TEAM FINANCIAL INC /KS
Form 10-Q
November 13, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

Securities and Exchange Commission File Number: 000-26335

TEAM FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

KANSAS	**48-1017164**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

8 West Peoria, Suite 200, Paola, Kansas 66071
(Address of principal executive offices) (Zip Code)

Registrant s telephone, including area code: **(913) 294-9667**

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 ý No o

APPLICABLE ONLY TO CORPORATE ISSUES:

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

There were 4,176,129 shares of the Registrant s common stock, no par value, outstanding as of November 12, 2002.

Part I. Financial Information

Item 1.	Financial Statements (Unaudited)
	Consolidated Statements of Financial Condition as of September 30, 2002 and December 31, 2001
	Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2002 and 2001
	Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2002 and 2001
	Consolidated Statements of Changes In Stockholders Equity for the Nine Months Ended September 30, 2002
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2002 and 2001
	Notes to Unaudited Consolidated Financial Statements
Item 2.	**Management s Discussion And Analysis Of Financial Condition And Results Of Operations**
Item 3.	Quantitative And Qualitative Disclosure About Market Risk
Item 4.	Controls and Procedures

Part II. Other Information

Item 1.	Legal Proceedings
Item 6.	Exhibits and Reports on Form 8-K

Signature Page

Exhibit 99.1

Exhibit 99.2

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Financial Condition

(In Thousands)

(Unaudited)

	September 30, 2002	December 31, 2001
ASSETS		
Cash and due from banks	$ 21,289	$ 19,513
Federal funds sold and interest bearing bank deposits	3,337	19,382
Cash and cash equivalents	24,626	38,895
Investment securities		
Available for sale, at fair value (amortized cost of $237,600 and $203,528 at September 30, 2002 and December 31, 2001, respectively)	243,528	204,651
Total investment securities	243,528	204,651
Loans receivable, net of unearned fees	328,297	357,080
Allowance for loan losses	(4,441)	(4,392)
Net loans receivable	323,856	352,688
Accrued interest receivable	5,044	5,332
Premises and equipment, net	11,794	11,319
Assets acquired through foreclosure	1,596	1,572
Goodwill	10,700	12,010
Intangible assets, net of accumulated amortization	5,218	5,535
Bank owned life insurance policies	16,743	16,187
Other assets	3,009	2,121
Total assets	$ 646,114	$ 650,310
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Checking deposits	$ 153,029	$ 163,617
Savings deposits	31,435	36,336
Money market deposits	54,395	51,117
Certificates of deposit	207,929	236,681
Total deposits	446,788	487,751
Federal funds purchased and securities sold under agreements to repurchase	4,887	10,386
Federal Home Loan Bank advances	113,383	74,438
Notes payable	6,459	9,645
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures	15,525	15,525
Accrued expenses and other liabilities	8,091	7,195

Total liabilities		595,133		604,940
Commitments and Contingencies				
Stockholders Equity:				
Preferred stock, no par value, 10,000,000 shares authorized, no shares issued				
Common stock, no par value, 50,000,000 shares authorized; 4,422,210 and 4,414,142 shares issued; 4,067,627 and 4,179,242 shares outstanding at September 30, 2002 and December 31, 2001, respectively		27,193		27,144
Capital surplus		165		68
Retained earnings		22,576		19,493
Treasury stock, 354,583 and 234,900 shares of common stock at cost at September 30, 2002, and December 31, 2001, respectively		(2,865)		(2,056)
Accumulated other comprehensive income		3,912		721
Total stockholders equity		50,981		45,370
Total liabilities and stockholders equity	$	646,114	$	650,310

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	**2001**	**2002**	**2001**
Interest Income:				
Interest and fees on loans	$ 6,249	$ 7,369	$ 19,846	$ 22,576
Taxable investment securities	2,796	1,830	7,662	5,976
Nontaxable investment securities	226	232	670	803
Other	19	173	216	518
Total interest income	9,290	9,604	28,394	29,873
Interest Expense:				
Deposits				
Checking deposits	238	448	790	1,394
Savings deposits	92	127	393	374
Money market deposits	231	340	721	1,005
Certificates of deposit	1,771	3,298	6,179	10,759
Federal funds purchased and securities sold under agreements to repurchase	24	42	53	182
FHLB advances payable	1,226	407	2,976	1,240
Notes payable	81	129	261	616
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures	377	213	1,131	213
Total interest expense	4,040	5,004	12,504	15,783
Net interest income before provision for loan losses	5,250	4,600	15,890	14,090
Provision for loan losses	412	217	746	895
Net interest income after provision for loan losses	4,838	4,383	15,144	13,195
Non-Interest Income:				
Service charges	952	917	2,757	2,655
Trust fees	152	138	439	418

Gain on sales of mortgage loans	516	464	1,463	1,259
Gain on sales of investment securities	3	3	69	6
Gain on sale of branch assets			452	
Other	785	587	2,017	1,293
Total non-interest income	2,408	2,109	7,197	5,631
Non-Interest Expenses:				
Salaries and employee benefits	2,876	2,539	8,740	7,568
Occupancy and equipment	573	561	1,729	1,710
Data processing	457	453	1,439	1,265
Professional fees	275	341	839	908
Marketing	86	82	202	199
Supplies	94	100	275	264
Goodwill amortization		88		264
Intangible asset amortization	335	179	670	526
Conversion		80	6	149
Other	749	757	2,462	2,246
Total non-interest expenses	5,445	5,180	16,362	15,099
Income before income taxes	1,801	1,312	5,979	3,727
Income taxes	545	374	2,234	1,114
Net income	$ 1,256	$ 938	$ 3,745	$ 2,613
Shares applicable to basic income per share	4,166,785	3,962,068	4,178,169	3,925,020
Basic income per share	$ 0.30	$ 0.24	$ 0.90	$ 0.67
Shares applicable to diluted income per share	4,190,421	4,009,318	4,195,698	3,972,270
Diluted income per share	$ 0.30	$ 0.23	$ 0.89	$ 0.66

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Comprehensive Income

(In Thousands)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
Net Income	$ 1,256	$ 938	$ 3,745	$ 2,613
Other comprehensive income, net of tax:				
Unrealized gains (losses) on investment securities available for sale net of tax of $792 and $464 for the three months ended September 30, 2002 and September 30, 2001, respectively; and net of tax of $1,637 and $1,108 for the nine months ended September 30, 2002 and September 30, 2001, respectively	1,539	896	3,237	2,092
Reclassification adjustment for gains (losses) included in net income net of tax of $(1) and $(1) for the three months ended September 30, 2002 and September 30, 2001, respectively; and net of tax of $(23) and $(2) for the nine months ended September 30, 2002 and September 30, 2001, respectively	(2)	(2)	(46)	(4)
Cumulative effect of change in accounting principle, net of tax of $101 for the nine months ended September 30, 2001.				196
Other comprehensive income, net	1,537	894	3,191	2,284
Comprehensive income	$ 2,793	$ 1,832	$ 6,936	$ 4,897

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Changes In Stockholders Equity

Nine Months Ended September 30, 2002

(In Thousands)

(Unaudited)

	Common stock	Captial surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total stockholders equity
BALANCE, December 31, 2001	$ 27,144	$ 68	$ 19,493	$ (2,056)	$ 721	$ 45,370
Treasury stock purchased (122,978 shares)				(809)		(809)
Common stock issued in connection with compensation plans (8,068 shares)	49					49
Increase in additional paid in capital in connection with stock compensation plans		97				97
Net Income			3,745			3,745
Dividends ($0.15 per share)			(662)			(662)
Other comprehensive income (loss) net of $792 in taxes					3,191	3,191
BALANCE, September 30, 2002	$ 27,193	$ 165	$ 22,576	$ (2,865)	$ 3,912	$ 50,981

See accompanying notes to the unaudited consolidated financial statements

6

Team Financial, Inc. And Subsidiaries

Consolidated Statements Of Cash Flows

(In thousands)

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Cash flows from operating activities:		
Net income	$ 3,745	$ 2,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	746	895
Depreciation and amortization	2,114	1,254
Allocation of ESOP shares		375
Non-cash compensation expense	97	
Change in bank owned life insurance	(556)	(208)
Net gain on sales of investment securities	(69)	(6)
Net gain on sales of mortgage loans	(1,463)	(1,259)
Net loss (gain) on sales of assets acquired through foreclosure	6	(6)
Net gain on sale of branch assets	(452)	
Net gain on sale of credit card portfolio		(10)
Proceeds from sale of credit card portfolio		1,187
Proceeds from sale of mortgage loans	82,481	38,869
Origination of mortgage loans for sale	(73,884)	(41,204)
Net increase in other assets	(1,398)	(2,207)
Net (decrease) increase in accrued expenses and other liabilities	(616)	625
Net cash provided by operating activities	10,751	918
Cash flows from investing activities:		
Net decrease in loans	10,873	11,060
Proceeds from sale of investment securities available-for-sale	9,802	34
Proceeds from maturities and principal reductions of investment securities available-for-sale	41,677	49,749
Purchases of investment securities available-for-sale	(101,722)	(31,455)
Purchase of premises and equipment, net	(1,458)	(537)
Purchase of bank owned life insurance		(14,000)
Proceeds from sales on assets acquired through foreclosure	291	942
Net cash decrease from sale of branches	(30,493)	
Cash received for acquisitions, net		8,370
Net cash (used in) provided by investing activities	(71,030)	24,163

Cash flows from financing activities:						
Net increase (decrease) in deposits		17,138		(13,916 Commitments and Contingencies		
Shareholders Equity:						
Common stock		107		160	(160)(l)	107
Treasury stock		(1,924)		(1,550)	1,550(l)	(1,924)
Additional paid-in capital		62,572		14,045	(14,045)(l)	62,572
Retained earnings		199,554		116,818	(116,818)(l)	199,554
Accumulated other comprehensive loss		(3,102)		(138)	138(l)	(3,102)
Total Shareholders Equity		257,207		129,335	(129,335)	257,207
Total Liabilities and Shareholders Equity	$	357,510	$	213,066	$ 281,404	$ 851,980

Description of Pro Forma Adjustments

Consolidated Balance Sheets

(a) Reflects the excess proceeds from the notes offering and the New Credit Facilities before the payment of the costs and expenses of the Transactions.
(b) Reflects the incremental increase to LaBarge inventory based on preliminary fair value determination.
(c) Reflects write-off of deferred debt cost and other intangibles of Ducommun and LaBarge related to pre-existing debt that will be refinanced in the Transactions.
(d) Reflects the incremental increase in LaBarge property, plant and equipment based on a preliminary fair value determination.
(e) Reflects the elimination of LaBarge s historical goodwill ($43,424), in accordance with acquisition accounting, and the establishment of $88,634 of estimated goodwill resulting from the Merger.
(f) Reflects the incremental increase in LaBarge intangible assets (customer relationships) based on a preliminary fair value determination.
(g) Reflects the preliminary incremental increase in LaBarge intangible assets (trade name) based on a preliminary fair value determination.
(h) Reflects capitalized debt issuance cost incurred in connection with the Merger.
(i) Reflects the pay-off of the Existing Ducommun Facility and the Existing LaBarge Facility ($18,500 and $27,761, respectively).
(j) Reflects estimated borrowings and other debt incurred in connection with the Merger.
(k) Reflects the preliminary fair value adjustments to non-current deferred tax liabilities.
(l) Reflects elimination of stockholders equity accounts of LaBarge.

Pro Forma Condensed Combined Statement of Operations

For the Twelve Months Ended December 31, 2010

(In thousands)

(Unaudited)

	Historical			Ducommun and
	Ducommun	LaBarge	Pro Forma Adjustments	LaBarge Combined
Sale and Service Revenues:				
Product Sales	$ 367,563	$ 324,037	$	$ 691,600
Service Revenues	40,843			40,843
Net Sales	408,406	324,037		732,443
Operating Costs and Expenses:				
Costs of Product Sales	296,104	258,629	2,100(a)	557,833
			1,000(b)	
Cost of Service Revenues	32,156			32,156
Selling, general and administrative expenses	53,678	35,419	11,357(c)	108,363
			7,909(d)	
Total Operating Costs and Expenses	381,938	294,048	22,366	698,352
Operating Income	26,468	29,989	(22,366)	34,091
Interest Expense	(1,805)	(1,413)	(28,080)(e)	(34,652)
			(1,188)(f)	
			(2,166)(g)	
Income Before Taxes	24,663	28,576	(53,800)	(561)
Income Tax Expense	(4,855)	(10,288)	21,520(h)	6,377

Net Income	$ 19,808	$ 18,288	$ (32,280)	$ 5,816

Description of Pro Forma Adjustments

Pro Forma Condensed Combined Statement of Operations

For the Twelve Months Ended December 31, 2010

(a) Reflects the additional cost of sales resulting from the incremental increase in LaBarge inventory based on a preliminary fair value determination.
(b) Reflects the additional depreciation resulting from the incremental increase in LaBarge property, plant and equipment based on a preliminary fair value determination.
(c) Reflects additional amortization expense using a 14 year life, resulting from the incremental increase in LaBarge intangible assets (customer relationships) based on a preliminary fair value determination.
(d) Reflects additional employee compensation expense resulting from payments required under change-in-control provisions in agreements of certain key executives of LaBarge as a result of the Merger.
(e) Reflects incremental interest on debt (Ducommun s new $190 million senior secured term loan facility and the $200 million principal amount of notes) to be incurred by Ducommun to, among other things, finance the Merger and repay certain existing indebtedness of Ducommun and LaBarge.
(f) Reflects unamortized portion of deferred costs for Ducommun and LaBarge related to pre-existing debt that will be refinanced in the Transactions.
(g) Reflects additional amortization expense for capitalized debt issuance costs.
(h) The statutory tax rate (40%) was used to estimate tax expense. The combined provision for income taxes does not necessarily reflect the amounts that would have resulted had Ducommun and LaBarge filed consolidated returns for the period presented.

