

IEC ELECTRONICS CORP

Form 10-K

December 06, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2017

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 001-34376

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 AMERICAN LLC

(Title of each 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 or any amendment to this Form 10-K. x

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

Large accelerated filer " Accelerated filer "

Non-accelerated filer " Smaller reporting company x

Emerging growth company "

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

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

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At March 31, 2017, the last business day of the registrant's second quarter for the fiscal year ended September 30, 2017, the aggregate market value of the shares of common stock held by non-affiliates of the registrant was \$34,410,666 (based on the closing price of the registrant's common stock on the NYSE American 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 December 1, 2017, there were 10,325,507 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of IEC Electronics Corp.'s definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2018 Annual Meeting of Stockholders are incorporated by reference into Part III Items 10, 11, 12, 13 and 14 of this Form 10-K.

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## TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. <u>BUSINESS</u>	5
Item 1A. <u>RISK FACTORS</u>	10
Item 1B. <u>UNRESOLVED STAFF COMMENTS</u>	18
Item 2. <u>PROPERTIES</u>	18
Item 3. <u>LEGAL PROCEEDINGS</u>	18
Item 4. <u>MINE SAFETY DISCLOSURES</u>	18
<u>EXECUTIVE OFFICERS OF THE REGISTRANT</u>	19
<u>PART II</u>	
Item 5. <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	19
Item 6. <u>SELECTED FINANCIAL DATA</u>	21
Item 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	21
Item 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	26
Item 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	27
Item 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	51
Item 9A. <u>CONTROLS AND PROCEDURES</u>	51
Item 9B. <u>OTHER INFORMATION</u>	52
<u>PART III</u>	
Item 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	52
Item 11. <u>EXECUTIVE COMPENSATION</u>	52
Item 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	52
Item 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	52
Item 14. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	52
<u>PART IV</u>	
Item 15. <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	52
<u>SIGNATURES</u>	56

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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 for the fiscal year ended September 30, 2017 (“Form 10-K”) contains forward-looking statements. In some cases you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar expressions. These forward-looking 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 materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

The following important factors, among others, could affect future results and events, causing those results and events to differ materially from those views expressed or implied in our forward-looking statements: business conditions and growth or contraction in our customers’ industries, the electronic manufacturing services industry and the general economy; variability of our operating results; our ability to control our material, labor and other costs; our dependence on a limited number of major customers; the potential consolidation of our customer base; availability of component supplies; dependence on certain industries; variability and timing of customer requirements; 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 impact of government regulations, including FDA regulations; the types and mix of sales to our customers; litigation and governmental investigations or proceedings arising out of or relating to accounting and financial reporting matters; intellectual property litigation; our ability to maintain effective internal controls over financial reporting; 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; and natural disasters. 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 Form 10-K and other filings with the Securities and Exchange Commission (the “SEC”).

All forward-looking statements included in this Form-10-K are made only as of the date indicated or as of the date of this Form 10-K. 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 and cause actual results to differ materially from those expressed or implied by our forward-looking statements. Therefore, you should not rely on our forward-looking statements as predictions of future events. 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 reference in this Form-10-K 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, IEC Electronics Wire and Cable, Inc (“Wire and Cable”) that merged into IEC on December 28, 2016, IEC Electronics Corp-Albuquerque (“Albuquerque”), IEC Analysis & Testing Laboratory, LLC (“ATL”) and IEC California Holdings, Inc. The Rochester unit, formerly known as Celmet, operates as a division of IEC.

We are a premier provider of electronic manufacturing services (“EMS”) to advanced technology companies that produce life-saving and mission critical products for the medical, industrial, aerospace and defense sectors. We specialize in delivering technical solutions for the custom manufacturing, product configuration, and verification testing of highly engineered complex products that require a sophisticated level of manufacturing to ensure quality and performance.

Within the EMS sector, we have unique capabilities which allow our customers to rely on us to solve their complex challenges, minimize their supply chain risk and deliver full system solutions for their supply chain. These capabilities include, among others:

Our engineering services include the design, development, and fabrication of customized stress testing platforms to simulate a product’s end application, such as thermal cycling and vibration, in order to ensure reliable performance and avoid catastrophic failure when the product is placed in service.

