

DUCOMMUN INC /DE/  
Form 10-Q  
August 05, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended July 4, 2015

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 1-8174

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DUCOMMUN INCORPORATED  
(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	95-0693330 (I.R.S. Employer Identification No.)
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23301 Wilmington Avenue, Carson, California (Address of principal executive offices)	90745-6209 (Zip code)
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Registrant's telephone number, including area code: (310) 513-7200

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
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Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 22, 2015, the registrant had 11,082,600 shares of common stock outstanding.



Table of Contents

DUCOMMUN INCORPORATED AND SUBSIDIARIES

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of July 4, 2015 and December 31, 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended July 4, 2015 and June 28, 2014 (As Restated)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended July 4, 2015 and June 28, 2014 (As Restated)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 4, 2015 and June 28, 2014 (As Restated)</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
Item 4. <u>Controls and Procedures</u>	<u>29</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>30</u>
Item 1A. <u>Risk Factors</u>	<u>30</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>30</u>
Item 6. <u>Exhibits</u>	<u>31</u>
<u>Signatures</u>	<u>33</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Ducommun Incorporated and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and per share data)

	July 4, 2015	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	\$26,842	\$45,627
Accounts receivable, net of allowance for doubtful accounts of \$223 and \$252 at July 4, 2015 and December 31, 2014, respectively	91,194	91,060
Inventories	138,014	142,842
Production cost of contracts	9,772	11,727
Deferred income taxes	12,371	13,783
Other current assets	16,835	23,702
Total Current Assets	295,028	328,741
Property and equipment, net of accumulated depreciation of \$133,679 and \$128,457 at July 4, 2015 and December 31, 2014, respectively	99,347	99,068
Goodwill	157,569	157,569
Intangibles, net	150,088	155,104
Other assets	7,938	7,117
Total Assets	\$709,970	\$747,599
Liabilities and Shareholders' Equity		
Current Liabilities		
Current portion of long-term debt	\$27	\$26
Accounts payable	55,313	58,979
Accrued liabilities	41,901	52,066
Total Current Liabilities	97,241	111,071
Long-term debt, less current portion	265,012	290,026
Deferred income taxes	69,613	69,448
Other long-term liabilities	19,583	20,484
Total Liabilities	451,449	491,029
Commitments and contingencies (Notes 9, 11)		
Shareholders' Equity		
Common stock - \$0.01 par value; 35,000,000 shares authorized; 11,082,460 and 10,952,268 issued at July 4, 2015 and December 31, 2014, respectively	111	110
Additional paid-in capital	74,069	72,206
Retained earnings	190,714	190,905
Accumulated other comprehensive loss	(6,373)	(6,651)
Total Shareholders' Equity	258,521	256,570
Total Liabilities and Shareholders' Equity	\$709,970	\$747,599
See accompanying notes to condensed consolidated financial statements.		

Table of Contents

Ducommun Incorporated and Subsidiaries  
Condensed Consolidated Statements of Operations  
(Unaudited)  
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	July 4, 2015	June 28, 2014 As Restated	July 4, 2015	June 28, 2014 As Restated
Net Revenues	\$174,845	\$186,516	\$347,765	\$366,269
Cost of Sales	143,638	148,838	289,797	292,676
Gross Profit	31,207	37,678	57,968	73,593
Selling, General and Administrative Expenses	20,368	20,868	43,502	41,955
Operating Income	10,839	16,810	14,466	31,638
Interest Expense	(6,446 )	(6,994 )	(13,107 )	(14,119 )
Loss on Extinguishment of Debt	(2,842 )	—	(2,842 )	—
Other Income	1,510	—	1,510	—
Income Before Taxes	3,061	9,816	27	17,519
Income Tax Expense	1,279	3,197	218	5,741
Net Income (Loss)	\$1,782	\$6,619	\$(191 )	\$11,778
Earnings (Loss) Per Share				
Basic earnings (loss) per share	\$0.16	\$0.61	\$(0.02 )	\$1.08
Diluted earnings (loss) per share	\$0.16	\$0.60	\$(0.02 )	\$1.06
Weighted-Average Number of Common Shares Outstanding				
Basic	11,062	10,871	11,012	10,864
Diluted	11,276	11,045	11,012	11,122

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Ducommun Incorporated and Subsidiaries  
 Condensed Consolidated Statements of Comprehensive Income  
 (Unaudited)  
 (In thousands)

	Three Months Ended		Six Months Ended	
	July 4, 2015	June 28, 2014 As Restated	July 4, 2015	June 28, 2014 As Restated
Net Income (Loss)	\$1,782	\$6,619	\$(191)	) \$11,778
Other Comprehensive Loss				
Amortization of actuarial losses and prior service costs, net of tax benefit of approximately \$68 and \$48 for the three months ended July 4, 2015 and June 28, 2014, respectively, and approximately \$165 and \$84 for the six months ended July 4, 2015 and June 28, 2014, respectively	(153)	) (57)	) (278)	) (126)
Other Comprehensive Loss	(153)	) (57)	) (278)	) (126)
Comprehensive Income	\$1,935	\$6,676	\$87	\$11,904
See accompanying notes to condensed consolidated financial statements.				

Table of Contents

Ducommun Incorporated and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)  
(In thousands)

	Six Months Ended	
	July 4, 2015	June 28, 2014 As Restated
Cash Flows from Operating Activities		
Net (Loss) Income	\$(191	) \$11,778
Adjustments to Reconcile Net (Loss) Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	13,428	15,125
Stock-based compensation expense	2,461	1,288
Deferred income taxes	1,577	998
Excess tax benefits from stock-based compensation	(509	) (61
Recovery of doubtful accounts	(28	) (235
Noncash loss on extinguishment of debt	2,842	—
Other	(1,663	) 31
Changes in Assets and Liabilities:		
Accounts receivable	(106	) (13,066
Inventories	4,828	(1,694
Production cost of contracts	1,348	(1,734
Other assets	7,942	6,563
Accounts payable	(4,078	) (4,363
Accrued and other liabilities	(10,295	) 835
Net Cash Provided by Operating Activities	17,556	15,465
Cash Flows from Investing Activities		
Purchases of property and equipment	(7,782	) (5,997
Proceeds from sale of assets	279	51
Insurance recoveries related to property and equipment	1,510	—
Net Cash Used in Investing Activities	(5,993	) (5,946
Cash Flows from Financing Activities		
Proceeds from senior secured revolving credit facility	65,000	—
Repayment of term loan and other debt	(90,013	) (15,012
Debt issuance costs	(4,738	) —
Excess tax benefits from stock-based compensation	509	61
Net proceeds from issuance of common stock under stock plans	(1,106	) 369
Net Cash Used in Financing Activities	(30,348	) (14,582
Net Decrease in Cash and Cash Equivalents	(18,785	) (5,063
Cash and Cash Equivalents at Beginning of Period	45,627	48,814
Cash and Cash Equivalents at End of Period	\$26,842	\$43,751
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$12,400	\$1,440
Taxes paid	\$150	\$3,249
Non-cash activities:		
Purchases of property and equipment not paid	\$1,871	\$722

See accompanying notes to condensed consolidated financial statements.





Table of Contents

Ducommun Incorporated and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries (“Ducommun,” the “Company,” “we,” “us” or “our”), after eliminating intercompany balances and transactions. The December 31, 2014 condensed consolidated balance sheet data was derived from audited financial statements, but does not contain all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”).

Our significant accounting policies were described in Part IV, Item 15(a)(1), “Note 1. Summary of Significant Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2014. We followed the same accounting policies for interim reporting. The financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of management, all adjustments, consisting of recurring accruals, have been made that are necessary to fairly state our condensed consolidated financial position, statements of income, comprehensive income and cash flows in accordance with GAAP for the periods covered by this Quarterly Report on Form 10-Q. The results of operations for the three and six months ended July 4, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.

Our fiscal quarters end on the Saturday closest to the end of March, June and September for the first three fiscal quarters of each year, and ends on December 31 for our fourth fiscal quarter.

Certain reclassifications have been made to prior period amounts to conform to the current year’s presentation.

Use of Estimates

Certain amounts and disclosures included in the unaudited condensed consolidated financial statements required management to make estimates and judgments that affect the amounts of assets, liabilities (including forward loss reserves), revenues and expenses, and related disclosures of contingent assets and liabilities. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Restatement of Previously Issued Consolidated Financial Statements

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, we have restated our consolidated financial statements as of December 31, 2013, and for the years ended December 31, 2013 and 2012 and our unaudited quarterly financial information for the first three quarters in the year ended December 31, 2014 and for each of the quarters in the year ended December 31, 2013, to correct errors in prior periods primarily related to (i) a long-term contract following the discovery of misconduct by employees in the recording of direct labor costs to the contract from 2009 through the third quarter 2014 which resulted in the identification of a forward loss provision that should have been recorded in 2009 and the impact on subsequent periods of adjustments to the forward loss provision based on information available at the time; and (ii) the year end reconciliation of income taxes payable and deferred tax balances identified errors primarily in 2013, 2012, and 2011. In addition, the restated amounts include previously identified and disclosed immaterial adjustments. We have reflected our restated unaudited quarterly condensed consolidated financial information as of and for the three and six months ended June 28, 2014 herein. See Note 2 for additional information.

Description of Business

We are a leading global provider of engineering and manufacturing services for high-performance products and high-cost-of failure applications used primarily in the aerospace, defense, industrial, natural resources, medical and other industries. Our subsidiaries are organized into two strategic businesses: Ducommun AeroStructures (“DAS”) and Ducommun LaBarge Technologies (“DLT”), each of which is a reportable operating segment. DAS designs, engineers and manufactures large, complex contoured aerospace structural components and assemblies and supplies composite and metal bonded structures and assemblies. DAS products are used on commercial aircraft, military fixed-wing

aircraft and military and commercial rotary-wing aircraft. DLT designs, engineers and manufactures high-reliability products used in worldwide technology-driven markets including aerospace and defense, natural resources, industrial and medical and other end-use markets. DLT's product offerings range from prototype development to complex assemblies. All reportable operating segments follow the same accounting principles.