38

Pro Forma Condensed Combined Statement of Operations

For the Twelve Months Ended April 2, 2011

(In thousands)

(Unaudited)

	Historical			Ducommun and
	Ducommun	LaBarge	Pro Forma Adjustments	LaBarge Combined
Sales and Service Revenues:				
Product Sales	$ 366,508	$ 332,516	$	$ 699,024
Service Revenues	37,195			37,195
Net Sales	403,703	332,516		736,219
Operating Costs and Expenses:				
Costs of Product Sales	295,341	265,585	1,000(a)	561,926
Cost of Service Revenues	29,125			29,125
Selling, general and administrative expenses	55,365	37,633	11,357(b)	101,509
			(2,846)(c)	
Total Operating Costs and Expenses	379,831	303,218	9,511	692,560
Operating Income	23,872	29,298	(9,511)	43,659
Interest Expense, net	(1,513)	(1,524)	(28,080)(d)	(33,283)
			(2,166)(e)	
Income Before Taxes	22,359	27,774	(39,757)	10,376
Income Tax Expense	(3,851)	(9,963)	15,903(f)	2,089
Net Income	$ 18,508	$ 17,811	$ (23,854)	$ 12,465

Description of Pro Forma Adjustments

Pro Forma Condensed Combined Statement of Operations

For the Twelve Months Ended April 2, 2011

(a) Reflects the additional depreciation resulting from the incremental increase in LaBarge property, plant and equipment based on a preliminary fair value determination.

(b) Reflects additional amortization expense using a 14 year life, resulting from the incremental increase in LaBarge intangible assets (customer relationships) based on a preliminary fair value determination.

(c) Reverses non-recurring transaction costs incurred by Ducommun and LaBarge in connection with the Transactions during this period.

(d) Reflects incremental interest on debt (Ducommun s new $190 million senior secured term loan facility and the $200 million principal amount of notes) to be incurred by Ducommun to, among other things, finance the Merger and repay certain indebtedness.

(e) Reflects additional amortization expense for capitalized debt issuance costs.

(f) The statutory tax rate (40%) was used to estimate tax expense. The combined provision for income taxes does not necessarily reflect the amounts that would have resulted had Ducommun and LaBarge filed consolidated returns for the period presented.

39

Pro Forma Condensed Combined Statement of Operations

For the Three Months Ended April 2, 2011

(In thousands)

(Unaudited)

	Historical			Ducommun and
	Ducommun	LaBarge	Pro Forma Adjustments	LaBarge Combined
Sales and Service Revenues:				
Product Sales	$ 91,333	$ 83,214	$	$ 174,547
Service Revenues	8,220			8,220
Net Sales	99,553	83,214		182,767
Operating Costs and Expenses:				
Costs of Product Sales	74,839	66,290	250(a)	141,379
Costs of Service Revenues	6,306			6,306
Selling, general and administrative expenses	14,149	10,616	2,839(b)	24,758
			(2,846)(c)	
Total Operating Costs and Expenses	95,294	76,906	243	172,443
Operating Income	4,259	6,308	(243)	10,324
Interest Expense	(260)	(466)	(7,020)(d)	(8,288)
			(542)(e)	
Income Before Taxes	3,999	5,842	(7,805)	2,036
Income Tax Expense	(1,076)	(2,191)	3,122(f)	(145)
Net Income	$ 2,923	$ 3,651	$ (4,683)	$ 1,891

Description of Pro Forma Adjustments

Pro Forma Condensed Combined Statement of Operations

For the Three Months Ended April 2, 2011

(a) Reflects the additional depreciation resulting from the incremental increase in LaBarge property, plant and equipment based on a preliminary fair value determination.

(b) Reflects the additional amortization expenses using a 14 year life, resulting from the incremental increase in LaBarge intangible assets (customer relationships) based on a preliminary fair value determination.

(c) Reverses non-recurring transaction costs incurred by Ducommun and LaBarge in connection with the Transactions during this period.

(d) Reflects incremental interest on debt (Ducommun s new $190 million senior secured term loan facility and the $200 million principal amount of notes) to be incurred by Ducommun to, among other things, finance the Merger and repay certain indebtedness.

(e) Reflects additional amortization expense for capitalized debt issuance costs.

(f) The statutory tax rate (40%) was used to estimate tax expense. The combined provision for income taxes does not necessarily reflect the amounts that would have resulted had Ducommun and LaBarge filed consolidated returns for the period presented.

40

Notes to Pro Forma Condensed Combined Financial Statements

(Unaudited)

Note 1. Conforming Interim Periods

In 2010, Ducommun s fiscal year end was December 31, while LaBarge s fiscal year end was June 27. The latest interim period for Ducommun is its first quarter results for the three month period ended April 2, 2011, while LaBarge s latest interim period is its third quarter results for the nine month period ended April 3, 2011. In order for the unaudited interim pro forma results of LaBarge to be comparative to the unaudited interim pro forma results of Ducommun, the interim results of LaBarge reflect the three months ended April 3, 2011. Accordingly, LaBarge s historical financial information for the statement of operations covering the six month period ended January 2, 2011 has been excluded.

Note 2. Basis of Presentation

The unaudited pro forma condensed combined financial statements have been prepared using the historical consolidated financial statements of Ducommun and LaBarge with the Merger accounted for using the acquisition method of accounting in accordance with ASC 805-10.

Note 3. Significant Accounting Policies

The unaudited pro forma condensed combined financial statements of Ducommun do not assume any differences in accounting policies between Ducommun and LaBarge. Upon consummation of the Merger, Ducommun will review the accounting policies of LaBarge and, as a result of that review, Ducommun may identify differences between the accounting policies of the two companies, that if conformed, could have a material impact on the combined financial statements. At this time, except as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies LaBarge Revenue Recognition and Cost of Sales, Ducommun is not aware of any differences that would have a material impact on the unaudited pro forma condensed combined financial statements.

Note 4. Preliminary Purchase Price Allocation

The following table summarizes the preliminary purchase price allocation for the Merger (in thousands):

Cash and Cash Equivalents	$ 6,219
Account Receivables	42,746
Inventories	77,062
Deferred Income Taxes Assets	3,551
Prepaid Expenses and Other	1,577
Property, Plant & Equipment	35,696
Goodwill	88,634
Customer Relationships Outstanding Purchase Orders and Contracts	159,000
Trade Name	29,000
Other Assets	17,546
Total Assets Acquired	461,031
Accounts Payable	$ 24,928
Accrued Liabilities	27,135
Long-Term Debt	
Deferred Income Taxes Liabilities	69,981
Other Long-Term Obligations	926
Total Liabilities Assumed	122,970
Total Preliminary Purchase Price	$ 338,061

Note 5. Sources and Uses of Funds

The following table summarizes the sources and uses of funds in the Transactions (in thousands):

Sources		Uses	
New Credit Facilities			
New Revolving Credit Facility		Purchase price of equity	$ 310,300
New Term Loan Facility	$ 190,000	Repayment of existing LaBarge debt	27,761
Senior notes	200,000	Repayment of existing Ducommun debt	18,500
		New cash on balance sheet	1,944
		Transaction fees and expenses	31,495
Total sources	$ 390,000	Total uses	$ 390,000

See Use of Proceeds. Pursuant to the Merger Agreement, Ducommun will acquire ownership of LaBarge for a total purchase price of approximately $338.1 million including the assumption of LaBarge s outstanding debt ($27.8 million as of April 3, 2011). The closing of the Merger is subject to the approval of LaBarge stockholders and certain other conditions.

In connection with the Merger, Ducommun entered into a commitment letter (the ***Commitment Letter***) with UBS Loan Finance LLC, UBS Securities LLC, Credit Suisse Securities (USA) LLC and Credit Suisse AG, Cayman Islands Branch (collectively, the ***Committed Parties***) pursuant to which, the Committed Parties have agreed to provide and/or arrange for (i) a senior secured term loan facility to Ducommun of $190 million and (ii) a senior secured revolving loan facility to Ducommun of up to $60 million.

Note 6. Transaction Costs

Ducommun estimates that professional expenses related to the Transactions will approximate $31,495,000. These costs include fees for legal, accounting, financial advisory, due diligence, tax, valuation, printing and other various services necessary to complete this transaction. In accordance with ASC 805-10, these fees are expensed as incurred. Ducommun s financial results for the three month period ended April 2, 2011 and the twelve month period ended April 2, 2011 include $1.4 million of expenses related to the Transactions. LaBarge s financial results for the three month period ended April 3, 2011 and the twelve month period ended April 3, 2011 include $1,446,000 of expenses related to the Merger. These costs have been reversed in the pro forma adjustments to the income statements as these amounts are considered non-recurring.

The Merger Agreement also provides for certain termination rights that may result in a termination fee. The unaudited pro forma condensed combined financial statements have been prepared under the assumption that the Merger will be completed and do not reflect any potential termination fees.

Management s Discussion and Analysis of Financial Condition and Results of Operations

The following includes Ducommun s management s discussion of the financial results, liquidity and other key items related to Ducommun s performance and should be read in conjunction with the consolidated financial statements of Ducommun and related notes filed with the SEC. In addition, the following includes LaBarge s management s discussion of the financial results, liquidity and historical financial condition of LaBarge for periods completed prior to the consummation of the Transactions, which should be read in conjunction with the consolidated financial statements of LaBarge and related notes filed with the SEC.

All references to fiscal year 2010, 2009 and 2008 refer to fiscal years ended December 31, 2010, 2009 and 2008, respectively, in the case of Ducommun, and the fiscal years ended June 27, 2010, June 28, 2009 and June 29, 2008, respectively, in the case of LaBarge.

The discussion and analysis of historical periods prior to the consummation of the Transactions does not reflect the significant impact that the Transactions will have on us. See Unaudited Pro Forma Condensed Combined Financial Data.

Unless the context indicates otherwise, the terms Ducommun, we, our or us are used to refer to Ducommun and its consolidated subsidiaries, including, where applicable, LaBarge on a pro forma basis. The term LaBarge refers to LaBarge, Inc. and its consolidated subsidiaries.

Overview

We design, engineer and manufacture mission-critical aerostructure and electromechanical components and subassemblies. We also provide engineering, technical and program management services. Our products and services are used on domestic and foreign commercial and military aircraft, helicopter, missile and space programs. We are the successor to a business that was founded in California in 1849 and reincorporated in Delaware in 1970.

On April 3, 2011, we and our newly formed merger subsidiary, Merger Sub, entered into a Merger Agreement with LaBarge to acquire LaBarge for a total purchase price of approximately $338.1 million comprised of approximately $310.3 million in equity and $27.8 million of outstanding LaBarge debt which will be repaid at closing of the Merger. Pursuant to the Merger Agreement subject to satisfaction of certain conditions, Merger Sub will be merged with and into LaBarge, with LaBarge (which will be renamed Ducommun LaBarge Technologies, Inc.) continuing as the surviving corporation and our wholly-owned subsidiary. In the Merger, each outstanding share of LaBarge Common Stock will be cancelled and converted into the right to receive $19.25 per share in cash.

LaBarge provides custom high-performance electronic, electromechanical and interconnect systems for customers across several technology-driven end markets. LaBarge s core competencies are manufacturing, engineering and design of interconnect systems, printed circuit board assemblies, high-level assemblies and complete electronic systems for its customers specialized applications. We believe the LaBarge Acquisition will allow us to significantly expand our presence in aerospace and defense markets as well as diversify our net sales base across new markets, including industrial, natural resource and medical end markets, and reduce customer concentration.

Concurrently with the consummation of the Merger, we expect to enter into a New Term Loan Facility and a New Revolving Credit Facility. See Description of Other Indebtedness. The proceeds from the notes, the New Term Loan Facility and, to the extent necessary, a limited portion (but not greater than $10.0 million) of the New Revolving Credit Facility will be used to finance the LaBarge Acquisition, refinance certain existing indebtedness of us and LaBarge and to pay customary fees and expenses in connection with the Transactions. See Use of Proceeds. As a result of these additional borrowings, we expect our interest expense will increase significantly from prior periods.

Subsequent to the Transactions, we expect that the most significant factors driving profitability in a particular period will be the mix of contracts with deliveries in that period and the volume of sales in relation to our fixed costs during that period. As a significant portion of our pro forma business will be derived from U.S. Government subcontracts and, to a lesser extent, prime contracts with the U.S. Government, we expect that our operating performance will be significantly influenced by the military and defense budget of the U.S. Government. Delivery schedules are generally determined by our customers. The significant factors that influence the profitability of individual contracts include: (i) the competitive environment in which the contract was bid; (ii) our experience level in manufacturing the particular product(s); (iii) the stability of the design of the product(s); and (iv) the accuracy of our original cost estimates as reflected in the sale price for the product(s).

Two Strategic Business Units

After the closing of the LaBarge Acquisition, we will operate under two strategic business units: Ducommun Aerostructures (DAS) and Ducommun LaBarge Technologies (DLT).

DAS will design, engineer and manufacture large and complex contoured aerostructure components and assemblies and will supply composite and metal bonded structures and assemblies. DAS s product offerings will include fuselage skin panels and assemblies, flight control surface assemblies, various door panels and leading edges for military fixed wing aircraft; main rotor blade assemblies, tail rotor blade assemblies and leadings edges for military rotary wing aircraft; and fuselage skin panels and assemblies, composite winglets, flight control surface assemblies, leading edges and engine ducts for commercial aircraft.

DLT, which will be formed by the integration of LaBarge into our existing DTI segment, will design, engineer and manufacture electromechanical subassemblies; build custom, high-performance electronic, electromechanical and interconnect systems, including illuminated panels, advanced microwave switches, high-performance motors and revolvers, cable assemblies, wiring harness and interconnect systems, printed circuit board assemblies and miniaturized hybrid circuits; and will provide engineering, technical and program management services.