Our vertical manufacturing model offers customers the ability to simplify their supply chain by utilizing a single supplier for their critical components including complex printed circuit board assembly (“PCBA”), precision metalworking, and interconnect solutions. This service model allows us to control the cost, lead time, and quality of these critical components which are then integrated into full system assemblies and minimizes our customers’ supply chain risk.

We provide direct order fulfillment services for our customers by integrating with their configuration management process to obtain their customer orders, customize the product to the specific requirements, functionally test the product and provide verification data, and direct ship to their end customer in order to reduce time, cost, and complexity within our customer's supply chain.

We are the only EMS provider with an on-site laboratory that has been approved by the Defense Logistics Agency (“DLA”) for their Qualified Testing Supplier List (“QTSL”) program which deems the site suitable to conduct various QTSL and military testing standards including counterfeit component analysis. In addition, this advanced laboratory is utilized for complex design analysis and manufacturing process development to solve challenges and accelerate our customers’ time to market.

We are a 100% US manufacturer which attracts customers who are unlikely to utilize offshore suppliers due to the proprietary nature of their products, governmental restrictions or volume considerations. Our locations include:

Newark, New York - Located approximately one hour east of Rochester, NY, our Newark location is our corporate headquarters and is the largest manufacturing location providing complex circuit board manufacturing, interconnect solutions, and system-level assemblies along with an on-site material analysis laboratory for advanced manufacturing process development.

Rochester, New York - Focuses on precision metalworking services including complex metal chassis and assemblies.

Albuquerque, New Mexico - Specializes in the aerospace and defense markets with complex circuit board and system-level assemblies along with a state of the art analysis and testing laboratory which conducts counterfeit component analysis and complex design analysis.

We excel at complex, highly engineered products that require sophisticated manufacturing support where quality and reliability are of paramount importance. 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.

We proactively invest in areas we view as important for our continued long-term growth. All of our locations are ISO 9001:2008 certified and ITAR registered. We are Nadcap accredited and AS9100C certified at our Newark and Albuquerque locations to support the stringent quality requirements of the aerospace industry. Our Newark location is ISO 13485 certified to serve the medical market sector and is an approved supplier by the National Security Agency (“NSA”) under the COMSEC standard regarding communications security. Our analysis & testing laboratory in Albuquerque is ISO 17025 accredited, an IPC-approved Validation Services test Laboratory, and is the only on-site EMS laboratory that has been approved by the DLA



for their QTSL program which deems the site suitable to conduct various QTSL and military testing standards including counterfeit component analysis. Albuquerque also performs work per NASA-STD-8739 and J-STD-001ES space standards.

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

#### Organization

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. Our 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](http://www.iec-electronics.com).

We have executed several strategic acquisitions over the past decade to advance 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 aerospace and defense markets. The business was operated through IEC’s subsidiary, Southern California Braiding, Inc. (“SCB”). SCB was divested during the fourth quarter of 2015.

#### The Electronics Contract Manufacturing Services 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 turn-key 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. Turn-key contracts involve design, manufacturing and engineering support, the procurement of all materials, sophisticated in-circuit and functional testing, and distribution.

#### IEC’s Strategy

IEC is focused on providing services for life-saving and mission critical products in the medical, industrial, aerospace and defense sectors that require a sophisticated level of manufacturing support. We offer our customers a full range of manufacturing services, combined with advanced scientific technical support to ensure their products perform for the critical applications for which they are intended. The ability to solve our customers' technical challenges, meet their stringent quality requirements, and integrate seamlessly within their supply chain, is the value add that IEC brings.

We often engage with our customers in the early stages of product or program design, 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. Due to the highly regulated environment for many of our customers, they are seeking a long term partnership throughout the life-cycle of their product.

We are a certified small business with advanced technical capabilities. This allows us to focus on our customer's needs and deliver solutions in a responsive manner to accelerate their time to market.

