered trademarks. We do not believe that either patent or trademark protection is material to the operation of our business.

Item 1A. RISK FACTORS

THE RESTATEMENT OF OUR FINANCIAL STATEMENTS COULD NEGATIVELY IMPACT OUR BUSINESS, REPUTATION AND FINANCIAL CONDITION. As discussed in the Explanatory Note as well as “Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve” in this Annual Report on Form 10-K/A, we restated our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, and our unaudited interim consolidated financial statements included in our Quarterly Reports on

Form 10-Q for the fiscal quarters ended December 27, 2013, March 28, 2014 and June 27, 2014 (the “2014 Restatements”). The 2014 Restatements relate to an error made in the valuation allowance on deferred income tax assets and an error made in the estimation of excess and obsolete inventory reserves at two operating locations, as further discussed in Note 3. The 2014 Restatements may, among other impacts, affect investor confidence in the accuracy of our financial disclosures and may raise reputational issues for our business. The restatement process was highly time and resource-intensive and involved a significant amount of attention from management as well as significant legal and accounting costs. Although we have completed the 2014 Restatements, we continue to be subject to a formal investigation by the SEC staff in connection with the prior restatement discussed in Note 2—Prior Restatement of SCB Work-In-Process Inventory to the consolidated financial statements in this Annual Report on Form 10-K/A (the "Prior Restatement" and, together with the 2014 Restatements, the “Restatements”). We could be subject to additional shareholder, governmental, or other actions in connection with the Restatements or other matters, and the 2014 Restatements could result in the delisting of our stock from the NYSE MKT if the NYSE MKT does not concur that we have regained compliance with the NYSE MKT listing standards or our listing agreement with the NYSE MKT. Any such proceedings will, regardless of the outcome, consume a significant amount of our internal resources and result in additional legal, accounting, insurance and other costs. In addition, the Restatements and related matters could impair our reputation, could cause our customers, including the government contractors with which we deal, to lose confidence in us or cause a default under our contractual arrangements with those customers, and could make it more difficult to attract and retain qualified individuals to serve on the board of directors or as executive officers. Each of these occurrences could have a material adverse effect on our business, results of operations, financial condition and stock price and could cause a default under the Company’s arrangements with Manufacturers and Traders Trust Company (“M&T Bank”) with respect to which, if M&T Bank chooses to exercise its remedies, the Company may not be able to obtain replacement financing or continue its operations.

IF WE ARE UNABLE TO MAINTAIN EFFECTIVE INTERNAL CONTROL OVER OUR FINANCIAL REPORTING, THE REPUTATIONAL EFFECTS COULD MATERIALLY ADVERSELY AFFECT OUR BUSINESS. Under the provisions of Section 404(a) of the Sarbanes-Oxley Act of 2002, as amended by the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted rules requiring public companies to perform an evaluation of Internal Control over Financial Reporting (Internal Controls) and to report on our evaluation in our Annual Report on Form 10-K. As discussed in greater detail in Item 9A of our Annual Report on Form 10-K/A filed July 3, 2013 with the SEC, we identified a material weakness in our Internal Controls resulting in restatement of its consolidated financial statements for fiscal 2012, related quarterly periods, and the first quarter of fiscal 2013. We consider this material weakness to have been fully remediated. As discussed in greater detail in Item 9A of this Annual Report on Form 10-K/A, we have identified two material weaknesses in our Internal Controls resulting in the 2014 Restatements. If our remediation of such reported material weaknesses is ineffective, or if in the future we are unable to maintain effective Internal Controls, additional resulting material restatements could occur, regulatory actions could be taken, and a resulting loss of investor confidence in the reliability of our financial statements could materially adversely affect the value of our common stock. We have been and may be required to expend substantial funds and resources in order to rectify any deficiencies in our Internal Controls. Further, if lenders lose confidence in the reliability of our financial statements, it could have a material adverse effect on our ability to fund our operations.

OUR COMMON STOCK COULD BE DELISTED FROM THE NYSE MKT. On February 10, 2015, we received a deficiency notice from the NYSE MKT notifying us that we are not in compliance with Sections 134 and 1101 of the NYSE MKT’s Company Guide as a result of our failure to file our quarterly report on Form 10-Q for the quarter ended December 26, 2014 by the requisite deadline of the SEC. In addition, the NYSE MKT asserted that our failure to timely file the Quarterly Report is a material violation of our listing agreement with the NYSE MKT. We were unable to file the 10-Q with the SEC due to the 2014 Restatements. On February 10, 2015, we were notified by NYSE MKT that we were required to submit our plan to regain compliance with the continued listing standards by May 11, 2015. We submitted such plan on February 24, 2015. If we are not in compliance with the continued listing standards of the Company Guide by May 11, 2015, or if the Company is not making progress consistent with the plan, then we may be

subject to delisting procedures.

If we are delisted from the NYSE MKT, our stockholders may face material adverse consequences, including, but not limited to, a decrease in the price of our common stock, a lack of trading market for our common stock, reduced liquidity, decreased analyst coverage of our securities, and an inability to obtain additional financing to fund our operations. In addition, delisting from the NYSE MKT might negatively impact our reputation and, as a consequence, our business. There can be no assurance that our common stock will remain listed on the NYSE MKT.

IF OUR COMMON STOCK WERE DELISTED FROM THE NYSE MKT, WE WOULD NO LONGER BE SUBJECT TO THE NYSE MKT RULES, INCLUDING RULES LIMITING THE NUMBER OF SHARES WE MAY ISSUE WITHOUT SHAREHOLDER APPROVAL AND CERTAIN CORPORATE GOVERNANCE STANDARDS. Our ability to issue common stock currently is limited by the NYSE MKT's shareholder approval requirements. For example, the NYSE MKT requires that we obtain shareholder approval before issuing 20% or more of our common stock in an acquisition. We also must generally seek shareholder approval before issuing 20% or more of our common stock in a financing transaction, unless the transaction satisfies certain pricing requirements or is considered a "public offering" by the NYSE MKT staff. If our common stock is delisted from the NYSE MKT, we would no longer be subject to such shareholder approval requirements, and

we could issue shares in excess of 20% of our outstanding shares in acquisitions or financing transactions without shareholder approval. Any such issuance would dilute the ownership of our current stockholders. In addition, following a delisting of our common stock, we would no longer be subject to the NYSE MKT rules requiring us to meet certain corporate governance standards, which could decrease investor interest in our common stock.

THE AGREEMENTS GOVERNING OUR DEBT CONTAIN VARIOUS COVENANTS THAT MAY CONSTRAIN THE OPERATION OF OUR BUSINESS, AND OUR FAILURE TO COMPLY WITH THESE COVENANTS MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION. The agreements and instruments governing our secured bank credit facility with M&T Bank (“Credit Facility”) and other existing debt contain various covenants that, among other things, require us to comply with certain financial covenants including maintenance of minimum earnings before interest, taxes, depreciation, amortization, rent payments and stock compensation expense (“EBITDARS”), limits on the ratio of debt to EBITDARS, and maintenance of a fixed charge coverage ratio (collectively, “Financial Covenants”). The agreements and instruments governing the Credit Facility require financial and other reporting, contain limitations on revolving loan borrowings and restrict or limit our ability to:

- incur debt
- incur or maintain liens
- make acquisitions of businesses or entities
- make investments, loans or advances
- enter into guarantee agreements
- engage in mergers, consolidations or certain sales of assets
- engage in transactions with affiliates
- pay dividends or engage in stock redemptions or repurchases
- make capital expenditures

The Credit Facility is secured by a general security agreement covering the assets of the Company and its subsidiaries, a pledge of the Company’s equity interest in its subsidiaries, a negative pledge on the Company’s real property, and a guarantee by the Company’s subsidiaries, all of which restrict use of these assets to support other financial instruments.

In connection with the Prior Restatement and the 2014 Restatements described above in “The Restatement Of Our Financial Statements Could Negatively Impact Our Business, Reputation and Financial Condition ” (the “Restatement Risk Factor”), M&T Bank has waived the defaults under the Credit Facility caused by (i) our failure to provide financial statements in accordance with generally accepted accounting principles, (ii) our non-compliance with Financial Covenants, and (iii) our failure to timely deliver financial statements as further described in Note 9—Credit Facilities to the consolidated financial statements in this Annual Report on Form 10-K/A. M&T Bank also amended the Financial Covenants for measurement periods starting with the fiscal quarter ending June 28, 2013. In connection with each of our 2013 fiscal year end and 2014 first fiscal quarter end, M&T Bank further waived compliance with, and further amended, certain Financial Covenants as described in “Note 9—Credit Facilities”. These waivers and amendments have increased our borrowing costs through covenant waiver fees, other related fees and increased interest rates. To the extent we are required to seek additional waivers and/or amendments, we may continue to experience increased borrowing costs. If the Company is not in compliance with all of our debt covenants, and if M&T Bank chooses to exercise its remedies, M&T Bank could accelerate our primary indebtedness which could cause cross-defaults with respect to other obligations, causing a material adverse effect on our financial condition including, our inability to obtain replacement financing or continue operations. Our ability to comply with covenants contained in our Credit Facility and other existing debt may be affected by matters described in the Restatement Risk Factor as well as events beyond our control, including prevailing economic, financial and industry conditions.

OUR OPERATING RESULTS MAY FLUCTUATE FROM PERIOD TO PERIOD. Our annual and quarterly operating results may fluctuate significantly depending on various factors, many of which are beyond our control. These factors may include, but are not necessarily limited to:

- adverse changes in general economic conditions
- natural disasters that may impede our operations, the operation of our customers' business, or availability of manufacturing inputs from our suppliers
- the level and timing of customer orders and the accuracy of customer forecasts
- the capacity utilization of our manufacturing facilities and associated fixed costs
- price competition
- market acceptance of our customers' products
- business conditions in our customers' end markets
- our level of experience in manufacturing a particular product
- changes in the mix of sales to our customers
- variations in efficiencies achieved in managing inventories and fixed assets

- fluctuations in cost and availability of materials
- timing of expenditures in anticipation of future orders
- changes in cost and availability of labor and components
- our effectiveness in managing the high reliability manufacturing process required by our customers
- failure or external breach of our information technology systems

The EMS industry is affected by the United States and global economies, both of which are influenced by world events. An economic slowdown, particularly in the industries we serve, may result in our customers reducing their forecasts or delaying orders. The demand for our services could weaken, which in turn could substantially influence our sales, capacity utilization, margins and financial results. Recent periods in which EMS sales were adversely affected included 2008-2010 when reduced availability of capital to fund existing and emerging technologies forced some firms to contract or to seek strategic alliances and Department of Defense spending reductions resulting from sequestration and a partial government shut-down during 2013.

WE DEPEND ON A RELATIVELY SMALL NUMBER OF CUSTOMERS, THE LOSS OF ONE OR MORE OF WHOM MAY NEGATIVELY AFFECT OUR OPERATING RESULTS. A relatively small number of customers are responsible for a significant portion of our net sales. During fiscal 2014 and 2013, our five largest customers accounted for 50% and 46% of net sales, respectively. During the same two years, our single largest customer accounted for 16% and 15% of net sales, respectively. The percentage of IEC's sales to its major customers may fluctuate from period to period, and our principal customers may also vary from year to year. Significant reduction in sales to any of our major customers, or the loss of a major customer, could have a material adverse effect on our results of operations and financial condition.

We rely on the continued growth and financial stability of our customers, including our major customers. Adverse changes in the end markets they serve can reduce demand from our customers in those markets and/or make customers in these end markets more price sensitive. Further, mergers or restructurings among our customers, or their end customers, could increase concentration or reduce total demand as the combined entities reevaluate their business and consolidate their suppliers. Future developments, particularly in those end markets that account for more significant portions of our revenues, could harm our business and our results of operations.

Because of this concentration in our customer base, we have significant amounts of trade accounts receivable from some of our customers. If one or more of our customers experiences financial difficulty and is unable to provide timely payment for the services provided, our operating results and financial condition could be adversely affected.

In addition, consolidation among our customers could intensify this concentration and adversely affect our business. In the event of consolidation among our customers, depending on which organization controls the supply chain function following the consolidation, we may not be retained as a preferred or approved supplier. In addition, product duplication could result in the termination of a product line that we currently support. While there is potential for increasing our position with the combined customer, our revenues could decrease if we are not retained as a continuing supplier. Even if we are retained as a supplier, we may also face the risk of increased pricing pressure from the combined customer because of its increased market share.

WE PARTICIPATE IN THE ELECTRONICS INDUSTRY, WHICH HISTORICALLY PRODUCES TECHNOLOGICALLY ADVANCED PRODUCTS WITH SHORT LIFE CYCLES. Factors affecting the electronics industry in general could seriously harm our customers and, as a result, us. These factors may include, but may not be limited to:

- the inability of our customers to adapt to rapidly changing technology and evolving industry standards, which result in short product life cycles
- the inability of our customers to develop and market their products, some of which are new and untested

increased competition among our customers and their competitors, including downward pressure on pricing
the potential that our customers' products may become obsolete, or the failure of our customers' products to gain
anticipated commercial acceptance
periods of significantly decreased demand in our customers' markets

SINCE A SIGNIFICANT PORTION OF OUR BUSINESS IS DEFENSE-RELATED, REDUCTIONS OR DELAYS IN UNITED STATES DEFENSE SPENDING MAY MATERIALLY ADVERSELY AFFECT IEC'S REVENUES.

During fiscal years 2014 and 2013, our sales to customers serving the military and aerospace industries approximated 49% and 51% of our sales, respectively. Because these products and services are ultimately sold to the U.S. government by our customers, these sales are affected by, among other things, the federal budget process, which is driven by numerous factors beyond our control, including geo-political, macroeconomic and political conditions. The contracts between our direct customers and their government customers are subject to political and budgetary constraints and processes, changes in short-range and long-range strategic plans, the timing of contract awards, the congressional budget authorization and appropriation processes, the government's ability to terminate contracts for convenience or for default, as well as other risks such as contractor suspension or debarment in the event of certain violations of legal and regulatory requirements.

While we believe that our customers' programs are well aligned with national defense and other priorities, shifts in domestic and international spending and tax policy, changes in security, defense, and intelligence priorities, the affordability of our products and services, general economic conditions and developments, and other factors may affect a decision to fund or the level of funding for existing or proposed programs. An impasse in federal budget decision-making could lead to substantial delays or reductions in federal spending. For example, as a result of inability of the U.S. Government to reach agreement on budget reduction measures required by the Budget Control Act of 2011, sequestration triggered very substantial automatic spending reductions beginning in January 2013, divided between defense and domestic spending over a nine-year period. As a result, U.S. Government funding for certain of our customers has been and could continue to be reduced, delayed or eliminated, which could significantly impact these customers' demand for our products and services and if so this could have a material adverse effect on our business, results of operations and cash flows.

OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION MAY BE MATERIALLY ADVERSELY AFFECTED BY GLOBAL ECONOMIC AND FINANCIAL MARKET CONDITIONS. Current global economic and financial market conditions, including the slow recovery from the global economic recession or the onset of another recession, may materially and adversely affect our results of operations and financial condition. These conditions may also materially impact our customers and suppliers. Economic and financial market conditions that adversely affect our customers may cause them to terminate or delay existing purchase orders or to reduce the volume of products they purchase from us in the future. We may be owed significant balances from customers that operate in cyclical industries and under leveraged conditions that could impair their ability to pay amounts owed to IEC on a timely basis. Failure to collect a significant portion of those receivables could have a material adverse effect on our results of operations and financial condition.

Similarly, adverse changes in credit terms extended to us by our suppliers, such as shortening the required payment period for outstanding accounts payable or reducing the maximum amount of trade credit available to us could significantly affect our liquidity and thereby have a material adverse effect on our results of operations and financial condition.

If we are unable to successfully anticipate changing economic and financial market conditions, we may be unable to effectively plan for and respond to those changes, and our operating results could be materially adversely affected.

START-UP COSTS AND INEFFICIENCIES RELATED TO NEW OR TRANSFERRED PROGRAMS CAN MATERIALLY ADVERSELY AFFECT OUR OPERATING RESULTS AND MAY NOT BE RECOVERABLE.

Our long term success depends in part upon our ability to support our customers as they bring new products and programs to market, or transfer programs to us. Often these products and programs have technological issues and require, or our customers desire, engineering and other changes and innovations in order to facilitate full-scale production and end-user acceptance. Although some of these programs, particularly in the defense and space industries, once mature, will likely profitably extend over many years and will be difficult to transfer to our competitors, we may have to make significant upfront investments in them that may be recovered only over the longer term. These investments may have a significant impact on our profitability in nearer term periods. Moreover, start-up costs, including the management of labor and equipment resources in connection with establishing new programs and new customer relationships; and difficulties in estimating required resources and the timing of those resources in advance of production, can adversely affect our operating results. If new programs or customer relationships are terminated or delayed, our operating results may be materially adversely affected, particularly in the near term, as we may not recoup those start-up costs or quickly replace anticipated new program revenues.

SOME OF OUR CUSTOMERS MAY HAVE REGULATORY ISSUES THAT ADVERSELY AFFECT OUR OPERATING RESULTS. Some of our larger customers are in heavily regulated industries, such as health care. If

they encounter issues with their regulators related to products we manufacture for them, there may be long delays in resolving those issues or the issues may not be resolved at all, which would adversely affect our operating results.

