IEC ELECTRONICS CORP
Form 10-Q
May 07, 2014

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

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 28, 2014
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____

Commission File Number 0-6508

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

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

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

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

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

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

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

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

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

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

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

Common Stock, $0.01 par value – 10,091,149 shares as of May 1, 2014

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 28, 2014 and SEPTEMBER 30, 2013
(in thousands, except share and per share data)

	March 28, 2014 (unaudited)	September 30, 2013
ASSETS		
Current assets:		
Cash	$652	$2,499
Accounts receivable, net of allowance	25,083	27,945
Inventories, net	20,103	21,904
Deferred income taxes	1,382	1,382
Other current assets	1,124	610
Total current assets	48,344	54,340
Fixed assets, net	19,261	17,946
Intangible assets, net	2,520	2,647
Goodwill	2,005	2,005
Deferred income taxes	12,637	11,652
Other long term assets	339	345
Total assets	$85,106	$88,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$2,908	$2,778
Accounts payable	15,304	16,508
Accrued payroll and related expenses	2,557	2,464
Other accrued expenses	960	811
Customer deposits	438	187
Total current liabilities	22,167	22,748
Long-term debt	32,229	34,026
Other long-term liabilities	158	167
Total liabilities	54,554	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: 11,107,115 and 11,006,749 shares, respectively Outstanding: 10,090,661 and 9,991,291 shares, respectively	112	110

Additional paid-in capital	44,032	43,802
Retained earnings/(accumulated deficit)	(12,152)	(10,483)
Treasury stock, at cost: 1,016,454 and 1,015,458 shares, respectively	(1,440)	(1,435)
Total stockholders' equity	30,552	31,994
Total liabilities and stockholders' equity	$85,106	$88,935

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
THREE and SIX MONTH PERIODS ENDED MARCH 28, 2014 and MARCH 29, 2013
(unaudited; in thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Net sales	$34,805	$33,681	$66,942	$66,671
Cost of sales	30,035	30,782	58,562	59,606
Gross profit	4,770	2,899	8,380	7,065
Selling and administrative expenses	3,952	4,311	7,744	8,357
Impairment of goodwill and other intangibles	—	—	—	—
Restatement and related expenses	1,258	—	2,414	—
Operating profit/(loss)	(440)	(1,412)	(1,778)	(1,292)
Interest and financing expense	492	359	852	638
Other expense/(income)	(1)	56	18	57
Income/(loss) before income taxes	(931)	(1,827)	(2,648)	(1,987)
Provision for/(benefit from) income taxes	(362)	(683)	(979)	(742)
Net income/(loss)	$(569)	$(1,144)	$(1,669)	$(1,245)
Net income/(loss) per common and common equivalent share:				
Basic	$(0.06)	$(0.12)	$(0.17)	$(0.13)
Diluted	(0.06)	(0.12)	(0.17)	(0.13)
Weighted average number of common and common equivalent shares outstanding:				
Basic	9,829,964	9,675,089	9,805,841	9,661,304
Diluted	9,829,964	9,675,089	9,805,841	9,661,304

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS of CHANGES in STOCKHOLDERS' EQUITY
SIX MONTHS ENDED MARCH 28, 2014 and MARCH 29, 2013
(unaudited; in thousands)

	Common Stock, par $0.01	Additional Paid-In Capital	Retained Earnings (Deficit) (restated)	Treasury Stock, at cost	Total Stockholders' Equity (restated)
Balances, September 30, 2012	$109	$43,075	$(953)	$(1,435)	$40,796
Net loss	—	—	(1,245)	—	(1,245)
Stock-based compensation	—	354	—	—	354
Forfeitures	(1)	1	—	—	—
Directors' fees paid in stock	—	10	—	—	10
Restricted (non-vested) stock grants	1	(1)	—	—	—
Exercise of stock options	—	41	—	—	41
Shares withheld for payment of taxes upon vesting of restricted stock	—	(29)	—	—	(29)
Employee stock plan purchases	—	54	—	—	54
Balances, March 29, 2013	$109	$43,505	$(2,198)	$(1,435)	$39,981