Results of Operations Ducommun

Overview

On a stand-alone basis, Ducommun s primary customers include Boeing, Airbus, Embraer, Bombardier, Honeywell, Rockwell Collins, Cessna, Raytheon, Lockheed Martin, Sikorsky and Northrup Grumman. Domestic commercial aircraft programs include the Boeing 737NG, 747, 767, 777 and 787. Foreign commercial aircraft programs include the Airbus Industrie A330, A340, A350XWB and A380 aircraft, Bombardier business and regional jets, and the Embraer 145 and 170/190. Major military programs include the Boeing C-17, F-15, F-18 and Boeing/Textron V-22, the Lockheed Martin F-16, F-22 and F-35 Joint Strike Fighter aircraft, the Sikorsky Black Hawk helicopter and various aircraft and shipboard electronics upgrade programs. Commercial and military helicopter programs include helicopters manufactured by Boeing (principally the Apache and Chinook helicopters), United Technologies, Bell, Augusta and Carson. Ducommun also supports various unmanned space launch vehicle and satellite programs.

Ducommun manufactures components and assemblies principally for domestic and foreign commercial and military aircraft, helicopter and space programs. Ducommun s Miltec subsidiary provides engineering, technical and program management services almost entirely for United States defense, space and homeland security programs. Ducommun s mix of military and space and commercial business, as a percentage of total sales, in the years ended December 31, 2010, 2009 and 2008, and the three months ended April 2, 2011 and April 3, 2010, respectively, was approximately as follows:

	Year Ended December 31,			Three Months Ended (unaudited)	
	2010	**2009**	**2008**	**April 2, 2011**	**April 3, 2010**
Commercial					
Large Aircraft	20%	18%	17%	21%	20%
Regional and Business Aircraft	8%	7%	9%	12%	7%
Helicopter	7%	7%	8%	8%	9%
Other	5%	4%	5%	5%	4%
Total Commercial	40%	36%	39%	46%	40%
Military and Space					
Aircraft	27%	26%	21%	21%	28%
Helicopter	20%	22%	22%	22%	19%
Engineering Services	9%	12%	13%	8%	10%
Space and Other	4%	4%	5%	3%	3%

Total Military and Space	60%	64%	61%	54%	60%
Total	100%	100%	100%	100%	100%

Ducommun is dependent upon various aircraft and helicopter programs including Boeing commercial and military aircraft programs, United Technologies (Sikorsky Black Hawk helicopter program) and Raytheon military programs. Sales to these programs, as a percentage of total sales, for the years ended December 31, 2010, 2009 and 2008 and the three months ended April 2, 2011 and April 3, 2010, respectively, were approximately as follows:

		Year Ended December 31,		Three Months Ended (unaudited)	
	2010	2009	2008	April 2, 2011	April 3, 2010
Boeing Commercial and Military Aircraft	26%	32%	32%	24%	26%
United Technologies (Sikorsky Black Hawk Helicopter)	8%	7%	2%	7%	7%
Raytheon Military Programs	12%	8%	8%	7%	12%
All Other	54%	53%	58%	62%	55%
Total	100%	100%	100%	100%	100%

Sales, gross profit as a percentage of sales, selling, general and administrative expense as a percentage of sales, and effective tax rate in the years ended December 31, 2010, 2009 and 2008 and three months ended April 2, 2011 and April 3, 2010, respectively, were as follows:

		Year Ended December 31,		Three Months Ended (unaudited)	
	2010	2009	2008	April 2, 2011	April 3, 2010
			($ in thousands)		
Sales	$ 408,406	$ 430,748	$ 403,803	$ 99,553	$ 104,256
Gross Profit Margin	19.6%	18.3%	20.3%	18.5%	18.5%
SG&A Expense Percent of Sales	13.1%	11.5%	12.5%	14.2%	12.0%
Effective Tax Rate	19.7%	26.0%	23.1%	26.9%	33.0%

Sales for the three months ended April 2, 2011 decreased 4.5% to $99.6 million as compared to $104.3 million for the three months ended April 3, 2010. The decrease in sales for the three months ended April 2, 2011 was due to lower sales of engineering services and delays in release of orders for certain military aircraft programs, partially offset by slightly higher sales for regional jet aircraft programs. Net sales in 2010 were $408.4 million, compared to net sales of $430.7 million for 2009. The decrease in net sales in 2010 from 2009 was primarily due to lower sales of engineering services and lower product sales for military helicopters, partially offset by growth in product sales of commercial aircraft programs.

Gross profit, as a percentage of sales, was 18.5% in the three months ended April 2, 2011 and was also 18.5% in the three months ended April 3, 2010. Increased gross profit margins in DTI were offset by lower gross profit margins in DAS. Gross profit, as a percentage of sales, increased to 19.6% in 2010 from 18.3% in 2009. Gross profit margins in 2010 were negatively impacted by approximately $4.9 million, or 1.8%, due to start-up and development costs on several new programs which generated approximately $10.4 million in sales. In addition, gross profit for 2010 was favorably impacted by an adjustment to operating expense of approximately $1.3 million, or 0.3%, relating to the reversal of certain accounts payable accruals recorded in prior periods. Ducommun determined that certain accounts payable that were accrued during the period from 2004 to 2010, in fact had been paid or were not otherwise owed to suppliers. Ducommun assessed the materiality of this reversal and concluded it was immaterial to previously reported annual and interim amounts. Gross profit margin in 2009 was negatively impacted by inventory reserves and valuation adjustments of $5.1 million and a liability recorded for uncollected sales tax from customers of $0.6 million.

Selling, general and administrative (***SG&A***) expense increased to $14.1 million, or 14.2% of sales, in the three months ended April 2, 2011, compared to $12.5 million, or 12.0% of sales, in the three months ended April 3, 2010. The SG&A expense increase included approximately $1.4 million of expense related to the LaBarge Acquisition. SG&A expense increased to $53.7 million, or 13.1% of sales in 2010, compared to $49.6 million, or 11.5% of sales, in 2009. The increase in SG&A expense was primarily due to higher expenses from the amortization of intangible assets of approximately $1.1 million, higher compensation costs and increased investments in product development programs. SG&A expenses in 2009 were favorably impacted by a reduction in environmental reserves of $2.2 million.

Interest expense was $0.3 million in the three months ended April 2, 2011, compared to $0.6 million in the three months ended April 3, 2010, due to lower debt levels and lower interest rates in the three months ended April 2, 2011 compared to the three months ended April 3, 2010.

Interest expense was lower in 2010, due to lower debt levels. Income tax expense increased in 2010 due to higher income before taxes, partially offset by a lower effective tax rate.

Acquisition of DynaBil Industries, Inc.

On December 23, 2008, Ducommun acquired DynaBil Industries, Inc. (***DynaBil***), a privately-owned company based in Coxsackie, New York, for $45.4 million (net of cash acquired and excluding acquisition costs) and subsequently changed its name to Ducommun AeroStructures, New York Inc. (***DAS-New York***). DAS-New York provides titanium and aluminum structural components and assemblies for commercial and military aerospace applications. The acquisition was funded from internally generated cash, notes to the sellers and borrowings of approximately $10.5 million under the Existing Ducommun Credit Facility. The operating results for this acquisition have been included in the consolidated statements of income since the date of the acquisition.

Three Months Ended April 2, 2011 Compared to Three Months April 3, 2010

Net sales in the three months ended April 2, 2011 were $99.6 million compared to net sales in the three months ended April 3, 2010 of $104.3 million. Sales for the three months ended April 2, 2011 decreased 4.5% due to lower sales of engineering services and delays in release of orders for certain military aircraft programs, partially offset by slightly higher sales for regional jet aircraft programs. Ducommun s mix of business in the three months ended April 2, 2011 was approximately 54% military and space and 46% commercial, compared to 60% military and space and 40% commercial in the three months ended April 3, 2010.

Ducommun had substantial sales, through both of its business segments, to Boeing, Raytheon, United Technologies and the United States government. During the three months ended April 2, 2011 and three months ended April 3, 2010, sales to these customers were as follows:

	Three Months Ended (unaudited)	
	April 2, 2011	April 3, 2010
	(In thousands)	
Boeing	$ 24,234	$ 28,134
Raytheon	7,375	11,118
United Technologies	7,231	8,244
United States government	5,557	3,937
Total	$ 44,397	$ 51,433

At April 2, 2011, trade receivables from Boeing, Raytheon, United Technologies and the United States government were $11.4 million, $4.0 million, $3.5 million and $2.7 million, respectively. The sales and receivables relating to Boeing, Raytheon, United Technologies and the United States government are diversified over a number of different commercial, military and space programs.

Military components manufactured by Ducommun are employed in many of the country s front-line fighters, bombers, helicopters and support aircraft, as well as sea-based applications. Engineering, technical and program management services are provided principally for United States defense, space and homeland security programs. Ducommun s defense business is diversified among military manufacturers and programs. Sales related to military and space programs were approximately $54.3 million or 54% of total sales, in the three months ended April 2, 2011 compared to $62.6 million, or 60% of total sales, in the three months ended April 3, 2010. The decrease in military sales in the three months ended April 2, 2011 resulted principally from lower sales of engineering services and delays in release of orders for certain military aircraft programs.

Military sales during the three months ended April 2, 2011 and the three months ended April 3, 2010 included the following programs:

	Three Months Ended (unaudited)	
	April 2, 2011	April 3, 2010
	(In thousands)	
Black Hawk	$ 11,988	$ 10,370
C-17	9,032	10,977
Apache	4,908	4,946

F-18	3,721	5,779
F-15	1,589	5,108
Chinook	1,827	3,616
Other	13,015	9,964
Military and Space Product Sales	46,080	50,760
Engineering Services	8,220	11,868
Total	$ 54,300	$ 62,628

45

Ducommun s commercial business is represented on many of today s major commercial aircraft. Sales related to commercial business were approximately $45.3 million or 45% of total sales, in the three months ended April 2, 2011, compared to $41.6 million, or 40% of total sales, in the three months ended April 3, 2010. The increase in commercial sales during the three months ended April 2, 2011 compared to the three months ended April 3, 2010 was primarily due to an increase in demand in the regional jet and aviation markets, partially offset by declines in sales for commercial helicopters.

Commercial sales during the three months ended April 2, 2011 and the three months ended April 3, 2010 included the following programs:

	Three Months Ended (unaudited)	
	April 2, 2011	April 3, 2010
	(In thousands)	
737NG	$ 10,279	$ 10,908
777	4,051	3,662
Carson Helicopter	3,863	4,907
Other	27,060	22,151
Total	$ 45,253	$ 41,628

Backlog is subject to delivery delays or program cancellations, which are beyond Ducommun s control. As of April 2, 2011, backlog believed to be firm was approximately $358.6 million, compared to $328.0 million at December 31, 2010. The increase in backlog is mainly due to higher backlog for 777, Apache and Black Hawk helicopters. Approximately $209.7 million of total backlog is expected to be delivered during the remainder of 2011. The backlog at April 2, 2011 included the following programs:

	Backlog (unaudited)	
	April 2, 2011	December 31, 2010
	(In thousands)	
737NG	$ 58,740	$ 61,891
Black Hawk Helicopter	47,415	39,368
Apache Helicopter	44,193	27,299
F-18	22,312	24,692
Carson Helicopter	24,414	24,558
777	18,754	13,082
C-17	9,807	11,563
F-15	6,027	7,384
Total	$ 231,662	$ 209,837

Trends in Ducommun s overall level of backlog, however, may not be indicative of trends in future sales because Ducommun s backlog is affected by timing differences in the placement of customer orders and because Ducommun s backlog tends to be concentrated in several programs to a greater extent than Ducommun s sales.

Gross profit, as a percentage of sales, was 18.5% in the three months ended April 2, 2011 and was also 18.5% in the three months ended April 3, 2010. Increased gross profit margins in DTI were offset by lower gross profit margins in DAS.

SG&A expense increased to $14.1 million, or 14.2% of sales, in the three months ended April 2, 2011, compared to $12.5 million, or 12.0% of sales, in the three months ended April 3, 2010. The SG&A expense increase included approximately $1.4 million of expense related to the LaBarge Acquisition.

Interest expense was $0.3 million in the three months ended April 2, 2011, compared to $0.6 million in the three months ended April 3, 2010, due to lower debt levels and lower interest rates in the three months ended April 2, 2011 compared to the three months ended April 3, 2010.

Income tax expense decreased to $1.1 million in the three months ended April 2, 2011, compared to $2.1 million in the three months ended April 3, 2010. The decrease in income tax expense was due to lower income before taxes, along with a lower effective income tax rate. Ducommun s effective tax rate for the three months ended April 2, 2011 was 26.9%, compared to 33.0% in the three months ended April 3, 2010. Ducommun s effective tax rate for the three months ended April 2, 2011 was lower as a result of various tax benefits related to research and development tax credits.

46

Net income was $2.9 million in the three months ended April 2, 2011, compared to $4.2 million in three months ended April 3, 2010. The decrease of $1.3 million from 2010 was primarily due to lower operating income, which was impacted by approximately $1.4 million of acquisition related expenses, partially offset by lower interest expense and lower taxes.

Fiscal Year Ended December 31, 2010 Compared to Fiscal Year Ended December 31, 2009

Net sales in 2010 were $408.4 million, compared to net sales of $430.7 million for 2009. Net sales in 2010 decreased 5% from 2009 primarily due to approximately $17.5 million decrease in sales of engineering services and lower product sales for military helicopters (primarily Apache and Chinook helicopters), partially offset by growth in product sales of large and regional jet commercial aircraft programs. Ducommun s mix of business in 2010 was approximately 60% military and space and 40% commercial, compared to 64% military and space and 36% commercial in 2009.