7

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Table of Contents

## Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding in each period. Diluted earnings per share are computed by dividing income available to common shareholders plus income associated with dilutive securities by the weighted-average number of common shares outstanding, plus any potential dilutive shares that could be issued if exercised or converted into common stock in each period.

The net earnings (loss), weighted-average number of common shares outstanding used to compute earnings (loss) per share were as follows:

	(In thousands, except per share data)		(In thousands, except per share data)	
	Three Months Ended		Six Months Ended	
	July 4, 2015	June 28, 2014 As Restated	July 4, 2015	June 28, 2014 As Restated
Net earnings (loss)	\$ 1,782	\$6,619	\$(191)	) \$11,778
Weighted-average number of common shares outstanding				
Basic weighted-average common shares outstanding	11,062	10,871	11,012	10,864
Dilutive potential common shares	214	174	—	258
Diluted weighted-average common shares outstanding	11,276	11,045	11,012	11,122
Earnings (loss) per share				
Basic	\$0.16	\$0.61	\$(0.02)	) \$1.08
Diluted	\$0.16	\$0.60	\$(0.02)	) \$1.06

Potentially dilutive stock options and stock units to purchase common stock, as shown below, were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive. However, these shares may be potentially dilutive common shares in the future.

	(In thousands)		(In thousands)	
	Three Months Ended		Six Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Stock options and stock units	182	248	911	177

## Cash and Cash Equivalents

Our cash accounts are not reduced for checks written until the checks are presented for payment and paid by our bank. Cash equivalents consist of highly liquid instruments purchased with original maturities of three months or less. These assets are valued at cost, which approximates fair value, which we classify as Level 1. See Fair Value below.

## Provision for Estimated Losses on Contracts

We record provisions for the total anticipated losses on contracts considering total estimated costs to complete the contract compared to total anticipated revenues in the period in which such losses are identified. The provisions for estimated losses on contracts require us to make certain estimates and assumptions, including those with respect to the future revenue under a contract and the future cost to complete the contract. Our estimate of the future cost to complete a contract may include assumptions as to improvements in manufacturing efficiency, reductions in operating and material costs, and our ability to resolve claims and assertions with our customers. If any of these or other assumptions and estimates do not materialize in the future, we may be required to record additional provisions for estimated losses on contracts.

## Inventory Valuation

Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. Market value for raw materials is based on replacement costs, and is based on net realizable value for other inventory classifications.

Inventoried costs include raw materials, outside processing, direct labor and allocated overhead, adjusted for any abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) incurred. Costs under long-term contracts are accumulated into, and removed from, inventory on the same basis as other contracts. We assess the inventory carrying value

8

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## Table of Contents

and reduce it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. We maintain an allowance for potentially excess and obsolete inventories and inventories that are carried at costs that are higher than their estimated net realizable values.

### Production Cost of Contracts

Production cost of contracts includes non-recurring production costs, such as design and engineering costs, and tooling and other special-purpose machinery necessary to build parts as specified in a contract. Production costs of contracts are recorded to cost of goods sold using the units of delivery method. We review long-lived assets within production costs of contracts for impairment on an annual basis (in the fourth quarter for us) or when events or changes in circumstances indicate that the carrying value of our long-lived assets may not be recoverable. An impairment charge is recognized when the carrying value of an asset exceeds the projected undiscounted future cash flows expected from its use and disposal.

### Fair Value

Assets and liabilities that are measured, recorded or disclosed at fair value on a recurring basis are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1, the highest level, refers to the values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant observable inputs. Level 3, the lowest level, includes fair values estimated using significant unobservable inputs.

### Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, as reflected in the condensed consolidated balance sheets under the equity section, was comprised of cumulative pension and retirement liability adjustments, net of tax.

### Recent Accounting Pronouncements

#### Recently Issued Accounting Standards

In June 2015, the FASB issued ASU 2015-10, "Technical Corrections and Improvements" ("ASU 2015-10"), which covers a wide range of Topics in the Codification. The amendments in ASU 2015-10 represent changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost on most entities. The amendments in this new guidance that require transition guidance are effective for annual and interim periods within those annual periods, beginning after December 15, 2015, which was our interim period beginning January 1, 2016. All other amendments are effective upon issuance of ASU 2015-10. Early adoption is permitted. We do not anticipate this standard will have a significant impact on our condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" ("ASU 2015-05"), which provides guidance on fees paid by a customer in a cloud computing arrangement. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance is effective for annual and interim periods within those annual periods, beginning after December 15, 2015, which will be our interim period beginning January 1, 2016. Early adoption is permitted. We are evaluating the impact of this standard but currently do not anticipate it will have a significant impact on our condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which changes the presentation of debt issuance costs in financial statements. Under ASU 2015-03, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of those costs is reported as interest expense. The new guidance is effective for annual and interim periods within those annual periods, beginning after December 15, 2015,

which will be our interim period beginning January 1, 2016. Early adoption is permitted. We had approximately \$6.9 million of debt issuance costs and approximately \$265.0 million of total debt as of July 4, 2015, and thus, we do not believe that adoption of this new guidance will have a significant impact on our condensed consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20)" ("ASU 2015-01"), which eliminates from U.S. GAAP the concept of extraordinary items. Current guidance requires

## Table of Contents

separate classification, presentation, and disclosure of extraordinary events and transactions. In addition, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. The new guidance is effective for annual and interim periods within those annual periods, beginning after December 15, 2015, which will be our interim period beginning January 1, 2016. Early adoption is permitted provided it is applied from the beginning of the annual period of adoption. We are evaluating the impact of this standard but currently do not anticipate it will have a significant impact on our condensed consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"), which defines management's responsibility to evaluate whether there is substantial doubt about a company's ability to continue as a going concern. ASU 2014-15 also provide principles and definitions that are intended to reduce diversity in the timing and content of disclosures in the financial statement footnotes. The new guidance is effective for annual periods ending after December 15, 2016, which will be our year ending December 31, 2016, and interim periods beginning after December 15, 2016, which will be our interim period beginning January 1, 2017. Early adoption is permitted. We are evaluating the impact of this standard but currently do not anticipate it will have a significant impact on our condensed consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period" ("ASU 2014-12"), which requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. Thus, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The new guidance is effective for us beginning January 1, 2016. Early adoption is permitted. We currently do not anticipate the adoption of this standard will have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. It requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. Thus, it depicts the transfer of promised goods or services to customers in an amount that reflects the consideration an entity expects to receive in exchange for those goods or services. Companies have the option of applying the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. Early adoption is not permitted. The new guidance is effective for us beginning January 1, 2017. We are currently evaluating the method and impact that adopting this new accounting standard will have on our condensed consolidated financial statements.

### Note 2. Restatement

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, we restated our consolidated financial statements for the years ended December 31, 2013 and 2012 and our unaudited quarterly financial information for the first three quarters in the year ended December 31, 2014 and for each of the quarters in the year ended December 31, 2013, to correct errors in prior periods primarily related to (i) a long-term contract ("Contract")

following the discovery of misconduct by employees in the recording of direct labor costs to the Contract from 2009 through the third quarter 2014 which resulted in the identification of a forward loss provision that should have been recorded in 2009 and the impact on subsequent periods of adjustments to the forward loss provision based on information available at the time (“Forward Loss Adjustments”); and (ii) the year end reconciliation of income taxes payable and deferred tax balances identified errors primarily in 2013, 2012, and 2011 (“Tax Adjustments”). The misconduct and its related financial impact were concealed from our senior management, internal auditors, and external auditors.

Also as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, the Forward Loss Adjustments were based on certain assumptions and estimates. To determine the loss on the Contract, we estimated the number of units we would have expected to ship over the life of the Contract at inception of the Contract using external market industry data for fiscal years 2009, 2010, 2011, 2012, and 2013. We used data obtained directly from the customer for 2014 and 2015. The total estimated costs at any given point in time would typically include actual historical costs up to that time plus the estimated cost



Table of Contents

to produce units to be delivered. In addition, the estimated total cost for the life of the Contract includes certain inefficiencies on labor, material, and overhead costs during the initial start-up period. However, as we progress along the learning curve, the direct labor hours and overhead rates are expected to decrease as we gain technical knowhow and efficiency in producing the product. As a result of the misconduct by the employees in the recording of direct labor hours to the Contract, the historical actual direct labor hours charged to the Contract were inaccurate. As a result, we estimated the costs to complete future units at the end of each period based on an estimate of the direct labor hours chargeable to the Contract, including consideration of anticipated learning curve efficiencies that would decrease the direct labor hours over the remaining term of the Contract. Further, we used the actual direct labor hours incurred by the employees assigned to the Contract as a basis for projecting future hours, less an estimate of the time not allocable to the Contract. Using this model, we calculated the Forward Loss Adjustments from the inception of the Contract in 2009 through the expected life of the Contract. As a result of the Forward Loss Adjustments, cost of goods sold increased (decreased) approximately \$6.7 million in 2009, \$1.3 million in 2010, \$(0.3) million in 2011, \$(2.2) million in 2012, \$(0.9) million in 2013, and \$(0.8) million in the nine months ended September 27, 2014.

Further, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, the Tax Adjustments were necessary as a result of certain calculation errors. The Tax Adjustments resulted in a net decrease to income tax expense of approximately \$0.9 million in 2013 and zero in 2012. The Tax Adjustments in 2011 resulted in a reduction to the carrying value of goodwill totaling approximately \$4.0 million due to a calculation error in the original purchase price allocation and subsequent performance of step 2 of our annual goodwill impairment analysis related to deferred income taxes and thus, (i) reduced deferred income taxes by approximately \$2.7 million and (ii) generated a pre-tax goodwill impairment charge of approximately \$1.4 million. Further, the Tax Adjustments in 2011 reduced deferred tax assets by approximately \$1.6 million that were established as a result of shared-based compensation expenses recorded previously and should have been reduced as the tax deductions were utilized. Moreover, the restated amounts include previously identified and disclosed immaterial adjustments.