	Common Stock, par $0.01	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, at cost	Total Stockholders' Equity
Balances, September 30, 2013	$110	$43,802	$(10,483)	$(1,435)	$31,994
Net loss	—	—	(1,669)	—	(1,669)
Stock-based compensation	—	287	—	—	287
Restricted (non-vested) stock grants, net of forfeitures	1	(1)	—	—	—
Exercise of stock options	1	21	—	(5)	17
Shares withheld for payment of taxes upon vesting of restricted stock	—	(77)	—	—	(77)
Balances, March 28, 2014	$112	$44,032	$(12,152)	$(1,440)	$30,552

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS of CASH FLOWS
SIX MONTHS ENDED MARCH 28, 2014 and MARCH 29, 2013
(unaudited; in thousands)

	Six Months Ended March 28, 2014	March 29, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$(1,669)	$(1,245)
Non-cash adjustments:		
Stock-based compensation	287	354
Depreciation and amortization	2,419	2,353
Directors' fees paid in stock	—	10
Reserve for doubtful accounts	433	156
Deferred tax expense	(985)	(1,125)
Changes in assets and liabilities:		
Accounts receivable	2,429	2,847
Inventory	1,801	(171)
Other current assets	(514)	(351)
Other long term assets	(18)	—
Accounts payable	(2,009)	(2,772)
Accrued expenses	242	(444)
Customer deposits	251	(107)
Other long term liabilities	(9)	227
Net cash flows from operating activities	2,658	(268)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(3,099)	(2,688)
Proceeds from (net cost of) disposal of fixed assets	323	—
Net cash flows from investing activities	(2,776)	(2,688)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from revolving line of credit	29,115	27,828
Repayments of revolving line of credit	(30,650)	(30,813)
Borrowings under other loan agreements	1,300	24,000
Repayments under other loan agreements	(1,432)	(17,967)
Debt issuance costs	(2)	(39)
Proceeds from exercise of stock options	17	41
Proceeds from employee stock plan purchases	—	54
Shares withheld for payment of taxes upon vesting of restricted stock	(77)	(29)
Net cash flows from financing activities	(1,729)	3,075
Net increase/(decrease) in cash and cash equivalents	(1,847)	119
Cash and cash equivalents, beginning of period	2,499	2,662
Cash and cash equivalents, end of period	$652	$2,781
Supplemental cash flow information:		
Interest paid	$790	$475

Income taxes paid	12	367
Non-cash transactions		
Fixed assets purchased with extended payment terms	805	—

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

IEC ELECTRONICS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—OUR BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our Business

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

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

Generally Accepted Accounting Principles

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

Fiscal Calendar

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

Consolidation

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

Unaudited Financial Statements

The accompanying unaudited financial statements for the six months ended March 28, 2014 and March 29, 2013 have been prepared in accordance with GAAP for interim financial information. In the opinion of management, all adjustments required for a fair presentation of the information have been made. The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

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 is further discussed in Note 6 – Intangible Assets.

Reviewing Long-Lived Assets for Potential Impairment

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

Goodwill

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

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

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

Leases

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

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

Legal Contingencies

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

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

Customer Deposits

Customer deposits represent payments received from customers for which the revenue has not yet been earned. Such unearned revenue is a commitment for the Company to deliver goods or services in the future and is presented as a liability on the balance sheet. Customer deposits are generally short term in nature and are recognized as revenue when earned.

Grants from Outside Parties

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

Derivative Financial Instruments

The Company actively monitors its exposure to interest rate risk and from time to time uses derivative financial instruments to manage the impact of this risk. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the interest rate, nor does the Company use derivative instruments where it does not have underlying exposures. The Company manages its hedging position and monitors the credit ratings of counterparties and does not anticipate losses due to counterparty nonperformance. Management believes its use of derivative instruments to manage risk is in the Company’s best interest. However, the Company’s use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. The Company’s instruments are recorded in the consolidated balance sheets at fair value in other assets or other long-term liabilities.

Fair Value Measurements

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

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

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

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

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

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

Revenue Recognition

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

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

Stock-Based Compensation

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

Restatement and Related Expenses

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

Income Taxes and Deferred Taxes

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

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

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

Earnings Per Share

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

Shares for EPS Calculation	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Weighted average shares outstanding	9,829,964	9,675,089	9,805,841	9,661,304
Incremental shares	—	—	—	—
Diluted shares	9,829,964	9,675,089	9,805,841	9,661,304
Anti-dilutive shares excluded	564,475	557,399	564,475	557,399

As a result of the net loss for the three and six months ended March 28, 2014 and March 29, 2013, the Company calculated diluted earnings per share using weighted average basic shares outstanding, as using diluted shares would be anti-dilutive to loss per share.