MOST OF THE CUSTOMERS IN OUR INDUSTRY DO NOT COMMIT TO LONG-TERM PRODUCTION SCHEDULES, WHICH CAN MAKE IT DIFFICULT FOR US TO SCHEDULE PRODUCTION. Customers may cancel their orders, change production quantities or delay production for any number of reasons that are beyond our ability to foresee or control. Although we are always seeking new opportunities, we may not be able to replace any deferred, reduced or cancelled orders. Cancellations, reductions or delays by a significant customer or by a group of customers could adversely affect our operating results and working capital levels. Such cancellations, reductions or delays have occurred and may occur again. The volume and timing of sales to our customers may vary due to:

- variation in demand for our customers' products in their end markets
- actions taken by our customers to manage their inventory
- product design changes by our customers
 - changes in our customers' manufacturing strategy

Due in part to these factors, most of our customers do not commit to firm, long-term production schedules. Therefore, we make significant judgments based on our estimates of customer requirements, including:

- deciding on the levels of business that we will seek
- production schedules
- component procurement commitments
- equipment requirements
- personnel needs
- other resource requirements

The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products reduce our ability to accurately estimate and forecast the future requirements of those customers. Since many of our costs and operating expenses are relatively fixed, a reduction in customer demand can adversely affect our revenue and operating results.

INCREASED COMPETITION MAY RESULT IN DECREASED DEMAND OR REDUCED PRICES FOR OUR PRODUCTS AND SERVICES. The EMS industry is highly fragmented and characterized by intense competition. We may be operating at a cost disadvantage compared to larger EMS providers who have greater direct buying power from component suppliers, distributors and raw material suppliers or who have lower cost structures as a result of their geographic location. As a result, other EMS providers may have a competitive advantage. Our manufacturing processes are generally not subject to significant proprietary protection, and companies with greater resources or a greater market presence may enter our market or increase their competition with us. We also expect our competitors to continue to improve the performance of their current products or services, to reduce the prices of their products or services and to introduce new products or services that may offer greater performance and improved pricing. Any of these factors may cause a decline in our sales, loss of market acceptance for our products or services, profit margin compression, or loss of market share.

DIFFICULTIES IN INTEGRATING ACQUIRED OPERATIONS MAY MATERIALLY ADVERSELY AFFECT OPERATING RESULTS. We completed acquisitions of SCB in fiscal 2011 and Albuquerque and Celmet in fiscal 2010, and we may continue to acquire additional businesses in the future. Acquisitions involve risks that may include, but not be limited to:

- failure to integrate operations
- loss of key personnel
- exposure to information technology infrastructure weaknesses of acquired companies
- failure to integrate information systems
- failure to establish management, financial and operational controls such as adequate accounts receivable and inventory control processes
- failure to retain the customer base of acquired businesses
- failure to achieve initial projections established at acquisition date, including within anticipated time periods
 - diversion of management's attention from other ongoing business concerns
- exposure to unanticipated liabilities of acquired companies
- additional costs and start-up inefficiencies

These and other factors could affect our ability to achieve expected levels of profitability or to realize other anticipated benefits of an acquisition, could require us to recognize an impairment of goodwill and long lived assets, including intangibles, and could have a material adverse effect on our operating results, as we have experienced.

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

Much of our net revenue is derived from turn-key manufacturing for which we provide the materials specified by our customers. Some of our customer agreements permit periodic adjustments to pricing based on increases or decreases in component prices and other factors. However, we typically bear the risk of component price increases that occur between any such re-pricing dates or, if such re-pricing is not permitted during the balance of the term of a particular customer agreement. As a result, some component price increases may materially adversely affect our operating results, if we cannot increase prices enough to offset increased costs or if increased prices lead to cancelled orders.

Many of the products we manufacture require one or more components that are available from a limited number of suppliers. In response to supply shortages, some of these components are from time to time subject to allocation limits. In some cases, supply shortages or delayed deliveries could substantially curtail production of those assemblies requiring a limited-supply component, which could contribute to an increase in our inventory levels, and could delay shipments to customers and the associated revenue of all products using that component. Component shortages have been prevalent in our industry, and such shortages may recur. An increase in economic activity could result in shortages if manufacturers of components do not

adequately anticipate increased order volume or if they have excessively reduced their production capabilities. World events, armed conflict, governmental regulation, natural disaster, and epidemics could also affect our supply chain, leading to an inability to obtain sufficient components on a timely basis.

In addition, due to the specialized nature of some components and our customers' product specifications, we may be required to use sole-source suppliers for certain components. Such suppliers may encounter financial or operational difficulties that could cause delays in or the curtailment of component deliveries.

OUR TURN-KEY MANUFACTURING SERVICES INVOLVE INVENTORY RISK. Our turn-key manufacturing services described above involve a greater investment in inventory and a corresponding increase in risk as compared to consignment services, for which the customer provides all materials. For example, in our turn-key operations, we must frequently order parts and supplies in minimum lot sizes that may be larger than the quantity of product ultimately needed for our customers. Customers' cancellation or reduction of orders could result in additional expense to us. If we are not reimbursed for excess inventory ordered to meet customer forecasts, we may accumulate excess inventory and/or incur return charges imposed by suppliers. In addition, component price increases and inventory obsolescence associated with turn-key orders could adversely affect our operating results.

Furthermore, we provide inventory management programs for some of our customers under which we are required to hold and manage finished goods inventories. Such inventory management programs may lead to higher finished goods inventory levels, reduced inventory turns and increased financial exposure. In cases where customers have contractual obligations to purchase managed inventories from us, we remain subject to the risk of enforcing the obligation.

PRODUCTS WE MANUFACTURE MAY CONTAIN DEFECTS IN WORKMANSHIP, WHICH COULD RESULT IN REDUCED DEMAND FOR OUR SERVICES AND PRODUCT LIABILITY CLAIMS AGAINST US. We manufacture highly complex products to our customers' specifications, often within tight tolerance ranges, and such products may contain design or manufacturing errors or defects. Defects in the products we manufacture, whether caused by customer design, workmanship, component failure or other error, may result in delayed shipments to customers or reduced or cancelled customer orders, adversely affecting our reputation and may result in product liability claims against us. Even if customers or component suppliers are responsible for the defects, they may be unwilling or unable to assume responsibility for costs associated with product failure.

OUR OPERATING RESULTS MAY BE ADVERSELY AFFECTED BY NEW REGULATIONS RELATING TO THE SOURCING OF CERTAIN RAW MATERIALS. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") contains provisions to improve the transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo and adjoining countries. As a result, the SEC established new annual disclosure and reporting requirements for those companies who use "conflict" minerals mined from those countries in their products. As these new requirements are implemented, they could affect the sourcing and availability of minerals used in our manufacturing processes. As a result, we may not be able to obtain products at competitive prices and there are additional costs associated with complying with the SEC's new due diligence procedures and disclosure requirements. Also, since our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins for all metals used in our products through the due diligence procedures that we implement. We may also encounter challenges to satisfy those customers who require that all of the components of our products are certified as conflict-free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier.

DAMAGE TO OUR MANUFACTURING FACILITIES DUE TO FIRE, NATURAL DISASTER, OR OTHER EVENTS COULD HARM OUR FINANCIAL RESULTS. At September 30, 2014, we have four manufacturing and assembly facilities. The destruction or closure of any of our facilities for a significant period of time as a result of fire, explosion, blizzard, act of war or terrorism, flood, tornado, earthquake, lightning, other natural disasters, required

maintenance or other events could harm us financially, increasing our costs of doing business and limiting our ability to deliver our manufacturing services on a timely basis. Our insurance coverage with respect to damages to our facilities or our customers' products caused by natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate or continue to be available at commercially reasonable rates and terms.

If one or more of our facilities is closed on a temporary or permanent basis as a result of a natural disaster, required maintenance or other event, our operations could be significantly disrupted. Such events could delay or prevent product manufacturing and shipment for the time required to transfer production to another facility or to repair, rebuild and/or replace the affected manufacturing facility. This time period could be lengthy and could result in significant expenses for repair and related costs. While we have established disaster recovery plans, such plans may not be sufficient to allow our operations to continue in the event of every natural or man-made disaster, pandemic, required repair or other extraordinary event. Any

extended inability to continue our operations at unaffected facilities following such an event would reduce our revenue and potentially damage our reputation as a reliable supplier.

IF WE ARE UNABLE TO MAINTAIN SATISFACTORY CAPACITY UTILIZATION RATES, OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION WOULD BE ADVERSELY AFFECTED. Given the high fixed costs of our operations, decreases in capacity utilization rates can have a significant effect on our business. Accordingly, our ability to maintain or enhance gross margins continues to depend, in part, on maintaining satisfactory capacity utilization rates. In turn, our ability to maintain satisfactory capacity utilization depends on the demand for our products, the volume of orders we receive, and our ability to offer products that meet our customers' requirements at competitive prices. If current or future production capacity fails to match current or future customer demands, our facilities would be underutilized, our sales may not fully cover our fixed overhead expenses, and we would be less likely to achieve anticipated gross margins. If forecasts and assumptions used to support the implied fair value of goodwill or realizability of our long-lived assets including intangible assets change, we may incur significant impairment charges, which would adversely affect our results of operations and financial condition, as we have experienced.

In addition, we generally schedule our production facilities at less than full capacity to retain our ability to respond to unexpected additional quick-turn orders. However, if these orders are not received, we may forego some production and could experience continued excess capacity. If we conclude that we have significant, long-term excess capacity, we may decide to permanently close one or more of our facilities, and lay off some of our employees. Closures or lay-offs could result in our recording restructuring charges such as severance and other exit costs, and asset impairments.

IF OUR CUSTOMERS CHOOSE TO PROVIDE MANUFACTURING SERVICES IN-HOUSE OR OVERSEAS, OUR RESULTS OF OPERATIONS COULD SUFFER. Our business has benefited from OEMs deciding to outsource their EMS needs to us. Our future revenue growth depends, in part, on new outsourcing opportunities from OEMs. Current and prospective customers continuously evaluate our performance against other providers, including off-shore procurement opportunities. They also evaluate the potential benefits of manufacturing their products themselves. To the extent that outsourcing opportunities are not available either due to OEM decisions to produce these products themselves or to use other domestic or foreign providers, our financial results and prospects could be materially adversely affected.

WE MAY NOT BE ABLE TO MAINTAIN THE ENGINEERING, TECHNOLOGICAL AND MANUFACTURING CAPABILITIES REQUIRED BY OUR CUSTOMERS IN THE FUTURE. The markets for our manufacturing and engineering services are characterized by rapidly changing technology and evolving process development. The continued success of our business will depend upon our ability to:

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

Although we believe that our operations provide the assembly and testing technologies, equipment and processes that are currently required by our customers, there is no certainty that we will develop the capabilities required by our customers in the future. The emergence of new technology, industry standards or customer requirements may render our equipment, inventory or processes obsolete or uncompetitive; or we may have to acquire new assembly and testing technologies and equipment to remain competitive. The acquisition and implementation of new technologies and equipment may require significant expense or capital investment that could adversely affect our operating results, as could our failure to anticipate and adapt to our customers' changing technological requirements.

FAILURE TO ATTRACT AND RETAIN KEY PERSONNEL AND OTHER SKILLED EMPLOYEES COULD MATERIALLY ADVERSELY AFFECT OUR BUSINESS. Our continued success depends to a large extent on our ability to recruit, train, and retain skilled employees, particularly executive management and technical employees. The competition for these individuals is significant; hence the loss of the services of certain of these key employees or an inability to attract or retain qualified employees could negatively impact us.

FAILURE TO COMPLY WITH CURRENT AND FUTURE GOVERNMENTAL REGULATIONS RELATED TO DEFENSE, HEALTH AND SAFETY AND THE ENVIRONMENT COULD IMPAIR OUR OPERATIONS OR CAUSE US TO INCUR SIGNIFICANT EXPENSE. We are subject to a variety of United States government regulations that control the export and import of defense-related articles and services, as well as federal, state and local regulatory requirements relating to employee occupational health and safety, and environmental and waste management regulations relating to the use, storage, discharge and disposal of hazardous materials used in our manufacturing process. To date, the cost to the Company of such compliance has not had a material impact on our business, financial condition or results of operations. However, violations may occur in the future as a result of human error, equipment failure or other causes. Further, we cannot predict the nature, scope or effect of environmental legislation or regulatory requirements that could be imposed in the future, or how existing or

future laws or regulations will be administered or interpreted. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require substantial expenditures by the Company and could have a material adverse effect on our business, financial condition and results of operations. If we fail to comply with any present or future regulations, we could be subject to future liabilities or the suspension of production which could have a material adverse effect on our results of operations. While we are not currently aware of any violations, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment, or to incur other significant compliance-related expenses.

RECENT AND FUTURE CHANGES IN SECURITIES LAWS AND REGULATIONS MAY INCREASE COSTS.

As a U.S. public company registered with the SEC under the Exchange Act, we incur significant legal, financial, accounting and other expenses. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and listing requirements subsequently adopted by the NYSE MKT in response to the Sarbanes-Oxley Act, have required changes in internal control and disclosure control policies and procedures, and audit committee practices of most public companies. More recently, the Dodd-Frank Act has required and will require changes to our compliance practices and SEC reporting. These and future developments also may result in the Company having difficulty attracting and retaining qualified individuals to serve on the board of directors or as executive officers, and could increase the difficulty and expense involved in retaining third-party advisers, such as compensation consultants. We expect to incur increased costs associated with the compliance and implementation of procedures under these and future laws, regulations and listing requirements, including additional legal, financial and accounting costs, which could have a material adverse effect on our results of operations.

A FAILURE OF OUR INFORMATION TECHNOLOGY SYSTEMS COULD MATERIALLY ADVERSELY AFFECT OUR BUSINESS. A failure or prolonged interruption in our information technology systems, some of which are aging, or difficulties encountered in upgrading our systems or implementing new systems, that compromises our ability to meet our customers' needs, or impairs our ability to record, process and report accurate information could have a material adverse effect on our financial condition.

SECURITY BREACHES AND OTHER DISRUPTIONS COULD COMPROMISE OUR INFORMATION, HARM CUSTOMER RELATIONSHIPS AND EXPOSE US TO LIABILITY, WHICH WOULD CAUSE OUR BUSINESS AND REPUTATION TO SUFFER. We have access to, create and store sensitive data, including intellectual property, our proprietary business information and that of our customers, and personally identifiable information of our employees. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be improperly accessed, disclosed, lost or stolen. Any such access, disclosure or other loss of information could disrupt our operations and the services we provide to customers, damage our reputation or our customer relationships, impair our ability to record, process and report accurate information to our stockholders and the SEC, or result in legal claims or proceedings, any of which could adversely affect our business, financial condition, revenues and competitive position.

OUR STOCK PRICE MAY BE VOLATILE DUE TO FACTORS BEYOND OUR CONTROL. Our common stock is traded on the NYSE MKT. The market price of our common stock has fluctuated substantially in the past and could fluctuate substantially in the future, based on a variety of factors, including future announcements concerning us or our key customers or competitors, governmental regulations, litigation and/or regulatory investigations and other proceedings, fluctuations in quarterly operating results, thin trading volume, general conditions in the EMS industry and economy in general, and other Risk Factors set forth above.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

18

Item 2. PROPERTIES

We own or lease properties in four locations that together house our administrative offices (“AO”), engineering (“E”), manufacturing (“M”), warehouse (“W”) and distribution (“D”) functions, as follows:

Location	Principal Use	Building SF	Owned/Leased	Lease Expiration
Newark, New York	AO,E,M,W,D	235,000	Owned	N/A
Rochester, New York	M,W,D	47,000	Owned	N/A
Albuquerque, New Mexico	AO,E,M,W,D	72,000	Owned	N/A
Bell Gardens, California	AO,E,M,W,D	42,000	Leased	September 30, 2018

Our properties are generally in good condition and are suitable for their intended purpose. Wire and Cable’s operations that were previously conducted at the Victor, New York facility were consolidated to the Newark, New York facility during November 2012. The Victor, New York facility’s lease expired in December 2012. During fiscal 2014, we purchased the Rochester, New York property.

Item 3. LEGAL PROCEEDINGS

As discussed in “Note 2—Prior Restatement of SCB Work-In-Process Inventory” to the consolidated financial statements included in this Form 10-K/A, the Company restated its financial statements, (the "Prior Restatement"). In connection with the Prior 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 Prior Restatement and other matters. The Company is unable to predict what action, if any, might be taken in the future by the SEC or its staff as a result of the investigation or what impact the cost of responding to the SEC might have on the Company’s financial position, results of operations, or cash flows. The previously reported amended complaint in the 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 was dismissed in its entirety without right to replead. The Court’s opinion and order granting the motion to dismiss was issued on September 11, 2014, and the judgment dismissing the complaint and closing the case was entered on September 12, 2014.

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-K/A, individually or in the aggregate, will have material adverse effect on the Company’s consolidated financial position.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

IEC’s executive officers at September 30, 2014 were as follows:

	Age	
W. Barry Gilbert	68	Chief Executive Officer and Chairman of the Board
Michael T. Williams	47	Vice President, Finance and Chief Financial Officer
Brett E. Mancini	45	Vice President of Business Development and Engineering Services

W. Barry Gilbert, age 68, has served as IEC's Chief Executive Officer since January 2004, and served as Acting Chief Executive Officer from June 2002 until that time. He has served on the board of directors of IEC since February 1993, and Chairman of the Board since February 2001. He is an adjunct faculty member at the Simon School of Business of the University of Rochester. Mr. Gilbert previously held the position of President of the Thermal Management Group of Bowthorpe Plc. (now known as Spirent Plc.) and was corporate Vice President and President of the Analytical Products Division of Milton Roy Company, a manufacturer of analytical instrumentation. He holds a Masters of Business Administration degree from the Simon School of Business at the University of Rochester.