In evaluating whether our previously issued consolidated financial statements were materially misstated, we evaluated the cumulative impact of these items on prior periods in accordance with the guidance in ASC 250-10, "Accounting Changes and Error Corrections," relating to SEC Staff Accounting Bulletin No. 99, "Materiality" ("SAB 99"), and SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), and we concluded these errors were in the aggregate material to the prior reporting periods, and therefore, restatement of previously filed financial statements was necessary to our previously issued 2013, 2012, 2011, and 2010 financial statements.

This Quarterly Report on Form 10-Q for the quarter ended July 4, 2015 includes the impact of the restatement on the comparative unaudited quarterly financial information for the quarter ended June 28, 2014. In addition, our future Quarterly Reports on Form 10-Q for subsequent quarterly periods during 2015 will reflect the impact of the restatement in the 2014 comparative prior quarter and year-to-date periods. Certain reclassifications have been made to prior period amounts to conform to the current year's presentation.

The account balances labeled "As Reported" in the following tables for the quarter ended June 28, 2014 represent the previously reported unaudited balances in our Quarterly Report on Form 10-Q for the quarter ended June 28, 2014. The effects of these prior period errors on our unaudited condensed consolidated financial statements are as follows (in thousands, except per share data):

Table of Contents

	June 28, 2014			
Unaudited Condensed Consolidated Balance Sheet:	As Reported	Adjustments	As Restated	
Assets				
Current Assets				
Cash and cash equivalents	\$43,751	\$—	\$43,751	
Accounts receivable (less allowance for doubtful accounts of \$254 at June 28, 2014)	105,209	—	105,209	
Inventories	142,201	—	142,201	
Production cost of contracts	11,023	—	11,023	
Deferred income taxes	11,513	1,416	12,929	
Other current assets	20,602	998	21,600	
Total Current Assets	334,299	2,414	336,713	
Property and Equipment, Net	94,070	—	94,070	
Goodwill	161,940	(4,371	) 157,569	
Intangibles, Net	160,285	—	160,285	
Other Assets	8,660	—	8,660	
Total Assets	\$759,254	\$(1,957	) \$757,297	
Liabilities and Shareholders' Equity				
Current Liabilities				
Current portion of long-term debt	\$26	\$—	\$26	
Accounts payable	53,749	—	53,749	
Accrued liabilities	47,973	3,589	51,562	
Total Current Liabilities	101,748	3,589	105,337	
Long-Term Debt, Less Current Portion	317,664	—	317,664	
Deferred Income Taxes	69,747	(500	) 69,247	
Other Long-Term Liabilities	17,456	(300	) 17,156	
Total Liabilities	506,615	2,789	509,404	
Commitments and Contingencies				
Shareholders' Equity				
Common stock - \$0.01 par value; 35,000,000 shares authorized; 10,892,133 shares issued at June 28, 2014	109	—	109	
Additional paid-in capital	70,337	(1,633	) 68,704	
Retained earnings	185,929	(3,113	) 182,816	
Accumulated other comprehensive loss	(3,736	) —	(3,736	)
Total Shareholders' Equity	252,639	(4,746	) 247,893	
Total Liabilities and Shareholders' Equity	\$759,254	\$(1,957	) \$757,297	

Table of Contents

Unaudited Condensed Consolidated Statement of Income:	Three Months Ended June 28, 2014			Six Months Ended June 28, 2014		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Net Revenues	\$186,516	\$ —	\$186,516	\$366,269	\$ —	\$366,269
Cost of Sales	149,073	(235 )	148,838	293,756	(1,080 )	292,676
Gross Profit	37,443	235	37,678	72,513	1,080	73,593
Selling, General and Administrative Expenses	20,868	—	20,868	41,955	—	41,955
Operating Income	16,575	235	16,810	30,558	1,080	31,638
Interest Expense	(6,994 )	—	(6,994 )	(14,119 )	—	(14,119 )
Income Before Taxes	9,581	235	9,816	16,439	1,080	17,519
Income Tax Expense	3,109	88	3,197	5,338	403	5,741
Net Income	\$6,472	\$ 147	\$6,619	\$11,101	\$ 677	\$11,778
Earnings Per Share						
Basic earnings per share	\$0.60	\$ 0.01	\$0.61	\$1.02	\$ 0.06	\$1.08
Diluted earnings per share	\$0.59	\$ 0.01	\$0.60	\$1.00	\$ 0.06	\$1.06
Weighted-Average Number of Shares Outstanding						
Basic	10,871	—	10,871	10,864	—	10,864
Diluted	11,045	—	11,045	11,122	—	11,122
Unaudited Condensed Consolidated Statement of Comprehensive Income:	Three Months Ended June 28, 2014			Six Months Ended June 28, 2014		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Net Income	\$6,472	\$ 147	\$6,619	\$11,101	\$ 677	\$11,778
Pension Adjustments						
Amortization of actuarial loss and prior service costs, net of tax benefit of approximately \$48 and \$84 for the three months and six months ended June 28, 2014	(57 )	—	(57 )	(126 )	—	(126 )
Other Comprehensive Loss	(57 )	—	(57 )	(126 )	—	(126 )
Comprehensive Income	\$6,529	\$ 147	\$6,676	\$11,227	\$ 677	\$11,904

Table of Contents

Unaudited Condensed Consolidated Cash Flow Statement:	Six Months Ended June 28, 2014		
	As Reported	Adjustments	As Restated
Cash Flows from Operating Activities			
Net Income	\$ 11,101	\$ 677	\$ 11,778
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	15,125	—	15,125
Stock-based compensation expense	1,288	—	1,288
Deferred income taxes	595	403	998
Excess tax benefits from stock-based compensation	(61 )	—	(61 )
Recovery of doubtful accounts	(235 )	—	(235 )
Other	1,111	(1,080 )	31
Changes in Assets and Liabilities:			
Accounts receivable	(13,066 )	—	(13,066 )
Inventories	(1,694 )	—	(1,694 )
Production cost of contracts	(1,734 )	—	(1,734 )
Other assets	6,563	—	6,563
Accounts payable	(4,363 )	—	(4,363 )
Accrued and other liabilities	835	—	835
Net Cash Provided by Operating Activities	15,465	—	15,465
Cash Flows from Investing Activities			
Purchases of property and equipment	(5,997 )	—	(5,997 )
Proceeds from sales of assets	51	—	51
Net Cash Used in Investing Activities	(5,946 )	—	(5,946 )
Cash Flows from Financing Activities			
Repayment of term loan and other debt	(15,012 )	—	(15,012 )
Excess tax benefits from stock-based compensation	61	—	61
Net proceeds from issuance of common stock under stock plans	369	—	369
Net Cash Used in Financing Activities	(14,582 )	—	(14,582 )
Net Decrease in Cash and Cash Equivalents	(5,063 )	—	(5,063 )
Cash and Cash Equivalents at Beginning of Year	48,814	—	48,814
Cash and Cash Equivalents at End of Year	\$ 43,751	\$ —	\$ 43,751

## Note 3. Inventories

Inventories consisted of the following:

	(In thousands)	
	July 4, 2015	December 31, 2014
Raw materials and supplies	\$ 73,309	\$ 77,033
Work in process	58,992	61,458
Finished goods	10,568	14,116
	142,869	152,607
Less progress payments	4,855	9,765
Total	\$ 138,014	\$ 142,842

We net advances from customers related to inventory purchases against inventories in the consolidated balance sheets.

Note 4. Goodwill

The carrying amounts of goodwill, by operating segment, were as follows:

14

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	(In thousands)		
	Ducommun AeroStructures	Ducommun LaBarge Technologies	Consolidated Ducommun
Gross goodwill	\$57,243	\$182,048	\$239,291
Accumulated goodwill impairment	—	(81,722)	(81,722)
Balance at December 31, 2014	\$57,243	\$100,326	\$157,569
Balance at July 4, 2015	\$57,243	\$100,326	\$157,569

Note 5. Accrued Liabilities

The components of accrued liabilities were as follows:

	(In thousands)	
	July 4, 2015	December 31, 2014
Accrued compensation	\$17,307	\$25,352
Accrued income and sales tax	1,306	1,580
Customer deposits	1,015	1,139
Interest payable	9,032	9,439
Provision for forward loss reserves	4,762	4,734
Other	8,479	9,822
Total	\$41,901	\$52,066

Note 6. Long-Term Debt

Long-term debt and the current period interest rates were as follows:

	(In thousands)			
	July 4, 2015	December 31, 2014		
Senior unsecured notes (fixed 9.75%)	\$200,000	\$200,000		
Senior secured term loan (floating 4.75%)	—	90,000		
New revolving credit facility	65,000	—		
Other debt (fixed 5.41%)	39	52		
Total debt	265,039	290,052		
Less current portion	27	26		
Total long-term debt	\$265,012	\$290,026		
Weighted-average interest rate	8.02	% 8.20		%

The failure to file our 2014 Annual Report on Form 10-K by March 31, 2015 resulted in defaults, but not an event of default, under our senior secured term loan and senior secured revolving credit facility (together, the “Existing Credit Facilities”) and our senior unsecured notes (“Existing Notes”). The defaults on our Existing Credit Facilities and our Existing Notes were deemed cured with the filing of our Annual Report on Form 10-K on April 9, 2015.

The carrying amount of our long-term debt approximated fair value, except for the Existing Notes for which the fair value was approximately \$210.0 million. Fair value was estimated using Level 2 inputs, based on the terms of the related debt, recent transactions and estimates using interest rates currently available to us for debt with similar terms and remaining maturities.