Dividends

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

Use of Estimates

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

Statements of Cash Flows

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

Comprehensive Income

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

Recently Issued Accounting Standards

FASB Accounting Standard Update ("ASU") 2012-2, "Intangibles—Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment," was issued July 27, 2012 and is effective for annual and interim fiscal periods beginning after December 15, 2012. ASU 2012-2 simplifies the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. The amendments allow an organization the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An organization electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is "more likely than not" that the asset is impaired. There was no significant impact to the Company upon adoption.

FASB ASU 2012-4, "Technical Corrections and Improvements," was issued October 2012 and for public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. The amendments in ASU 2012-4 cover a wide range of Topics in the Codification. These amendments are presented in two sections—Technical Corrections and Improvements (Section A) and Conforming Amendments Related to Fair Value Measurements (Section B). The amendments in ASU 2012-4 represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting. ASU 2012-4 is not intended to significantly change U.S. GAAP and there was no significant impact to the Company upon adoption.

FASB ASU 2013-2, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," was issued on February 5, 2013 to be effective for fiscal years beginning after December 15, 2012. This guidance is the culmination of the board's redeliberation on reporting reclassification adjustments from accumulated other comprehensive income ("AOCI"). ASU 2013-2 requires an entity to separately present the amount reclassified out of AOCI income for each component of AOCI and to disclose, for each affected line item in the income statement, the amount of AOCI that has been reclassified into that line item. If the reclassification does not go directly to an income statement line it is acceptable to cross reference that amount to another footnote that provides the required disclosure. The new requirements impact disclosure only and took effect for the Company at the beginning of fiscal 2014. There was no significant impact to the Company upon adoption as it does not currently have any AOCI.

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. This ASU did not have a significant impact to the Company.

Note 2—RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

Note 3—ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary follows of activity in the allowance for doubtful accounts during the six months ended March 28, 2014 and March 29, 2013.

Allowance for Doubtful Accounts	Six Months Ended March 28, 2014	March 29, 2013
(in thousands)		
Allowance, beginning of period	$452	$406
Provision for doubtful accounts	470	171
Write-offs	(37)	(15)
Allowance, end of period	$885	$562

Note 4—INVENTORIES

A summary of inventory by category at period end follows:

Inventories	March 28, 2014	September 30, 2013
(in thousands)		
Raw materials	$13,200	$14,841
Work-in-process	8,052	7,564
Finished goods	994	1,449
Total inventories	22,246	23,854
Reserve for excess/obsolete inventory	(2,143)	(1,950)
Inventories, net	$20,103	$21,904

Note 5—FIXED ASSETS

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

Fixed Assets	March 28, 2014	September 30, 2013
(in thousands)		
Land and improvements	$1,601	$1,601
Buildings and improvements	12,643	11,070
Leasehold improvements	1,411	1,411
Machinery and equipment	26,724	25,963
Furniture and fixtures	6,919	6,165
Construction in progress	920	835
Total fixed assets, at cost	50,218	47,045
Accumulated depreciation	(30,957)	(29,099)
Fixed assets, net	$19,261	$17,946

Depreciation expense during the three and six months periods follows:

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
(in thousands)				
Depreciation expense	$1,157	$1,051	$2,265	$2,064

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

Note 6—INTANGIBLE ASSETS

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

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

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

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

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

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

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

Intangible Assets	March 28, 2014	September 30, 2013
(in thousands)		
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	(1,428)	(1,301)
Accumulated impairment - customer relationships	(2,412)	(2,412)
Intangible assets, net	$2,520	$2,647

Amortization expense during the three and six months ended March 28, 2014 and March 29, 2013 follows:

	Three Months Ended		Six Months Ended	
Amortization Expense	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
(in thousands)				
Intangible amortization expense	$64	$113	$127	$226

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

Future Amortization	Estimated future amortization
(in thousands)	
Twelve months ended March 28,	
2015	$254
2016	248
2017	234
2018	234
2019 and thereafter	1,550

Note 7—GOODWILL

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill	March 28, 2014	September 30, 2013
(in thousands)		
Goodwill	$13,810	$13,810
Accumulated impairment	(11,805)	(11,805)
Goodwill, net	$2,005	$2,005