Ducommun had substantial sales, through both of its business segments, to Boeing, Raytheon, United Technologies and the United States government. During 2010 and 2009, sales to Boeing, Raytheon, United Technologies and the United States government were as follows:

	Year Ended December 31,	
	2010	2009
	(In thousands)	
Boeing	$ 107,466	$ 133,007
Raytheon	48,198	34,009
United Technologies	30,680	42,117
United States government	16,875	29,224
Total	$ 203,219	$ 238,357

At December 31, 2010, trade receivables from Boeing, Raytheon, United Technologies and the United States government were $9.7 million, $4.5 million, $2.0 million and $1.3 million, respectively. The sales and receivables relating to Boeing, Raytheon, United Technologies and the United States government are diversified over a number of different commercial, military and space programs.

Military components manufactured by Ducommun are employed in many of the country s front-line fighters, bombers, helicopters and support aircraft, as well as sea-based applications. Engineering, technical and program management services are provided principally for United States defense, space and homeland security programs. Ducommun s defense business is diversified among military manufacturers and programs. Sales related to military and space programs were approximately $244.5 million, or 60% of total sales, compared to $275.3 million, or 64% of total sales, in 2009. The decrease in military and space sales in 2010 was primarily due to lower sales of engineering services and lower product sales for military helicopters.

Military and space product sales during 2010 and 2009 included the following programs:

	Year Ended December 31,	
	2010	2009
	(In thousands)	
Black Hawk	$ 42,646	$ 37,699
C-17	36,198	42,198
Apache	25,001	36,067
F-18	24,495	21,543
F-15	17,764	10,394
Chinook	9,726	18,642
X-47B UCAS		6,652
Space	2,342	2,178
Other	45,470	41,554
Military and Space Product Sales	203,642	216,927

Engineering Services	40,843	58,377
Total	$ 244,485	$ 275,304

47

Ducommun s commercial business is represented on many of today s major commercial aircraft. Sales related to commercial business were approximately $163.9 million, or 40% of total sales in 2010, compared to $155.4 million, or 36% of total sales in 2009. The increase in commercial sales during 2010 compared to 2009 was primarily due to an increase in demand in the regional jet and aviation markets, and an increase in commercial large aircraft, partially offset by declines in sales for commercial helicopters.

Commercial sales during 2010 and 2009 included the following programs:

	Year Ended December 31, 2010	Year Ended December 31, 2009
	(In thousands)	
737NG	$ 43,296	$ 42,439
777	13,825	16,395
Carson Helicopter	13,674	14,636
Other	93,126	81,974
Total	$ 163,921	$ 155,444

Backlog is subject to delivery delays or program cancellations, which are beyond Ducommun s control. As of December 31, 2010, backlog believed to be firm was approximately $328.0 million, compared to $367.1 million at December 31, 2009. The reduction in year-over-year backlog is reflective of (i) late order release on C-17 and F-15 programs and Chinook and Bell helicopter programs and (ii) declines in the engineering services business resulting from lower Research, Development, Test & Evaluation (***RDT&E***) budgets, reduced demand for specific engineering services as a result of increases in government in-sourcing and reduced Congressional earmarks. Approximately $225.0 million of total backlog is expected to be delivered during 2011. The backlog at December 31, 2010 included the following programs:

	Backlog (unaudited) 2010	Backlog (unaudited) 2009
	(In thousands)	
737NG	$ 61,891	$ 53,349
Black Hawk Helicopter	39,368	22,925
Apache Helicopter	27,299	26,064
F-18	24,692	24,807
Carson Helicopter	24,558	22,926
777	13,082	13,280
C-17	11,563	29,564
F-15	7,384	17,964
Total	$ 209,837	$ 210,879

Trends in Ducommun s overall level of backlog, however, may not be indicative of trends in future sales because Ducommun s backlog is affected by timing differences in the placement of customer orders and because Ducommun s backlog tends to be concentrated in several programs to a greater extent than Ducommun s sales.

Gross profit, as a percentage of sales, increased to 19.6% in 2010 from 18.3% in 2009. Gross profit margins in 2010 were negatively impacted by approximately $4.9 million, or 1.8%, due to start-up and development costs on several new programs which generated approximately $10.4 million in sales. In addition, gross profit for 2010 was favorably impacted by an adjustment to operating expense of approximately $1.3 million, or 0.3%, relating to the reversal of certain accounts payable accruals recorded in prior periods. Ducommun determined that certain accounts payable that were accrued during the period from 2004 to 2010, in fact had been paid or were not otherwise owed to suppliers. Ducommun assessed the materiality of this reversal and concluded it was immaterial to previously reported annual and interim amounts. Gross profit margin in 2009 was negatively impacted by inventory reserves and valuation adjustments of $5.1 million and a liability recorded for uncollected sales tax from customers of $0.6 million.

SG&A expense increased to $53.7 million, or 13.1% of sales in 2010, compared to $49.6 million, or 11.5% of sales in 2009. The increase in SG&A expense was primarily due to higher expenses from the amortization of intangible assets of approximately $1.1 million, higher compensation costs and increased investments in product development programs. SG&A expenses in 2009 were favorably impacted by a reduction in environmental reserves of $2.2 million.

48

In accordance with ASC 350*,* Ducommun performed its required annual impairment test for goodwill using a discounted cash flow analysis supported by comparative market multiples to determine the fair values of its businesses versus their book values. The test as of December 31, 2010 indicated that there was no impairment of goodwill during 2010. In the fourth quarter of 2009, Ducommun recorded a non-cash charge of $12.9 million at DTI (relating to its Miltec reporting unit) for the impairment of goodwill. The charge in 2009 reduced goodwill recorded in connection with the acquisition of Miltec. The principal factors used in the discounted cash flow analysis requiring judgment are the projected results of operations, weighted average cost of capital (***WACC***), and terminal value assumptions. The WACC takes into account the relative weights of each component of Ducommun s consolidated capital structure (equity and debt) and represents the expected cost of new capital adjusted as appropriate to consider risk profiles associated with growth projection risks. The terminal value assumptions are applied to the final year of discounted cash flow model. Due to many variables inherent in the estimation of a business s fair value and the relative size of Ducommun s recorded goodwill, differences in assumptions may have a material effect on the results of Ducommun s impairment analysis.

Interest expense was $1.8 million in 2010, compared to $2.5 million in 2009, primarily due to lower debt levels in 2010 compared to the previous year.

Income tax expense increased to $4.9 million in 2010, compared to $3.6 million in 2009. The increase in income tax expense was due to the higher income before taxes, partially offset by a lower effective income tax rate. Ducommun s effective tax rate for 2010 was 19.7%, compared to 26.0% in 2009. Cash expended to pay income taxes was $2.5 million in 2010, compared to $7.0 million in 2009.

Net income for 2010 was $19.8 million, or $1.87 diluted earnings per share, compared to $10.2 million, or $0.97 diluted earnings per share in 2009. Net income for 2009 includes an after-tax charge of $3.4 million, or $0.33 per diluted share for the Eclipse Aviation Corporation (***Eclipse***) inventory write-off and inventory valuation adjustment discussed above and a non-cash goodwill impairment charge of $7.8 million or $0.74 per share.

There was no impairment of goodwill in 2010.

Fiscal Year Ended December 31, 2009 Compared to Fiscal Year Ended December 31, 2008

Net sales in 2009 were $430.7 million, compared to net sales of $403.8 million for 2008. Net sales in 2009 increased 7% from 2008 primarily due to sales from DAS-New York, which was acquired in December 2008. Sales in 2009 from DAS-New York were $42.1 million. Excluding DAS-New York, sales were lower in 2009 principally due to lower sales for the Apache helicopter and regional and business aircraft programs. Ducommun s mix of business in 2009 was approximately 62% military, 36% commercial and 2% space, compared to 59% military, 39% commercial and 2% space in 2008.

Ducommun had substantial sales, through both of its business segments, to Boeing, Raytheon, the United States government, and United Technologies. During 2009 and 2008, sales to Boeing, Raytheon, the United States government and United Technologies were as follows:

	Year Ended December 31,	
	2009	**2008**
	(In thousands)	
Boeing	$ 133,007	$ 130,783
Raytheon	34,009	33,248
United States government	29,224	33,335
United Technologies	42,117	17,982
Total	$ 238,357	$ 215,348

At December 31, 2009, trade receivables from Boeing, Raytheon, the United States government and United Technologies were $8.7 million, $4.3 million, $1.7 million and $2.3 million, respectively. The sales and receivables relating to Boeing, Raytheon, the United States government and United Technologies are diversified over a number of different commercial, military and space programs.

Military components manufactured by Ducommun are employed in many of the country s front-line fighters, bombers, helicopters and support aircraft, as well as sea-based applications. Engineering, technical and program management services are provided principally for United States defense, space and homeland security programs. Ducommun s defense business is diversified among military manufacturers and programs. Sales related to military and space programs were approximately $275.3 million, or 64% of total sales, in 2009, compared to $246.1 million, or 61% of total sales, in 2008. The increase in military sales in 2009 resulted principally from an increase in sales to the Black Hawk helicopter, primarily at DAS-New York, the X-47B UCAS and the C-17 programs at DAS and an increase in sales to the F-18 aircraft program at DTI, partially offset by a reduction in sales to the Apache helicopter program at DAS and a reduction in sales to the F-15 aircraft program at DTI.

In the space sector, Ducommun produces components for a variety of unmanned launch vehicles and satellite programs and provides engineering services. Sales related to space programs were approximately $8.4 million, or 2% of total sales in 2009, compared to $8.8 million, or 2% of total sales in 2008. The decrease in sales for space programs resulted principally from a decrease in engineering services at DTI.

Military and space sales during 2009 and 2008 included the following programs:

	Year Ended December 31, 2009	2008
	(In thousands)	
C-17	$ 42,198	$ 36,714
Black Hawk	37,699	13,054
Apache	36,067	52,480
F-18	21,543	17,542
Chinook	18,642	17,048
F-15	10,394	13,263
X-47B UCAS	6,652	
Space	2,178	2,051
Other	41,554	35,776
Military and Space Product Sales	216,927	187,928
Engineering Services	58,377	59,186
Total	$ 275,304	$ 247,114

Ducommun s commercial business is represented on many of today s major commercial aircraft. Sales related to commercial business were approximately $155.4 million, or 36% of total sales in 2009, compared to $156.7 million, or 39% of total sales in 2008. The reduction in commercial sales during 2009 compared to 2008 was primarily due to a decline in demand in the regional jet and aviation markets, which began to experience a slowdown at the beginning of 2009, partially offset by $14.1 million of sales from DAS-New York, which was acquired in December 2008, and an increase of $4.2 million in sales to the Boeing 737NG program. During 2009, Ducommun experienced the discontinuation of the Eclipse program. During 2009, sales to commercial business were lower than 2008 in the majority of Ducommun s commercial aircraft programs. Sales to the Boeing 737NG program accounted for approximately $42.4 million in sales in 2009, compared to $38.3 million in sales in 2008. The Boeing 777 program accounted for approximately $16.4 million in sales in 2009, of which $6.3 million of sales were from DAS-New York, compared to $10.4 million in sales in 2008.

Gross profit, as a percentage of sales, decreased to 18.3% in 2009 from 20.3% in 2008. Gross profit margin was negatively impacted by inventory reserves and valuation adjustments of $5.1 million, a liability recorded for uncollected sales taxes from customers of $0.6 million and an unfavorable change in sales mix at DAS, partially offset by an improvement in operating performance at DTI.

SG&A expenses decreased to $49.6 million, or 11.5% of sales in 2009, compared to $50.5 million, or 12.5% of sales in 2008. The decrease in SG&A expense was primarily due to a reduction in environmental reserves of $2.2 million and lower personnel costs, partially offset by a full year of expenses at DAS-New York, including the amortization of certain intangible assets of $1.5 million for DAS-New York.

In accordance with ASC 350, Ducommun performed its required annual impairment test for goodwill using a discounted cash flow analysis supported by comparative market multiples to determine the fair values of its businesses versus their book values. The test as of December 31, 2009 indicated the book value of Miltec exceeded the fair value of the business. In the fourth quarter of 2009, Ducommun recorded a non-cash charge of $12.9 million at DTI (relating to its Miltec reporting unit) for the impairment of goodwill. The impairment charge was primarily driven by reductions in the U.S. Government s budgetary forecast and funding levels in the military markets resulting in the declines in the engineering services business from lower RDT&E budgets, reduced demand for specific engineering services as a result of increases in government in-sourcing and reduced Congressional earmarks. These market changes resulted in a lower forecast of future multiyear sales and cash flow for Miltec as compared to the forecast in 2008. Because the majority of Miltec s business is U.S. Government related, the reduction in components of the U.S. Defense budget has had an unfavorable impact on the fair value assessment.

In the fourth quarter of 2009, Ducommun recorded a non-cash charge of $12.9 million at DTI (relating to its Miltec reporting unit) for the impairment of goodwill. In the fourth quarter of 2008, Ducommun recorded a non-cash charge of $13.0 million at DTI (relating to its Miltec reporting unit) for the impairment of goodwill. The charges in both 2009 and 2008 reduced goodwill recorded in connection with the acquisition of Miltec and did not impact Ducommun s normal business operations. The test as of December 31, 2008 indicated the book value of Miltec exceeded the fair value of the business. The 2008 impairment charge was primarily driven by adverse equity market conditions that caused a decrease in current market multiples and Ducommun s stock price as of December 31, 2008 compared with the test performed as of December 31, 2007. Thus, the impairment charge recorded in 2009 was driven by external market factors as opposed to the reduction in stock price multiples which were the primary cause for the impairment charge in 2008. The charge in both 2009 and 2008 reduced goodwill recorded in connection with the acquisition of Miltec and did not impact Ducommun s normal business operations. The principal factors used in the discounted cash flow analysis requiring judgment are the projected results of operations, WACC, and terminal value assumptions. The WACC takes into account the relative weights of each component of Ducommun s consolidated capital structure (equity and debt) and represents the expected cost of new capital adjusted as appropriate to consider risk profiles associated with growth projection risks. The terminal value assumptions are applied to the final year of discounted cash flow model. Due to many variables inherent in the estimation of a business s fair value and the relative size of Ducommun s recorded goodwill, differences in assumptions may have a material effect on the results of Ducommun s impairment analysis. Prior to recording the goodwill impairment charge at Miltec, Ducommun tested the purchased intangible assets and other long-lived assets at the business as required by ASC 360, Accounting for the Impairment or Disposal of Long-Lived Assets, and the carrying value of these assets was determined not to be impaired.