In June 2015, we completed a new credit facility to replace the Existing Credit Facilities. The new credit facility consists of a \$275.0 million senior secured term loan, which matures on June 26, 2020 (“New Term Loan”), and a \$200.0 million senior secured revolving credit facility (“New Revolving Credit Facility”), which matures on June 26, 2020 (collectively, the “New Credit Facilities”). The New Credit Facilities bear interest, at our option, at a rate equal to either (i) the Eurodollar Rate



Table of Contents

(defined as LIBOR) plus an applicable margin ranging from 1.50% to 2.75% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.75% per year, in each case based upon the consolidated total net adjusted leverage ratio. The undrawn portions of the commitments of the New Credit Facilities are subject to a commitment fee ranging from 0.175% to 0.300%, based upon the consolidated total net adjusted leverage ratio. Further, we are required to make mandatory prepayments of amounts outstanding under the New Term Loan. The mandatory prepayments will be made quarterly, equal to 5.0% per year of the original aggregate principal amount during the first two years and increase to 7.5% per year during the third year, and increase to 10.0% per year during the fourth year and fifth years, with the remaining balance payable on June 26, 2020. The loans under the New Revolving Credit Facility are due on June 26, 2020. As of July 4, 2015, we were in compliance with all covenants required under the New Credit Facilities.

We have been making voluntary principal prepayments on a quarterly basis on our senior secured term loan and in conjunction with the closing of the New Credit Facilities, we drew down approximately \$65.0 million on the New Revolving Credit Facility and used those proceeds along with current cash on hand to extinguish the existing senior secured term loan of approximately \$80.0 million. We expensed the unamortized debt issuance costs related to the existing senior secured term loan of approximately \$2.8 million as part of extinguishing the existing senior secured term loan. We also incurred approximately \$4.7 million of debt issuance costs related to the New Credit Facilities and those costs are capitalized and will be amortized over the five year life of the New Credit Facilities.

As of July 4, 2015, we had approximately \$132.3 million of unused borrowing capacity under the New Revolving Credit Facility, after deducting approximately \$2.7 million for standby letters of credit.

In addition, on June 29, 2015, we initiated a call notice to retire all of the \$200.0 million Existing Notes on July 27, 2015. Subsequent to the quarter ended July 4, 2015, we drew down on the New Term Loan and along with paying the call premium of approximately \$9.75 million, extinguished the Existing Notes on July 27, 2015. We will expense the call premium of approximately \$9.75 million and debt issuance costs related to the Existing Notes of approximately \$2.1 million upon extinguishing the Existing Notes.

The Existing Notes were issued by us (“Parent Company”) and guaranteed by all of our subsidiaries, other than one subsidiary (“Subsidiary Guarantors”) that was considered minor. The New Credit Facilities are also guaranteed by the Subsidiary Guarantors. The Parent Company has no independent assets or operations and the Subsidiary Guarantors jointly and severally guarantee, on a senior unsecured basis, the Existing Notes and New Credit Facilities. Therefore, no condensed consolidating financial information for the Parent Company and its subsidiaries are presented.

#### Note 7. Shareholders’ Equity

We are authorized to issue five million shares of preferred stock. At July 4, 2015 and December 31, 2014, no preferred shares were issued or outstanding.

#### Note 8. Employee Benefit Plans

The components of net periodic pension expense were as follows:

	(In thousands)		(In thousands)	
	Three Months Ended		Six Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Service cost	\$197	\$173	\$393	\$346
Interest cost	337	319	675	638
Expected return on plan assets	(373)	(351)	(747)	(701)
Amortization of actuarial losses	221	105	443	210
Net periodic pension cost	\$382	\$246	\$764	\$493

The components of the reclassifications of net actuarial losses from accumulated other comprehensive loss to net income for the three months ended July 4, 2015 were as follows:





Table of Contents

	(In thousands)	
	Three Months Ended	Six Months Ended
	July 4,	July 4,
	2015	2015
Amortization of actuarial losses - total before tax <sup>(1)</sup>	\$ (221	) \$ (443
Tax benefit	68	165
Net of tax	\$ (153	) \$ (278

(1) The amortization expense is included in the computation of periodic pension cost and is a decrease to net income upon reclassification from accumulated other comprehensive loss.

## Note 9. Indemnifications

We have made guarantees and indemnities under which we may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions, including revenue transactions in the ordinary course of business. In connection with certain facility leases, we have indemnified our lessors for certain claims arising from the facility or the lease. We indemnify our directors and officers to the maximum extent permitted under the laws of the State of Delaware.

However, we have a directors and officers insurance policy that may reduce our exposure in certain circumstances and may enable us to recover a portion of future amounts that may be payable, if any. The duration of the guarantees and indemnities varies and, in many cases is indefinite but subject to statute of limitations. The majority of guarantees and indemnities do not provide any limitations of the maximum potential future payments we could be obligated to make. Historically, payments related to these guarantees and indemnities have been immaterial. We estimate the fair value of our indemnification obligations as insignificant based on this history and insurance coverage and have, therefore, not recorded any liability for these guarantees and indemnities in the accompanying condensed consolidated balance sheets.

## Note 10. Income Taxes

We recorded an income tax expense of approximately \$1.3 million (effective tax rate of 42%) for the three months ended July 4, 2015 compared to an income tax expense of approximately \$3.2 million (effective tax rate of 33%) for the three months ended June 28, 2014. The effective tax rate for the three months ended July 4, 2015 includes a benefit for the Qualified Domestic Production Activities Deduction that was partially offset by permanent tax difference items, state taxes, and certain discrete items. The effective tax rate for the three months ended June 28, 2014 included a benefit for the Qualified Domestic Production Activities Deduction that was partially offset by permanent tax difference items and state taxes.

We recorded an income tax expense of approximately \$0.2 million (effective tax rate of 807%) for the six months ended July 4, 2015 compared to an income tax expense of approximately \$5.7 million (effective tax rate of 33%) for the six months ended June 28, 2014. The effective tax rate for the six months ended July 4, 2015 includes a benefit for the Qualified Domestic Production Activities Deduction that was partially offset by permanent tax difference items, state taxes, and certain discrete items. The effective tax rate for the six months ended June 28, 2014 included a benefit for the Qualified Domestic Production Activities Deduction that was partially offset by permanent tax difference items and state taxes.

Our unrecognized tax benefits were approximately \$2.9 million and \$2.8 million as of July 4, 2015 and December 31, 2014, respectively. Approximately \$1.9 million, if recognized, would affect the annual income tax rate. We do not reasonably expect significant increases or decreases to our unrecognized tax benefits in the next twelve months.

## Note 11. Contingencies

On October 8, 2014, the United States District Court for the District of Kansas (the "District Court") granted summary judgment in favor of The Boeing Company ("Boeing") and Ducommun and dismissed the lawsuit entitled United States of America ex rel Taylor Smith, Jeannine Prewitt and James Ailes v. The Boeing Company and Ducommun Inc.. The

lawsuit was a qui tam action brought by three former Boeing employees (“Relators”) against Boeing and Ducommun on behalf of the United States of America for violations of the United States False Claims Act. Relators have appealed the dismissal to the Tenth Circuit Court of Appeals. The lawsuit alleged that Ducommun sold unapproved parts to Boeing which were installed by Boeing in aircraft ultimately sold to the United States Government and that Boeing and Ducommun submitted or caused to be submitted false claims for payment relating to 21 aircraft sold by Boeing to the United States Government. The lawsuit sought damages in an amount equal to three times the amount of damages the United States Government sustained because of the defendants’ actions, plus a civil penalty of \$10 thousand for each false claim made on or before September 28, 1999, and \$11 thousand for each false claim made on or after September 28, 1999, together with attorneys’ fees and costs. The Relators

Table of Contents

claimed that the United States Government sustained damages of \$1.6 billion (the contract purchase price of 21 aircraft) or, alternatively, \$851 million (the alleged diminished value and increased maintenance cost of the 21 aircraft). After investigating the allegations, the United States Government declined to intervene in the lawsuit. DAS has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its facilities located in El Mirage and Monrovia, California. Based on currently available information, Ducommun has established a reserve for its estimated liability for such investigation and corrective action of approximately \$1.5 million at July 4, 2015, which is reflected in other long-term liabilities on its consolidated balance sheet.

DAS also faces liability as a potentially responsible party for hazardous waste disposed at landfills located in Casmalia and West Covina, California. DAS and other companies and government entities have entered into consent decrees with respect to these landfills with the United States Environmental Protection Agency and/or California environmental agencies under which certain investigation, remediation and maintenance activities are being performed. Based on currently available information, Ducommun preliminarily estimates that the range of its future liabilities in connection with the landfill located in West Covina, California is between approximately \$0.4 million and \$3.1 million. Ducommun has established a reserve for its estimated liability, in connection with the West Covina landfill of approximately \$0.4 million at July 4, 2015, which is reflected in other long-term liabilities on its consolidated balance sheet. Ducommun's ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities, and the allocation of liability among potentially responsible parties.

In the normal course of business, Ducommun and its subsidiaries are defendants in certain other litigation, claims and inquiries, including matters relating to environmental laws. In addition, Ducommun makes various commitments and incurs contingent liabilities. While it is not feasible to predict the outcome of these matters, Ducommun does not presently expect that any sum it may be required to pay in connection with these matters would have a material adverse effect on its condensed consolidated financial position, results of operations or cash flows.

Note 12. Business Segment Information

We supply products and services primarily to the aerospace and defense industries. Our subsidiaries are organized into two strategic businesses, DAS and DLT, each of which is a reportable operating segment.

Financial information by reportable operating segment was as follows:

Table of Contents

	(In thousands)		(In thousands)	
	Three Months Ended		Six Months Ended	
	July 4, 2015	June 28, 2014 As Restated	July 4, 2015	June 28, 2014 As Restated
Net Revenues				
DAS	\$76,078	\$78,616	\$148,136	\$160,270
DLT	98,767	107,900	199,629	205,999
Total Net Revenues	\$174,845	\$186,516	\$347,765	\$366,269
Segment Operating Income				
DAS	\$6,870	\$10,068	\$9,008	\$21,159
DLT	7,692	10,757	13,977	17,801
	14,562	20,825	22,985	38,960
Corporate General and Administrative Expenses <sup>(1)</sup>	(3,723 )	(4,015 )	(8,519 )	(7,322 )
Operating Income	\$10,839	\$16,810	\$14,466	\$31,638
Depreciation and Amortization Expenses				
DAS	\$2,111	\$3,554	\$4,624	\$5,970
DLT	4,361	4,043	8,720	9,051
Corporate Administration	42	102	84	104
Total Depreciation and Amortization Expenses	\$6,514	\$7,699	\$13,428	\$15,125
Capital Expenditures				
DAS	\$2,417	\$1,435	\$5,751	\$2,720
DLT	948	2,078	2,438	2,975
Corporate Administration	2	14	6	24
Total Capital Expenditures	\$3,367	\$3,527	\$8,195	\$5,719

(1) Includes costs not allocated to either the DLT or DAS operating segments.