Michael T. Williams, age 47, has served as IEC's Vice President, Finance since February 2014 and was appointed as Chief Financial Officer in June 2014. Previously, he was employed by Bausch & Lomb, Inc. from 1995 through October, 2013, and most recently served as Vice President Finance & Controller for its \$1.3 billion Global Vision Care Business. From February, 2008 to September, 2012, he served as Controller, Global Surgical Business, Bausch & Lomb, Inc.'s \$500 million global

medical device business. Prior to that time he served in varying capacities including among others Executive Commercial Director for the U.S. Refractive Business, Director of Finance, U.S. Surgical Business., Controller, U.S. Vision Care Business and Controller, European Logistics Center. After October 2013, Mr. Williams served as a consultant with JC Jones & Associates, LLC, a business and financial consulting firm. Mr. Williams holds a Masters of Business Administration degree from the Simon School of Business at the University of Rochester and is a certified public accountant.

Brett E. Mancini, age 45, joined the Company in 2008. He has served as Vice President of Business Development and Engineering Solutions for the Company since February 2014, having previously served as Director, Customer Management, Vice President, Customer Management and Vice President, Customer Management and Sales. Before joining the Company, he had management positions in the contract manufacturing industry, including between 1995 and 2002 as Strategic Account Manager, Business Unit Manager and Engineering Manager with Solectron Corporation (which was subsequently acquired by Flextronics International Ltd.), and as Account Executive with Plexus Corp. between 2002 and 2008. He holds a Master of Science in Engineering Management from Kansas State University.

PART II

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

(a) Market Information

IEC's common stock trades on the NYSE MKT, LLC ("NYSE MKT") under the symbol "IEC".

The following table sets forth, for the fiscal quarters indicated, the high and low sales prices for IEC's common stock as reported on the NYSE MKT.

IEC Closing Stock Prices	Low	High
Fiscal Quarters		
Fourth 2014	\$3.97	\$4.99
Third 2014	4.25	4.62
Second 2014	3.89	4.71
First 2014	3.67	4.64
Fourth 2013	\$3.09	\$4.07
Third 2013	2.92	5.90
Second 2013	5.03	7.20
First 2013	6.50	7.35

IEC's closing price on the NYSE MKT on November 18, 2014, was \$5.36 per share.

(b) Holders

As of November 18, 2014, there were approximately 177 holders of record of IEC's common stock. This figure does not include an estimate of the indeterminate number of beneficial holders whose shares may be held of record by brokerage firms and clearing agencies.

(c) 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, certain covenants in IEC's credit agreement with M&T Bank includes certain restrictions on the Company's ability to pay cash dividends. The Company does not expect to pay cash dividends on shares of its common stock in the foreseeable future.

(d) Issuance of Unregistered Securities

20

None

(e) Repurchases of IEC Securities

The Company did not repurchase any shares during the fourth quarter of the fiscal year ended September 30, 2014.

Item 6. SELECTED FINANCIAL DATA

	Years Ended September 30,				
	2014	2013	2012	2011	2010
(amounts in thousands, except per share data)					
	(restated)		(restated)	(a)	(b)
Net sales	\$135,621	\$140,946	\$144,963	\$133,296	\$96,674
Gross profit	15,324	17,677	26,306	25,757	16,263
Operating profit/(loss)	(379)	(13,835)	10,541	10,389	7,687
Income/(loss) before income taxes	(2,192)	(15,052)	10,364	9,816	7,055
Provision/(benefit) for income taxes	12,879	(5,522)	3,670	3,056	2,400
Net income/(loss)	\$(15,071)	\$(9,530)	\$6,694	\$6,760	\$4,655
Gross margin as a % of sales	11.3 %	12.5 %	18.1 %	19.3 %	16.8 %
Operating profit as % of sales	(0.3)%	(9.8)%	7.3 %	7.8 %	8.0 %
Net income/(loss) per share:					
Basic	\$(1.53)	\$(0.98)	\$0.69	\$0.71	\$0.52
Diluted	(1.53)	(0.98)	0.67	0.68	0.48
Common and common equivalent shares:					
Basic	9,827	9,712	9,664	9,461	8,990
Diluted	9,827	9,712	9,969	9,968	9,608
Working capital	\$24,046	\$31,592	\$19,320	\$17,292	\$17,712
Total assets	72,996	88,935	87,898	85,820	55,682
Long-term debt (excluding current portion)	28,479	34,026	21,104	28,213	15,999
Stockholders' equity	17,405	31,994	40,796	33,686	25,419

(a) IEC acquired the assets of Southern California Braiding Company, Inc. on December 17, 2010.

(b) IEC acquired General Technology Corporation (now IEC-Albuquerque) on December 16, 2009, and purchased the assets of Celmet Co., Inc. on July 30, 2010.

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

The information in this Management's Discussion & Analysis should be read in conjunction with the accompanying Consolidated Financial Statements ("Financial Statements"), the related Notes and the five-year summary of Selected Financial Data. References to "Notes" in this report are references to the Notes to the Consolidated Financial Statements unless otherwise specified. Forward-looking statements in this Management's Discussion and Analysis are qualified by the cautionary statement preceding Item 1 of this Form 10-K/A and the risk factors identified in Item 1A.

Prior Restatement

The Company previously disclosed in its Annual Report on Form 10-K/A and Quarterly Report on Form 10-Q/A, both filed with 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 "Prior Restatement"). The

21

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.

2014 Restatements

As discussed further in this Management’s Discussion and Analysis and in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve, we restated our previously issued consolidated financial statements for fiscal year ended September 30, 2014 (“FY 2014”) and the unaudited interim financial statements for the fiscal quarters ended March 28, 2014 (“Q2-2014”) and June 27, 2014 (“Q3-2014”) due to an error in the valuation allowance on deferred income tax assets resulting in an understatement of income tax expense and a corresponding overstatement of deferred income tax assets during Q2-2014 of approximately \$14.0 million. Income tax expense was overstated and deferred income tax assets were understated by \$3.0 thousand and \$1.8 million in Q3-2014 and Q4-2014, respectively. In FY 2014, income tax expense was understated and deferred income tax assets were overstated by approximately \$12.3 million.

In addition, we restated our previously issued consolidated financial statements for FY 2014, and the unaudited interim financial statements for Q3-2014, Q2-2014 and the fiscal quarter ended December 27, 2013 (“Q1-2014”) due to an error in the estimation of the excess and obsolete inventory reserve at two operating locations, which resulted in an understatement of cost of goods sold and overstatement of inventory. Cost of goods sold was understated by approximately \$0.2 million, \$0.1 million, \$0.1 million and \$0.3 million in Q1-2014, Q2-2014, Q3-2014 and Q4-2014, respectively. Inventory was overstated by approximately \$0.2 million, \$0.4 million, \$0.4 million and \$0.7 million as of the end of Q1-2014, Q2-2014, Q3-2014 and Q4-2014, respectively. For FY 2014, cost of goods sold was understated and inventory was overstated by approximately \$0.7 million. We refer to the restatements related to the deferred tax asset valuation allowance and excess and obsolete inventory reserve as the 2014 Restatements.

This Management’s Discussion and Analysis reflects the 2014 Restatements and also includes Management’s Discussion and Analysis for Q1, Q2, Q3 and Q4-2014 as updated to reflect the 2014 Restatements. Although they have been updated herein to reflect the 2014 Restatements, the disclosures relevant to each period continue to speak as of the dates of their original filing.

Three Months Ended September 30, 2014 and 2013 (Fourth Fiscal Quarter)

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

Income Statement Data (in thousands)	Three Months Ended	
	September 30, 2014 (restated)	September 30, 2013
Net sales	\$35,687	\$39,122
Gross profit	3,508	5,454
Selling and administrative expenses	3,551	3,761
Impairment of goodwill and other intangibles	—	14,217
Restatement and related expenses	(1,302) 625

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Interest and financing expense	386	522	
Other expense/(income)	—	—	
Income/(loss) before income taxes	873	(13,671)
Provision for/(benefit from) income taxes	(161	) (5,004)
Net income/(loss)	\$1,034	\$(8,667)

22

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

% of Sales by Sector	Three Months Ended	
	September 30, 2014	September 30, 2013
Aerospace & Defense (previously Military & Aerospace)	46%	49%
Medical	23%	20%
Industrial	26%	22%
Communications & Other	5%	9%
	100%	100%

Revenue decreased in the fourth quarter of fiscal 2014 by \$3.4 million or 8.8% as compared to the fourth quarter of the prior fiscal year. A decrease in the aerospace & defense market sector of \$2.5 million and the communications & other market sector of \$1.9 million were partially offset by increases in the industrial and medical market sector.

The net decrease in aerospace & defense revenue of \$2.5 million was primarily due to decreased customer demand. Decreases of \$5.0 million resulted from lower demand for several of our customers, some of which were due to delays in government funding. The winding down of three programs caused lower revenue of \$2.4 million and our decision to end a customer relationship decreased revenue an additional \$0.9 million. Availability of component parts can cause fluctuations in revenue and impacted two other programs causing a net decrease of \$0.2 million in the fourth quarter. Partially offsetting the decreases were increased demand from three existing customers of \$2.6 million, new programs with existing customers of \$2.5 million and revenue from new customers of \$1.0 million.

The net decrease in the communications & other market sector of \$1.9 million is primarily due to a lower revenue of \$1.5 million from one customer as a result of converting from turn-key manufacturing to a customer furnished materials program. A lost program and fluctuations in demand also caused revenue decreases. A temporary increase in demand from another customer as they transition to a new product partially offset these decreases.

The net increase in the industrial market sector of \$0.7 million was primarily due to demand fluctuations. A new program from an existing customer and revenue from a new customer caused an increase of \$0.4 million. Increased demand from existing customers of \$0.9 million was mostly offset by \$0.8 million in decreased demand from another customer.

Revenue for the medical market sector increased \$0.3 million primarily due to increased demand at one customer of \$2.1 million mostly offset by decreased revenue at another customer of \$1.9 million. Lower revenue at this customer is due to the customer awaiting approval by the U.S. Food & Drug Administration ("FDA") for modifications to its existing programs which caused the programs to be put on hold. The hold has been lifted and the customer's testing is complete. We began shipping production orders late in the fourth quarter. We anticipate revenue related to these programs to continue to ramp up in the first quarter of fiscal 2015.

Our fourth quarter gross profit decreased \$1.9 million to 9.8% of sales from 13.9% of sales in the fourth quarter of the prior fiscal year. Several factors contributed to the decrease including reduced leverage on fixed manufacturing costs caused by lower sales volume, increased excess and obsolete inventory expense, changes in customer mix and higher labor costs. Labor costs in the fourth quarter of fiscal 2014 were higher to enable onboarding of additional labor for our medical market sector. One medical customer's program ramped in the fourth quarter and another customer's program is expected to continue to ramp in the first quarter of fiscal 2015 following an FDA hold that has recently been lifted. Separately, at one of our operating locations, we streamlined the manufacturing process, which decreased work in process inventory thereby reducing the capitalization of labor and overhead costs. Overhead was also higher during the fourth quarter due to hiring personnel focused on labor and production efficiencies and improving materials

management. The increase in excess and obsolete inventory reserves was due to aging of inventory and a more rapid decline in some of our military customers' programs than expected.

Selling and administrative (“S&A”) expense is presented excluding Restatement and related expenses discussed below. S&A expense decreased \$0.2 million, and represented 10.0% of sales in the fourth quarter of fiscal 2014, compared to 9.6% 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 intangible amortization.

There were no impairment charges during the fourth quarter of fiscal 2014. 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 7—Intangible Assets and Note 8—Goodwill.

Restatement and related expenses represent third party legal and accounting fees directly attributable to the Prior Restatement as well as other matters arising from the Prior Restatement including those more fully described in Note 18—Litigation. Restatement and related expenses of \$0.4 million in the fourth quarter of fiscal 2014 were more than offset by \$1.7 million that was recorded in connection with the Company’s previously-announced resolution of certain directors and officers liability insurance claims. As part of the resolution, the Company (i) received \$1.3 million from its primary insurance carrier in partial reimbursement for certain expenses incurred through June 30, 2014 in connection with the formal SEC investigation and consolidated shareholder class action (recently dismissed) and (ii) reached agreement with its primary insurance carrier as to the scope of coverage for certain expenses incurred after June 30, 2014. In connection with the resolution, the Company recorded an additional \$0.4 million including a portion of a reimbursement previously received, as well as anticipated reimbursement for certain expenses incurred during the fourth quarter of fiscal 2014. We anticipate continued legal expenses due to the Prior Restatement and other matters (including the formal SEC investigation) for the foreseeable future. While we anticipate certain of these expenses will continue to be reimbursed, the reimbursement for future expenses will vary with the circumstances under which such expenses are incurred and their respective amounts. We also anticipate additional Restatement and related expenses related to the 2014 Restatements.

Interest expense decreased by \$0.1 million compared to the same quarter of the prior fiscal year. IEC’s average outstanding debt balances decreased to \$32.8 million for the fourth quarter of fiscal 2014 from \$35.3 million for the same quarter of the prior fiscal year. Average borrowings in the fourth quarter of fiscal 2014 were lower than the fourth quarter of the prior fiscal year due to lower revolver borrowing partially offset by borrowing under a new term loan in connection with the Celmet building purchase in the first quarter of fiscal 2014. The weighted average interest rate on IEC’s debt, excluding the impact of the interest rate swap, was 0.7% higher than in the fourth quarter of the prior fiscal year. The net impact of adjusting the swap to fair value decreased interest expense by \$0.1 million in the fourth quarter of the current fiscal year compared to the prior fiscal year. Cash paid for interest was approximately \$0.4 million for the fourth 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 (the “2013 Credit Agreement”), is provided in Note 9—Credit Facilities.

The benefit for income tax in the fourth quarter of fiscal 2014 was \$0.2 million compared to a benefit from income tax in the fourth quarter of fiscal 2013 of \$5.0 million. The benefit in fourth quarter of fiscal 2014 resulted from adjusting the current tax provision for fiscal 2014. As discussed in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve, the Company recorded a full valuation allowance on deferred tax assets in the second quarter of fiscal 2014. Due to the Company’s net operating loss (“NOL”) carryforwards, a provision for pre-tax income was not recorded in the fourth quarter of fiscal 2014. Also as discussed in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve, the Company restated its excess and obsolete inventory reserve and valuation allowance on deferred tax assets. The increase in the excess and obsolete inventory reserve resulted in an increased deferred tax asset; however the valuation allowance fully reserved for this asset.

Although we have recorded a full valuation allowance for all deferred tax assets, including NOL carryforwards, should we have taxable income in the future these deferred tax assets, including NOLs would remain available to offset our taxable income. At the end of fiscal 2014, the Federal NOLs amounted to approximately \$16.3 million. The majority of the carryforwards expire in varying amounts between 2021 and 2025, with a small portion expiring in 2034, unless utilized prior to these dates.

Full Year Ended September 30, 2014 and 2013

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

Income Statement Data (in thousands)	Years Ended September 30, 2014 (restated)	September 30, 2013
Net sales	\$ 135,621	\$ 140,946
Gross profit	15,324	17,677
Selling and administrative expenses	14,567	15,453
Impairment of goodwill and other intangibles	—	14,217
Restatement and related expenses	1,136	1,842
Interest and financing expense	1,795	1,170
Other expense/(income)	18	47
Income/(loss) before income taxes	(2,192)	(15,052)
Provision for/(benefit from) income taxes	12,879	(5,522)
Net income/(loss)	\$(15,071)	\$(9,530)

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

% of Sales by Sector	Years Ended September 30, 2014	September 30, 2013
Aerospace & Defense (previously Military & Aerospace)	49%	51%
Medical	20%	20%
Industrial	25%	21%
Communications & Other	6%	8%
	100%	100%

Revenue decreased \$5.3 million or 3.8% as compared to the prior fiscal year. Aggregate decreases in the aerospace & defense, communications & other and medical market sectors of \$9.9 million were partially offset by an increase of \$4.6 million in the industrial market sector.

The net decrease in aerospace & defense revenue was \$5.3 million. Decreases in revenue of \$14.9 million resulted from lower demand from several of our customers, some of which were due to delays in government funding.

Decreases of \$4.4 million were due to programs at three of our customers that are being phased out over the next decade. In addition, strategic decisions we made regarding customer relationships caused decreases of \$2.8 million and a decrease of \$0.4 million 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 programs and new long-term programs from existing customers of \$14.6 million as well as \$2.6 million of revenue from new customers.

Communications & other market sector revenue decreased approximately \$4.2 million. This decrease is primarily due to a \$3.1 million decrease in revenue from one customer as a result of converting from turnkey manufacturing to a customer furnished materials program. Decreased demand from three other customers resulted in a \$1.3 million decrease and loss of two programs caused a decrease of \$0.7 million. These decreases were partially offset by a temporary increase in demand of \$1.0 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 several other customers resulting in a net decrease of \$0.5 million. The decreased demand of \$9.5 million was due to the customer awaiting FDA approval for modifications to its existing programs which caused the programs to be put on hold. The hold was lifted during the third quarter and the customer's testing is complete. We began shipping production orders late in the fourth quarter. We anticipate revenue related to these programs to continue to ramp up in the first quarter of fiscal 2015. Offsetting increases of \$7.6 million

25

were the result of higher volume from existing programs. Revenue from new programs with existing customers of \$0.6 million and revenue from one of our new customers of \$0.9 million also partially offset the decrease.