### 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 life-saving and mission critical products that require 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 we hold various accreditations. We believe 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 Sparton Corporation, 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, 2017 ("fiscal 2017"), IEC obtained 30% of the materials used in production from two vendors, Avnet, Inc. and Arrow Electronics, 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

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, this can fluctuate based on end customer demands.

% of Sales by Sector	Years Ended	
	September 30, 2017	September 30, 2016
Aerospace and Defense	52%	40%
Medical	28%	42%
Industrial	18%	16%
Other	2%	2%
	100%	100%

Individual customers representing 10% or more of sales in fiscal 2017 included Baxter Corporation (“Baxter”) (14%), in the medical sector, and ViaSat Inc. (13%), in the aerospace and defense sector, and in fiscal 2016, Zoll Lifecor Corporation (15%), and Baxter (15%), both of which are in the medical sector.

Three customers represented 10% or more of receivables at September 30, 2017. Two customers in the aerospace and defense sector and one customer in the medical sector together accounted for 42% of the outstanding balances at September 30, 2017. Three customers represented 10% or more of receivables at September 30, 2016. One customer each in the medical, aerospace and defense, and industrial sectors together accounted for 40% of the outstanding balances at September 30, 2016.

#### Backlog

Our backlog at the end of fiscal 2017 was \$72.1 million, which is 33.3% higher than \$54.1 million at the end of fiscal 2016. 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 \$66.3 million of our backlog at September 30, 2017 is expected to be shipped within the fiscal year ending September 30, 2018 (“fiscal 2018”), with the remainder expected to ship in future years. This compares to \$46.3 million that was expected to be shipped within 12 months from year-end as of September 30, 2016, with the remainder at such time that was expected to be shipped greater than 12 months from the prior year-end.

#### 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. We believe 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 customers, related to products we produce for them, can delay or disrupt their orders from us.

#### Employees

Employees are our single greatest resource. IEC’s total employees numbered 565, all of which are full time employees, at September 30, 2017. The Company decreased by 69 employees during fiscal 2017, mainly driven by lower volumes in fiscal 2017. Some of our full-time employees are temporary employees. We make a concerted effort to engage our

employees in initiatives that improve our business and provide 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 our operating locations in Rochester, NY and Albuquerque, NM.

#### Sale-Leaseback Transaction

On November 18, 2016, we completed a sale-leaseback transaction pursuant to which our subsidiary, Albuquerque, sold certain property, including its manufacturing facility located in Albuquerque, New Mexico, to Store Capital Acquisitions, LLC for an aggregate purchase price of approximately \$5.8 million including a \$120.0 thousand holdback. Proceeds from this transaction were used to pay the mortgage on such property and pay down Term Loan A, as discussed in Note 5—Credit Facilities. As part of the transaction, Albuquerque entered into a lease for the property for an initial term of 15 years that may be renewed twice for five-year terms. The initial base annual rental is approximately \$474.0 thousand and is subject to certain annual increases. In addition, we entered into a separate payment and performance guaranty with Store Capital Acquisitions, LLC with respect to the lease. The sale-leaseback transaction is further described in Note 12—Capital Lease.

#### Patents and Trademarks

We hold one patent and have two patent applications pending related to counterfeit detection. 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

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 2017 and 2016, our five largest customers accounted for 49% and 53% of net sales, respectively. During fiscal 2017, we saw a significant reduction in sales to two large customers. The percentage of our sales to our 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.

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 property, plant and equipment;
- 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; and
- 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 include Department of Defense spending reductions resulting from sequestration and a partial government shut-down during 2013.

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 (the “Credit Facility”) with Manufacturers and Traders Trust Company (“M&T Bank”) and other existing debt contain various covenants that, among other things, require us to comply with certain financial covenants including maintenance of a fixed charge coverage ratio (“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 at the parent level, or engage in stock redemptions or repurchases; and
- 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.

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 events beyond our control, including prevailing economic, financial and industry conditions.

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; and
- periods of significantly decreased demand in our customers’ markets.