Segment assets include assets directly identifiable with each segment. Corporate assets include assets not specifically identified with a business segment, including cash. Our segment assets are as follows:

	(In thousands)	
	July 4, 2015	December 31, 2014
Total Assets		
DAS	\$243,840	\$245,925
DLT	412,489	427,719
Corporate Administration	53,641	73,955
Total Assets	\$709,970	\$747,599
Goodwill and Intangibles		
DAS	\$62,803	\$63,497
DLT	244,854	249,176
Total Goodwill and Intangibles	\$307,657	\$312,673

Table of Contents

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

## Restatement of Previously Issued Financial Statements

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, we restated our consolidated financial statements for the years ended December 31, 2013 and 2012 and our unaudited quarterly financial information for the first three quarters in the year ended December 31, 2014 and for each of the quarters in the year ended December 31, 2013, to correct errors in prior periods primarily related to (i) a long-term contract ("Contract") following the discovery of misconduct by employees in the recording of direct labor costs to the Contract from 2009 through the third quarter 2014 which resulted in the identification of a forward loss provision that should have been recorded in 2009 and the impact on subsequent periods of adjustments to the forward loss provision based on information available at the time ("Forward Loss Adjustments"); and (ii) the year end reconciliation of income taxes payable and deferred tax balances identified errors primarily in 2013, 2012, and 2011 ("Tax Adjustments"). The misconduct and its related financial impact were concealed from our senior management, internal auditors, and external auditors.

Also as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, the Forward Loss Adjustments were based on certain assumptions and estimates. To determine the loss on the Contract, we estimated the number of units we would have expected to ship over the life of the Contract at inception of the Contract using external market industry data for fiscal years 2009, 2010, 2011, 2012, and 2013. We used data obtained directly from the customer for 2014 and 2015. The total estimated costs at any given point in time would typically include actual historical costs up to that time plus the estimated cost to produce units to be delivered. In addition, the estimated total cost for the life of the Contract includes certain inefficiencies on labor, material, and overhead costs during the initial start-up period. However, as we progress along the learning curve, the direct labor hours and overhead rates are expected to decrease as we gain technical knowhow and efficiency in producing the product. As a result of the misconduct by the employees in the recording of direct labor hours to the Contract, the historical actual direct labor hours charged to the Contract were inaccurate. As a result, we estimated the costs to complete future units at the end of each period based on an estimate of the direct labor hours chargeable to the Contract, including consideration of anticipated learning curve efficiencies that would decrease the direct labor hours over the remaining term of the Contract. Further, we used the actual direct labor hours incurred by the employees assigned to the Contract as a basis for projecting future hours, less an estimate of the time not allocable to the Contract. Using this model, we calculated the Forward Loss Adjustments from the inception of the Contract in 2009 through the expected life of the Contract. As a result of the Forward Loss Adjustments, cost of goods sold increased (decreased) approximately \$6.7 million in 2009, \$1.3 million in 2010, \$(0.3) million in 2011, \$(2.2) million in 2012, \$(0.9) million in 2013, and \$(0.8) million in the nine months ended September 27, 2014.

Further, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, the Tax Adjustments were necessary as a result of certain calculation errors. The Tax Adjustments resulted in a net decrease to income tax expense of approximately \$0.9 million in 2013 and zero in 2012. The Tax Adjustments in 2011 resulted in a reduction to the carrying value of goodwill totaling approximately \$4.0 million due to a calculation error in the original purchase price allocation and subsequent performance of step 2 of our annual goodwill impairment analysis related to deferred income taxes and thus, (i) reduced deferred income taxes by approximately \$2.7 million and (ii) generated a pre-tax goodwill impairment charge of approximately \$1.4 million. Further, the Tax Adjustments in 2011 reduced deferred tax assets by approximately \$1.6 million that were established as a result of shared-based compensation expenses recorded previously and should have been reduced as the tax deductions were utilized. Moreover, the restated amounts include previously identified and disclosed immaterial adjustments.

See Part I, Item 4 of this Form 10-Q for information regarding our controls and procedures.

## Overview

Ducommun Incorporated ("Ducommun," the "Company," "we," "us" or "our") is a leading global provider of engineering and manufacturing services for high-performance products and high-cost-of failure applications used primarily in the aerospace, defense, industrial, natural resources, medical and other industries. Ducommun differentiates itself as a full-service solution-based provider, offering a wide range of value-added products and services in our primary businesses of electronics, structures and integrated solutions. We operate through two primary business units:

Ducommun LaBarge Technologies (“DLT”) and Ducommun AeroStructures (“DAS”).

Second quarter 2015 recap:

Second quarter revenue was approximately \$174.8 million

Table of Contents

Net income of approximately \$1.8 million, or \$0.16 per diluted share

EBITDA for the quarter was approximately \$18.9 million

New \$475.0 million credit facility completed and, on July 27, redeemed all \$200.0 million of our senior unsecured notes

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) was approximately \$18.9 million and \$24.5 million for the three months ended July 4, 2015 and June 28, 2014, respectively. See “Non-GAAP Financial Measures” below for certain information regarding EBITDA, including reconciliation of EBITDA to net income.

Non-GAAP Financial Measures

When viewed with our financial results prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and accompanying reconciliations, we believe EBITDA provides additional useful information to clarify and enhance the understanding of the factors and trends affecting our past performance and future prospects. We define these measures, explain how they are calculated and provide reconciliations of these measures to the most comparable GAAP measure in the tables below. EBITDA and the related financial ratios, as presented in this Form 10-Q, are supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. They are not a measurement of our financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP, or as an alternative to net cash provided by operating activities as measures of our liquidity. The presentation of these measures should not be interpreted to mean that our future results will be unaffected by unusual or nonrecurring items. We use EBITDA as a non-GAAP operating performance measure internally as complementary financial measures to evaluate the performance and trends of our businesses. We present EBITDA and the related financial ratios, as applicable, because we believe that measures such as these provide useful information with respect to our ability to meet our future debt service, capital expenditures, working capital requirements and overall operating performance. EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

They do not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;

They do not reflect changes in, or cash requirements for, our working capital needs;

They do not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements;

They are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;

They do not reflect the impact on earnings of charges resulting from matters unrelated to our ongoing operations; and

Other companies in our industry may calculate EBITDA differently from us, limiting their usefulness as comparative measures.

Because of these limitations, EBITDA and the related financial ratios should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as a measure of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using EBITDA as only supplemental information. See our condensed consolidated financial statements contained in this Form 10-Q report.

However, in spite of the above limitations, we believe that EBITDA is useful to an investor in evaluating our results of operations because these measures:

Are widely used by investors to measure a company’s operating performance without regard to items excluded from the calculation of such terms, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired, among other factors;



Table of Contents

• Help investors to evaluate and compare the results of our operations from period to period by removing the effect of our capital structure from our operating performance; and

- Are used by our management team for various other purposes in presentations to our Board of Directors as a basis for strategic planning and forecasting.

The following financial items have been added back to our net (loss) income when calculating EBITDA:

• Amortization expense may be useful to investors because it represents the estimated attrition of our acquired customer base and the diminishing value of product rights;

• Depreciation may be useful to investors because it generally represents the wear and tear on our property and equipment used in our operations;

• Interest expense may be useful to investors for determining current cash flow; and

• Income tax expense may be useful to investors because it represents the taxes which may be payable for the period and the change in deferred taxes during the period, and may reduce cash flow available for use in our business.

Reconciliations of net income (loss) to EBITDA and the presentation of EBITDA as a percentage of net revenues were as follows:

	(In thousands)		(In thousands)		
	Three Months Ended	Six Months Ended	July 4,	June 28,	
	July 4,	June 28,	July 4,	June 28,	
	2015	2014	2015	2014	
		As Restated		As Restated	
Net income (loss)	\$ 1,782	\$ 6,619	\$(191 )	\$ 11,778	
Depreciation and amortization	6,514	7,699	13,428	15,125	
Interest expense	6,446	6,994	13,107	14,119	
Loss on extinguishment of debt	2,842	—	2,842	—	
Income tax expense	1,279	3,197	218	5,741	
EBITDA	\$ 18,863	\$ 24,509	\$ 29,404	\$ 46,763	
% of net revenues	10.8	% 13.1	% 8.5	% 12.8	%

EBITDA decreased in both the three and six months ended July 4, 2015 compared to the three and six months ended June 28, 2014, primarily due to lower net revenues, primarily in the military and space end-use markets, and lower income tax expense primarily due to lower pre-tax income, partially offset by the loss on extinguishment of debt as a result of writing off the unamortized debt issuance costs when the existing senior secured term loan was extinguished.