The net increase in the industrial market sector of \$4.6 million is primarily due to revenue from new customers as well as fluctuations in demand for existing customers. Three new customers comprised \$2.5 million of the increase.

Fluctuations in demand resulted in a net increase of \$1.9 million as increased demand for several existing programs was partially offset by lower demand for one program.

Gross profit in fiscal 2014 represented 11.3% of sales compared to 12.5% of sales in 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 during the first part of the fiscal year; however, the full impact was not realized due to lower sales volumes as well as unfavorable changes in mix. In addition, during the fourth quarter, labor costs were higher to enable training for programs which began to ramp in the fourth quarter of fiscal 2014 and are expected to continue to ramp in first quarter of fiscal 2015.

Selling and administrative (“S&A”) expense is presented excluding Restatement and related expenses discussed below. S&A expense decreased \$0.9 million, and represents 10.7% of sales in fiscal 2014, compared to 11.0% of sales in the prior fiscal year. The decrease in S&A expense was primarily due to lower wage related 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 fiscal 2014. 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 7—Intangible Assets and Note 8—Goodwill.

Restatement and related expenses represent third party legal and accounting fees directly attributable to the Prior Restatement as well as other matters arising from the Prior Restatement including those more fully described in Note 18—Litigation. Restatement and related expenses of \$3.2 million in fiscal 2014 were partially offset by a \$0.4 million portion of an initial insurance reimbursement for certain of those expenses and an additional \$1.7 million that was recorded in connection with the Company’s previously-announced resolution of certain directors and officers liability insurance claims. As part of the resolution, the Company (i) received \$1.3 million from its primary insurance carrier in partial reimbursement for certain expenses incurred through June 30, 2014 in connection with the formal SEC investigation and consolidated shareholder class action (recently dismissed) and (ii) reached agreement with its primary insurance carrier as to the scope of coverage for certain expenses incurred after June 30, 2014. In connection with the resolution, the Company recorded an additional \$0.4 million including a portion of a reimbursement previously received, as well as anticipated reimbursement for certain expenses incurred during the fourth quarter of fiscal 2014. We anticipate continued legal expenses due to the Prior Restatement and other matters (including the formal SEC investigation) for the foreseeable future. While we anticipate certain of these expenses will continue to be reimbursed, the reimbursement for future expenses will vary with the circumstances under which such expenses are incurred and their respective amounts. We also anticipate additional Restatement and related expenses related to the 2014 Restatements.

Interest expense increased by \$0.6 million compared to the prior fiscal year. IEC’s average outstanding debt balances increased to \$34.1 million for fiscal 2014 from \$31.5 million for the prior fiscal year. Average borrowings in fiscal 2014 were higher than the prior fiscal year due to higher revolver borrowings and a new term loan to purchase the Celmet building. The weighted average interest rate on IEC’s debt for the fiscal year, excluding the impact of the interest rate swap, was 0.6% higher than the prior fiscal year. The net impact of adjusting the swap to fair value also increased interest expense by \$0.3 million in fiscal 2014 compared to the prior fiscal year. Cash paid for interest was

approximately \$1.5 million and \$1.2 million for fiscal 2014 and fiscal 2013, respectively. Detailed information regarding our borrowings, including a summary of modifications to the Fourth Amended and Restated Credit Facility Agreement, is provided in Note 9—Credit Facilities.

The provision for income taxes was \$12.9 million for fiscal 2014 as compared to a benefit from income taxes of \$5.5 million for the prior fiscal year. The \$12.9 million provision in fiscal 2014 is primarily the result of recording a full valuation allowance on all deferred tax assets beginning in the second quarter of fiscal 2014 as further discussed in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve.

Liquidity and Capital Resources (Full Year Ended September 30, 2014 and 2013)

Capital Resources

As of September 30, 2014 outstanding capital expenditure commitments were \$1.2 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 years ended follows:

Cash Flow Data (in thousands)	Years Ended	
	September 30, 2014 (restated)	September 30, 2013
Cash and cash equivalents, beginning of period	\$2,499	\$2,662
Net cash flow from:		
Operating activities	9,102	(4,338)
Investing activities	(4,142)	(5,082)
Financing activities	(5,479)	9,257
Net (decrease) increase in cash and cash equivalents	(519)	(163)
Cash and cash equivalents at end of period	\$1,980	\$2,499

Operating activities

Cash flows provided by operations, before considering changes in working capital, were \$3.4 million in fiscal 2014 and \$4.5 million in fiscal 2013. Although the cash decrease was not significant, our net loss, impacted by an impairment charge in the prior year and deferred tax expense in the current year, increased by \$5.5 million. Our 2013 net loss included an impairment charge of \$14.2 million. Deferred tax expense increased by \$18.7 million compared to fiscal 2013 due to recording a full valuation allowance on deferred tax assets as a result of the 2014 Restatements.

Working capital provided cash flows of \$5.7 million in fiscal 2014 and used cash flows of \$8.9 million in fiscal 2013. The change in working capital in fiscal 2014 was primarily due to a decrease in accounts receivable of \$5.5 million and an increase in customer deposits of \$1.4 million as well as an increase in accounts payable and accrued expenses. These improvements in working capital were partially offset by an increase in other current assets of \$3.0 million and an increase in inventory of \$0.6 million. Accounts receivable decreased primarily due to lower revenue in the fourth quarter of fiscal 2014 compared to the same quarter of fiscal 2013, as well as increased collection efforts during fiscal 2014. The increase in inventory was primarily due to maintaining inventory levels commensurate with demand. Other current assets increased primarily due to recording a receivable for a partial insurance reimbursement for certain restatement and related expenses as well as for test equipment we are building for a customer. In fiscal 2013, accounts receivable increased primarily due to increased revenue during the last month of fiscal 2013. Inventory levels increased in fiscal 2013 due to additional safety stock at the request of a customer as well as anticipated increased sales in the first quarter of fiscal 2014. The transition from utilization of customer furnished materials to turn-key manufacturing services for a telecom customer during the prior fiscal year also caused a portion of the fiscal 2013 increase.

Investing activities

Cash flows used by investing activities were \$4.1 million and \$5.1 million for fiscal 2014 and 2013, respectively. Cash flows used in fiscal 2014 primarily consisted of the Celmet building purchase of \$1.3 million and purchases of equipment. Cash used in fiscal 2013 primarily related to purchases of equipment.

Financing activities

Cash flows used in financing activities were \$5.5 million for fiscal 2014 and cash flows provided by financing activities were \$9.3 million for fiscal 2013. During fiscal 2014, net repayments under all credit facilities were \$5.4 million. Net repayments of the revolver of \$3.8 million and repayments of other term debt of \$2.9 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

cash flow provided by operations and less equipment purchases during fiscal 2014. In fiscal 2013, net cash flows provided by credit facilities of \$9.2 million were necessary to fund operations.

Credit Facilities

The Company's credit facilities, including the 2013 Credit Agreement, are discussed in detail in Note 9—Credit Facilities. At September 30, 2014, borrowings outstanding under the revolving credit facility (“Revolver”) amounted to \$7.4 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. An amendment to the 2013 Credit Agreement 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 9—Credit Facilities. At September 30, 2014, the Company was in compliance with the Quarterly EBITDARS covenant. As a result of the 2014 Restatements described in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve, the Company was in default of the Credit Agreement for failure to deliver financial statements prepared in accordance with GAAP. The Company received a waiver from M&T regarding this event of default.

The calculation of financial covenants follows:

	Limit at		Calculated Amount At	
Debt Covenant	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Quarterly EBITDARS (000s)	Minimum \$1,500	Minimum \$1,500	\$2,641	\$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.

The ratio compares (i) 12-month EBITDA plus non-cash stock compensation expense, plus permitted fiscal 2013

(b) 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:

	Three Months Ended	
(in thousands)	September 30, 2014 (restated)	September 30, 2013
Net income/(loss)	\$1,034	\$(8,667)
Restatement related expenses (a)	—	—
Asset impairment (b)	—	14,217

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Provision for/(benefit from) income taxes	(161)	(5,004)
Depreciation and amortization expense	1,218		1,219	
Interest expense	386		522	
Non-cash stock compensation	164		96	
Rent expense - M&T sale-leaseback ^(c)	—		(29)
EBITDARS	\$2,641		\$2,354	

A reconciliation of Adjusted EBITDA to Net income follows:

(in thousands)	Three Months Ended	
	September 30, 2014 (restated)	September 30, 2013
Net income/(loss)	\$1,034	\$(8,667)
Restatement related expenses ^(a)	—	—
Asset impairment ^(b)	—	14,217
Provision for/(benefit from) income taxes	(161)	(5,004)
Depreciation and amortization expense	1,218	1,219
Interest expense	386	522
Non-cash stock compensation	164	96
Unfinanced capital expenditures	(512)	(746)
Income taxes paid	(3)	—
Adjusted EBITDA	\$2,126	\$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 Prior 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. They 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, provide a more complete understanding of our business than could be obtained absent this disclosure.

Three Months Ended June 27, 2014 and June 28, 2013 (Third Fiscal Quarter)

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

Income Statement Data (in thousands)	Three Months Ended	
	June 27, 2014 (restated)	June 28, 2013
Net sales	\$32,992	\$35,154
Gross profit	3,795	5,159
Selling and administrative expenses	3,195	3,446
Impairment of goodwill and other intangibles	—	—
Restatement and related expenses	102	1,106
Interest and financing expense	558	10
Other expense/(income)	—	(9
Income/(loss) before income taxes	(60	) 606
Provision for/(benefit from) income taxes	—	224
Net income/(loss)	\$(60	) \$382

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 \$1.4 million to 11.5% 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 7—Intangible Assets and Note 8—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 Prior Restatement as well as other matters arising from the Prior Restatement including those more fully described in Note 18—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 Prior Restatement and other matters (including the formal SEC investigation and consolidated shareholder class action) for the foreseeable future. We also anticipate additional Restatement and related expenses related to the 2014 Restatements.

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 9—Credit Facilities.

There was no provision for income tax in the third quarter of fiscal 2014 compared to a provision of \$0.2 million in the third quarter of the prior fiscal year. The Company recorded a full valuation allowance on deferred tax assets in the second quarter of fiscal 2014, as further discussed in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve. Due to the Company's NOL carryforwards, a provision for

pre-tax income was not recorded in the third quarter of fiscal 2014.

Although we have recorded a full valuation allowance for all deferred tax assets, including NOL carryforwards, these NOLs remain available to the Company to offset taxable income and reduce tax payments. 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 Ended June 27, 2014 and June 28, 2013

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

Income Statement Data (in thousands)	Nine Months Ended	
	June 27, 2014 (restated)	June 28, 2013
Net sales	\$99,934	\$101,824
Gross profit	11,816	12,223
Selling and administrative expenses	10,938	11,803
Impairment of goodwill and other intangibles	—	—
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	(3,066)	(1,381)
Provision for/(benefit from) income taxes	13,039	(518)
Net income/(loss)	\$(16,105)	\$(863)

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	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 11.8% 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 7—Intangible Assets and Note 8—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 Prior Restatement as well as other matters arising from the Prior Restatement including those more fully described in Note 18—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 Prior Restatement and other matters (including the formal SEC investigation and consolidated shareholder class action) for the foreseeable future. We also anticipate additional Restatement and related expenses related to the 2014 Restatements.

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 9—Credit Facilities.

The provision for income taxes was \$13.0 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. The \$13.0 million provision in fiscal 2014 is primarily the result of recording a full valuation allowance on all deferred tax assets beginning in the second quarter of fiscal 2014 as further discussed in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve.

Liquidity and Capital Resources (Nine Months Ended June 27, 2014 and June 28, 2013)

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:

Cash Flow Data (in thousands)	Nine Months Ended	
	June 27, 2014 (restated)	June 28, 2013
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 \$1.2 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 \$15.2 million due to an increase in deferred tax expense of \$13.9 million due to a change in the deferred tax asset valuation. Working capital provided cash flows of \$2.9 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 \$1.2 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 and an increase in the excess and obsolescence reserve. 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. As a result of the 2014 Restatements described in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve, the Company was in default of the Credit Agreement for failure to deliver financial statements prepared in accordance with GAAP. The Company received a waiver from M&T regarding this event of default. 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 9—Credit Facilities. At June 27, 2014, the Company was in compliance with the Quarterly EBITDARS covenant.

The calculation of debt covenants follows:

Debt Covenant	Limit at		Calculated Amount At		
	June 27, 2014	September 30, 2013	June 27, 2014	September 30, 2013	
Quarterly EBITDARS (000s)	Minimum \$1,500	Minimum \$1,500	\$1,797	\$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.

The ratio compares (i) 12-month EBITDA plus non-cash stock compensation expense, plus permitted fiscal 2013

(b) 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 (restated)	September 30, 2013
Net income/(loss)	\$(60)	\$(8,667)
Restatement related expenses (a)	—	—
Asset impairment (b)	—	14,217
Provision for/(benefit from) income taxes	—	(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	\$1,797	\$2,354

A reconciliation of Adjusted EBITDA to Net income follows:

35

(in thousands)	Three Months Ended	
	June 27, 2014 (restated)	September 30, 2013
Net income/(loss)	\$ (60)	\$ (8,667)
Restatement related expenses (a)	—	—
Asset impairment (b)	—	14,217
Provision for/(benefit from) income taxes	—	(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	\$ 1,428	\$ 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 Prior 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.

Three Months Ended March 28, 2014 and March 29, 2013 (Second Fiscal Quarter)

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

Income Statement Data (in thousands)	Three Months Ended	
	March 28, 2014 (restated)	March 29, 2013
Net sales	\$34,805	\$33,681
Gross profit	4,644	2,899
Selling and administrative expenses	3,952	4,311
Restatement and related expenses	1,258	—
Interest and financing expense	492	359
Other expense/(income)	(1	) 56
Income/(loss) before income taxes	(1,057	) (1,827
Provision for/(benefit from) income taxes	13,657	(683
Net income/(loss)	\$(14,714	) \$(1,144

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

% of Sales by Sector	Three Months Ended	
	March 28, 2014	March 29, 2013
Aerospace & Defense (previously Military & Aerospace)	47%	50%
Medical	15%	18%
Industrial	30%	24%
Communications & Other	8%	8%
	100%	100%

Revenue increased in the second quarter of fiscal 2014 by \$1.1 million or 3.3% as compared to the second quarter of the prior fiscal year. An increase in the industrial market sector of \$2.2 million and the communications & other sector of \$0.1 million were partially offset by decreases in the aerospace & defense and medical market sectors of \$1.2 million.

The net increase in the industrial market sector of \$2.2 million resulted from higher demand for two of our customers and revenue from new customers. Approximately \$1.5 million of the increase was due to two new customers. The remaining increase of \$1.8 million is primarily due to increases in demand for existing programs and to a lesser extent one new program. These increases were partially offset by a \$1.1 million decrease due to lower end customer demand at one of our customers caused in part by market conditions.

Various increases and decreases for our aerospace & defense customers resulted in a net decrease \$0.5 million. Decreases of \$2.7 million resulted from decreased end customer demand for several of our customers, some of which were due to delays in government funding. Lower revenue of \$0.9 million from another customer was due to our customer's design related issues. Additional decreases of \$0.4 million were due to the loss of a program we supported for one of our customers and the decision to end a customer relationship. Increases of \$3.5 million were primarily due to new programs with existing customers and to a lesser extent resulting from increased demand from existing customers.

Revenue for the medical market sector decreased \$0.7 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. We do not expect revenue related to these programs to ramp up until late in the second half of the fiscal year. This decrease was partially offset by increases in demand from three other customers. These increases were the result of a new customer, a new program at one customer and volume increases from an existing program at a third customer.

Revenue for the communications & other market sector was relatively consistent compared to the second quarter of fiscal 2014.

Our second fiscal quarter gross profit increased \$1.7 million to 13.3% of sales from 8.6% of sales in the second quarter 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. Sales volume and favorable changes in product mix at some locations also contributed to increased gross profit.

Selling and administrative ("S&A") expense is presented excluding Restatement and related expenses discussed below. S&A expense decreased \$0.4 million, and represented 11.4% of sales in the second quarter of fiscal 2014, compared to 12.8% of sales in the same quarter of the prior fiscal year. The decrease in S&A expense was primarily due to lower wage expense, which was the result of cost reductions implemented primarily during the first quarter of fiscal 2014.

There were no impairment charges during the second quarter of fiscal 2014 or the second 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 more particularly discussed in Note 7—Intangible Assets and Note 8—Goodwill.

Restatement and related expenses of \$1.3 million in the second quarter of fiscal 2014 represent third party legal and accounting fees directly attributable to the Prior Restatement as well as other matters arising from the Prior Restatement including those more fully described in Note 18—Litigation. We anticipate elevated levels of legal expenses due to the Prior Restatement and other matters (including the formal SEC investigation and consolidated shareholder class action) for the foreseeable future. We also anticipate additional Restatement and related expenses related to the 2014 Restatements.