Note 8—CREDIT FACILITIES

A summary of borrowings at period end follows:

Debt	Fixed/ Variable Rate	Maturity Date	March 28, 2014 Balance	Interest Rate (1)	September 30, 2013 Balance	Interest Rate (1)
(in thousands)						
M&T credit facilities:						
Revolving Credit Facility	v	1/18/2016	$9,726	4.44 %	$11,261	3.19 %
Term Loan A	f	2/1/2022	8,704	3.98	9,259	3.98
Term Loan B	v	2/1/2023	12,483	3.40	13,184	2.68
Albuquerque Mortgage Loan	v	2/1/2018	2,867	4.69	3,000	3.44
Celmet Building Term Loan	f	11/7/2018	1,257	4.72	—	—
Other credit facilities:						
Albuquerque Industrial Revenue Bond	f	3/1/2019	100	5.63	100	5.63
Total debt			35,137		36,804	
Less: current portion			(2,908)		(2,778)	
Long-term debt			$32,229		$34,026	

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

M&T Bank Credit Facilities

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

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

a) Revolving Credit Facility (“Revolver”): Up to $20 million is available through January 18, 2016. The Company may borrow up to the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories or (ii) $20 million. At IEC's election, another 35% of eligible inventories may be included in the borrowing base for limited periods of time during which a higher rate of interest is charged on the Revolver. Borrowings based on inventory balances are further limited to a cap of $3.75 million, or when subject to the higher percentage limit, $4.75 million. At March 28, 2014, the upper limit on Revolver borrowings was $20.0 million. Average available balances amounted to $10.1

million and $13.3 million during the six months ended March 28, 2014 and March 29, 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 $25.4 thousand and $11.0 thousand during the six months ended March 28, 2014 and March 29, 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.

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

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

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

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

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

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

- Consolidation of all outstanding term debt, except the Albuquerque Mortgage Loan and the Energy Loan, and an $8.9 million portion of outstanding loans under the Revolver, into two new and increased term loans, described below (“Term Loan A” and “Term Loan B”);
- Creation of a new Term Loan A in the original principal amount of $10.0 million, bearing interest at the fixed rate of 3.98% per annum, payable in equal monthly principal payments of $93 thousand each plus accrued interest, with a

final maturity date of February 1, 2022;

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

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

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

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

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

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

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

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

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

a) Revolving Credit Facility ("Revolver"): Up to $20.0 million was available through December 17, 2013. The Company could borrow up to the lesser of (i) 85% of eligible receivables plus 35% of eligible inventories or (ii) $20.0 million. At IEC's election, another 35% of eligible inventories would be included in the borrowing base for limited periods of time during which a higher rate of interest would be charged on the Revolver. Borrowings based on inventory balances were further limited to a cap of $3.75 million, or when subject to the higher percentage limit, $4.75 million.
b) SCB Term Loan: $20.0 million was borrowed on December 17, 2010 and principal was being repaid in 60 equal monthly installments. This loan was paid off during January 2013.
c) Albuquerque Term Loan: $5.0 million was borrowed on December 16, 2009, and principal was being repaid in 60 equal monthly installments. This loan was paid off during January 2013.
d) Albuquerque Mortgage Loan: $4.0 million was borrowed on December 16, 2009. The loan is secured by real property in Albuquerque, NM, and principal was being repaid in 60 monthly installments of $22,000 thousand plus a balloon payment due at maturity. The maturity date of the mortgage loan was modified from December 16, 2014 to February 1, 2018; with no change to the monthly principal payments of $22 thousand each plus accrued interest.
e) Celmet Term Loan: $2.0 million was borrowed on July 30, 2010, and principal was being repaid in 60 equal monthly installments. This loan was paid off during January 2013.
f) Equipment Line of Credit: Up to $1.5 million, reduced by outstanding loans, was available through December 17, 2013. The line was available for purchases of capital equipment. Borrowings under the line were supported by individual notes that specify interest and principal repayment terms. The Company had the option to select whether the interest rate was fixed or variable. Equal payments of principal were being made over 48 months for two of the loans and over 60 months for one loan. These loans were paid off during January 2013.
g) Energy Loan: $0.2 million was borrowed on April 2, 2008 under this facility, for which interest at a fixed rate of 2.08% was subsidized by the State of New York. Principal was being repaid in 60 equal monthly installments and the loan was paid in full during April 2013.