Since a significant portion of our business is defense-related, reductions or delays in U.S. defense spending may materially adversely affect our revenues.

During fiscal years 2017 and 2016, our sales to customers serving the aerospace and defense industries approximated 52% and 40% 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 the 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.

We are subject to extensive regulation and audit by the Defense Contract Audit Agency.

The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for U.S. Government contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. Such audits and reviews could result in adjustments to our contract costs and profitability. However, we cannot ensure the outcome of any future audits and adjustments may be required to reduce net sales or profits upon completion and final negotiation of audits. If any audit or review were to uncover inaccurate costs or improper activities, we could be subject to penalties and sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from conducting future business with the U.S. Government. Any such outcome could have a material adverse effect on our financial results.

Our business could be negatively impacted by economic slowdowns in the medical sector.

The medical sector represented approximately 28% and 42% of our sales during fiscal 2017 and fiscal 2016, respectively. Medical device industries are intensely competitive and heavily regulated. Medical businesses must operate within an evolving regulatory and risk environment, with ongoing pricing and cost pressures, and adoption of new business models driven by scientific and technological advances. Any significant change in production rates or any restructuring by customers in this sector would likely have a material effect on our results of operations. There is no assurance that our customers will continue to buy products from us at current levels, that we will retain any or all of our existing customers or that we will be able to form new relationships with customers upon the loss of one or more of our existing customers in this market. Any material reduction in sales, consolidation or slowdowns in the medical sector could have a negative impact on our business and financial results.

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 us 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.

In fiscal 2015, our internal control over financial reporting and procedures related thereto had been deficient. Although we have taken remedial measures, our previous deficiencies could have a material adverse effect on our business and on our investors' confidence in our reported financial information, and there is no guarantee that our internal control over financial reporting and procedures will not fail in the future.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and to detect and prevent fraud. In the past, we have experienced material weaknesses with our internal controls and procedures. The remedial measures we have taken may not be sufficient to regain the confidence of investors or any loss of reputation, which could in turn affect our finances and operations. We have been and may be required in the future to expend substantial funds and resources in order to rectify deficiencies in our internal controls. Our disclosure controls and internal control over financial reporting may not prevent all errors or all instances of fraud. Because of the inherent limitations in control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our business have been detected. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The benefits of a control system also must be considered relative to the costs of the

system and management's judgments regarding the likelihood of potential events. There can be no assurance that any control system will succeed in achieving its goals under all possible future conditions, and as a result of these inherent limitations, misstatements due to error or fraud may occur and may or may not be detected. If there is a failure in any of our internal controls and procedures, we could face investigation or enforcement actions by the SEC and other governmental and regulatory bodies, litigation, loss of reputation and investor confidence, the inability to acquire capital, and other material adverse effects on our finances and business operations.

We are subject to ongoing obligations in connection with the SEC settlement and our failure to comply with those obligations could adversely affect our business and the liquidity of our common stock.

On June 8, 2016, we consented to the entry of a settled administrative order by the SEC (the "Administrative Order"). Pursuant to the Administrative Order, we (i) neither admitted nor denied the SEC's findings, (ii) agreed to pay a penalty of \$200,000, and (iii) agreed to cease-and-desist from committing or causing any violations or future violations of certain provisions of the Securities Exchange Act of 1934, as amended, and certain rules thereunder.

We do not expect the Administrative Order to have any direct material impact on our business and operations. However, we may suffer indirect consequences as a result of the settlement. The SEC settlement could also make it more difficult to attract and retain qualified individuals to serve on our board of directors or as executive officers. Further, if we are found to be in violation of the Administrative Order, we may be subject to additional enforcement actions or lawsuits that could lead to added penalties and consequences. The costs of such actions and of defending lawsuits could be significant and exceed the amount of our available insurance coverage. Governmental scrutiny, pending or future investigations by regulators or law enforcement agencies or legal proceedings involving us or our affiliates could have a negative impact on our reputation and on the morale and performance of employees, as well as on business retention and sales, which could adversely affect our business and results of operations.