Interest expense was $2.5 million in 2009, compared to $1.2 million in 2008, primarily due to higher debt levels and higher interest rates in 2009 compared to the previous year.

Income tax expense decreased to $3.6 million in 2009, compared to $3.9 million in 2008. The decrease in income tax expense was due to the decrease in income before taxes, partially offset by a higher effective income tax rate. Ducommun s effective tax rate for 2009 was 26.0%, compared to 23.1% in 2008. Cash expended to pay income taxes was $7.0 million in 2009, compared to $7.6 million in 2008.

Net income for 2009 was $10.2 million, compared to $13.1 million in 2008. Net income for 2009 includes an after-tax charge of $3.4 million for the Eclipse inventory write-off and inventory valuation adjustment discussed above and a non-cash goodwill impairment charge of $7.8 million. Net income for 2008 includes a non-cash goodwill impairment charge of $8.0 million.

Results of Operations LaBarge

Overview

LaBarge designs, engineers and produces sophisticated electronic and electromechanical systems and devices, and complex interconnect systems on a contract basis for its customers. Engineering and manufacturing facilities are located in Arkansas, Missouri, Oklahoma, Pennsylvania, Texas and Wisconsin. After the consummation of the Merger, LaBarge will become a wholly-owned subsidiary of Ducommun and will be integrated into its existing DTI segment which will be renamed Ducommun LaBarge Technologies.

LaBarge s customers conduct business in a variety of markets with significant net sales from customers in the defense, medical, aerospace, natural resources, industrial and other commercial markets. As a contract manufacturer, net sales are impacted primarily by the volume of shipments in the particular period. LaBarge is currently monitoring a situation with one of its customers, American Superconductor, which is discussed under Risk Factors Risks Related to the Combined Business.

LaBarge provides information about its end markets to demonstrate the diversity of its customer base, which LaBarge believes helps to reduce potential volatility in its net sales stream. However, LaBarge does not target customers in individual markets, but rather targets companies whose manufacturing requirements match the services and capabilities LaBarge provides. Within all end markets, gross profit margins vary widely by customer and by contract.

LaBarge has a centralized sales organization. Though the selling and marketing personnel have a customer and prospective customer focus, they are not limited to exclusively developing a specific end market.

On November 25, 2008, Eclipse, a customer of LaBarge, announced that it filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. On March 5, 2009, the Eclipse bankruptcy was converted to Chapter 7 liquidation.

The Eclipse bankruptcy negatively impacted LaBarge s financial results for the fiscal year ended June 28, 2009, as described in more detail below, and in Notes 4 and 5 to the notes to LaBarge s audited consolidated financial statements filed with the SEC. The end market for sales to Eclipse was commercial aerospace.

LaBarge uses a fiscal year ending the Sunday closest to June 30; each fiscal quarter is 13 weeks. Fiscal years 2010, 2009 and 2008 each consisted of 52 weeks.

Acquisition of Pensar Electronics Solutions LLC (Pensar)

LaBarge acquired Pensar on December 22, 2008. Therefore, LaBarge s financial results for the fiscal year ended June 27, 2010 includes 52 weeks of Pensar activity, compared with 27 weeks of activity for the fiscal year ended June 28, 2009. The impact of the Pensar acquisition is described in Fiscal Years Ended June 27, 2010, June 28, 2009 and June 29, 2008.

Three and Nine Months Ended April 3, 2011

Backlog

	As of (unaudited)	
	April 3, 2011	**June 27, 2010**
	(In thousands)	
Defense	$ 155,825	$ 110,430
Natural resources	31,388	36,357
Industrial	25,384	28,631
Medical	21,513	18,165
Commercial aerospace	2,705	1,612
Other	4,772	3,532
Total backlog	$ 241,587	$ 198,727

The backlog at April 3, 2011, increased $42.9 million from June 27, 2010. The $45.4 million increase in defense backlog is primarily attributable to several large contracts related to producing interconnect and electronic assemblies for a variety of defense applications, including military aircraft, missile systems, radar systems and shipboard programs. The $5.0 million decrease in natural resources backlog is primarily attributable to lower bookings from the wind power generation industry. The $3.2 million decrease in industrial backlog is primarily attributable to a decrease in bookings of electronic and electromechanical assemblies used in capital equipment for glass container fabrication systems.

Approximately $47.2 million of the backlog at April 3, 2011, is scheduled to ship beyond the next 12 months, pursuant to the shipment schedules of the contracts that comprise backlog. This compares with $30.4 million at June 27, 2010.

Net Sales

	Three Months Ended (unaudited)		Nine Months Ended (unaudited)	
	April 3, 2011	March 28, 2010	April 3, 2011	March 28, 2010
	(In thousands)			
Defense	$ 32,940	$ 28,878	$ 91,333	$ 89,677
Natural Resources	19,130	14,507	62,748	38,306
Industrial	18,060	19,650	59,990	45,405
Medical	10,235	8,303	26,239	22,073
Commercial aerospace	920	892	3,126	3,505
Other	1,929	2,505	6,667	7,924
Total net sales	$ 83,214	$ 74,735	$ 250,103	$ 206,890

For the three months ended April 3, 2011, sales increased $8.5 million, versus the comparable period a year earlier. Sales to defense customers increased $4.1 million, primarily related to several large contracts related to producing interconnect and electronic assemblies for a variety of defense applications, including military aircraft, missile systems, radar systems and shipboard programs. Sales to natural resources customers increased $4.6 million, primarily attributable to an increase in sales to oil and gas customers. Sales to industrial customers decreased $1.6 million, primarily due to lower demand for electronic and electromechanical assemblies used in capital equipment for glass container fabrication systems.

For the nine months ended April 3, 2011, sales increased $43.2 million, versus the comparable period a year earlier. Sales to natural resources customers increased $24.4 million, primarily attributable to an increase in sales to oil and gas, wind power generation and mining customers. Sales to industrial customers increased $14.6 million, primarily due to higher demand for capital equipment used in glass container fabrications systems and higher demand for electronic assemblies used in high-performance semiconductor test equipment.

Sales to LaBarge s 10 largest customers represented 54% of total net sales for the three months ended April 3, 2011, versus 60% for the three months ended March 28, 2010. LaBarge s top three customers and their relative contributions to sales for the three months ended April 3, 2011, were as follows: Schlumberger Ltd., $9.4 million (11.3%); Owens-Illinois, Inc., $8.4 million (10.0%); and Raytheon Company, $5.9 million (7.0%). This compares with Owens-Illinois, Inc., $12.2 million (16.3%); American Superconductor, $6.4 million (8.5%); and Raytheon Company, $6.0 million (8.0%) for the three months ended March 28, 2010.

Sales to LaBarge s ten largest customers represented 58% of total net sales for the nine months ended April 3, 2011, versus 61% for the nine months ended March 28, 2010. LaBarge s top three customers and their relative contributions to sales for the nine months ended April 3, 2011, were as follows: Owens-Illinois, Inc., $32.3 million (12.9%); Schlumberger Ltd., $26.1 million (10.4%); and American Superconductor, $19.0 million (7.6%). This compares with Owens-Illinois, Inc., $29.1 million (14.1%); Raytheon Company, $17.8 million (8.6%); and American Superconductor, $16.7 million (8.1%) for the nine months ended March 28, 2010.

Cost of Sales and Gross Profit

	Three Months Ended (unaudited)		Nine Months Ended (unaudited)	
	April 3, 2011	March 28, 2010	April 3, 2011	March 28, 2010
	($ in thousands)			
Cost of sales	$ 66,290	$ 59,334	$ 199,467	$ 165,559
Percent of net sales	79.7%	79.4%	79.8%	80.0%
Gross profit	$ 16,924	$ 15,401	$ 50,636	$ 41,331
Gross profit margin	20.3%	20.6%	20.2%	20.0%

Gross profit margins vary significantly by contract. The most significant factors influencing profitability in a particular period are: the mix of contracts with deliveries in that period and the volume of sales in relation to LaBarge s fixed costs during the period. Delivery schedules are generally determined by LaBarge s customers. The significant factors that influence the profitability of individual contracts include: (i) the competitive environment in which the contract was bid; (ii) the experience level of LaBarge in manufacturing the particular product(s); (iii) the stability of the design of the product(s); and (iv) the accuracy of LaBarge s original cost estimates.

Cost of sales for the three months ended April 3, 2011, increased $7.0 million, compared with the prior fiscal year, driven by a $8.5 million increase in sales. Gross profit for the three months ended April 3, 2011, increased $1.5 million, and gross profit margin decreased 30 basis points versus the same period in the prior fiscal year.

Cost of sales for the nine months ended April 3, 2011, increased $33.9 million, compared with the prior fiscal year, driven by a $43.2 million increase in sales. Gross profit for the nine months ended April 3, 2011, increased $9.3 million, and gross profit margin increased 20 basis points versus the same period in the prior fiscal year.

Selling and Administrative Expense

	Three Months Ended (unaudited)		Nine Months Ended (unaudited)	
	April 3, 2011	March 28, 2010	April 3, 2011	March 28, 2010
	($ in thousands)			
Selling and administrative expense	$ 10,616	$ 8,402	$ 29,048	$ 25,350
Percent of net sales	12.8%	11.2%	11.6%	12.3%

Selling and administrative expense increased by $2.2 million for the three months ended April 3, 2011, compared with the three months ended March 28, 2010. The increase in expenses is primarily attributable to an increase in professional service fees of $1.6 million, $1.4 million of which are associated with the LaBarge Acquisition as described in Note 1 to the notes to LaBarge s unaudited consolidated financial statements ended April 3, 2011 filed with the SEC. In addition, salaries and fringe benefit expense increased $0.6 million, software amortization decreased $0.2 million, and bad debt expense increased $0.2 million in three months ended April 3, 2011, compared with the three months ended March 28, 2010. In the three months ended March 28, 2010, bad debt expense was favorably impacted by $0.2 million due a collection that was reserved for in fiscal year 2009.

Selling and administrative expense increased by $3.7 million for the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. The increase in expenses is primarily attributable to an increase in salaries and fringe benefit expense of $1.8 million, versus the prior-year period. In addition, professional service fees increased $2.0 million, $1.5 million of which are associated with the LaBarge Acquisition. In addition, software amortization decreased $0.5 million, offset by increases of $0.3 million in bad debt expense, $0.2 million in rent expense, and $0.2 million in expenses for utilities in the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010.

Interest Expense

	Three Months Ended (unaudited)		Nine Months Ended (unaudited)	
	April 3, 2011	March 28, 2010	April 3, 2011	March 28, 2010
	(In thousands)			
Interest expense	$ 293	$ 400	$ 1,031	$ 1,329

Interest expense decreased $0.1 million for the three months ended April 3, 2011, versus the same period a year earlier due to lower average debt levels.

Interest expense decreased $0.3 million for the nine months ended April 3, 2011, versus the same period a year earlier due to lower average debt levels.

Income Tax Expense

	Three Months Ended (unaudited)	Nine Months Ended (unaudited)

	April 3, 2011	March 28, 2010	April 3, 2011	March 28, 2010
		(In thousands)		
Income tax expense	$ 2,191	$ 2,516	$ 7,406	$ 4,590

The estimated annual effective income tax rate for the three and nine months ended April 3, 2011, was 36.5%, compared with 37.5% for the three and nine months ended March 28, 2010. The income tax expense recorded for the nine months ended March 28, 2010, was impacted favorably by $0.8 million for the recording of refunds due to a correction to the apportionment factor for state income tax returns.

54

Fiscal Years Ended June 27, 2010, June 28, 2009 and June 29, 2008

Backlog

	Fiscal Year Ended (unaudited)		
	June 27, 2010	**June 28, 2009** (In thousands)	**June 29, 2008**
Defense	$ 110,430	$ 113,479	$ 119,407
Natural resources	36,357	14,469	18,058
Industrial	28,631	12,330	20,780
Medical	18,165	20,552	11,495
Commercial aerospace	1,612	3,255	46,230
Government systems	19	1	3,743
Other	3,513	3,922	1,580
Total backlog	$ 198,727	$ 168,008	$ 221,293

The backlog at June 27, 2010 increased $30.7 million from June 28, 2009. The $21.9 million increase in natural resources backlog is primarily attributable to strong bookings with wind power generation and oil and gas customers. The $16.3 million increase in industrial backlog is primarily comprised of stronger bookings of electronic assemblies used in high-performance semiconductor test equipment and systems ($5.1 million) and additional bookings of electronic and electromechanical assemblies used in capital equipment for glass container fabrication systems ($8.2 million).

The backlog at June 28, 2009 included $20.4 million from the Pensar acquisition. Absent the Pensar acquisition, the backlog from June 29, 2008 to June 28, 2009 decreased by $73.7 million. The $43.0 million reduction in commercial aerospace is primarily related to the Eclipse bankruptcy described in more detail in Notes 4 and 5 to the notes to LaBarge s audited consolidated financial statements filed with the SEC. The remaining decline in backlog results from reduced orders in several market sectors due to the economic downturn. The $9.1 million increase in medical backlog primarily resulted from the Pensar acquisition.

Approximately $30.4 million of the backlog at fiscal 2010 year-end is scheduled to ship beyond the next 12 months, pursuant to the shipment schedules of the contracts that comprise backlog. This compares with $22.9 million at fiscal year-end 2009.