Other Credit Facilities

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

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

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

Debt Repayment Schedule	Contractual Principal Payments
(in thousands)	
Twelve months ended March 28,	
2015	$2,908
2016 (1)	12,634
2017	2,908
2018	4,708
2019 and thereafter	11,979
	$35,137

(1) Includes Revolver balance of $9.7 million at March 28, 2014

Note 9—DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Risk Management

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

The fair value of the interest rate swap agreement represented an asset of $0.3 million at March 28, 2014 and was estimated based on Level 2 inputs. The Company did not designate the swap as a cash flow hedge at inception and therefore, the gains or losses from the changes in fair value of the derivative instrument are recognized in earnings for the period ended March 28, 2014 within interest expense.

The fair value of the interest rate swap of $0.3 million and $0.3 million is recorded in other assets in the Consolidated Balance Sheet at March 28, 2014 and September 30, 2013, respectively.

Note 10—FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Carried at Fair Value

The Company's interest rate swap agreement is recorded on the balance sheet as either an asset or a liability measured at fair value. The Company estimates the fair value of its interest rate swap agreement based on Level 2 valuation inputs, including fixed interest rates, Libor implied forward interest rates and the remaining time to maturity. At March 28, 2014, the interest rate swap agreement is an asset of $0.3 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 March 28, 2014 are $7.2 million and $8.7 million, respectively. The fair value of the remainder of the Company's debt approximated carrying value at March 28, 2014 as it is variable rate debt. The fair value and carrying value of Term Loan A at

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

Note 11—WARRANTY RESERVES

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

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

Warranty Reserve	Six Months Ended	
	March 28, 2014	March 29, 2013
(in thousands)		
Reserve, beginning of period	$219	$388
Provision	178	(36)
Warranty costs	(131)	(59)
Reserve, end of period	$266	$293

Note 12—DEFERRED GRANTS

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

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

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

The grants will be amortized over the useful lives of the related fixed assets when there is reasonable assurance that the Company will meet the employment targets. The Company recorded amortization of $5 thousand and $10 thousand for the deferred grants for the three and six months ended March 28, 2014, respectively. There was no amortization recorded for the deferred grants for the six months ended March 29, 2013.

Note 13—STOCK-BASED COMPENSATION

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

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

Stock compensation expense recorded under the plans totaled \$0.3 million and \$0.4 million for the six months ended March 28, 2014 and March 29, 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 six months ended March 28, 2014 and March 29, 2013 follows:

Valuation of Options	Six Months Ended March 28, 2014		March 29, 2013	
Assumptions for Black-Scholes:				
Risk-free interest rate	1.49	%	0.55	%
Expected term in years	4.5		4.0	
Volatility	58	%	49	%
Expected annual dividends	none		none	
Value of options granted:				
Number of options granted	40,500		50,000	
Weighted average fair value per share	$1.98		$2.65	
Fair value of options granted (000's)	$80		$133	

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

	Six Months Ended			
	March 28, 2014		March 29, 2013	
Stock Options	Number of Options	Wgtd. Avg. Exercise Price	Number of Options	Wgtd. Avg. Exercise Price
Outstanding, beginning of period	246,383	$4.38	280,789	$3.81
Granted	40,500	4.08	50,000	6.91
Exercised	(14,504)	1.37	(18,650)	2.16
Shares withheld for payment of taxes upon exercise of stock option	(996)	1.43	—	—
Forfeited	(14,433)	5.44	(45,756)	5.09
Expired	(350)	4.71	(4,000)	2.24
Outstanding, end of period	256,600	$4.50	262,383	$4.22
For options expected to vest				
Number expected to vest	232,637	$4.46	218,426	$3.83
Weighted average remaining term, in years	3.6		3.5	
Intrinsic value (000s)		$199		$469
For exercisable options				
Number exercisable	123,250	$3.30	117,783	$2.17
Weighted average remaining term, in years	2.0		1.9	
Intrinsic value (000s)		$188		$422
For non-exercisable options				
Expense not yet recognized (000s)		$193		$173
Weighted average years to be recognized	2.7		2.6	
For options exercised				
Intrinsic value (000s)		$43		$88