Table of Contents

## Results of Operations

## Second Quarter of 2015 Compared to Second Quarter of 2014

The following table sets forth net revenues, selected financial data, the effective tax rate and diluted earnings per share:

	(in thousands, except per share data) Three Months Ended				(in thousands, except per share data) Six Months Ended					
	July 4, 2015	% of Net Revenues	June 28, 2014  As Restated	% of Net Revenues  As Restated	July 4, 2015	% of Net Revenues	June 28, 2014  As Restated	% of Net Revenues  As Restated		
Net Revenues	\$174,845	100.0	% \$186,516	100.0	% \$347,765	100.0	% \$366,269	100.0	%	%
Cost of Sales	143,638	82.2	% 148,838	79.8	% 289,797	83.3	% 292,676	79.9	%	%
Gross Profit	31,207	17.8	% 37,678	20.2	% 57,968	16.7	% 73,593	20.1	%	%
Selling, General and Administrative Expenses	20,368	11.6	% 20,868	11.2	% 43,502	12.5	% 41,955	11.5	%	%
Operating Income	10,839	6.2	% 16,810	9.0	% 14,466	4.2	% 31,638	8.6	%	%
Interest Expense	(6,446 )	(3.7 )	% (6,994 )	(3.7 )	% (13,107 )	(3.8 )	% (14,119 )	(3.8 )	%	%
Loss on Extinguishment of Debt	(2,842 )	(1.6 )	% —	—	% (2,842 )	(0.8 )	% —	—	%	%
Other Income	1,510	0.9	% —	—	% 1,510	0.4	% —	—	%	%
Income Before Taxes	3,061	1.8	% 9,816	5.3	% 27	—	% 17,519	4.8	%	%
Income Tax Expense	1,279	nm	3,197	nm	218	nm	5,741	nm		
Net Income (Loss)	\$1,782	1.0	% \$6,619	3.5	% \$(191 )	(0.1 )	% \$11,778	3.2	%	%
Effective Tax Rate	41.8	% nm	32.6	% nm	807.4	% nm	32.8	% nm		
Diluted Earnings (Loss) Per Share	\$0.16	nm	\$0.60	nm	\$(0.02 )	nm	\$1.06	nm		

nm = not meaningful

## Net Revenues by End-Use Market and Operating Segment

Net revenues by end-use market and operating segment during the first fiscal three and six months of 2015 and 2014, respectively, were as follows:

Table of Contents

	Three Months Ended					Six Months Ended				
	Change	(In thousands)		% of Net Revenues		Change	(In thousands)		% of Net Revenues	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014	July 4, 2015	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014	
Consolidated Ducommun Military and space										
Defense technologies	\$(7,987 )	\$54,639	\$62,626	32%	34%	\$(13,822)	\$106,162	\$119,984	31%	32%
Defense structures	(7,755 )	22,624	30,379	13%	16%	(22,513 )	42,062	64,575	12%	18%
Commercial aerospace	5,547	64,537	58,990	37%	32%	14,469	130,926	116,457	38%	32%
Natural resources	(3,253 )	7,538	10,791	4%	6%	(2,712 )	18,854	21,566	5%	6%
Industrial	(1,738 )	10,971	12,709	6%	7%	2,242	24,061	21,819	7%	6%
Medical and other	3,515	14,536	11,021	8%	5%	3,832	25,700	21,868	7%	6%
Total	\$(11,671)	\$174,845	\$186,516	100%	100%	\$(18,504)	\$347,765	\$366,269	100%	100%
DAS Military and space (defense structures)	\$(7,755 )	\$22,624	\$30,379	30%	39%	\$(22,513)	\$42,062	\$64,575	28%	40%
Commercial aerospace	5,217	53,454	48,237	70%	61%	10,379	106,074	95,695	72%	60%
Total	\$(2,538 )	\$76,078	\$78,616	100%	100%	\$(12,134)	\$148,136	\$160,270	100%	100%
DLT Military and space (defense technologies)	\$(7,987 )	\$54,639	\$62,626	55%	58%	\$(13,822)	\$106,162	\$119,984	54%	58%
Commercial aerospace	330	11,083	10,753	11%	10%	4,090	24,852	20,762	12%	10%
Natural resources	(3,253 )	7,538	10,791	8%	10%	(2,712 )	18,854	21,566	9%	10%
Industrial	(1,738 )	10,971	12,709	11%	12%	2,242	24,061	21,819	12%	11%
Medical and other	3,515	14,536	11,021	15%	10%	3,832	25,700	21,868	13%	11%
Total	\$(9,133 )	\$98,767	\$107,900	100%	100%	\$(6,370 )	\$199,629	\$205,999	100%	100%

Net revenues for the three months ended July 4, 2015 were approximately \$174.8 million, compared to approximately \$186.5 million for the three months ended June 28, 2014. The net revenues decrease year-over-year primarily reflects an approximate 17% decrease in revenue in the military and space end-use markets and an approximate 4% decrease

in revenue in the non-aerospace and defense (“non-A&D”) end-use markets, partially offset by an approximate 9% increase in revenue in the commercial aerospace end-use markets.

Net revenues for the six months ended July 4, 2015 were approximately \$347.8 million, compared to approximately \$366.3 million for the six months ended June 28, 2014. The net revenues decrease year-over-year primarily reflects an approximate 20% decrease in revenue in the military and space end-use markets, partially offset by an approximate 12% increase in revenue in the commercial aerospace end-use markets and an approximate 5% increase in revenue in the non-A&D end-use markets.

Net Revenues by Major Customers

A significant portion of our net revenues are from our top ten customers as follows:

	Three Months Ended		Six Months Ended		
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014	
Boeing Company	18	% 20	% 17	% 20	%
Raytheon Company	8	% 9	% 8	% 9	%
Total top ten customers	57	% 58	% 55	% 59	%

Table of Contents

The Boeing Company (“Boeing”) and Raytheon Company (“Raytheon”) represented the following percentages of total accounts receivable:

	July 4, 2015	December 31, 2014		
Boeing	12	% 12		%
Raytheon	9	% 10		%

The net revenues and accounts receivable from Boeing and Raytheon are diversified over a number of commercial, military and space programs and were made by both operating segments.

**Gross Profit**

Gross profit margin decreased year-over-year in the three months ended July 4, 2015 compared to the three months ended June 28, 2014 primarily due to lower revenues, loss of efficiencies resulting from lower manufacturing volume, unfavorable product mix, and higher forward loss reserves, partially offset by lower compensation and benefit costs.

Gross profit margin decreased year-over-year in the six months ended July 4, 2015 compared to the six months ended June 28, 2014 primarily due to unfavorable product mix, lower revenues, and loss of efficiencies resulting from lower manufacturing volume.

**Selling, General and Administrative Expenses (“SG&A”)**

SG&A expenses decreased year-over-year in the three months ended July 4, 2015 compared to the three months ended June 28, 2014 primarily due to lower compensation and benefit costs.

SG&A expenses increased year-over-year in the six months ended July 4, 2015 compared to the six months ended June 28, 2014 primarily due to higher compensation and benefit costs and higher professional service fees.

**Interest Expense**

Interest expense decreased year over year in both the three and six months ended July 4, 2015 compared to the three and months ended June 28, 2014 primarily due to lower outstanding debt balances as a result of voluntary principal prepayments of our term loan each quarter during 2014 and the first quarter of 2015 as we continue to de-lever our balance sheet.

**Loss on Extinguishment of Debt and Other Income**

Loss on extinguishment of debt for both the three and six months ended July 4, 2015 was made up of the write off of the unamortized debt issuance costs associated with the existing senior secured term loan and existing senior secured revolving credit facility when the existing senior secured term loan was paid off in June 2015 and both were replaced with the New Credit Facilities (see Note 6 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q).

Other income for both the three and six months ended July 4, 2015 was made up of approximately \$1.5 million of insurance recoveries related to property and equipment.

**Income Tax (Benefit) Expense**

We recorded an income tax expense of approximately \$1.3 million (effective tax rate of 42%) for the three months ended July 4, 2015 compared to an income tax expense of approximately \$3.2 million (effective tax rate of 33%) for the three months ended June 28, 2014. The effective tax rate for the three months ended July 4, 2015 includes a benefit for the Qualified Domestic Production Activities Deduction that was partially offset by permanent tax difference items, state taxes, and certain discrete items. The effective tax rate for the three months ended June 28, 2014 included a benefit for the Qualified Domestic Production Activities Deduction that was partially offset by permanent tax difference items and state taxes.

We recorded an income tax expense of approximately \$0.2 million (effective tax rate of 807%) for the six months ended July 4, 2015 compared to an income tax expense of approximately \$5.7 million (effective tax rate of 33%) for the six months ended June 28, 2014. The effective tax rate for the six months ended July 4, 2015 includes a benefit for the Qualified Domestic Production Activities Deduction that was partially offset by permanent tax difference items, state taxes, and certain discrete items. The effective tax rate for the six months ended June 28, 2014 included a benefit for the Qualified Domestic Production Activities Deduction, partially offset by permanent tax difference items and state taxes.

**Net Income (Loss) and Earnings (Loss) per Diluted Share**

Net income and earnings per diluted share for the three months ended July 4, 2015 were approximately \$1.8 million, or \$0.16 per share, compared to approximately \$6.6 million, or \$0.60 per diluted share, for the three months ended June 28, 2014. The decrease in net

25

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Table of Contents

income for the three months ended July 4, 2015 compared to net income for the three months ended June 28, 2014 was primarily due to lower revenues, loss of efficiencies resulting from lower manufacturing volume, loss on extinguishment of debt, unfavorable product mix, and higher forward loss reserves, partially offset by lower income tax expense, lower compensation and benefit costs, insurance recoveries related to property and equipment, and lower interest expense.

Net (loss) income and (loss) earnings per diluted share for the six months ended July 4, 2015 were approximately \$(0.2) million, or \$(0.02) per share, compared to approximately \$11.8 million, or \$1.06 per diluted share, for the six months ended June 28, 2014. Net loss for the six months ended July 4, 2015 compared to net income for the six months ended June 28, 2014 was primarily due to unfavorable product mix, lower revenues, loss of efficiencies resulting from lower manufacturing volume, loss on extinguishment of debt, and higher professional service fees, partially offset by lower income tax expense, insurance recoveries related to property and equipment, and lower interest expense.