Interest expense increased by \$0.1 million compared to the same quarter of the prior fiscal year. IEC's average outstanding debt balances increased to \$34.2 million for the second quarter of fiscal 2014 from \$30.1 million for the same quarter of the prior fiscal year. Average borrowings in the second quarter of fiscal 2014 were higher than the second 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 0.9% higher than in the second quarter of the prior fiscal year. The net impact of adjusting the swap to fair value also increased interest expense slightly in the second quarter of the current and prior fiscal years. Cash paid for interest in the second quarter of fiscal 2014 was approximately \$0.4 million compared to \$0.2 million in the second quarter of the prior fiscal year. Detailed information regarding our borrowings, including a summary of modifications in the Fourth Amended and Restated Credit Facility Agreement, is provided in Note 9—Credit Facilities.

The provision for income taxes was \$13.7 million for the second quarter of fiscal 2014 as compared to a benefit of \$0.7 million for the second quarter of the prior fiscal year. The Company recorded a full valuation allowance on deferred tax assets in the second quarter of fiscal 2014, as further discussed in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve. Due to the Company's NOL net operating loss ("NOL") carryforwards, a provision for pre-tax income was not recorded in the third quarter of fiscal 2014.

Although we have recorded a full valuation allowance for all deferred tax assets, including NOL carryforwards, these NOLs remain available to the Company to offset taxable income and reduce tax payments. 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.

Six Months Ended March 28, 2014 and March 29, 2013

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

Income Statement Data (in thousands)	Six Months Ended	
	March 28, 2014 (restated)	March 29, 2013
Net sales	\$66,942	\$66,671
Gross profit	8,022	7,065
Selling and administrative expenses	7,744	8,357
Impairment of goodwill and other intangibles	—	—
Restatement and related expenses	2,414	—
Interest and financing expense	852	638
Other expense/(income)	18	57
Income/(loss) before income taxes	(3,006)	(1,987)
Provision for/(benefit from) income taxes	13,040	(742)
Net income/(loss)	\$(16,046)	\$(1,245)

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

% of Sales by Sector	Six Months Ended	
	March 28, 2014	March 29, 2013
Aerospace & Defense (previously Military & Aerospace)	50%	53%
Medical	18%	19%
Industrial	26%	20%
Communications & Other	6%	8%
	100%	100%

Revenue increased in the first six months of fiscal 2014 by \$0.3 million or 0.4% as compared to the first six months of the prior fiscal year. Increases in the industrial market sector aggregating \$4.0 million were partially offset by decreases in the aerospace & defense, medical and communications & other market sectors of \$3.7 million.

The net increase in the industrial market sector of \$4.0 million resulted from fluctuations in demand for existing customers as well as new customers. Increases of \$2.8 million were due to higher demand for existing programs at three customers and to a lesser extent one new program. Two new customers comprised \$2.0 million of the increase. These increases were partially offset by a \$0.9 million decrease due to lower end customer demand at one of our customers caused in part by market conditions.

The net decrease in aerospace & defense revenue was \$2.5 million. Aggregate decreases in defense revenue of \$7.6 million resulted from decreased end customer demand for several of our customers some of which were due to delays in government funding. A decrease of \$1.9 million is due to a program at one of our customers that is being phased out over the next decade. In addition, strategic decisions regarding customer relationships caused decreases of \$1.3 million. These decreases were partially offset by increased volume on existing programs and new programs from existing customers of \$8.0 million. Revenue from new customers resulted in an increase of \$0.7 million. Net aerospace revenue decreased \$0.5 million due to decreased demand partially offset by a new program for an existing aerospace customer.

Lower demand at one of our medical customers partially offset by increases from three other customers resulted in a net decrease of \$0.7 million. A decrease of \$5.1 million was due to the customer awaiting FDA approval for modifications to its existing programs which caused the programs to be put on hold. We do not expect revenue related to these programs to ramp up until late in the second half of the fiscal year. Offsetting increases of \$4.3 million were the result of volume increases from an existing program, a new program at one customer and a new customer.

The communications & other market sector revenue decreased approximately \$0.5 million primarily due to a decrease in our customer's demand.

Gross profit in the first six months of fiscal 2014 increased \$1.0 million over the first six months of the prior fiscal year, and represents 12.0% of sales compared to 10.6% of sales in the same period of the prior fiscal year. Sales volume and favorable changes in product mix at some locations in the second quarter of fiscal 2014 positively impacted gross margin and more than offset unfavorable product mix in the first quarter of the current 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 began to decrease our labor and overhead expense during the second quarter.

Selling and administrative ("S&A") expense is presented excluding Restatement and related expenses discussed below. S&A expense decreased \$0.6 million, and represents 11.6% of sales in the first six months of fiscal 2014, compared to 12.5% 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.

There were no impairment charges during the first six months of fiscal 2014 or the first six 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 7—Intangible Assets and Note 8—Goodwill.

Restatement and related expenses of \$2.4 million in the first six months of fiscal 2014 represent third party legal and accounting fees directly attributable to the Prior Restatement as well as other matters arising from the Prior Restatement including those more fully described in Note 18—Litigation. We anticipate elevated levels of legal expenses due to the Prior Restatement and other matters (including the formal SEC investigation and consolidated shareholder class action) for the foreseeable future. We also anticipate additional Restatement and related expenses related to the 2014 Restatements.

Interest expense increased by \$0.2 million compared to the first six months of the prior fiscal year. IEC's average outstanding debt balances increased to \$35.4 million for the first six months of fiscal 2014 from \$29.4 million for the same period of the prior fiscal year. Average borrowings in the first six 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 six months of the fiscal year, excluding the impact of the interest rate swap, was 0.55% higher than the same period of the prior fiscal year. The net impact of adjusting the swap to fair value did not have a significant impact on interest expense in the first six months of fiscal 2014 or the same period of the prior fiscal year. Cash paid for interest in the first six months of fiscal 2014 was approximately \$0.8 million compared to \$0.5 million in the same period of the prior fiscal year. Detailed information regarding our borrowings, including a summary of modifications in the Fourth Amended and Restated Credit Facility Agreement, is provided in Note 9—Credit Facilities.

The provision for income taxes was \$13.0 million for the first six months of fiscal 2014 as compared to a benefit from income taxes of \$0.7 million for the same period of the prior fiscal year. The \$13.0 million provision in fiscal 2014 is primarily the result of recording a full valuation allowance on all deferred tax assets beginning in the second quarter of fiscal 2014 as further discussed in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve.

Liquidity and Capital Resources (Six Months Ended March 28, 2014 and March 29, 2013)

Capital Resources

As of March 28, 2014 outstanding capital expenditure commitments were \$0.8 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 six months ended follows:

Cash Flow Data (in thousands)	Six Months Ended	
	March 28, 2014 (restated)	March 29, 2013
Cash and cash equivalents, beginning of period	\$2,499	\$2,662
Net cash flow from:		
Operating activities	2,658	(268)
Investing activities	(2,776)	(2,688)
Financing activities	(1,729)	3,075
Net (decrease) increase in cash and cash equivalents	(1,847)	119
Cash and cash equivalents at end of period	\$652	\$2,781

Operating activities

Cash flows provided by operations, before considering changes in IEC's working capital accounts, was \$0.1 million for the first six months of fiscal 2014. Cash flow provided by operations, before considering changes in working capital, in the first six months of fiscal 2013 was \$0.5 million. Although the cash decrease was not significant, our net loss decreased \$14.8 million due to an increase in deferred tax expense of \$14.2 million due to a change in the deferred tax asset valuation. Working capital provided cash flows of \$2.5 million in the first six months of fiscal 2014 and used cash flows of \$0.8 million in the first six months of fiscal 2013. The change in working capital in the first six months of fiscal 2014 was due to a decrease in accounts receivable of \$2.4 million and a decrease in inventories of \$2.2 million offset by a decrease in accounts payable of \$2.0 million. Accounts receivable decreased primarily due to increased collection efforts during the first six months of fiscal 2014. The decrease in inventory was primarily due to timing of inventory procurement and production. The accounts payable decrease was primarily due to lower purchases and timing of purchases and payments.

Investing activities

Cash flows used by investing activities were \$2.8 million and \$2.7 million for the first six months of fiscal 2014 and 2013, respectively. Cash flows used in the first six months of fiscal 2014 primarily consisted of the Celmet building purchase of \$1.3 million and purchases of equipment. Cash used in the first six months of fiscal 2013 primarily related to purchases of equipment.

Financing activities

Cash flows used in financing activities were \$1.7 million for the first six months of fiscal 2014 and cash flows provided by financing activities were \$3.1 million for the first six months of fiscal 2013. During the first six months of fiscal 2014, net repayments under all credit facilities were \$1.7 million. Repayments of the revolver of \$1.5 million and other term debt of \$1.4 million were partially offset by the borrowings in connection with the purchase of the Celmet building of \$1.3 million. In the first six months of fiscal 2013, net cash flows provided by credit facilities of \$3.0 million were necessary to fund operations.

Credit Facilities

At March 28, 2014, borrowings outstanding under the revolving credit facility ("Revolver") amounted to \$9.7 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. As a result of the 2014 Restatements as described in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve, the Company was in default of the Credit Agreement for failure to deliver financial statements prepared in accordance with GAAP. The Company received a waiver from M&T regarding this event of default. 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 9—Credit Facilities.

The calculation of debt covenants follows:

Debt Covenant	Limit at		Calculated Amount At		
	March 28, 2014	September 30, 2013	March 28, 2014	September 30, 2013	
Quarterly EBITDARS (000s)	Minimum \$1,250	Minimum \$1,500	\$796	\$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.

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	
	March 28, 2014 (restated)	September 30, 2013
Net income/(loss)	\$(14,714)	\$(8,667)
Restatement related expenses (a)	—	—
Asset impairment (b)	—	14,217
Provision for/(benefit from) income taxes	13,657	(5,004)
Depreciation and amortization expense	1,224	1,219
Interest expense	492	522
Non-cash stock compensation	137	96
Rent expense - M&T sale-leaseback (c)	—	(29)
EBITDARS	\$796	\$2,354

A reconciliation of Adjusted EBITDA to Net income follows:

(in thousands)	Three Months Ended	
	March 28, 2014 (restated)	September 30, 2013
Net income/(loss)	\$(14,714)	\$(8,667)
Restatement related expenses (a)	—	—
Asset impairment (b)	—	14,217
Provision for/(benefit from) income taxes	13,657	(5,004)
Depreciation and amortization expense	1,224	1,219
Interest expense	492	522
Non-cash stock compensation	137	96

Unfinanced capital expenditures	(1,311	)	(746)
Income taxes paid	(12)	—)
Adjusted EBITDA	\$(527	)	\$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 Prior 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.

Three Months Ended December 27, 2013 and December 28, 2012 (First Fiscal Quarter)

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

Income Statement Data	Three Months Ended	
	December 27, 2013	December 28, 2012
(in thousands)	(restated)	(restated)
Net sales	\$32,138	\$32,989
Gross profit	3,378	4,165
Selling and administrative expenses	3,791	4,046
Impairment of goodwill and other intangibles	—	—
Restatement and related expenses	1,156	—
Interest and financing expense	360	279
Other expense/(income)	19	—
Income/(loss) before income taxes	(1,948	) (160
Provision for/(benefit from) income taxes	(617	) (59
Net income/(loss)	\$(1,331	) \$(101

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

	Three Months Ended
% of Sales by Sector	

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	December 27, 2013	December 28, 2012
Aerospace & Defense (previously Military & Aerospace)	53%	57%
Medical	20%	20%
Industrial	22%	16%
Communications & Other	5%	7%
	100%	100%

43

Revenue decreased in the first quarter of fiscal 2014 by \$0.8 million or 2.6% as compared to the first quarter of the prior fiscal year. Aggregate revenue decreases in the military & aerospace, communications & other and medical market sectors of \$2.6 million were offset by an increase in the industrial market sector of \$1.8 million.

The net decrease in military & aerospace revenue was \$1.8 million. Aggregate decreases of \$2.3 million resulted from decreased end customer demand for four of our customers. Revenue for one of these customers, which was a new customer in fiscal 2013, decreased \$1.2 million as our customer has not yet received a follow on order for the program we were supporting. Aggregate decreases of \$0.9 million resulted from strategic changes at our SCB location, including shifting production priorities as a result of reductions in labor. At another operating location, we terminated a customer relationship which caused a decrease of \$0.5 million. One of our customer's programs is nearing the end of its expected life, which resulted in a decrease of \$1.3 million. These decreases were partially offset by increases in volume and new programs. Increased volume on existing programs caused \$1.9 million of the increase. Another \$1.0 million of the offsetting increase is due to new programs from existing customers. Revenue from new customers resulted in an increase of \$0.4 million. Net aerospace revenue decreased \$0.1 million due to decreased demand partially offset by an increase related to a new program for an existing aerospace customer.

Two customers caused the decline in the communications & other market sector of \$0.7 million. One of the communications customers is now producing a component part in house due to its decreased end customer demand and the other has implemented a strategic initiative to move some of its assembly work off-shore. There were various other offsetting increases and decreases, the most significant of which was a \$0.3 million increase in a program for one of our telecom customers that ramped up in fiscal 2013. The increase in the industrial market sector of \$1.8 million resulted from higher demand for two of our customers and revenue from a new customer.

Lower demand at one of our medical customers was virtually offset by increases in demand from two other customers. These increases were the result of a new program at one customer and volume increases from an existing program at a second customer. The offsetting decrease of \$1.8 million was due to the customer awaiting FDA approval for modifications to its existing programs which caused the programs to be put on hold. We do not expect revenue related to these programs to ramp back up until the second half of the fiscal year.

Our first quarter gross profit decreased \$0.8 million over the first quarter of the prior fiscal year, and decreased to 10.5% of sales from 12.6% of sales in the first quarter of the prior fiscal year. An unfavorable change in product mix in the first quarter of the current fiscal year caused a portion of the decrease. This change in product mix is the result of shifts in volume between market sectors and programs within each market sector. Additionally, lower than anticipated sales volume reduced leverage on fixed manufacturing costs. 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. We implemented cost reductions during the first quarter of fiscal 2014 which decreased our labor and overhead expense; however it will take some time to realize the full impact.

Selling and administrative ("S&A") expense is presented excluding Restatement and related expenses discussed below. S&A expense decreased \$0.3 million, and represents 11.8% of sales in the first quarter of fiscal 2014, compared to 12.3% of sales in the same quarter of the prior fiscal year. The decrease in S&A expense is primarily due to lower wage and bonus expense. Lower wage expense is the result of cost reductions.

There were no impairment charges during the first quarter of fiscal 2014 or the first 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 more particularly discussed in Note 7—Intangible Assets and Note 8—Goodwill.

Restatement and related expenses of \$1.2 million in the first quarter of fiscal 2014 represent third party legal and accounting fees directly attributable to the Prior Restatement as well as other matters arising from the Prior Restatement including those more fully described in Note 18—Litigation to the accompanying consolidated financial statements. We anticipate elevated levels of legal expenses due to the Prior Restatement and other matters (including the formal SEC investigation and consolidated shareholder class action) for the foreseeable future. We also anticipate additional Restatement and related expenses related to the 2014 Restatements.

Interest expense increased slightly compared to the same quarter of the prior fiscal year, primarily due to a waiver fee and an increase in interest rates. IEC's average outstanding debt balances increased to \$36.5 million for the first quarter of fiscal 2014 from \$28.5 million for the same quarter of the prior fiscal year. Average borrowings in the first quarter of fiscal 2014 were higher than the first quarter of the prior fiscal year primarily due to new term debt and increased borrowings on the revolver. The weighted average interest rate on IEC's debt, excluding the impact of the interest rate swap, was 0.33% higher than in the first quarter of the prior fiscal year. Interest expense in the first quarter of fiscal 2014 was also impacted by

covenant waiver fees. Detailed information regarding our borrowings, including a summary of modifications in the Fourth Amended and Restated Credit Facility Agreement, is provided in Note 9—Credit Facilities.

The benefit from income taxes was \$0.6 million for the first quarter of fiscal 2014 as compared to a benefit from income taxes of \$0.1 million for the first quarter of the prior fiscal year. This is the result of a larger pretax loss in fiscal 2014. Our effective tax rate for the first quarter of fiscal 2014 is consistent with the first quarter of fiscal 2013.

Although we have recorded a full valuation allowance for all deferred tax assets, including NOL carryforwards, these NOLs remain available to the Company to offset taxable income and reduce tax payments. 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.

Liquidity and Capital Resources (Three Months Ended December 27, 2013 and December 28, 2012)

Capital Resources

As of December 27, 2013 outstanding capital expenditure commitments were \$0.7 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 three months ended follows:

Cash Flow Data	Three Months Ended	
	December 27, 2013	December 28, 2012
(in thousands)		
Cash and cash equivalents, beginning of period	\$2,499	\$2,662
Net cash flow from:		
Operating activities	3,259	(2,676)
Investing activities	(2,270)	(1,211)
Financing activities	(1,755)	4,003
Net (decrease) increase in cash and cash equivalents	(766)	116
Cash and cash equivalents at end of period	\$1,733	\$2,778

Operating activities

Cash flows used by operations, before considering changes in IEC's working capital accounts was \$0.4 million for the first quarter of fiscal 2014. Cash flow provided by operations in the first quarter of fiscal 2013 was \$1.1 million. The decrease was primarily driven by a larger net loss of \$1.2 million. Working capital provided cash flows of \$3.6 million in the first quarter of fiscal 2014 and used cash flows of \$3.8 million in the first quarter of fiscal 2013. The change in working capital in the first quarter of fiscal 2014 was due to a decrease in accounts receivable of \$6.0 million and increase in customer deposits of \$1.0 million partially offset by a decrease in accounts payable of \$3.2 million. Accounts receivable decreased primarily due to decreased revenue during the first quarter of fiscal 2014 as compared to the fourth quarter of fiscal 2013. The accounts payable decrease is primarily due to lower purchases and timing of purchases and payments.