Net Sales

	Fiscal Year Ended		
	June 27, 2010	**June 28, 2009** (In thousands)	**June 29, 2008**
Defense	$ 121,528	$ 127,229	$ 107,882
Industrial	65,416	52,081	50,873
Natural resources	57,521	50,250	65,375
Medical	31,299	24,762	19,979
Commercial aerospace	4,157	8,240	20,386
Government systems	13	4,103	10,565
Other	9,369	6,703	4,425
Total net sales	$ 289,303	$ 273,368	$ 279,485

The Pensar acquisition, which occurred in fiscal year 2009 and is described in Note 2 to the notes to LaBarge s audited consolidated financial statements filed with the SEC, contributed $62.4 million of net sales in the 12 months ended June 27, 2010, compared with $25.9 million in the six months ended June 28, 2009. The overall increase in Pensar s sales in fiscal year 2010 versus fiscal year 2009 is primarily due to the fact that Pensar was included in LaBarge s results for approximately half of the 2009 fiscal year and for the entire 2010 fiscal year. The $36.5 million increase in sales for this facility during fiscal year 2010 versus fiscal year 2009 included an increase of $16.5 million in the natural resources market, a $10.5 million increase in the industrial market and a $7.1 million increase in the medical market.

For the 12 months ended June 27, 2010, excluding the impact of the Pensar acquisition, sales decreased $20.6 million, versus the comparable period a year earlier. The overall economic downturn was the primary contributor to the sales decline. Excluding the impact of the Pensar acquisition, fiscal year 2010 sales to defense customers decreased $5.7 million; sales to natural resources customers decreased $9.3 million; sales to industrial customers increased $2.8 million; sales to commercial aerospace customers decreased $4.1 million; and sales to other customers decreased $4.3 million, versus fiscal year 2009.

Excluding the impact of the Pensar acquisition, the $5.7 million decrease in defense sales in fiscal year 2010 related to reduced shipments under several contracts to produce cable and electronic assemblies for a variety of defense applications, including military aircraft, missile systems, radar systems and shipboard programs. Sales to customers in the natural resources market were negatively impacted by the overall economic downturn. This downturn resulted in a $9.3 million decrease in natural resources sales primarily in the oil and gas sector. Government systems sales were down as LaBarge completed a large multi-year contract for baggage scanning equipment in December 2008. Commercial aerospace sales decreased due to the bankruptcy of Eclipse described in Notes 4 and 5 to the notes to LaBarge s audited consolidated financial statements filed with the SEC.

The Pensar acquisition contributed $25.9 million of net sales to fiscal year 2009. The overall decrease in net sales between fiscal years 2009 and 2008 was primarily due to the economic downturn. The $19.3 million increase in defense sales in fiscal year 2009 related to several contracts to produce cable and electronic assemblies for a variety of defense applications, including military aircraft, missile systems, radar systems and shipboard programs. Sales to customers in the natural resources market were negatively impacted by the overall economic downturn. This downturn was partially offset by $9.7 million of natural resources sales from the Pensar acquisition, in the wind-power generation sector. The increase in medical sales was driven by $8.7 million of sales from the Pensar acquisition. Sales to LaBarge s 10 largest customers represented 60.3% of total net sales in fiscal year 2010, versus 64.4% in fiscal year 2009 and 69.6% in fiscal year 2008. LaBarge s top three customers and their relative contribution to fiscal year 2010 sales were Owens-Illinois, Inc., 14.0%; American Superconductor, 8.8%; and Raytheon Company, 8.2%. LaBarge s top three customers for fiscal year 2009 were Owens-Illinois, Inc., 14.2%; Raytheon Company, 8.8%; and Schlumberger Ltd., 8.5%. LaBarge s top three customers for fiscal year 2008 were Owens-Illinois, Inc., 14.2%; Schlumberger Ltd., 11.2% and Modular Mining Systems, Inc., 9.4%.

Cost of Sales and Gross Profit

	Fiscal Year Ended		
	June 27, 2010	**June 28, 2009**	**June 29, 2008**
		($ in thousands)	
Cost of sales	$ 231,677	$ 222,583	$ 224,498
Percent of net sales	80.1%	81.4%	80.3%
Gross profit	57,626	50,785	54,987
Gross profit margin	19.9%	18.6%	19.7%

Gross profit margins vary significantly by contract. The most significant factors influencing profitability in a particular period are: the mix of contracts with deliveries in that period; and, the volume of sales in relation to LaBarge s fixed costs during the period. Delivery schedules are generally determined by LaBarge s customers. The significant factors that influence the profitability of individual contracts include: (i) the competitive environment in which the contract was bid; (ii) the experience level of LaBarge in manufacturing the particular product(s); (iii) the stability of the design of the product(s); and (iv) the accuracy of LaBarge s original cost estimates.

Cost of sales for the fiscal year ended June 27, 2010, increased $9.1 million, compared with the prior fiscal year, driven by the fiscal year 2010 sales increase of $15.9 million. Gross profit for fiscal year 2010 increased $6.8 million and gross profit margin was up 130 basis points versus the prior fiscal year. The increase in gross profit margin from 18.6% in fiscal year 2009 to 19.9% in fiscal year 2010 was primarily driven by the impact of the write-down of inventory related to the Eclipse program, described in Note 5 to the notes to LaBarge s audited consolidated financial statements. The fiscal year 2009 write-down of Eclipse-related inventory increased cost of sales and reduced gross profit by $4.2 million. This write-down reduced the reported gross profit margin by 150 basis points. In addition, gross profit for fiscal year 2010 was positively impacted by $0.6 million, for the payment of a claim on a contract completed in the third quarter of fiscal year 2009. This represents the final settlement of this claim.

The acquisition of Pensar added cost of sales of $54.8 million and gross profit of $7.7 million in the fiscal year ended June 27, 2010. The Pensar acquisition generated gross profit margin of 12.3% in the fiscal year ended June 27, 2010. Excluding the Pensar acquisition, the gross profit margin would have been 22.0% for the 12 months ended June 27, 2010.

56

Cost of sales for the fiscal year ended June 28, 2009 decreased $1.9 million, compared with the prior fiscal year, driven by the fiscal year 2009 sales decline of $6.1 million. Gross profit for fiscal year 2009 was down $4.2 million and gross profit margin was down 110 basis points versus the prior fiscal year. The decline in gross profit margin from 19.7% in fiscal year 2008 to 18.6% in fiscal year 2009 was primarily driven by the write-down of inventory related to the Eclipse program described in Note 5 to the notes to LaBarge s audited consolidated financial statements filed with the SEC and the acquisition of Pensar. In addition, gross profit margin was negatively impacted by a percentage drop in sales that exceeded the percentage drop in indirect manufacturing expenses.

The acquisition of Pensar added cost of sales of $23.6 million and gross profit of $2.3 million in the fiscal year ended June 28, 2009. The Pensar operation generated gross profit margin of 8.8% in the fiscal year ended June 28, 2009. The Pensar gross profit margin was negatively impacted by the step up of work in process and finished goods inventory as part of the allocation of the acquisition purchase price, which added $0.2 million to cost of sales recorded by the Pensar operation. Excluding the Pensar operation, the gross profit margin would have been 19.6% for the 12 months ended June 28, 2009, a decrease of 10 basis points compared with the same period in fiscal year 2008.

Absent the Eclipse write-off and the impact of the Pensar acquisition, the gross profit margin would have been 21.3% for the fiscal year ended June 28, 2009, which is 160 basis points higher than the fiscal year ended June 29, 2008.

During the fiscal year ended June 29, 2008, LaBarge s gross margin was negatively impacted by higher than anticipated labor and material costs on certain early-stage long-term contracts that were not fully recoverable from LaBarge s customers, and start-up expenses on a significant new contract for the assembly of heavy mechanical products in the industrial market. In addition, in the fiscal year ended June 29, 2008, LaBarge recorded costs of $0.2 million, to account for the actual and anticipated loss on current and future shipments on one particular defense program for which LaBarge experienced significant design changes.

Selling and Administrative Expense

	Fiscal Year Ended		
	June 27, 2010	June 28, 2009	June 29, 2008
	($ in thousands)		
Selling and administrative expense	$ 33,935	$ 32,810	$ 29,557
Percent of net sales	11.7%	12.0%	10.6%

Selling and administrative expense increased by $1.1 million for the 12 months ended June 27, 2010, compared with the 12 months ended June 28, 2009. The selling and administrative expenses for the Pensar acquisition were $3.8 million in the 12 months ended June 27, 2010, compared with $2.1 million in the six months ended June 28, 2009. Excluding the impact of the Pensar acquisition, selling and administrative expense decreased $0.5 million for the 12 months ended June 27, 2010, compared with the 12 months ended June 28, 2009. The decrease in expenses is primarily attributable to the $3.7 million write-off of the Eclipse accounts receivable expensed during the second quarter of fiscal year 2009. In addition, fringe benefit expense decreased $0.3 million, professional service fees decreased $0.3 million, employee relocation expenses decreased $0.1 million, and amortization expense decreased $0.2 million for the 12 months ended June 27, 2010, compared with the 12 months ended June 28, 2009. These decreases were offset by increases in incentive compensation of $3.2 million, higher salaries and wages of $0.6 million, and tax expense of $0.3 million.

In fiscal year 2009, the major factors increasing selling and administrative expense, compared with fiscal year 2008, were: the write-off of the Eclipse accounts receivable of $3.7 million, the acquisition of Pensar of $2.1 million, and higher salaries and wages due to head count and wage inflation of $1.4 million. Partially offsetting these increases were lower incentive compensation expense of $3.1 million, lower commissions of $0.6 million, and reduced personnel recruiting and relocation expenses of $0.3 million.

Interest Expense

	Fiscal Year Ended		
	June 27, 2010	June 28, 2009	June 29, 2008
	(In thousands)		
Interest expense	$ 1,711	$ 1,294	$ 1,459

Interest expense increased in fiscal year 2010 from the prior year due to the full-year impact of carrying the debt associated with the Pensar acquisition. The debt level decreased in the fiscal year period ended June 27, 2010, as a result of principal payments.

Interest expense decreased in fiscal year 2009 from the prior year due to lower average interest rates.

Income Tax Expense

	Fiscal Year Ended		
	June 27, 2010	June 28, 2009	June 29, 2008
	(In thousands)		
Income tax expense	$ 7,147	$ 6,329	$ 9,011

The effective income tax rate, prior to discrete items, for fiscal year 2010 was 37%, compared with 40% and 38% in fiscal years 2009 and 2008, respectively. During the first quarter of fiscal year 2010, LaBarge recorded a $0.8 million reduction to income tax expense from a correction in the apportionment factor for state income tax returns for fiscal years 2006 through 2009 and an increase in other tax expense, included in selling and administrative expense, of $0.2 million ($0.1 million after-tax) for a gross receipts tax that relates to fiscal years 2005 through 2009. LaBarge determined that the amounts related to prior fiscal years were not material to all prior fiscal years and, therefore, recognized the adjustments during the first quarter of fiscal year 2010. The net impact of both adjustments to net earnings was an increase of $0.7 million for the 12 months ended June 27, 2010, which had a $0.04 impact on basic and diluted earnings per share. The impact on full-year net earnings for fiscal year 2010 is not material.

Financial Condition Ducommun

Cash Flow Summary

Three Months Ended April 2, 2011 Compared to Three Months Ended April 3, 2010

Net cash used in operating activities for the three months ended April 2, 2011 and the three months ended April 3, 2010 was $25.3 million and $21.0 million, respectively. Net cash used in operating activities during the three months ended April 2, 2011 was impacted by an increase in accounts and unbilled receivables, primarily related to the timing of billings to customers and extension of payments by the customers, an increase in inventory and tooling production cost, primarily related to work-in-process for production jobs scheduled to ship in 2011 and afterward and payments in 2011 for expenses recorded in accounts payable and accrued liabilities in 2010, partially offset by an increase in accrued acquisition and other expenses.

Net cash used in investing activities for the first three months of 2011 was $1.6 million. This consisted of $1.5 million of capital expenditures, $0.4 million for the acquisition of a business in DAS and proceeds of $0.3 million from the sale of assets.

Net cash used in financing activities for the first three months of 2011 of $17.7 million included approximately $18.5 million of borrowings, and $0.8 million of dividend payments.

Fiscal Year Ended December 31, 2010 Compared to Fiscal Year Ended December 31, 2009

Net cash provided by operating activities for 2010, 2009, and 2008 was $26.5 million, $30.8 million and $28.0 million, respectively. Net cash provided by operating activities for 2010 was negatively impacted by an increase in inventory of $4.8 million and tooling production cost of $5.2 million, primarily related to work-in-process for production jobs scheduled to ship in 2011 and afterward. Net cash provided by operating activities for 2010 was negatively impacted by a decrease in accrued liabilities of $2.7 million (consisting primarily of a $2.5 million decrease in customer deposits, a $1.1 million decrease in accrued bonuses and incentives and a $0.4 million decrease in deferred compensation, partially offset by $1.3 million increase in all other accrued liabilities).

Net cash used in investing activities for 2010 of $7.1 million included $7.1 million of capital expenditures.

Net cash used in financing activities for 2010 of $27.7 million included approximately $25.0 million of repayment of borrowings and $3.1 million of dividend payments.

Liquidity and Capital Resources

Ducommun is currently party to a Second Amended and Restated Credit Agreement with Bank of America, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, Union Bank, N.A., as Documentation Agent and the other lenders named therein dated June 26, 2009. The Existing Ducommun Credit Facility provides for an unsecured revolving credit line of $120.0 million maturing on June 26, 2014. Interest is payable quarterly on the outstanding borrowings at Bank of America s prime rate (3.25% at December 31, 2010) plus a spread (1.5% to 2.0% per annum based on the leverage ratio of Ducommun) or, at the election of Ducommun, for terms of up to six months at the LIBOR rate (0.26% at December 31, 2010 for one month LIBOR) plus a spread (2.5% to 3.0% per annum depending on the leverage ratio of Ducommun). The Existing Ducommun Credit Facility includes minimum fixed charge coverage, maximum leverage and minimum net worth covenants, an unused commitment fee (0.50% to 0.60% per annum depending on the leverage ratio of Ducommun) and limitations on future dispositions of property, repurchases of common stock, dividends, outside indebtedness and acquisitions. The Existing Ducommun Credit Facility will be repaid and terminated at closing in connection with the LaBarge Acquisition.