As a result of the settlement with the SEC, we cannot invoke the "safe harbor" for the forward-looking statements provision of the Private Securities Litigation Reform Act of 1995.

As a result of the Administrative Order, we have forfeited the ability to invoke the "safe harbor" for the forward-looking statements provision of the Private Securities Litigation Reform Act of 1995. This safe harbor provided us enhanced protection from liability related to forward-looking statements if the forward-looking statements were accompanied by meaningful cautionary statements or were made without actual knowledge that they were false or misleading. Without the statutory safe harbor, it may be more difficult for us to defend against any claims based on forward-looking statements.

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; or
- 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; and
- other resource requirements.

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.

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.

For fiscal 2017, IEC obtained 30% of the materials used in production from two vendors, Avnet, Inc. and Arrow Electronics, 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.

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.

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 manufacturing processes and services may result in exposure to intellectual property infringement and other claims.

Providing manufacturing services can expose us to potential claims that products, designs or manufacturing processes we use infringe third party intellectual property rights. Even though many of our manufacturing services contracts generally require our customers to indemnify us for infringement claims relating to their products, including associated product specifications and designs, a particular customer may not, or may not have the resources to, assume responsibility for such claims. In addition, we may be responsible for claims that our manufacturing processes or components used in manufacturing infringe third party intellectual property rights. Infringement claims could subject us to significant liability for damages, potential injunctive action, or hamper our normal operations such as by interfering with the availability of components and, regardless of merits, could be time-consuming and expensive to

resolve, and have a material adverse effect on our results of operations and financial position. In the event of such a claim, we may be required to spend a significant amount of money to develop non-infringing alternatives or obtain and maintain licenses. We may not be successful in developing such alternatives or obtaining and maintaining such a license on reasonable terms or at all. Our customers may be required to or decide to discontinue products which are alleged to be infringing rather than face continued costs of defending the infringement claims, and such discontinuance may result in a significant decrease in our business.

A failure to comply with customer-driven policies and standards, including those related to social responsibility and conflict minerals, could adversely affect our business and reputation.

In addition to government regulations and industry standards, our customers may require us to comply with their own social responsibility, conflict minerals, quality or other business policies or standards, which may be more restrictive than current laws and regulations as well as our pre-existing policies, before they commence, or continue, doing business with us. Such policies or standards may be customer-driven, established by the industry sectors in which we operate or imposed by third party organizations, such as the SEC's conflict mineral rules.

Our compliance with these policies, standards and third party certification requirements could be costly, and our failure to comply could adversely affect our operations, customer relationships, reputation and profitability. In addition, our adoption of these standards could adversely affect our cost competitiveness, ability to provide customers with required service levels and ability to attract and retain employees in jurisdictions where these standards vary from prevailing local customs and practices.

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; and
- 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.

We may face heightened liability risks specific to our medical device business as a result of additional healthcare regulatory related compliance requirements and the potential severe consequences that could result from manufacturing defects or malfunctions (e.g., death or serious injury) of the medical devices we manufacture, design or test.

As a manufacturer and designer of medical devices for our customers, we have compliance requirements in addition to those relating to other areas of our business. We are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation ("QSR") and current Good Manufacturing Practices (cGMP) requirements, which require manufacturers of medical devices to adhere to certain regulations and to implement design and process manufacturing controls, quality control, labeling, handling and documentation procedures. The FDA, through periodic inspections and product field monitoring, continually reviews and rigorously monitors compliance with these QSR requirements and other applicable regulatory requirements. If any FDA inspection reveals noncompliance, and we do not address the FDA's concerns to its satisfaction, the FDA may take action against us, including issuing a form noting the FDA's inspection observations, a notice of violation or a warning letter, imposing fines, bringing an action against the Company and its officers, requiring a recall of the products we manufactured for our customers, issuing an import detention on products entering the U.S. from an offshore facility or temporarily halting operations at or shutting down a manufacturing facility. If any of these were to occur, our reputation and business could suffer.