Investing activities

Cash flows used by investing activities were \$2.3 million and \$1.2 million for the first quarter of fiscal 2014 and 2013, respectively. Cash flows used in the first quarter of fiscal 2014 primarily consisted of the Celmet building purchase of \$1.3 million and purchases of equipment. Cash used in the first quarter of fiscal 2013 primarily related to purchases of equipment.

Financing activities

Cash flows used in financing activities were \$1.8 million for the first quarter of fiscal 2014 and cash flows provided by financing activities were \$4.0 million for the first quarter of fiscal 2013. During the first quarter of fiscal 2014, net repayments under all credit facilities were \$1.7 million. Cash flows from operations allowed us to decrease our revolver balance by \$2.3 million. Borrowings of \$1.3 million in connection with the purchase of the Celmet building were partially offset by repayments

of other term debt of \$0.7 million. In the first quarter of fiscal 2013 net cash advances from the revolving line of credit of \$5.7 million were necessary to fund operations.

Credit Facilities

At December 27, 2013, borrowings outstanding under the revolving credit facility (“Revolver”) amounted to \$9.0 million, and the maximum available was \$19.7 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 were unchanged from those contained in the 2010 Credit Agreement, and 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. The Company was not in compliance with the Debt to EBITDARS Ratio and Fixed Charge Coverage Ratio at September 30, 2013. At December 27, 2013, the Company was not in compliance with Quarterly EBITDARS covenant or the Debt to EBITDARS Ratio. We have obtained waivers for each period from M&T Bank with respect to such noncompliance. As a result of the 2014 Restatements as described in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve, the Company was in default of the Credit Agreement for failure to deliver financial statements prepared in accordance with GAAP. The Company received a waiver from M&T regarding this event of default. In addition, we obtained amendments to the 2013 Credit Agreement in May 2013, August 2013, December 2013 and February 2014 which modified Financial Covenants and related definitions as more particularly described in Note 9—Credit Facilities.

The calculation of debt covenants follows:

Debt Covenant	Limit at		Calculated Amount At		
	December 27, 2013	September 30, 2013	December 27, 2013	September 30, 2013	
Quarterly EBITDARS (000s)	Minimum \$1,500	Minimum \$1,500	\$(243)	\$2,354	
Debt to EBITDARS Ratio	Maximum 4.50x	Maximum 3.50x	6.60x	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 Prior 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	
	December 27, 2013	September 30, 2013
Net income/(loss)	\$(1,331)	\$(8,667)
Restatement related expenses (a)	—	—
Asset impairment (b)	—	14,217
Provision for/(benefit from) income taxes	(617)	(5,004)
Depreciation and amortization expense	1,195	1,219

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Interest expense	360	522	
Non-cash stock compensation	150	96	
Rent expense - M&T sale-leaseback (c)	—	(29)
EBITDARS	\$(243	)	\$2,354

A reconciliation of Adjusted EBITDA to Net income follows:

46

	Three Months Ended	
	December 27, 2013	September 30, 2013
(in thousands)		
Net income/(loss)	\$(1,331)	\$(8,667)
Restatement related expenses (a)	—	—
Asset impairment (b)	—	14,217
Provision for/(benefit from) income taxes	(617)	(5,004)
Depreciation and amortization expense	1,195	1,219
Interest expense	360	522
Non-cash stock compensation	150	96
Unfinanced capital expenditures	(1,302)	(746)
Income taxes paid	(11)	—
Adjusted EBITDA	\$(1,556)	\$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 Prior 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 that measure. 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.

Critical Accounting Policies and Use of Estimates

IEC's financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States of America, as presented in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"). In preparing financial statements, management is required to (i) determine

the manner in which accounting principles are applied and (ii) make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. A discussion of the Company's critical accounting policies follows.

Revenue recognition: Under FASB ASC 605-10 (Revenue Recognition), revenue from 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 revenues are generally recognized as services are rendered or, in the case of material management contracts, in proportion to materials procured to date. Provisions for discounts and rebates to customers, estimated returns and allowances and other adjustments are recorded in the period the related sales are recognized.

Doubtful accounts: FASB ASC 310-10-35 (Receivables) requires us to establish an allowance for doubtful accounts when it is probable that losses have been incurred in the collection of accounts receivable and the amount of loss can reasonably be estimated. If losses are probable and estimable, they are to be accrued even though the particular customer accounts on which losses will be incurred cannot yet be identified.

Inventory reserves: FASB ASC 330-10-35 (Inventory) requires us to reduce the carrying value of inventory when there is evidence that the utility of goods will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels or other causes. Inventory balances are generally reduced to the lower of cost or market value by establishing offsetting balance sheet reserves.

Intangible assets: FASB ASC 805-20 (Business Combinations) requires corporate acquirers to recognize, separately from goodwill, intangible assets that meet either a separability or contractual-legal criterion. Establishing the initial value for such intangible assets typically involves estimating cash flows to be derived from the assets and discounting the cash flows back to the acquisition date. Significant judgment is required in estimating future cash flows, selecting discount rates and determining useful lives over which to amortize the assets. In connection with recent corporate acquisitions, IEC has established intangible assets for customer relationships, a property-tax abatement, and a non-compete agreement. During the fourth quarter of fiscal 2013, we recorded an impairment charge of \$2.4 million related to SCB's customer relationships. The impairment analysis and resulting charge is further discussed in Note 7—Intangible Assets.

Goodwill: Goodwill represents the excess of cost over fair value of net assets acquired in a corporate acquisition. Under ASC 350, goodwill is not amortized but is required to be reviewed for impairment at least annually or when events or circumstances indicate that carrying value may exceed fair value. The review process entails comparing the overall fair value of the unit to which goodwill relates to carrying value. If fair value exceeds carrying value, no goodwill write-down 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. Quantitative evaluations of goodwill may be avoided if qualitative assessments indicate a greater-than-50 percent likelihood that fair value of the corresponding unit exceeds its carrying value. During the fourth quarter of fiscal 2013, we recorded an impairment charge of \$11.8 million related to SCB's goodwill. The impairment analysis and resulting charge is further discussed in Note 8—Goodwill to the consolidated financial statements included in this Form 10-K/A.

Derivative Financial Instruments: We actively monitor exposure to interest rate risk and from time to time use derivative financial instruments to manage the impact of this risk. We use derivatives only for purposes of managing risk associated with underlying exposures. We do not trade or use instruments with the objective of earning financial gains on the interest rate, nor do we use derivative instruments where we do not have underlying exposures. We manage our hedging position and monitor the credit ratings of counterparties and do not anticipate losses due to counterparty nonperformance. We believe our use of derivative instruments to manage risk is in the Company's best interest. However, our use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. Our derivative instruments are recorded in the consolidated balance sheets at fair value in other assets or other long-term liabilities.

Impairment of long-lived assets: FASB ASC 360-10 (Property, Plant and Equipment) and 350-30 (Intangibles) require the Company to test long-lived assets (PP&E and amortizing intangible 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 carrying amount must be reduced to fair value.

Legal contingencies: When legal proceedings are brought or claims are made against us and the outcome is uncertain, FASB ASC 450-10 (Contingencies) requires that we accrue an estimated loss if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Any such accruals

are charged to earnings.

Disclosure of a contingency is required if there is at least a reasonable possibility that a loss will be incurred. In determining whether to accrue or disclose a loss, we evaluate, among other factors, the probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount. Changes in these factors may materially affect our financial position or results of operations.

Income taxes: FASB ASC 740 (Income Taxes) describes the manner in which income taxes are to be provided for in the Company's financial statements. We are required to recognize (i) the amount of taxes payable or refundable for the current period and (ii) deferred tax assets and liabilities for the future tax consequences of events that have been reported in IEC's financial statements or tax returns. With respect to uncertain positions that may be taken on a tax return, we recognize related tax benefits only if it is more likely than not that the position will be sustained under examination based on the technical merits of the position. We evaluate whether, based on all available evidence, our deferred income tax assets will be realizable. Valuation allowances are established when it is estimated that it is more likely than not that the tax benefit of a deferred tax asset will not be realized. The determination of income tax balances for financial statement purposes requires significant judgment, and actual outcomes may vary from the amounts recorded.

Recently Issued Accounting Standards

Information with respect to recently issued accounting standards is provided in Note 1—Our Business and Summary of Significant Accounting Policies.

Item 7A. 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 September 30, 2014, the Company had \$31.4 million of debt, comprised of \$22.0 million with variable interest rates and \$9.4 million with fixed interest rates. Interest rates on variable loans are based on London interbank offered rate (“Libor”). The Company is party to a swap transaction that effectively fixes an additional \$11.8 million of debt, which increased the portion of debt with effectively fixed interest rates from \$9.4 million to \$21.2 million at September 30, 2014. The credit facilities and related swap transaction are more fully described in Note 9—Credit Facilities and Note 10—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 a December 2013 amendment to the 2013 Credit Agreement 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 February 2014 amendment to the 2013 Credit Agreement 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 based on Libor currently adjust daily, causing interest on such loans to vary from period to period. A sensitivity analysis as of September 30, 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 rates and sensitivity analysis noted above exclude the impact of the swap transaction.

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 described above. M&T Bank’s credit rating (reaffirmed A- by Fitch in October 2014) 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements are included in this Item 8 on the pages indicated below:

	Page
Reports of Independent Registered Public Accounting Firms	50
Consolidated Balance Sheets as of September 30, 2014 and 2013	52

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Consolidated Income Statements for the three months and years ended September 30, 2014 and 2013	53
Consolidated Statements of Changes in Stockholders' Equity for the years ended September 30, 2014 and 2013	54
Consolidated Statements of Cash Flows for the years ended September 30, 2014 and 2013	55
Notes to Consolidated Financial Statements	56

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of IEC Electronics Corp.

We have audited the accompanying consolidated balance sheet of IEC Electronics Corp. and Subsidiaries as of September 30, 2013 and the related consolidated income statement, changes in stockholders' equity, and cash flows for the year then ended. IEC Electronics Corp.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IEC Electronics Corp. and Subsidiaries as of September 30, 2013 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
December 24, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheet of IEC Electronics Corp. as of September 30, 2014, and the related statements of operations, changes in stockholders' equity, and cash flows for the year ended September 30, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2014, and the results of its operations and its cash flows for the year ended September 30, 2014, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the financial statements, the 2014 financial statements have been restated to correct a misstatement.

/s/ Crowe Horwath LLP

New York, New York
May 11, 2015

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

	September 30, 2014 (restated)	September 30, 2013
ASSETS		
Current assets:		
Cash	\$1,980	\$2,499
Accounts receivable, net of allowance	22,347	27,945
Inventories, net	22,526	21,904
Deferred income taxes	—	1,382
Other current assets	3,597	610
Total current assets	50,450	54,340
Fixed assets, net	17,850	17,946
Intangible assets, net	2,392	2,647
Goodwill	2,005	2,005
Deferred income taxes	—	11,652
Other long term assets	299	345
Total assets	\$72,996	\$88,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$2,908	\$2,778
Accounts payable	17,732	16,508
Accrued payroll and related expenses	3,203	2,464
Other accrued expenses	1,008	811
Customer deposits	1,553	187
Total current liabilities	26,404	22,748
Long-term debt	28,479	34,026
Other long-term liabilities	708	167
Total liabilities	55,591	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: 11,146,571 and 11,006,749 shares, respectively Outstanding: 10,126,767 and 9,991,291 shares, respectively	111	110
Additional paid-in capital	44,302	43,802
Retained earnings/(accumulated deficit)	(25,554	) (10,483
Treasury stock, at cost: 1,019,804 and 1,015,458 shares, respectively	(1,454	) (1,435
Total stockholders' equity	17,405	31,994

Total liabilities and stockholders' equity	\$72,996	\$88,935
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The accompanying notes are an integral part of these consolidated financial statements.

52

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
THREE MONTHS AND YEARS ENDED SEPTEMBER 30, 2014 and 2013
(in thousands, except share and per share data)

	Three Months Ended		Years Ended	
	September 30, 2014 (unaudited) (restated)	September 30, 2013	September 30, 2014 (restated)	September 30, 2013
Net sales	\$35,687	\$39,122	\$135,621	\$140,946
Cost of sales	32,179	33,668	120,297	123,269
Gross profit	3,508	5,454	15,324	17,677
Selling and administrative expenses	3,551	3,761	14,567	15,453
Impairment of goodwill and other intangibles	—	14,217	—	14,217
Restatement and related expenses	(1,302)	) 625	1,136	1,842
Operating profit/(loss)	1,259	(13,149)	) (379)	) (13,835)
Interest and financing expense	386	522	1,795	1,170
Other expense/(income)	—	—	18	47
Income/(loss) before income taxes	873	(13,671)	) (2,192)	) (15,052)
Provision for/(benefit from) income taxes	(161)	) (5,004)	) 12,879	) (5,522)
Net income/(loss)	\$1,034	\$(8,667)	) \$(15,071)	) \$(9,530)
Net income/(loss) per common and common equivalent share:				
Basic	\$0.10	\$(0.89)	) \$(1.53)	) \$(0.98)
Diluted	0.10	(0.89)	) (1.53)	) (0.98)
Weighted average number of common and common equivalent shares outstanding:				
Basic	9,853,647	9,739,601	9,827,043	9,711,549
Diluted	9,950,634	9,739,601	9,827,043	9,711,549

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS of CHANGES in STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2014 and 2013
(in thousands)

	Common Stock, par \$0.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, September 30, 2012, restated	\$ 109	\$43,075	\$ (953)	\$ (1,435)	\$40,796
Net loss	—	—	(9,530)	—	(9,530)
Stock-based compensation	—	589	—	—	589
Forfeitures	(1)	1	—	—	—
Directors' fees paid in stock	—	10	—	—	10
Restricted (non-vested) stock grants	2	(2)	—	—	—
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, September 30, 2013	\$ 110	\$43,802	\$ (10,483)	\$ (1,435)	\$31,994
	Common Stock, par \$0.01	Additional Paid-In Capital	Retained Earnings (Deficit) (restated)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, September 30, 2013	\$ 110	\$43,802	\$ (10,483)	\$ (1,435)	\$31,994
Net loss	—	—	(15,071)	—	(15,071)
Stock-based compensation	—	542	—	—	542
Restricted (non-vested) stock grants, net of forfeitures	1	(1)	—	—	—
Exercise of stock options	—	38	—	(19)	19
Shares withheld for payment of taxes upon vesting of restricted stock	—	(79)	—	—	(79)
Balances, September 30, 2014	\$ 111	\$44,302	\$ (25,554)	\$ (1,454)	\$17,405

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS of CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2014 and 2013
(in thousands)

	Years Ended September 30, 2014 (restated)	September 30, 2013	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income/(loss)	\$(15,071	) \$(9,530)
Non-cash adjustments:			
Stock-based compensation	542	589	
Depreciation and amortization	4,846	4,795	
Impairment of goodwill and other intangibles	—	14,217	
Directors' fees paid in stock	—	10	
(Gain)/loss on sale of fixed assets	2	(8)
Reserve for doubtful accounts	73	105	
Deferred tax expense/(benefit)	13,034	(5,651)
Changes in assets and liabilities:			
Accounts receivable	5,525	(4,857)
Inventory	(622	) (4,207)
Other current assets	(2,987	) (209)
Other long term assets	15	(264)
Accounts payable	902	811	
Accrued expenses	936	(347)
Customer deposits	1,366	41	
Other long term liabilities	541	167	
Net cash flows from operating activities	9,102	(4,338)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of fixed assets	(4,465	) (5,103)
Proceeds from disposal of fixed assets	323	21	
Net cash flows from investing activities	(4,142	) (5,082)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Advances from revolving line of credit	56,016	60,815	
Repayments of revolving line of credit	(59,846	) (47,266)
Borrowings under other loan agreements	1,300	24,000	
Repayments under other loan agreements	(2,887	) (28,382)
Debt issuance costs	(2	) (39)
Proceeds from exercise of stock options	19	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	(5,479	) 9,257	
Net increase/(decrease) in cash and cash equivalents	(519	) (163)
Cash and cash equivalents, beginning of period	2,499	2,662	
Cash and cash equivalents, end of period	\$1,980	\$2,499	

Supplemental cash flow information:

Interest paid	\$1,556	\$1,176
Income taxes paid	9	367

Non-cash transactions:

Fixed assets purchased with extended payment terms	322	—
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The accompanying notes are an integral part of these consolidated financial statements.

55

IEC ELECTRONICS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 and 2013

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 and Testing Laboratories, LLC.

- 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.

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 7—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 2014 or fiscal 2013. Refer to Note 7—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 8—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 were recorded by IEC during fiscal 2014 or fiscal 2013.

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 2014 or fiscal 2013.

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 2014 or fiscal 2013.

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 Prior 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 ESPP was reinstated effective October 1, 2014.

Restatement and Related Expenses

As further discussed in Note 2—Prior Restatement of SCB Work-In-Process Inventory, the Company restated its 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 Form 10-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 "Prior Restatement"). As discussed further in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve, the Company also restated its consolidated financial statements for the fiscal year ended September 30, 2014 and its interim financial statements for each quarterly period within the year ended September 30,

2014, included in the Company's Annual Report on Form 10-K/A to correct an error in the valuation allowance on deferred income tax assets as well as an error in estimate excess and obsolete inventory reserves (the "2014 Restatements"). The Prior Restatement and the 2014 Restatements together are referred to as the "Restatements".