In connection with the DAS-New York acquisition in December 2008, Ducommun issued a promissory note in the initial principal amount of $7.0 million with interest of 5% per annum payable annually on each anniversary of the closing date (December 23). Principal of the promissory note in the amount of $4.0 million was paid on June 23, 2010 and $3.0 million is payable on December 23, 2013.

The weighted average interest rate on borrowings outstanding was 3.55% at April 2, 2011, compared to 5.94% at April 3, 2010. The carrying amount of long-term debt approximates fair value based on the terms of the related debt, recent transactions and estimates using interest rates currently available to Ducommun for debt with similar terms and remaining maturities.

Ducommun spent approximately $1.4 million for tooling related investment on various programs in the three months ended April 2, 2011. As part of Ducommun s strategic direction in moving to 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.

Ducommun has made guarantees and indemnities under which it 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, Ducommun has indemnified its lessors for certain claims arising from the facility or the lease. Ducommun indemnifies its directors and officers to the maximum extent permitted under the laws of the State of Delaware. However, Ducommun has a directors and officers insurance policy that may reduce its exposure in certain circumstances and may enable it 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 a statute of limitations. The majority of guarantees and indemnities do not provide any limitations of the maximum potential future payments Ducommun could be obligated to make. Historically, payments related to these guarantees and indemnities have been immaterial. Ducommun estimates the fair value of its indemnification obligations as insignificant based on this history and insurance coverage and has, therefore, not recorded any liability for these guarantees and indemnities in the accompanying consolidated balance sheets. However, there can be no assurances that Ducommun will not have any future financial exposure under these indemnification obligations.

Financial Condition LaBarge

Liquidity and Capital Resources

Nine Months Ended April 3, 2011

	Nine Months Ended (unaudited)	
	April 3, 2011	March 28, 2010
	(In thousands)	
Net cash provided by operating activities	$ 17,593	$ 12,195
Net cash (used) by investing activities	(3,693)	(4,287)
Net cash (used) provided by financing activities	(9,982)	(8,010)
Net increase (decrease) in cash and cash equivalents	$ 3,918	$ (102)

59

LaBarge s operations generated $17.6 million of cash in the nine months ended April 3, 2011, compared with $12.2 million of cash generated in the nine months ended March 28, 2010. The primary driver of the $5.4 million increase in net operating cash flow in the current-year period was $57.7 million of increased cash received from trade customers due to the higher sales levels for the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. Also, cash received from customers to fund long-lead material purchases was $4.6 million higher in the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. This was partially offset by a $43.8 million increase in cash disbursements for inventory purchases and other costs of operations in the fiscal year 2011 third quarter. The higher inventory purchases and other operation costs were primarily driven by the increase in sales volume for the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. In addition, the cash used for payroll-related expenditures increased $9.1 million in the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010, due to bonus payments made during the nine months ended April 3, 2011, and the timing of the payroll disbursements, which resulted in an additional payroll disbursement in the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. Also, net income tax payments were $4.2 million higher in the nine months ended April 3, 2011, versus the same period in fiscal year 2010.

The $0.6 million decrease in cash used by LaBarge s investing activities in the nine months ended April 3, 2011, versus the nine months ended March 28, 2010, was primarily driven by a reduction of $0.2 million in capital expenditures for equipment and facilities and a reduction of $0.3 million in spending for software.

The $2.0 million increase in cash used by financing activities in the nine months ended April 3, 2011, versus the nine months ended March 28, 2010, is primarily due to LaBarge repaying long-term debt of $9.6 million in the nine months ended April 3, 2011, compared with payments of $6.1 million in the nine months ended March 28, 2010. This was offset by a reduction in purchases of common stock. LaBarge purchased no common stock in the nine months ended April 3, 2011, compared with purchases of $1.6 million of common stock in the nine months ended March 28, 2010.

Fiscal Years Ended June 27, 2010, June 28, 2009 and June 29, 2008

	Fiscal Year Ended		
	June 27, 2010	**June 28, 2009**	**June 29, 2008**
		(In thousands)	
Net cash provided by operating activities	$ 13,997	$ 29,620	$ 18,047
Net cash (used) by investing activities	(5,030)	(56,500)	(5,185)
Net cash (used) provided by financing activities	(10,963)	29,531	(11,608)
Net (decrease) increase in cash and cash equivalents	$ (1,996)	$ 2,651	$ 1,254

LaBarge s operations generated $14.0 million of cash in the 12 months ended June 27, 2010, compared with $29.6 million in the 12 months ended June 28, 2009. The Pensar acquisition generated positive operating cash flows of $2.1 million for the 12 months ended June 27, 2010, and $2.0 million for the six months ended June 28, 2009.

Excluding the impact of Pensar s operating cash flow, the primary driver of the $15.6 million reduction in operating cash flow, in the 12 months of fiscal year 2010, versus the same period a year earlier, was a $35.5 million reduction in cash received from customers (excluding Pensar customers). This results from lower sales in the 12 months ended June 27, 2010, exclusive of the Pensar acquisition, compared with the same fiscal period in the prior year. The lower receipts were offset by a $21.0 million reduction in disbursements for inventory purchases and other costs of production. The lower inventory purchases and other production costs were primarily driven by the reduction of sales volume for the 12 months ended June 27, 2010, exclusive of the Pensar acquisition, and a reduction of purchases of long lead time materials. In addition, the cash used for payroll-related expenditures decreased by $4.7 million in the 12 months ended June 27, 2010, compared with the 12 months ended June 28, 2009, as a result of a reduction in the incentive compensation paid during fiscal year 2010, compared with incentive compensation paid in fiscal year 2009.

The $51.5 million decrease in cash used by LaBarge s investing activities in the 12 months ended June 27, 2010, versus the 12 months ended June 28, 2009 was driven by the $45.1 million investment in the Pensar acquisition made in the second fiscal quarter of fiscal year 2009. Capital expenditures were $4.2 million in the 12 months ended June 27, 2010. These expenditures relate primarily to facility improvements at the Houston, Joplin and Tulsa plants. Capital expenditures were $10.8 million in the 12 months ended June 28, 2009, primarily related to LaBarge s $2.5 million purchase of the Tulsa manufacturing facility, which had been leased in prior years, and the $4.2 million purchase of surface-mount technology equipment to expand LaBarge s capabilities in Pittsburgh and Tulsa.

60

The $40.5 million decrease in cash provided by financing activities in the 12 months ended June 27, 2010, versus the 12 months ended June 28, 2009, reflects the second quarter of fiscal year 2009 borrowing of $35.0 million of senior debt and $7.9 million of short-term borrowings to acquire the assets of Pensar. In addition, LaBarge made debt payments during the 12 months ended June 27, 2010, of $8.2 million, versus debt payments of $1.7 million in fiscal year 2009. In fiscal year 2009, LaBarge paid down $10.5 million of borrowings under the revolving credit facility.

LaBarge s operations generated $29.6 million of cash in fiscal year 2009, compared with $18.0 million in fiscal year 2008. The Pensar acquisition generated positive operating cash flow of $2.0 million for fiscal year 2009. The primary driver of the increased operating cash flow was a $42.5 million reduction in disbursements for inventory purchases and other costs of production. The lower inventory purchases and other production costs were primarily driven by the reduction of sales volume in fiscal year 2009, exclusive of the Pensar acquisition, and a reduction of purchases of long lead time materials. This increase in net cash provided by operations was partially offset by a reduction of cash receipts from trade receivables of $25.0 million and a reduction of cash received from cash advances from customers of $5.2 million in fiscal year 2009, compared with fiscal year 2008. In addition, the cash used for payroll-related expenditures increased by $5.6 million in fiscal year 2009, compared with fiscal year 2008. Income tax payments made during fiscal year 2009 were $4.3 million lower than in fiscal 2008.

LaBarge s investing activities used $56.5 million in fiscal year 2009, compared with $5.2 million used in fiscal year 2008. The primary driver was the $45.1 million used to acquire Pensar (see Note 1 to the notes to LaBarge s audited consolidated financial statements filed with the SEC). In addition, capital expenditures used $10.8 million, including LaBarge s $2.5 million purchase of the Tulsa manufacturing facility, which had been leased in prior years. Also, LaBarge purchased $4.2 million of surface mount technology equipment to expand its capabilities in Tulsa and Pittsburgh.

The $41.1 million increase in cash provided by financing activities in fiscal year 2009 was primarily attributable to the $35.0 million of senior term debt used to finance the Pensar acquisition.

Fair Value

LaBarge has considered the carrying amounts of cash and cash equivalents, securities and other current assets and liabilities, including accounts receivable and accounts payable, to approximate fair value because of the short maturity of these financial instruments.

LaBarge has considered amounts outstanding under the long-term debt agreements and determined that carrying amounts recorded in the financial statements are consistent with the estimated fair value as of April 3, 2011.

Additionally, the interest rate swap agreement, further described above, has been recorded by LaBarge based on the estimated fair value as of April 3, 2011.

At April 3, 2011, LaBarge recorded a liability of $0.2 million classified within other long-term liabilities in the consolidated balance sheet, and accumulated other comprehensive loss of $0.1 million (net of deferred income tax effects of $0.1 million) relating to the fair value of the interest rate swap contract.

LaBarge has classified its financial assets and liabilities using a three-level hierarchy for disclosure of fair value measurements, based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

LaBarge s interest rate swap is valued using a present value calculation based on an implied forward LIBOR curve (adjusted for LaBarge s credit risk) and is classified within Level 2 of the valuation hierarchy, as presented below:

	Fair Value as of April 3, 2011			
	Level 1	Level 2	Level 3	Total
		(In thousands)		
Other long-term liabilities:				
Interest rate swap derivative	$	$ 217	$	$ 217
Total	$	$ 217	$	$ 217

61

Other Long-Term Debt

Other long-term debt includes capital lease agreements with outstanding balances totaling $11,000 at April 3, 2011, and $0.1 million at June 27, 2010.

Liquidity and Capital Resources Following the Transactions

Operating Activities

Following the consummation of the Transactions, our short-term and long-term liquidity needs will arise primarily from principal and interest payments on our indebtedness, including the notes, capital expenditures and working capital requirements. We intend to finance our operating capital requirements principally through cash provided by operations and, if necessary, through borrowings under our New Revolving Credit Facility. We believe that, based on current levels of operations and anticipated growth, cash provided by operations, together with other available sources of funds, including borrowings under our New Revolving Credit Facility, our liquidity will be adequate to make required payments on our indebtedness, to fund anticipated capital expenditures and to satisfy our working capital requirements for the next twelve months.

Debt Financing Activities

In connection with the Merger, in addition to the notes offering, we will enter into a $190.0 million New Term Loan Facility and a New Revolving Credit Facility in an aggregate principal amount of up to $60.0 million. Upon the satisfaction of certain conditions, including but not limited to the agreement of lenders to provide such facilities or commitments, we will have the option to add one or more incremental term loan facilities or increase commitments under our New Revolving Credit Facility by an aggregate amount of up to $75.0 million. See Description of Other Indebtedness for a more detailed description of the New Revolving Credit Facility and New Term Loan Facility. These New Credit Facilities will replace the Existing Ducommun Credit Facility, which will be terminated upon closing of the Merger.

Following the consummation of the Transactions, we will be highly leveraged. As of April 2, 2011, on a pro forma basis, our total indebtedness would have been $393.3 million.

Capital Expenditures Budget

We expect to make investments in capital projects similar to the historical levels for Ducommun and LaBarge individually, as well as incremental investments in high return cost reduction projects slightly above recent historical levels. Our aggregate expected capital expenditure budget for the fiscal year ending December 31, 2011 is $18.7 million. The increase in capital expenditures in 2011 from 2010 is principally to support new contract awards at the Company, including those of LaBarge, offshore manufacturing expansion and integration of LaBarge s operations into our business. We believe the ongoing subcontractor consolidation makes acquisitions an increasingly important component of our future growth. We will continue to make prudent acquisitions and capital expenditures for manufacturing equipment and facilities to support long-term contracts for both commercial and military aircraft programs.

In addition, as part of our strategic direction in transitioning to 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 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 net sales 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. 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 consolidated balance sheets. However, there can be no assurances that we will not have any future financial exposure under these indemnification obligations.

Dividends

Dividends are subject to the approval of the Board of Directors, and will depend on our results of operations, cash flows and financial position. As of May 5, 2011, we suspended our quarterly dividend program.

62

Working Capital

We will depend upon operating cash flow and the availability of borrowings under our New Revolving Credit Facility to provide short-term liquidity. Cash from operations and borrowing capacity under our New Revolving Credit Facility are expected to provide sufficient liquidity to meet our obligations during the next twelve months.

Pro Forma Contractual Obligations and Other Commercial Commitments

Contractual Obligations

The following table summarizes our contractual obligations as of April 2, 2011, on a pro forma basis, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	As of April 2, 2011 (unaudited)				
	< 1 year	1-3 years	3-5 years	Over 5 years	Total
	(In thousands)				
Acquisition notes	$ 149	$ 3,050			$ 3,199
Dynabil Interest	150	300			450
$200M senior notes				200,000	200,000
$190M term loan	1,900	3,800	3,800	180,500	190,000
Scheduled interest obligations	25,938	51,576	51,177	41,439	170,130
Ducommun Capital Leases	41	29			70
Ducommun Operating Leases	4,934	6,582	2,166	713	14,395
LaBarge Capital Leases	3	8			11
LaBarge Operating Leases	1,913	4,091	2,478	913	9,395
Pension liabilities	800	1,793	2,010	5,448	10,051
Liabilities related to uncertain tax positions	153	798	658		1,609
Total	$ 35,981	$ 72,027	$ 62,289	$ 429,013	$ 599,310

Off-Balance Sheet Arrangements

Ducommun s off-balance sheet arrangements consist of operating leases and indemnities. LaBarge has no off-balance sheet arrangements.