In addition, any defects or malfunctions in medical devices we manufacture or in our manufacturing processes and facilities may result in liability claims against us, expose us to liability to pay for the recall or remanufacture of a product, or otherwise adversely affect product sales or our reputation. The magnitude of such claims could be particularly severe as defects in medical devices could cause severe harm or injuries, including death, to users of these products and others.

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.

The Company is in the process of implementing a financial reporting system, Epicor ERP Software (“Epicor”), as part of a multi-year plan to integrate and upgrade our systems and processes. Epicor will assist with the collection, storage, management and interpretation of data from our business activities to support future growth and to integrate significant processes. Enterprise resource planning (“ERP”) system implementations are complex and time-consuming and involve substantial expenditures on system software and implementation activities, as well as changes in business processes. As part of the Epicor implementation, certain changes to our processes and procedures have and will continue to occur. These changes will result in changes to our internal control over financial reporting. While Epicor is designed to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as each of the affected areas evolve.

Our ERP system is critical to our ability to accurately maintain books and records, record transactions, provide important information to our management and prepare our consolidated financial statements. ERP system implementations also require the transformation of business and financial processes in order to reap the benefits of the ERP system; any such transformation involves risks inherent in the conversion to a new computer system, including loss of information and potential disruption to our normal operations. Any disruptions, delays or deficiencies in the design and implementation of a new ERP system could adversely affect our ability to process orders, provide services and customer support, send invoices and track payments, fulfill

contractual obligations or otherwise operate our business. Additionally, if the ERP system does not operate as intended, the effectiveness of our internal control over financial reporting could be adversely affected or our ability to assess it adequately could be further impacted.

Cybersecurity breaches or system failures may interrupt or delay our ability to provide services to our customers, expose our business and our customers to harm and otherwise adversely affect our operations.

System disruptions and failures may interrupt or delay our ability to provide services to our customers and otherwise adversely affect our operations. The secure transmission of confidential information over the internet and other electronic distribution and communication systems is essential to our maintaining consumer confidence. Security breaches, computer viruses, cyberattacks, hacking and other acts of vandalism could result in a compromise or breach of the technology that we use to protect our transaction data and other information that we must keep secure. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a cyberattack, a spike in transaction volume or unforeseen catastrophic events, potentially resulting in data loss and adversely affecting our ability to process these transactions. If one or more of such events occurs, this could potentially jeopardize data integrity or confidentiality of information processed and stored in, or transmitted through, our computer systems and networks, which could result in our facing significant losses, reputational damage and legal liabilities.

Competition and consolidation in the electronic industry could negatively affect our business.

Consolidation could result in an increasing number of very large electronics companies offering products similar to ours in multiple sectors of the electronics industry. The growth of these large companies, with significant purchasing and marketing power, could result in increased pricing and competitive pressures for us. Accordingly, industry consolidation could harm our business. We may need to increase our efficiencies to compete and may incur additional restructuring charges.

#### Item 1B. UNRESOLVED STAFF COMMENTS

None.

#### Item 2. PROPERTIES

We own or lease properties in three 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	AO,M,W,D	47,000	Owned	N/A
Albuquerque, New Mexico	AO,E,M,W,D	72,000	Leased	11/18/2031

Our properties are generally in good condition and are suitable for their intended purposes. We have granted mortgages on the Newark and Rochester properties to secure certain of our obligations to M&T Bank.

#### Item 3. LEGAL PROCEEDINGS

From time to time, we may be involved in legal actions in the ordinary course of our business, but management does not believe that any such proceedings individually or in the aggregate, will have a material effect on our consolidated financial statements.



Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

18

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EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers at September 30, 2017 were as follows:

	Age	
Jeffrey T. Schlarbaum	51	President and Chief Executive Officer
Michael T. Williams	50	Vice President of Finance and Chief Financial Officer
Jens Hauvn	50	Senior Vice President, Operations

Jeffrey T. Schlarbaum, age 51, has served as a director and as our President and Chief Executive Officer since February 2015. From February 2013 to June 2013 and from June 2014 to February 2015, Mr. Schlarbaum pursued personal interests. From June 2013 to June 2014, Mr. Schlarbaum served as Chief Operations Officer for LaserMax, Inc., a manufacturer of laser gun sights for law enforcement and the shooting sports community. From October 2010 to February 2013, Mr. Schlarbaum served as our President. Prior to that, Mr. Schlarbaum served as our Executive Vice President and President of Contract Manufacturing from October 2008 to October 2010, Executive Vice President from November 2006 to October 2008 and Vice President, Sales & Marketing from May 2004 to November 2006. Prior to joining us, Mr. Schlarbaum served in senior management roles with various contract manufacturing companies. Since July 2017, Mr. Schlarbaum also serves as a director and member of the audit committee of Lakeland Industries, Inc.

Michael T. Williams, age 50, has served as our Vice President, Finance since February 2014 and was appointed as Chief Financial Officer in June 2014. From October 2013 until February 2014, Mr. Williams served as a consultant with JC Jones & Associates, LLC, a business and financial consulting firm, where he provided advice regarding regulatory compliance. Previously, he was employed by Bausch & Lomb Incorporated (“Bausch & Lomb”) 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’s \$500 million global medical device business. Prior to that time, he served in various capacities at Bausch & Lomb, including 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. Mr. Williams is a certified public accountant. Mr. Williams also serves as a board member of DePaul Adult Care Communities and DePaul Group audit and investment committee.

Jens Hauvn, age 50, has served as our Senior Vice President, Operations since September 2015. From October 2014, when he joined us, until September 2015, Mr. Hauvn served as Vice President of Quality and Operational Excellence. Previously, Mr. Hauvn served as Vice President, Corporate Quality at Ducommun Incorporated, a global provider of manufacturing and engineering services, from June 2011 to July 2014. In this position, Mr. Hauvn was responsible for quality functions across 19 facilities that provide manufacturing and engineering solutions for complex applications in the aerospace, defense, medical, industrial and commercial markets. From June 1992 to June 2011, Mr. Hauvn served in management positions with several of Ducommun Incorporated’s predecessor companies, which were purchased in a series of acquisitions.

PART II

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

(a) Market Information

Our common stock trades on the NYSE American LLC (“NYSE American”) under the symbol “IEC”.



The following table sets forth, for the fiscal quarters indicated, the high and low sales prices for our common stock as reported on the NYSE American.

IEC Closing Stock Prices	Low	High
Fiscal Quarters		
Fourth 2017	\$3.65	\$5.01
Third 2017	3.52	3.97
Second 2017	3.38	4.03
First 2017	3.25	5.10
Fourth 2016	\$4.30	\$5.27
Third 2016	4.15	4.94
Second 2016	3.05	4.64
First 2016	2.78	3.87

The closing price of our common stock on the NYSE American on December 1, 2017, was \$4.12 per share.

(b) Holders

As of December 1, 2017, there were approximately 186 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

We do not pay dividends on our common stock, as it is our current policy to retain earnings for use in the business. Furthermore, certain covenants in our credit agreement with M&T Bank prohibit us from paying cash dividends. We do not expect to pay cash dividends on shares of our common stock in the foreseeable future.

(d) Recent sales of Unregistered Securities

None.

(e) Repurchases of IEC Securities

We did not repurchase any shares during the fourth quarter of the fiscal year ended September 30, 2017. Furthermore, certain covenants in our credit agreement with M&T Bank limit our ability to repurchase shares of our common stock.

## Item 6. SELECTED FINANCIAL DATA

Years Ended September 30,		2017	2016	2015	2014	2013
(amounts in thousands, except per share data)						
				(a)	(a)	(a)
Net sales	\$	96,455	\$127,010	\$126,999	\$120,837	\$124,800
Gross profit		11,257	20,287	16,295	13,689	16,668
Operating profit/(loss)		1,060	6,248	(1,660)	40	3,135
Income/(loss) before income taxes		143	4,856	(3,770)	(1,772)	1,923
Provision for income taxes		62	70	1	12,876	