Restatement and related expenses represents third-party expenses arising from the Prior Restatement. These expenses include legal and accounting fees incurred by the Company from external counsel and independent accountants directly attributable to the Prior Restatement as well as other matters arising from the Prior Restatement including those more fully described in Note 18—Litigation. The Company receives reimbursement for certain of these expenses which may result in a benefit in a given period. The Company receives reimbursement for certain expenses related to the Prior Restatement which may result in a benefit in a given period. No Restatement and related expenses have been incurred through the fourth quarter of fiscal 2014 related to the 2014 Restatements.

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 2013. The federal income tax audit for fiscal 2011 concluded in fiscal 2013 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		Years Ended	
	September 30, 2014 (unaudited)	September 30, 2013 (restated)	September 30, 2014	September 30, 2013
Weighted average shares outstanding	9,853,647	9,739,601	9,827,043	9,711,549
Incremental shares	96,987	—	—	—
Diluted shares	9,950,634	9,739,601	9,827,043	9,711,549
Anti-dilutive shares excluded	556,873	521,857	556,873	521,857

As a result of the net loss for the three months ended September 30, 2013 and years ended September 30, 2014 and 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

60

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.

FASB ASU 2014-15, "Presentation of Financial Statements-Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which was issued September 2014. This provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of

61

the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Company does not anticipate a significant impact upon adoption.

Note 2—PRIOR RESTATEMENT OF SCB WORK-IN-PROCESS INVENTORY

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 Form 10-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 "Prior Restatement").

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—FISCAL 2014 RESTATEMENT OF DEFERRED TAX ASSET VALUATION ALLOWANCE AND EXCESS AND OBSOLETE INVENTORY RESERVE

The Consolidated Balance Sheet at September 30, 2014 and Consolidated Statements of Income, Changes in Stockholders' Equity and Cash Flows for the year then ended have been restated.

The summary impacts of the restatement adjustments on the Company's previously reported consolidated net loss for the year ended September 30, 2014 follows:

	Year Ended September 30, 2014	
(in thousands)		
Net loss - Previously reported	\$(2,092)
Deferred tax asset valuation allowance adjustment	(12,258)
Excess and obsolete inventory reserve adjustment	(721)
Net loss - Restated	\$(15,071)

While closing the first quarter of fiscal 2015, the Company revisited its assessment of realizability of deferred tax assets and identified an error in interpretation of the guidance for the valuation allowance on deferred tax assets.

The Company performed a realizability assessment for the fourth quarter of fiscal 2014 and came to the conclusion that there was no additional valuation allowance required on federal deferred tax assets; however, due to a change in New York State tax laws which reduces the State tax rate for qualified manufacturers to 0% for IEC's fiscal year ended September 30, 2015, the valuation allowance was increased by \$1.1 million to fully reserve for New York State deferred tax assets.

This conclusion regarding federal deferred tax assets at the time of the fourth quarter of fiscal 2014 assessment was based on the Company's evaluation of the negative and positive evidence available at that time. The Company's cumulative loss in recent years was considered; however, the Company determined that the goodwill and intangibles impairment charge taken in the fourth quarter of fiscal 2013 should be excluded when weighing the evidence. Positive evidence included taxable income each year beginning in 2004 through 2013, forecasted results and backlog. At the time of our Original 2014 Form 10-K filing, there was forecasted pre-tax income for fiscal 2015 and earnings growth was forecasted in subsequent years. The Company's Federal net operating losses ("NOLs") do not begin to expire until 2022. As aggregate future taxable income was expected to exceed Federal NOLs, it was concluded that realizability of these was more likely than not. In addition, future taxable income was expected to exceed the amount of Federal NOLs and deferred tax assets expected to reverse in future years combined. As such, there was no additional valuation allowance recorded for federal deferred tax assets.

During the process of closing the first quarter of fiscal 2015, the Company revisited its determination regarding the valuation of its deferred tax assets. After consulting applicable accounting guidance and interpretations thereof, the Company determined that the impairment charge should not have been excluded from the cumulative loss calculation. Once a cumulative three year loss is identified, it is very difficult to overcome this negative evidence. IEC does not believe there is enough positive evidence to outweigh the cumulative three year loss. Based on this interpretation, a full valuation allowance should be recorded beginning in the second quarter of fiscal 2014, which is when the Company first accumulated a three year loss. As such, an error in the valuation allowance on deferred income tax assets has been identified resulting in an understatement of tax expense and overstatement of deferred tax assets. The Company determined this error was material and required restatement of fiscal 2014 as well as the second, third and fourth quarters of fiscal 2014.

The Company also performed additional analysis related to its excess and obsolete inventory reserves. This analysis identified an error in the Albuquerque and SCB operating locations. The Company discovered that not all pertinent information was factored into the excess and obsolete inventory reserve estimates during fiscal 2014.

During fiscal 2014, given the time that has passed since SCB was acquired in December 2010, the Company should have factored in the age of SCB's inventory and its demand when estimating its excess and obsolete inventory reserve. Instead, the Company employed an approach that factored in the usage of the inventory since the SCB acquisition date and estimated a general reserve for remaining inventory. The restated excess and obsolete inventory reserve for SCB is based on an analysis that appropriately incorporates the age of SCB's inventory and its demand and involves the review of specific inventory items with a large extended value. This additional analysis was performed consistently for all items, regardless of whether they were purchased before or after the date the Company acquired SCB.

The Albuquerque excess and obsolete inventory reserve as originally reported did not take into consideration facts and circumstances related to certain customer programs. The Company's methodology was applied consistently, however, the rigor around the analysis of excess inventory did not take into account certain customer information that was available at the time. As a result, the Company concluded the inventory on hand for these customer programs was not adequately reserved for.

Note 4—ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary follows of activity in the allowance for doubtful accounts during the years ended September 30, 2014 and 2013:

	Years Ended	
	September 30, 2014	September 30, 2013
Allowance for Doubtful Accounts		
(in thousands)		
Allowance, beginning of period	\$452	\$406
Provision for doubtful accounts	121	105
Write-offs	(48	) (59
Allowance, end of period	\$525	\$452

Note 5—INVENTORIES

A summary of inventory by category at period end follows:

	September 30, 2014	September 30, 2013
Inventories		

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(in thousands)	(restated)	
Raw materials	\$16,769	\$14,841
Work-in-process	7,906	7,564
Finished goods	757	1,449
Total inventories	25,432	23,854
Reserve for excess/obsolete inventory	(2,906	) (1,950
Inventories, net	\$22,526	\$21,904

The Company has restated its excess and obsolete inventory reserve. The restatement is further discussed in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve.

Note 6—FIXED ASSETS

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

Fixed Assets	September 30, 2014	September 30, 2013
(in thousands)		
Land and improvements	\$1,601	\$1,601
Buildings and improvements	13,452	11,070
Leasehold improvements	1,458	1,411
Machinery and equipment	26,996	25,963
Furniture and fixtures	7,207	6,165
Construction in progress	381	835
Total fixed assets, at cost	51,095	47,045
Accumulated depreciation	(33,245	) (29,099)
Fixed assets, net	\$17,850	\$17,946

Depreciation expense during the three months ended and years ended September 30, 2014 and 2013 follows:

(in thousands)	Three Months Ended		Years Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Depreciation expense	\$1,152	\$1,103	\$4,558	\$4,264

Results of the impairment analysis in the fourth quarter of fiscal 2013 related to the SCB reporting unit, more fully described in Note 7—Intangible Assets and Note 8—Goodwill, did not result in a fixed asset impairment as undiscounted cash flows exceeded the carrying value of the assets.

Note 7—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 8—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 8—Goodwill. The projections did 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 8—Goodwill.

There has been no further impairment of SCB customer relationships in 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)	September 30, 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	(1,556)	(1,301)
Accumulated impairment - customer relationships	(2,412)	(2,412)
Intangible assets, net	\$2,392	\$2,647

Amortization expense during the years ended September 30, 2014 and September 30, 2013 follows:

Amortization Expense (in thousands)	Three Months Ended		Years Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Intangible amortization expense	\$64	\$113	\$254	\$452

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

Future Amortization (in thousands)	Estimated future amortization
Twelve months ended September 30, 2015	\$254
2016	238
2017	234
2018	234
2019	213
2020 and thereafter	\$1,219

Note 8—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.

After 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 included planned operational efficiencies, reduction of square footage leased and reduction of personnel, administrative, selling and other discretionary costs. These changes began 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 was no further impairment of SCB goodwill during 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:

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

Note 9—CREDIT FACILITIES

A summary of borrowings at period end follows:

Debt (in thousands)	Fixed/ Variable Rate	Maturity Date	September 30, 2014		September 30, 2013		
			Balance	Interest Rate (1)	Balance	Interest Rate (1)	
M&T credit facilities:							
Revolving Credit Facility	v	1/18/2016	\$7,431	4.44	% \$11,261	3.19	%
Term Loan A	f	2/1/2022	8,148	3.98	9,259	3.98	
Term Loan B	v	2/1/2023	11,783	3.41	13,184	2.68	
Albuquerque Mortgage Loan	v	2/1/2018	2,733	4.69	3,000	3.44	
Celmet Building Term Loan	f	11/7/2018	1,192	4.72	—	—	
Other credit facilities:							
Albuquerque Industrial Revenue Bond	f	3/1/2019	100	5.63	100	5.63	
Total debt			31,387		36,804		
Less: current portion			(2,908	)	(2,778)	
Long-term debt			\$28,479		\$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. Based on the

calculation described above, at September 30, 2014, the Company was able to borrow up to \$20.0 million on the Revolver. Average available balances amounted to \$11.0 million and \$12.8 million during the years ended September 30, 2014 and 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 \$55 thousand and \$36 thousand

during the years ended September 30, 2014 and 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.

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

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

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 Prior 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 September 30, 2014 and 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 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. As a result of the 2014 Restatements as described in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve, the Company was in default of the Credit Agreement for failure to deliver financial statements prepared in accordance with GAAP. The Company received a waiver from M&T regarding this event of default.

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 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 Amendments and the 2014 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:

- 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.
- a) 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 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.

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 f) 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.

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

Seller Notes: The May 2008 acquisition of Val-U-Tech Corp., which was renamed IEC Electronics Wire and Cable, Inc. (“Wire and Cable”) in 2009, 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.

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.

All Facilities

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 Sept 30, 2015	\$2,908
2016 ⁽¹⁾	10,339
2017	2,908
2018	4,574
2019	3,283
2020 and thereafter	\$7,375
	\$31,387

⁽¹⁾ Includes Revolver balance of \$7.4 million at September 30, 2014

Note 10—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 the 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 9—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 and \$0.3 million at September 30, 2014 and 2013, respectively, 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 periods ended September 30, 2014 and 2013 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 September 30, 2014 and 2013, respectively.

Note 11—FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Carried at Fair Value

The Company's Swap Transaction is recorded on the balance sheet as either an asset or a liability measured at fair value. The Company estimates the fair value of the Swap Transaction based on Level 2 valuation inputs, including fixed interest rates, Libor implied forward interest rates and the remaining time to maturity. At September 30, 2014, the Swap Transaction was 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 September 30, 2014 were \$6.9 million and \$8.1 million, respectively. The fair value and carrying value of Celmet Building Term Loan at September 30, 2014 was \$1.0 million and \$1.2 million, respectively. The fair value of the remainder of the Company's debt approximated carrying value at September 30, 2014 as it is variable rate debt. The fair value and carrying value of Term Loan A at September 30, 2013 were \$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 12—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:

	Years Ended	
	September 30,	September 30,
	2014	2013
Warranty Reserve		
(in thousands)		
Reserve, beginning of period	\$219	\$388
Provision	296	13
Warranty costs	(264	) (182
Reserve, end of period	\$251	\$219

Note 13—DEFERRED GRANTS

The Company received grants for certain facility improvements and equipment 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. Deferred grants of \$0.7 million and \$0.2 million were recorded during the years ended September 30, 2014 and 2013, respectively.

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 specified 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 received a government grant for the purchase of equipment upgrades to accommodate existing and anticipated business growth. Required employment targets for this grant have been met as of September 30, 2014.

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 are amortized over the useful lives of the related fixed assets when there is reasonable assurance that the Company will meet the employment targets.

Grant amortization expense during the three months ended and years ended September 30, 2014 and 2013 follows:

	Three Months Ended		Years Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
(in thousands)	(unaudited)			
Grant amortization expense	\$144	\$17	\$158	\$17

Note 14—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 \$0.5 million and \$0.6 million for the years ended September 30, 2014 and September 30, 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 years ended September 30, 2014 and 2013 follows:

Valuation of Options	Years Ended			
	September 30, 2014		September 30, 2013	
Assumptions for Black-Scholes:				
Risk-free interest rate	1.32	%	0.55	%
Expected term in years	4.1		4.0	
Volatility	48	%	49	%
Expected annual dividends	none		none	
Value of options granted:				
Number of options granted	50,500		50,000	
Weighted average fair value per share	\$1.62		\$2.65	
Fair value of options granted (000s)	\$82		\$133	

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

Stock Options	Years Ended September 30, 2014		September 30, 2013	
	Number of Options	Wgtd. Avg. Exercise Price	Number of Options	Wgtd. Avg. Exercise Price
Outstanding, beginning of period	246,383	\$4.38	280,789	\$3.82
Granted	50,500	4.12	50,000	6.91
Exercised	(23,237)	) 1.53	(30,150)	) 2.00
Shares withheld for payment of taxes upon exercise of stock option	(4,346)	) 1.72	—	—
Forfeited	(29,350)	) 5.73	(45,756)	) 5.52
Expired	(5,950)	) 5.11	(8,500)	) 2.01
Outstanding, end of period	234,000	\$4.48	246,383	\$4.38
For options expected to vest				
Number expected to vest	212,455	\$4.47	234,967	\$4.29
Weighted average remaining term, in years	3.2		3.5	
Intrinsic value (000s)		\$173		\$168
For exercisable options				
Number exercisable	121,650	\$3.64	108,033	\$2.36
Weighted average remaining term, in years	1.7		1.8	
Intrinsic value (000s)		\$161		\$168
For non-exercisable options				
Expense not yet recognized (000s)		\$145		\$194
Weighted average years to be recognized	2.6		2.5	
For options exercised				
Intrinsic value (000s)		\$69		\$131

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

Stock Options	Years Ended September 30, 2014		September 30, 2013	
	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	50,500	1.62	50,000	2.65
Vested	(47,150)	) 2.51	(23,044)	) 2.26
Forfeited	(29,350)	) 2.35	(45,756)	) 2.51
Non-vested, end of period	112,350	\$2.15	138,350	\$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:

	Years Ended		September 30, 2013	
	September 30, 2014		September 30, 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	\$5.69
Granted	225,703	4.14	90,708	6.82
Vested	(88,586)	) 5.71	(58,372)	) 5.45
Shares withheld for payment of taxes upon vesting of restricted stock	(18,615)	) 4.28	(4,441)	) 4.70
Forfeited	(71,103)	) 5.88	(92,360)	) 6.15
Outstanding, end of period	322,873	\$4.97	275,474	\$5.96
For non-vested shares				
Expense not yet recognized (000s)		\$862		\$811
Weighted average remaining years for vesting		2.7		2.8
For shares vested				
Aggregate fair value on vesting dates (000s)		\$454		\$388

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 Prior 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 ESPP was reinstated effective October 1, 2014. There were no employee contributions or compensation expense recognized under the ESPP during the year ended September 30, 2014. Employee contributions to the plan, net of withdrawals were \$49 thousand for the year ended September 30, 2013. Compensation expense recognized under the ESPP was \$5 thousand for the year ended September 30, 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 Prior 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, and has not paid, any

meeting fees in stock during the period since May 21, 2013. During the fiscal year ended September 30, 2013, before the Prior Restatement, 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 fiscal year ended September 30, 2013.

Note 15—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. During 2014, for one location, the Company contributed 25% of the first 6% contributed by employees. During the fourth quarter of fiscal 2014, the Company also contributed 25% of the first 6% contributed by all employees at other locations. Contributions during the year ended September 30, 2014 totaled \$82 thousand. During 2013, for one location, the Company contributed 25% of the first 6% contributed by employees. Company contributions totaled \$35 thousand at this location during the year ended September 30, 2013. There were no other Company contributions made in 2013.

Note 16—INCOME TAXES

Provision for/(benefit from) income taxes during the years ended September 30, 2014 and 2013 follows:

Income Tax Provision (in thousands)	Years Ended	
	September 30, 2014 (restated)	September 30, 2013
Current tax:		
State	\$(111)	\$209
Federal	(44)	(80)
Deferred tax:		
State	1,493	(557)
Federal	11,541	(5,094)
Provision for/(benefit from) income taxes	\$12,879	\$(5,522)

Differences between the federal statutory rate and IEC's effective tax rates for 2014 and 2013 are explained by the following reconciliation.