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

	Six Months Ended			
	March 28, 2014		March 29, 2013	
Stock Options	Number of Options	Wgtd. Avg. Grant Date Fair Value	Number of Options	Wgtd. Avg. Grant Date Fair Value
Non-vested, beginning of period	138,350	$2.51	157,150	$2.42
Granted	40,500	1.98	50,000	2.65
Vested	(31,067)	2.37	(16,794)	2.33
Forfeited	(14,433)	5.44	(45,756)	2.51
	133,350	$2.30	144,600	$2.49

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:

	Six Months Ended			
	March 28, 2014		March 29, 2013	
Restricted (Non-vested) Stock	Number of Non-vested Shares	Wgtd. Avg. Grant Date Fair Value	Number of Non-vested Shares	Wgtd. Avg. Grant Date Fair Value
Outstanding, beginning of period	275,474	$5.96	339,939	$5.66
Granted	155,703	4.05	88,208	6.86
Vested	(73,878)	5.75	(45,587)	4.92
Shares withheld for payment of taxes upon vesting of restricted stock	(18,208)	4.28	(4,441)	4.70
Forfeited	(31,216)	6.55	(83,103)	5.70
Outstanding, end of period	307,875	$5.14	295,016	$6.13
For non-vested shares				
Expense not yet recognized (000s)		$924		$891
Weighted average remaining years for vesting		3.4		2.8
For shares vested				
Aggregate fair value on vesting dates (000s)		$388		$336

Employee Stock Purchase Plan

The Company administers an employee stock purchase plan ("ESPP") that provides for a discounted stock purchase price. On May 21, 2013, the Compensation Committee of the Company's Board of Directors suspended operation of the ESPP indefinitely in connection with the restatement of the Company's financial statements described herein (including unavailability of the registration statement covering shares offered under the plan due to the failure of the Company to be current in its filings with the SEC until the Company filed its Form 10-K on December 24, 2013). There were no employee contributions or compensation expense recognized under the ESPP during the six months ended March 28, 2014. Employee contributions to the plan, net of withdrawals were $40 thousand for the six months ended March 29, 2013. Compensation expense recognized under the ESPP was $4 thousand for the six months ended March 29, 2013.

Stock Issued to Board Members

In addition to annual grants of restricted stock, Board members may elect to have their meetings fees paid in the form of shares of the Company's common stock. In connection with the restatement of the Company's financial statements described herein (including unavailability of the registration statement covering shares offered under the plan due to the failure of the Company to be current in its filings with the SEC until the Company filed its Form 10-K on December 24, 2013), the Company determined not to pay any meeting fees in stock during the period since May 21,

2013. During the six months ended March 29, 2013, board members were granted 1,480 shares of common stock, as payment of such meeting fees. The Company recognized stock-based compensation expense related to Board members meeting fees of $10 thousand during the six months ended March 29, 2013.

Note 14—RETIREMENT PLAN

The Company administers a retirement savings plan for the benefit of its eligible employees and their beneficiaries under the provisions of Sections 401(a) and (k) of the Internal Revenue Code. Eligible employees may contribute a portion of their compensation to the plan, and the Company is permitted to make discretionary contributions as determined by the Board of

Directors. For the Albuquerque unit, the Company contributes 25% of the first 6% contributed by employees. Company contributions on behalf of Albuquerque employees totaled $18 thousand and $16 thousand during the six months ended March 28, 2014 and March 29, 2013, respectively. There were no other Company contributions to the plan during the two periods.

Note 15—INCOME TAXES

Provision for income taxes during the six months ended March 28, 2014 and March 29, 2013 follows:

Income Tax Provision	Three Months Ended March 28, 2014	 March 29, 2013	Six Months Ended March 28, 2014	 March 29, 2013
(in thousands)				
Benefit from income taxes	$(362)	$(683)	$(979)	$(742)

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

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

Note 16—MARKET SECTORS AND MAJOR CUSTOMERS

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

% of Sales by Sector	Three Months Ended March 28, 2014	 March 29, 2013	Six Months Ended March 28, 2014	 March 29, 2013
Aerospace & Defense (previously Military & Aerospace)	47%	50%	50%	53%
Medical	15%	18%	18%	19%
Industrial	30%	24%	26%	20%
Communications & Other	8%	8%	6%	8%
	100%	100%	100%	100%

Two individual customers represented 10% or more of sales for the six months ended March 28, 2014 and March 29, 2013. One customer in the Industrial sector represented 15% of sales and one customer in the Medical sector represented 10% of sales for the six months ended March 28, 2014. For the six months ended March 29, 2013