**Business Segment Performance**

We report our financial performance based upon the two reportable operating segments: DAS and DLT. The results of operations differ between our reportable operating segments due to differences in competitors, customers, extent of proprietary deliverables and performance. The following table summarizes our business segment performance for the three and six months ended July 4, 2015 and June 28, 2014:

	Three Months Ended				Six Months Ended					
	% Change	(In thousands) July 4, 2015	(In thousands) June 28, 2014 As Restated	% of Net Revenues July 4, 2015	% of Net Revenues June 28, 2014 As Restated	% Change	(In thousands) July 4, 2015	(In thousands) June 28, 2014 As Restated	% of Net Revenues July 4, 2015	% of Net Revenues June 28, 2014 As Restated
Net Revenues										
DAS	(3.2)%	\$76,078	\$78,616	43.5 %	42.1 %	(7.6)%	\$148,136	\$160,270	42.6 %	43.8 %
DLT	(8.5)%	98,767	107,900	56.5 %	57.9 %	(3.1)%	199,629	205,999	57.4 %	56.2 %
Total Net Revenues	(6.3)%	\$174,845	\$186,516	100.0 %	100.0 %	(5.1)%	\$347,765	\$366,269	100.0 %	100.0 %
Segment Operating Income										
DAS		\$6,870	\$10,068	9.0 %	12.8 %		\$9,008	\$21,159	6.1 %	13.2 %
DLT		7,692	10,757	7.8 %	10.0 %		13,977	17,801	7.0 %	8.6 %
		14,562	20,825				22,985	38,960		
Corporate General and Administrative Expenses <sup>(1)</sup>		(3,723 )	(4,015 )	(2.1 )%	(2.2 )%		(8,519 )	(7,322 )	(2.4 )%	(2.0 )%
Total Operating Income		\$10,839	\$16,810	6.2 %	9.0 %		\$14,466	\$31,638	4.2 %	8.6 %
EBITDA										
DAS Operating Income		\$6,870	\$10,068				\$9,008	\$21,159		
Other Income <sup>(2)</sup>		1,510	—				1,510	—		
Depreciation and		2,111	3,554				4,624	5,970		

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Amortization	10,491	13,622	13.8	%	17.3	%	15,142	27,129	10.2	%	16.9	%
DLT												
Operating Income	7,692	10,757					13,977	17,801				
Depreciation and Amortization	4,361	4,043					8,720	9,051				
Corporate General and Administrative Expenses <sup>(1)</sup>	12,053	14,800	12.2	%	13.7	%	22,697	26,852	11.4	%	13.0	%
Operating Loss	(3,723	) (4,015	)				(8,519	) (7,322	)			
Depreciation and Amortization	42	102					84	104				
EBITDA	(3,681	) (3,913	)				(8,435	) (7,218	)			
	\$18,863	\$24,509	10.8	%	13.1	%	\$29,404	\$46,763	8.5	%	12.8	%

26



Table of Contents

- (1) Includes costs not allocated to either the DLT or DAS operating segments.
- (2) Insurance recoveries related to property and equipment included as other income.

Ducommun AeroStructures

DAS's net revenues in the three months ended July 4, 2015 compared to the three months ended June 28, 2014 decreased approximately 3% primarily due to an approximate 26% decrease in military and space revenue that was partially offset by approximate 11% increase in commercial aerospace revenue. DAS's net revenues in the six months ended July 4, 2015 compared to the six months ended June 28, 2014 decreased approximately 8% primarily due to an approximate 35% decrease in military and space revenue that was partially offset by approximate 11% increase in commercial aerospace revenue.

The DAS segment operating income decreased in the three month period ending July 4, 2015 primarily due to unfavorable product mix, higher forward loss reserves, loss of efficiencies resulting from lower manufacturing volume, and lower revenues, partially offset by lower compensation and benefit costs. The DAS segment operating income decreased in the six month period ending July 4, 2015 primarily due to unfavorable product mix, loss of efficiencies resulting from lower manufacturing volume, higher forward loss reserves, and lower revenues. EBITDA was approximately \$10.5 million or 14% of revenue, and approximately \$15.1 million or 10% of revenue, for the current three and six months of fiscal 2015, respectively, compared to approximately \$13.6 million or 17% of revenue, and approximately \$27.1 million or 17% of revenue, for the comparable three and six months in the prior year, respectively.

Ducommun LaBarge Technologies

DLT's net revenues in the three months ended July 4, 2015 compared to the three months ended June 28, 2014 decreased approximately 8% primarily due to an approximate 13% decrease in military and space revenue and an approximate 4% decrease in non-A&D revenue. DLT's net revenues in the six months ended July 4, 2015 compared to the six months ended June 28, 2014 decreased approximately 3% primarily due to an approximate 12% decrease in military and space revenue, partially offset by an approximate 20% increase in commercial aerospace revenue and an approximate 5% increase in non-A&D revenue.

DLT's segment operating income decreased in the three month period ending July 4, 2015 compared to the three months ended June 28, 2014 primarily due to loss of efficiencies resulting from lower manufacturing volume and lower revenues. DLT's segment operating income decreased in the six month period ending July 4, 2015 compared to the six months ended June 28, 2014 primarily due to loss of efficiencies resulting from lower manufacturing volume, lower revenues, higher forward loss reserves, and unfavorable product mix.

Corporate General and Administrative ("CG&A")

CG&A expenses decreased approximately \$0.3 million in the three months ending July 4, 2015 compared to the three months ended June 28, 2014 primarily due to lower compensation and benefit costs. CG&A expenses increased approximately \$1.2 million in the six months ending July 4, 2015 compared to the six months ended June 28, 2014 primarily due to higher professional service fees and higher compensation and benefit costs.

Backlog

Backlog is subject to delivery delays or program cancellations, which are beyond our control. Backlog is affected by timing differences in the placement of customer orders and tends to be concentrated in several programs to a greater extent than our net revenues. Backlog in non-aerospace and defense markets tends to be of a shorter duration and is generally fulfilled within a 3-month period. As a result of these factors, trends in our overall level of backlog may not be indicative of trends in our future net revenues. Approximately \$419 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of July 4, 2015 and December 31, 2014:

Table of Contents

	(In thousands)		
	Change	July 4, 2015	December 31, 2014
Consolidated Ducommun			
Military and space			
Defense technologies	\$(3,460)	) \$181,557	\$185,017
Defense structures	(1,840)	) 72,949	74,789
Commercial aerospace	(37,891)	) 194,493	232,384
Natural resources	(10,135)	) 12,377	22,512
Industrial	1,310	25,641	24,331
Medical and other	16,670	36,917	20,247
Total	\$(35,346)	) \$523,934	\$559,280
DAS			
Military and space (defense structures)			
Commercial aerospace	(30,729)	) 168,678	199,407
Total	\$(32,569)	) \$241,627	\$274,196
DLT			
Military and space (defense technologies)			
Commercial aerospace	(7,162)	) 25,815	32,977
Natural resources	(10,135)	) 12,377	22,512
Industrial	1,310	25,641	24,331
Medical and other	16,670	36,917	20,247
Total	\$(2,777)	) \$282,307	\$285,084

## Liquidity and Capital Resources

## Available Liquidity

Total debt, the weighted-average interest rate, cash and cash equivalents and available credit facilities were as follows:

	(In millions)		
	July 4, 2015	December 31, 2014	
Total debt, including long-term portion	\$265.0	\$290.1	
Weighted-average interest rate on debt	8.02	% 8.20	%
Term Loan interest rate	4.75	% 4.75	%
Cash and cash equivalents	\$26.8	\$45.6	
Unused Revolving Credit Facility	\$132.3	\$58.5	

The failure to file our 2014 Annual Report on Form 10-K by March 31, 2015 resulted in defaults, but not an event of default, under our senior secured term loan and senior secured revolving credit facility (together, the "Existing Credit Facilities") and our senior unsecured notes (the "Existing Notes"). The defaults on our Existing Credit Facilities and our Existing Notes were deemed cured with the filing of our Annual Report on Form 10-K on April 9, 2015.

In June 2015, we completed a new credit facility to replace the Existing Credit Facilities. The new credit facility consists of a \$275.0 million senior secured term loan, which matures on June 26, 2020 ("New Term Loan"), and a \$200.0 million senior secured revolving credit facility ("New Revolving Credit Facility"), which matures on June 26, 2020 (collectively, the "New Credit Facilities"). We are required to make mandatory prepayments of amounts outstanding under the New Term Loan. As of July 4, 2015, we were in compliance with all covenants required under the New Credit Facilities. Subsequent to the quarter end, on July 27, 2015, we completed the redemption of all \$200 million of our Existing Notes by paying a call premium of approximately \$9.75 million and will also write off the associated unamortized debt issuance costs of approximately \$2.1 million in our fiscal third quarter. We estimate the initial effective interest rate will be approximately 3.50% per annum. See Note 6 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.



## Table of Contents

We expect to spend a total of approximately \$15.0 million for capital expenditures in 2015 financed by cash generated from operations, principally to support new contract awards at DAS and DLT. As part of our strategic plan to become a Tier 2 supplier, additional up-front investment in tooling will be required for newer programs which have higher engineering content and higher levels of complexity in assemblies.

We continue to depend on operating cash flow and the availability of our New Revolving Credit Facility to provide short-term liquidity. Cash generated from operations and bank borrowing capacity is expected to provide sufficient liquidity to meet our obligations during the next twelve months.

### Cash Flow Summary

Net cash provided by operating activities for the six months ended July 4, 2015 increased to approximately \$17.6 million, compared to approximately \$15.5 million in the six months ended June 28, 2014. The higher net cash generated during the first six months of 2015 was primarily due to improved working capital management that was partially offset by lower net income.

Net cash used in investing activities of approximately \$6.0 million for the six months ended July 4, 2015 were primarily due to capital expenditures, principally to support new contract awards at DAS and DLT. The increase in net cash used compared to the prior year was primarily due to timing of capital expenditures that was partially offset by insurance recoveries related to property and equipment.

Net cash used in financing activities for the six months ended July 4, 2015 of approximately \$30.3 million were primarily due to voluntary principal prepayments on our existing term loan that was partially offset by proceeds from the new senior secured revolving credit facility.

### Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist of operating leases and indemnities.

### Critical Accounting Policies

The preparation of our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States requires estimation and judgment that affect the reported amounts of net revenues, expenses, assets and liabilities. For a description of our critical accounting policies, please refer to “Critical Accounting Policies” in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2014 Annual Report on Form 10-K. There have been no material changes in any of our critical accounting policies during the three and six months ended July 4, 2015.