Taxes as Percent of Pretax Income	Years Ended	
	September 30, 2014 (restated)	September 30, 2013
Federal statutory rate	(34.0)%	(34.0)%
Increase in valuation allowance	620.3 %	— %
Decrease in state deferred tax rate	8.3 %	— %
State income taxes, net of federal benefit	(5.1)%	(2.3)%
Decrease/(increase) in tax credits	(3.6)%	(1.3)%
IRS audit and other federal refunds	(1.5)%	0.6 %
Other	3 %	0.3 %
Income tax provision/(benefit) as percent of pretax income	587.4 %	(36.7)%

The following table displays deferred tax assets by category:

Deferred Income Taxes (in thousands)	Years Ended	
	September 30, 2014 (restated)	September 30, 2013
Deferred tax assets:		
Net operating loss carryforward	\$5,925	\$5,913
Alternative minimum tax credit carryforward	949	870
Depreciation and fixed assets	1,099	250
Amortization and impairment of intangibles	3,178	3,610
New York State investment tax & other credits	1,186	1,186
Inventories	1,041	737
Other	679	923
Total before allowance	14,057	13,489
Valuation allowance	(14,057)	(455)
Deferred tax assets, net	—	13,034
Net deferred income taxes (current and deferred)	\$—	\$13,034

IEC has federal net operating loss carryforwards (“NOLs”) for income tax purposes of approximately \$16.3 million at September 30, 2014, expiring mainly in years 2021 through 2025, with a small portion expiring in 2034.

At September 30, 2014, the Company also has state NOLs of \$27.7 million, expiring mainly in years 2021 through 2025 and \$1.2 million of New York State investment tax and other credit carryforwards, expiring in various years through 2028. The credits cannot be utilized until the New York NOL is exhausted. Recent New York state corporate tax reform has resulted in the reduction of the business income base rate for qualified manufactures in New York state to 0% beginning in fiscal 2015 for IEC. As a result of this legislation, it is more likely than not that the New York state NOLs and credits will not be realized. The Company increased the valuation allowance during fiscal 2014 to fully offset all state NOLs and state tax credits. If the NOLs or credits expire unused, the related deferred tax asset and offsetting valuation allowance will be reduced.

The Company restated its second quarter of fiscal 2014 to record a full valuation allowance on all deferred tax assets. In addition, the Company restated its excess and obsolete inventory reserve. The increase in the excess and obsolete inventory reserve resulted in an increased deferred tax asset. These restatements are further discussed in Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve.

Note 17—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		Years Ended	
	September 30, 2014 (unaudited)	September 30, 2013	September 30, 2014	September 30, 2013
Aerospace & Defense (previously Military & Aerospace)	46%	49%	49%	51%
Medical	23%	20%	20%	20%
Industrial	26%	22%	25%	21%
Communications & Other	5%	9%	6%	8%
	100%	100%	100%	100%

Two individual customers represented 10% or more of sales for the year ended September 30, 2014. One customer in the Industrial sector represented 16% of sales and one customer in the Medical sector represented 14% of sales. In the prior fiscal year, one customer in the Industrial sector represented 15% of sales. Two individual customers represented 10% or more of receivables and accounted for 33% of outstanding balances at September 30, 2014. At September 30, 2013 one individual customer represented 10% or more of receivables and accounted for 13% of such outstanding balances.

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 18—LITIGATION

As discussed in Note 2—Prior Restatement of SCB Work-In-Process Inventory above, the Company restated its financial statements. In connection with the Prior 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 Prior Restatement and other matters. The Company is unable to predict what action, if any, might be taken in the future by the SEC or its staff as a result of the investigation or what impact the cost of responding to the SEC might have on the Company's financial position, results of operations, or cash flows. The previously reported amended complaint in the 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 was dismissed in its entirety without right to replead. The Court's opinion and order granting the motion to dismiss was issued on September 11, 2014, and the judgment dismissing the complaint and closing the case was entered on September 12, 2014.

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-K/A, individually or in the aggregate, will have material adverse effect on the Company's consolidated financial position.

Note 19—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 ended September 30,	
2015	\$333
2016	328
2017	287
2018	276
2019	5

Rent expense during the three months ended and years ended September 30, 2014 and September 30, 2013 follows:

Rent Expense	Three Months Ended		Years Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013

(in thousands)	(unaudited)			
Rent expense	\$118	\$161	\$457	\$1,107

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-K/A, the Company expects to exceed minimum purchase requirements under the agreement, thereby avoiding any termination fee.

Note 20—QUARTERLY FINANCIAL DATA (UNAUDITED)

The accompanying unaudited financial information for the three month periods specified below 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.

Key financial data for quarterly periods in fiscal years ended September 30, 2014 and 2013 as restated, is presented in the table below. For further information regarding the Restatements, see Note 2—Prior Restatement of SCB Work-In-Process Inventory and Note 3—Fiscal 2014 Restatement of Deferred Tax Asset Valuation Allowance and Excess and Obsolete Inventory Reserve. The remaining tables present the effects of adjustments made to our previously reported unaudited consolidated quarterly financial information for the first, second, third and fourth quarters in the fiscal year ended September 30, 2014.

It should be noted that quarterly amounts are rounded separately and as a result the sum of the quarterly amounts may not equal the computed amount for the full year.

	Net Sales	Gross Profit	Net Income/(Loss)	Basic Earnings/ (Loss) Per Share	Diluted Earnings/ (Loss) Per Share
(Unaudited; in thousands, except per share data)					
Fiscal Quarters					
Fourth 2014, restated	\$35,687	\$3,508	\$1,034	\$0.10	\$0.10
Third 2014, restated	32,992	3,795	(60)	(0.01)	(0.01)
Second 2014, restated	34,805	4,644	(14,714)	(1.50)	(1.50)
First 2014, restated	\$32,138	3,378	\$(1,331)	\$(0.14)	(0.14)
Fourth 2013	\$39,122	\$5,454	\$(8,667)	\$(0.89)	\$(0.89)
Third 2013	35,154	5,159	382	0.04	0.04
Second 2013	33,681	2,899	(1,144)	(0.12)	(0.12)
First 2013, restated	32,989	4,165	(101)	(0.01)	(0.01)

Consolidated Balance Sheet

September 30, 2014

	As reported	Adjustment (in thousands)	Restated
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ASSETS

Current assets:

Cash	\$ 1,980		\$ 1,980
Accounts receivable, net of allowance	22,347		22,347
Inventories, net	23,247	(721)	22,526
Deferred income taxes	1,114	(1,114)	—
Other current assets	3,597		3,597
Total current assets	52,285	(1,835)	50,450

Fixed assets, net	17,850		17,850
Intangible assets, net	2,392		2,392
Goodwill	2,005		2,005
Deferred income taxes	11,144	(11,144)	—
Other long term assets	299		299

Total assets	\$ 85,975	\$(12,979)	\$ 72,996
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt	\$ 2,908		\$ 2,908
Accounts payable	17,732		17,732
Accrued payroll and related expenses	3,203		3,203
Other accrued expenses	1,008		1,008
Customer deposits	1,553		1,553
Total current liabilities	26,404	—	26,404

Long-term debt	28,479		28,479
Other long-term liabilities	708		708
Total liabilities	55,591	—	55,591

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: 11,146,571 shares

Outstanding: 10,126,767 shares

Additional paid-in capital	44,302		44,302
Retained earnings/(accumulated deficit)	(12,575)	(12,979)	(25,554)
Treasury stock, at cost: 1,019,804 shares	(1,454)		(1,454)
Total stockholders' equity	30,384	(12,979)	17,405
Total liabilities and stockholders' equity	\$ 85,975	\$(12,979)	\$ 72,996

Consolidated Balance Sheet

June 27, 2014

	As reported	Adjustment (in thousands)	Restated
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ASSETS

Current assets:

Cash	\$ 679		\$ 679
Accounts receivable, net of allowance	23,245		23,245
Inventories, net	21,152	(443)	20,709
Deferred income taxes	1,382	(1,382)	—
Other current assets	2,107		2,107
Total current assets	48,565	(1,825)	46,740
Fixed assets, net	\$ 18,489		\$ 18,489
Intangible assets, net	2,456		2,456
Goodwill	2,005		2,005
Deferred income taxes	12,634	(12,634)	—
Other long term assets	238		238
Total assets	\$ 84,387	\$(14,459)	\$ 69,928

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt	\$ 2,908		\$ 2,908
Accounts payable	14,340		14,340
Accrued payroll and related expenses	2,869		2,869
Other accrued expenses	947		947
Customer deposits	928		928
Total current liabilities	21,992	—	21,992
Long-term debt	31,578		31,578
Other long-term liabilities	153		153
Total liabilities	53,723	—	53,723

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 shares

Outstanding: 10,053,956 shares

Additional paid-in capital	44,132		44,132
Retained earnings/(accumulated deficit)	(12,129)	(14,459)	(26,588)
Treasury stock, at cost: 1,018,865 shares	(1,450)		(1,450)
Total stockholders' equity	30,664	(14,459)	16,205
Total liabilities and stockholders' equity	\$ 84,387	\$(14,459)	\$ 69,928

Consolidated Balance Sheet

March 28, 2014

As reported	Adjustment (in thousands)	Restated
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ASSETS

Current assets:

Cash	\$ 652		\$ 652
Accounts receivable, net of allowance	25,083		25,083
Inventories, net	20,103	(358	) 19,745
Deferred income taxes	1,382	(1,382) —
Other current assets	1,124		1,124
Total current assets	48,344	(1,740	) 46,604
Fixed assets, net	\$ 19,261		\$ 19,261
Intangible assets, net	2,520		2,520
Goodwill	2,005		2,005
Deferred income taxes	12,637	(12,637) —
Other long term assets	339		339
Total assets	\$ 85,106	\$(14,377	) \$ 70,729

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt	\$ 2,908		\$ 2,908
Accounts payable	15,304		15,304
Accrued payroll and related expenses	2,557		2,557
Other accrued expenses	960		960
Customer deposits	438		438
Total current liabilities	22,167	—	22,167
Long-term debt	32,229		32,229
Other long-term liabilities	158		158
Total liabilities	54,554	—	54,554

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: 11,107,115 shares

Outstanding: 10,090,661 shares

Additional paid-in capital	44,032		44,032
Retained earnings/(accumulated deficit)	(12,152	) (14,377	) (26,529
Treasury stock, at cost: 1,016,454 shares	(1,440	) (14,377	) (1,440
Total stockholders' equity	30,552	(14,377	) 16,175
Total liabilities and stockholders' equity	\$ 85,106	\$(14,377	) \$ 70,729

Consolidated Balance Sheet

December 27, 2013

	As reported	Adjustment (in thousands)	Restated
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ASSETS

Current assets:

Cash	\$ 1,733		\$ 1,733
Accounts receivable, net of allowance	21,729		21,729
Inventories, net	21,449	(232	) 21,217
Deferred income taxes	1,382		1,382
Other current assets	1,002		1,002
Total current assets	47,295	(232	) 47,063

Fixed assets, net	19,107		19,107
Intangible assets, net	2,583		2,583
Goodwill	2,005		2,005
Deferred income taxes	12,281		12,281
Other long term assets	416		416

Total assets	\$ 83,687	\$ (232) \$ 83,455
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt	\$ 2,908		\$ 2,908
Accounts payable	13,295		13,295
Accrued payroll and related expenses	2,040		2,040
Other accrued expenses	894		894
Customer deposits	1,199		1,199
Total current liabilities	20,336	—	20,336

Long-term debt	32,193		32,193
Other long-term liabilities	163		163
Total liabilities	52,692	—	52,692

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: 11,046,172 shares

Outstanding: 10,029,718 shares

Additional paid-in capital	43,906		43,906
Retained earnings/(accumulated deficit)	(11,582	) (232	) (11,814
Treasury stock, at cost: 1,016,454 shares	(1,440	) (232	) (1,440
Total stockholders' equity	30,995	(232) 30,763
Total liabilities and stockholders' equity	\$ 83,687	\$ (232) \$ 83,455

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	Three Months Ended September 30, 2014			Years Ended September 30, 2014		
	As reported	Adjustment	Restated	As reported	Adjustment	Restated
	(in thousands)					
Net sales	\$ 35,687		\$ 35,687	\$ 135,621		\$ 135,621
Cost of sales	31,901	278	32,179	119,576	721	120,297
Gross profit	3,786	(278)	3,508	16,045	(721)	15,324
Selling and administrative expenses	3,551		3,551	14,567		14,567
Impairment of goodwill and other intangibles	—		—	—		—
Restatement and related expenses	(1,302)		(1,302)	1,136		1,136
Operating profit/(loss)	1,537	(278)	1,259	342	(721)	(379)
Interest and financing expense	386		386	1,795		1,795
Other expense/(income)	—		—	18		18
Income/(loss) before income taxes	1,151	(278)	873	(1,471)	(721)	(2,192)
Provision for/(benefit from) income taxes	1,597	(1,758)	(161)	621	12,258	12,879
Net income/(loss)	\$ (446)	\$ 1,480	\$ 1,034	\$ (2,092)	\$ (12,979)	\$ (15,071)
Net income/(loss) per common and common equivalent share:						
Basic	\$ (0.05)	\$ 0.15	\$ 0.10	\$ (0.21)	\$ (1.32)	\$ (1.53)
Diluted	(0.04)	\$ 0.15	0.10	(0.21)	\$ (1.32)	(1.53)
Weighted average number of common and common equivalent shares outstanding:						
Basic	9,853,647		9,853,647	9,827,043		9,827,043
Diluted	9,950,634		9,950,634	9,827,043		9,827,043

	Three Months Ended June 27, 2014			Nine Months Ended June 27, 2014		
	As reported	Adjustment	Restated (in thousands)	As reported	Adjustment	Restated
Net sales	\$ 32,992		\$ 32,992	\$ 99,934		\$ 99,934
Cost of sales	29,112	85	29,197	87,675	443	88,118
Gross profit	3,880	(85)	3,795	12,259	(443)	11,816
Selling and administrative expenses	3,195		3,195	10,938		10,938
Impairment of goodwill and other intangibles			—			—
Restatement and related expenses	102		102	2,516		2,516
Operating profit/(loss)	583	(85)	498	(1,195)	(443)	(1,638)
Interest and financing expense	558		558	1,410		1,410
Other expense/(income)	—		—	18		18
Income/(loss) before income taxes	25	(85)	(60)	(2,623)	(443)	(3,066)
Provision for/(benefit from) income taxes	3	(3)	—	(977)	14,016	13,039
Net income/(loss)	\$ 22	\$(82)	\$(60)	\$(1,646)	\$(14,459)	\$(16,105)
Net income/(loss) per common and common equivalent share:						
Basic	\$—	\$(0.01)	\$(0.01)	\$(0.17)	\$(1.47)	\$(1.64)
Diluted	—	(0.01)	(0.01)	(0.17)	(1.47)	(1.64)
Weighted average number of common and common equivalent shares outstanding:						
Basic	9,838,872		9,838,872	9,816,974		9,816,974
Diluted	9,902,017		9,902,017	9,816,974		9,816,974

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	Three Months Ended March 28, 2014			Six Months Ended March 28, 2014		
	As reported	Adjustment	Restated	As reported	Adjustment	Restated
	(in thousands)					
Net sales	\$ 34,805		\$ 34,805	\$ 66,942		\$ 66,942
Cost of sales	30,035	126	30,161	58,562	358	58,920
Gross profit	4,770	(126)	4,644	8,380	(358)	8,022
Selling and administrative expenses	3,952		3,952	7,744		7,744
Impairment of goodwill and other intangibles	—		—	—		—
Restatement and related expenses	1,258		1,258	2,414		2,414
Operating profit/(loss)	(440)	(126)	(566)	(1,778)	(358)	(2,136)
Interest and financing expense	492		492	852		852
Other expense/(income)	(1)		(1)	18		18
Income/(loss) before income taxes	(931)	(126)	(1,057)	(2,648)	(358)	(3,006)
Provision for/(benefit from) income taxes	(362)	14,019	13,657	(979)	14,019	13,040
Net income/(loss)	\$(569)	\$(14,145)	\$(14,714)	\$(1,669)	\$(14,377)	\$(16,046)
Net income/(loss) per common and common equivalent share:						
Basic	\$(0.06)	\$(1.44)	\$(1.50)	\$(0.17)	\$(1.47)	\$(1.64)
Diluted	(0.06)	(1.44)	(1.50)	(0.17)	(1.47)	(1.64)
Weighted average number of common and common equivalent shares outstanding:						
Basic	9,829,964		9,829,964	9,805,841		9,805,841
Diluted	9,829,964		9,829,964	9,805,841		9,805,841

	Three Months Ended December 27, 2013		
	As reported	Adjustment	Restated
Net sales	\$32,138		\$32,138
Cost of sales	28,528	232	28,760
Gross profit	3,610	(232)	) 3,378
Selling and administrative expenses	3,791		3,791
Impairment of goodwill and other intangibles	—		—
Restatement and related expenses	1,156		1,156
Operating profit/(loss)	(1,337)	) (232)	) (1,569)
Interest and financing expense	360		360
Other expense/(income)	19		19
Income/(loss) before income taxes	(1,716)	) (232)	) (1,948)
Provision for/(benefit from) income taxes	(617)	)	(617)
Net income/(loss)	\$(1,099)	) \$(232)	) \$(1,331)
Net income/(loss) per common and common equivalent share:			
Basic	\$(0.11)	) \$(0.03)	) \$(0.14)
Diluted	(0.11)	) (0.03)	) (0.14)
Weighted average number of common and common equivalent shares outstanding:			
Basic	9,780,896		9,780,896
Diluted	9,780,896		9,780,896

	Year Ended September 30, 2014		
	As reported	Adjustment (in thousands)	Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income/(loss)	\$(2,092)	(12,979)	(15,071)