### Recent Accounting Pronouncements

See “Part I, Item 1. Ducommun Incorporated and Subsidiaries—Notes to Condensed Consolidated Financial Statements—Note 1. Summary of Significant Accounting Policies—Recent Accounting Pronouncements” for further information.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our main market risk exposure relates to changes in U.S. and U.K. interest rates on our outstanding long-term debt. At July 4, 2015, we had borrowings of approximately \$65.0 million under our New Credit Facilities that bear interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR) plus an applicable margin ranging from 1.50% to 2.75% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.75% per year, in each case based upon the consolidated total net adjusted leverage ratio. A hypothetical 10% increase or decrease in the interest rate would have an immaterial impact on our financial condition and results of operations.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

The Company’s chief executive officer (“CEO”) and chief financial officer (“CFO”) have conducted an evaluation of the Company’s disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and

15d-15(e)) as of July 4, 2015. The Company had previously reported material weaknesses in internal control over financial reporting related to (i) a long-term contract (“Contract”) following the discovery of misconduct by employees in the recording of direct labor costs to the Contract from 2009 through the third quarter 2014 which resulted in the identification of a forward loss provision that should have been recorded in 2009 and the impact on subsequent periods of adjustments to the forward loss

29

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## Table of Contents

provision based on information available at the time (“Forward Loss Adjustments”); and (ii) the year end reconciliation of income taxes payable and deferred tax balances identified errors primarily in 2013, 2012, and 2011 (“Tax Adjustments”), which were described in Item 9A in the Management’s Report on Internal Control Over Financial Reporting in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. As a result of the material weaknesses in the Company’s internal control over financial reporting, which were not remediated as of July 4, 2015, the CEO and CFO concluded the Company’s disclosure controls and procedures were not effective as of July 4, 2015.

### Remediation of Material Weaknesses

We continue to implement remediation steps to address the material weaknesses described above and to improve our internal control over (i) the recording of direct labor costs to the Contract which resulted in the identification of a forward loss provision that should have been recorded and the impact on subsequent periods of adjustments to the forward loss provision based on information available at the time, and (ii) reconciliation of income taxes payable and deferred tax balances.

#### Actions taken:

- We have completed the implementation of additional on-going oversight, training and communication programs to reinforce our ethical standards and code of conduct across the Company.

- Enhanced the availability of our hotline by more clearly defining its purpose.

- We have redesigned our internal controls over the accounting for contract loss reserves, including an on-going review of the related labor distributions to estimate the anticipated costs used in the forward loss reserve analysis.

- We have engaged third party tax advisors to assist with our methodology of estimating and reconciling tax entries.

#### Actions to be taken or in process:

- We plan to augment our tax department with additional resources and professionals.

- We plan to implement new controls and improve existing controls over income tax accounts, including controls over the reconciliation of current and deferred tax asset and liability accounts.

We have not completed all of the corrective processes, procedures and related evaluation or remediation that we believe are necessary. As we continue to evaluate and work to remediate the material weaknesses, we may determine to take additional measures to address the control deficiencies. We expect to complete the planned remedial actions during 2015, however, we cannot make any assurances that such actions will be completed during 2015. Until the remediation steps set forth above are fully implemented and concluded to be operating effectively (including the efforts to implement the necessary control activities we identified), the material weaknesses described above will continue to exist.

### Changes in Internal Control over Financial Reporting

Except as otherwise discussed above under “Remediation of Material Weaknesses,” there were no other changes in our internal control over financial reporting during the three months ended July 4, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

See Note 11 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for a description of our legal proceedings.

### Item 1A. Risk Factors

See Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of our risk factors. There have been no material changes in the six months ended July 4, 2015 to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

### Item 4. Mine Safety Disclosures

Not applicable.



Table of Contents

Item 6. Exhibits

- 2.1 Agreement and Plan of Merger, dated as of April 3, 2011, among Ducommun Incorporated, DLBMS, Inc. and LaBarge, Inc. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on April 5, 2011.
- 3.1 Restated Certificate of Incorporation filed with the Delaware Secretary of State on May 29, 1990. Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 1990.
- 3.2 Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on May 27, 1998. Incorporated by reference to Exhibit 3.2 to Form 10-K for the year ended December 31, 1998.
- 3.3 Bylaws as amended and restated on March 19, 2013. Incorporated by reference to Exhibit 99.1 to Form 8-K dated March 22, 2013.
- 3.4 Amendment No. 2 to Bylaws dated August 1, 2013. Incorporated by reference to Exhibit 99.2 to Form 8-K dated August 5, 2013.
- 4.1 Indenture, dated June 28, 2011, between Ducommun Incorporated, certain of its subsidiaries and Wilmington Trust FSB, as trustee. Incorporated by reference to Exhibit 4.1 to Form 8-K filed on July 1, 2011.
- 10.2 Credit Agreement, dated as of June 28, 2011, among Ducommun Incorporated, certain of its subsidiaries, UBS Securities LLC and Credit Suisse Securities (USA) LLC as joint lead arrangers, UBS AG, Stamford Branch as issuing bank, administrative agent and collateral agent, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on July 1, 2011.
- 10.3 Amendment No. 1 to Credit Agreement, dated as of March 28, 2013, by and among Ducommun Incorporated, certain of its subsidiaries, UBS AG, Stamford Branch as administrative agent, collateral agent, swingline bank and issuing bank and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K dated March 28, 2013.
- 10.4 Amendment No. 2 to Credit Agreement, dated as of October 18, 2013 by and among Ducommun Incorporated, certain of its subsidiaries, and UBS AG, Stamford Branch, as administrative agent, collateral agent, swingline bank and issuing bank, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K dated October 23, 2013.
- 10.5 Credit Agreement, dated as of June 29, 2015, among Ducommun Incorporated, certain of its subsidiaries, Bank of America, N.A., as administrative agent, swingline lender and issuing bank, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 29, 2015.
- \* 10.6 2007 Stock Incentive Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 29, 2010.
- \* 10.7 2013 Stock Incentive Plan (Amended and Restated March 18, 2015). Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on April 22, 2015.
- \* 10.8 Form of Nonqualified Stock Option Agreement, for grants to employees under the 2013 Stock Incentive Plan, the 2007 Stock Incentive Plan and the 2001 Stock Incentive Plan. Incorporated by reference to Exhibit 10.8 to Form 10-K for the year ended December 31, 2003.
- \* 10.10 Form of Performance Stock Unit Agreement for 2012 and 2013. Incorporated by reference to Exhibit 99.1 to Form 8-K dated March 29, 2012.
- \* 10.11 Form of Restricted Stock Unit Agreement. Incorporated by reference to Exhibit 99.1 to Form 8-K dated May 8, 2007.
- \* 10.12 Form of Directors' Restricted Stock Unit Agreement. Incorporated by reference to Exhibit 99.1 to Form 8-K dated May 10, 2010.
- \* 10.13 Form of Key Executive Severance Agreement entered with seven current executive officers of Ducommun. Incorporated by reference to Exhibit 99.1 to Form 8-K dated January 9, 2008. All of the Key Executive Severance Agreements are identical except for the name of the executive officer, the address for notice, and the date of the Agreement:



Table of Contents

Executive Officer	Date of Agreement
Kathryn M. Andrus	February 18, 2014
Joseph P. Bellino	November 5, 2009
Joel H. Benkie	December 13, 2013
Douglas L. Groves	February 18, 2014
James S. Heiser	December 31, 2007
Anthony J. Reardon	December 31, 2007
Rosalie F. Rogers	November 5, 2009

Form of Indemnity Agreement entered with all directors and officers of Ducommun. Incorporated by reference \*10.14 to Exhibit 10.8 to Form 10-K for the year ended December 31, 1990. All of the Indemnity Agreements are identical except for the name of the director or officer and the date of the Agreement:

Director/Officer	Date of Agreement
Kathryn M. Andrus	January 30, 2008
Richard A. Baldrige	March 19, 2013
Joseph C. Berenato	November 4, 1991
Joseph P. Bellino	September 15, 2008
Joel H. Benkie	February 12, 2013
Gregory S. Churchill	March 19, 2013
Robert C. Ducommun	December 31, 1985
Dean W. Flatt	November 5, 2009
Douglas L. Groves	February 12, 2013
Jay L. Haberland	February 2, 2009
James S. Heiser	May 6, 1987
Robert D. Paulson	March 25, 2003
Anthony J. Reardon	January 8, 2008
Rosalie F. Rogers	July 24, 2008

\*10.15 Ducommun Incorporated 2015 Bonus Plan. Incorporated by reference to Exhibit 99.1 to Form 8-K dated February 3, 2015.

\*10.16 Directors' Deferred Compensation and Retirement Plan, as amended and restated February 2, 2010. Incorporated by reference to Exhibit 10.15 to Form 10-K for the year ended December 31, 2009.

\*10.17 Employment Letter Agreement dated September 5, 2008 between Ducommun Incorporated and Joseph P. Bellino. Incorporated by reference to Exhibit 99.1 to Form 8-K dated September 18, 2008.

\*10.18 Employment Letter Agreement dated May 3, 2012 between Ducommun Incorporated and Joel H. Benkie. Incorporated by reference to Exhibit 99.1 to Form 8-K dated June 4, 2012.

\*10.19 Form of Performance Stock Unit Agreement for 2014 and after.

31.1 Certification of Principal Executive Officer.

31.2 Certification of Principal Financial Officer.

32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

\* Indicates an executive compensation plan or arrangement.



Table of Contents

SIGNATURES

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

Date: August 5, 2015

By: /s/ Anthony J. Reardon  
Anthony J. Reardon  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: August 5, 2015

By: /s/ Joseph P. Bellino  
Joseph P. Bellino  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: August 5, 2015

By: /s/ Douglas L. Groves  
Douglas L. Groves  
Vice President, Controller and Chief Accounting  
Officer  
(Principal Accounting Officer)