Critical Accounting Policies Ducommun

Critical accounting policies are those accounting policies that can have a significant impact on the presentation of our financial condition and results of operations, and that require the use of subjective estimates based upon past experience and management s judgment. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates. Below are those policies applied in preparing our financial statements that management believes are the most dependent on the application of estimates and assumptions. For additional accounting policies, see Note 1 of the notes to Ducommun s audited consolidated financial statements filed with the SEC.

Revenue Recognition

Ducommun recognizes product sales when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Net sales from products sold under long-term contracts is recognized by Ducommun on the same basis as other sale transactions using the unit of delivery method. Ducommun recognizes revenue on the sale of services (including prototype products) based on the type of contract: time and materials, cost-plus reimbursement and firm-fixed price. Revenue is recognized (i) on time and materials contracts as time is spent at hourly rates, which are negotiated with customers, plus the cost of any allowable materials and out-of-pocket expenses, (ii) on cost-plus reimbursement contracts based on direct and indirect costs incurred plus a negotiated profit calculated as a percentage of cost, a fixed amount or a performance-based award fee and (iii) on fixed-price service contracts on the percentage-of-completion method measured by the percentage of costs incurred to estimated total costs.

63

Provision for Estimated Losses on Contracts

Ducommun records provisions for estimated losses on contracts considering total estimated costs to complete the contract compared to total anticipated net sales in the period in which such losses are identified. The provisions for estimated losses on contracts require management 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. Management s estimate of the future cost to complete a contract may include assumptions as to improvements in manufacturing efficiency and reductions in operating and material costs. If any of these or other assumptions and estimates do not materialize in the future, Ducommun may be required to record additional provisions for estimated losses on contracts.

Goodwill

Ducommun s business acquisitions have resulted in goodwill. In assessing the recoverability of Ducommun s goodwill, management must make assumptions regarding estimated future cash flows, comparable company analyses, discount rates and other factors to determine the fair value of the respective assets. If actual results do not meet these estimates, if these estimates or their related assumptions change in the future, or if adverse equity market conditions cause a decrease in current market multiples and Ducommun s stock price, Ducommun may be required to record additional impairment charges for these assets. In the event that a goodwill impairment charge is required, it could adversely affect the operating results and financial position of Ducommun.

Other Intangible Assets

Ducommun amortizes other intangible assets with finite lives over the estimated economic lives of the assets, ranging from one to fourteen years, generally using the straight-line method. The value of other intangibles acquired through business combinations has been estimated using present value techniques which involve estimates of future cash flows. Actual results could vary, potentially resulting in impairment charges.

Accounting for Stock-Based Compensation

Ducommun uses a Black-Scholes valuation model in determining the stock-based compensation expense for options, net of an estimated forfeiture rate, on a straight-line basis over the requisite service period of the award. Ducommun has one award population with an option vesting term of four years. Ducommun estimated the forfeiture rate based on its historic experience.

For performance and restricted stock units, Ducommun calculates compensation expense, net of an estimated forfeiture rate, on a straight line basis over the requisite service/performance period of the awards. The performance stock units vest based on a three-year cumulative performance cycle. The restricted stock units vest over various periods of time ranging from one to five years. Ducommun estimates the forfeiture rate based on its historic experience.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. 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, but do not include any selling, general and administrative expense. Costs under long-term contracts are accumulated into, and removed from, inventory on the same basis as other contracts. Ducommun assesses the inventory carrying value and reduces 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. Ducommun s customer demand can fluctuate significantly due to factors beyond the control of Ducommun. Ducommun maintains an allowance for potential excess and obsolete inventories and inventories that are carried at costs that are higher than their estimated net realizable values. If market conditions are less favorable than those projected by management, such as an unanticipated decline in demand and not meeting expectations, inventory write-downs may be required.

Environmental Liabilities

Environmental liabilities are recorded when environmental assessments and/or remedial efforts are probable and costs can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or Ducommun s commitment to a formal plan of action. Further, Ducommun reviews and updates its environmental accruals as circumstances change and/or additional information is obtained that reasonably could be expected to have a meaningful effect on the outcome of a matter or the estimated cost thereof.

Critical Accounting Policies LaBarge

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires LaBarge management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, LaBarge management has made its best estimates and judgment of certain amounts included in the financial statements. LaBarge believes there is a likelihood that materially different amounts would be reported under different conditions or using different assumptions related to the accounting policies described below. Application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. LaBarge s senior management discusses the accounting policies described below with the Audit Committee of LaBarge s Board of Directors on a periodic basis.

The following discussion of critical accounting policies is intended to bring to the attention of readers those accounting policies that LaBarge s management believes are critical to LaBarge s consolidated financial statements and other financial disclosures. It is not intended to be a comprehensive list of all of LaBarge s significant accounting policies that are more fully described in the notes to LaBarge s consolidated financial statements filed with the SEC.

Revenue Recognition and Cost of Sales

LaBarge s net sales are derived from units and services delivered pursuant to contracts. LaBarge has a significant number of contracts for which net sales are accounted for under the percentage-of-completion method using the units of delivery as the measure of completion. This method is consistent with the Financial Accounting FASB and ASC Topic 605-35 (formerly the Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts) (***ASC 605-35***). The percentage of total net sales recognized from contracts under the percentage-of-completion method is generally 35-55% of total net sales in any given quarter. These contracts are primarily fixed-price contracts that vary widely in terms of size, length of performance period and expected gross profit margins. Under the units-of-delivery method, LaBarge recognizes net sales when title transfers, which is usually upon shipment of the product or completion of the service.

LaBarge also sells products under purchase agreements, supply contracts and purchase orders that are not within the scope of ASC 605-35. LaBarge provides goods from continuing production over a period of time. LaBarge builds units to customer specifications based on firm purchase orders from the customer. The purchase orders tend to be of a relatively short duration and customers place orders on a periodic basis. The pricing is generally fixed for some length of time and the quantities are based on individual purchase orders. Net sales are recognized in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition. Net sales are recognized on substantially all transactions when title transfers, which is usually upon shipment of the product.

Therefore, net sales for contracts within the scope of ASC 605-35 and for those not within the scope of ASC 605-35 is recognized when title transfers, which is usually upon shipment of the product or completion of the service.

However, the cost of sales recognized under both contract types is determined differently. The percentage-of-completion method for contracts that are within the scope of ASC 605-35 gives effect to the most recent contract value and estimates of cost at completion. Contract costs generally include all direct costs, such as materials, direct labor and subcontracts, and indirect costs identifiable with or allocable to the contracts. Learning or start-up costs, including tooling and set-up costs incurred in connection with existing contracts, are charged to existing contracts. The contract costs do not include any sales, marketing or general and administrative costs. Net sales are calculated as the number of units shipped multiplied by the sales price per unit. LaBarge estimates the total net sales of the contract and the total contract costs and calculates the contract cost percentage and gross profit margin. The gross profit during a period is equal to the earned net sales for the period multiplied by the estimated contract gross profit margin. Thus, if no changes to estimates were made, the procedure results in every dollar of earned net sales having the same cost of earned revenue and gross profit percentage. This method is applied consistently on all of the contracts accounted for in accordance with ASC 605-35.

LaBarge periodically reviews all estimates, as required by the authoritative guidance, and the estimated total cost and expected gross profit are revised, as required, over the life of the contract. Any revisions to the estimated total cost are accounted for as a change of an estimate. A cumulative catch-up adjustment is recorded in the period of the change of the estimated costs to complete the contract. Therefore, cost of sales and gross profit in a period includes (a) a cumulative catch-up adjustment to reflect the adjustment of previously recognized profit associated with all prior period net sales recognized based on the current estimate of gross profit margin, as appropriate, and (b) an entry to record the current period costs of sales and related gross profit margin based on the current period sales multiplied by the current estimate of the gross profit margin on the contract. Cumulative adjustments are reported as a component of cost of sales.

For contracts accounted for using the percentage-of-completion method, management s estimates of material, labor and overhead costs on long-term contracts are critical to LaBarge. Due to the size, length of time and nature of many of LaBarge s contracts, the estimation of costs through completion is complicated and subject to many variables. Total contract cost estimates are largely based on negotiated or estimated material costs, historical labor performance trends, business base and other economic projections. Factors that influence these estimates include inflationary trends, technical and schedule risk, performance trends, asset utilization and anticipated labor rates.

The development of estimates of costs at completion involves procedures and personnel in all areas that provide financial or production information on the status of contracts. Estimates of each significant contract s value and estimate of costs at completion are reviewed and reassessed quarterly. Changes in these estimates result in recognition of cumulative adjustments to the contract profit in the period in which the change in estimate is made. When the current estimate of costs indicates a loss will be incurred on the contract, the total anticipated loss is recognized in that period.

Due to the significance of judgment in the estimation process described above, it is likely that different cost of sales amounts could be recorded if LaBarge used different assumptions, or if the underlying circumstances were to change. Changes in underlying assumptions, estimates or circumstances may adversely or positively affect future financial performance.

In summary, the cumulative gross profit margin recognized through the end of the current period on a contract will equal the current estimate of the gross profit margin on the contract multiplied by the contract net sales recognized through the end of the current period. The current period gross profit will equal current period sales multiplied by the expected gross profit margin (on a percentage basis) on the contract plus or minus any net effect of cumulative adjustments to prior period sales under the contract. In connection with the Merger, Ducommun is reviewing LaBarge s policy for recognizing costs of sales (which we refer to as cost of product sales) and may in the future revise this accounting policy to conform to Ducommun s practice. See Critical Accounting Policies Ducommun Revenue Recognition. Any changes to this policy may impact the timing of recognition of DLT s future cost of sales and its gross profit.

In addition, when there is an anticipated loss on a contract, the entire loss is recorded in the period when the anticipated loss is determined. The loss is reported as a component of cost of sales. Therefore, the cumulative gross profit margin recognized through the end of the current period on a contract with an estimated loss will equal the current estimate of the gross profit margin on the contract multiplied by the contract net sales recognized through the end of the current period plus the provision for the additional loss on contract revenues yet to be recognized. The current period gross profit on a contract with a loss reserve will equal current period sales at a 0% gross profit margin plus or minus any net effect of cumulative adjustments to the loss reserve based on any changes to the estimated total loss on the contract.

This method of recording costs for contracts under ASC 605-35 is equivalent to Alternative A as described in paragraph 35 of ASC 605-35.

The contracts that are not subject to percentage of completion accounting are not subject to estimated costs of completion. Cost of sales under these contracts are based on the actual cost of material, labor and overhead charged to each job. The contract costs do not include any selling and administrative expenses. LaBarge generally performs the work under fixed-price arrangements so the profit on the contract may be influenced by the accuracy of the estimates used at the time a particular job is bid, as reflected in the sales price for the product, including material costs, inflation, labor costs (both hours and rates), complexity of the work and asset utilization.

Inventories

Inventories, other than work-in-process inventoried costs relating to those contracts accounted for under percentage of completion accounting, are carried at the lower of cost or market value.

Inventoried costs relating to contracts accounted for under percentage-of-completion accounting are stated at the actual production cost, including overhead, tooling and other related non-recurring costs, incurred to date, reduced by the amounts identified with net sales recognized on units delivered. Selling and administrative expenses are not included in inventory costs. Inventoried costs related to these contracts are reduced, as appropriate, by charging any amounts in excess of estimated realizable value to cost of sales. The costs attributed to units delivered under these contracts are based on the estimated average cost of all units expected to be produced. This average cost utilizes, as appropriate, the learning curve concept, which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition. In accordance with industry practice, inventories include amounts relating to long-term contracts that will not be realized in one year. Since the inventory balance is dependent on the estimated cost at completion of a contract, inventory is impacted by all of the factors described in Revenue Recognition and Cost of Sales. Inventoried costs related to those contracts not accounted for under percentage-of-completion accounting are carried at the lower of cost or market.

In addition, management regularly reviews all inventory for lower of cost or market value issues to determine whether any write-down to the lower of cost or market value is necessary. Various factors are considered in making this determination, including expected program life, recent sales history, predicted trends and market conditions. If actual demand or market conditions are less favorable than those projected by management, inventory write-downs may be required. For the fiscal years ended June 27, 2010 and June 28, 2009, expense for the write down of inventory to lower of cost or market charged to income before taxes was $1.7 million and $5.7 million respectively. The expense for the write down of inventory to lower of cost or market in the fiscal year ended June 28, 2009, includes a $4.2 million charge related to the Eclipse bankruptcy. For the quarters ended April 3, 2011 and March 28, 2010, expense for the write-down of inventory to the lower of cost or market value charged to income before income taxes was $0.4 million and $0.3 million, respectively. For the nine months ended April 3, 2011 and March 28, 2010, expense for the write-down of inventory to the lower of cost or market value charged to income before income taxes was $1.3 million, and $0.9 million, respectively.

Goodwill and Other Intangible Assets

LaBarge evaluates goodwill for impairment on an annual basis on the first day of June of each fiscal year, as well as whenever events or changes in circumstances during the fiscal year indicate that the carrying amount may not be recoverable. Potential impairment of goodwill is assessed by comparing the carrying value of the reporting unit to its estimated fair value. If the carrying value of the reporting unit exceeds its fair value, an impairment loss may be required to be recorded. LaBarge evaluates whether any triggering events have occurred during the fiscal year, such as a significant decrease in expected cash flows at a reporting unit or changes in market or other business conditions that may indicate a potential impairment of goodwill or other intangible assets. In addition, LaBarge monitors its market capitalization, compared with the carrying value of LaBarge.

The annual goodwill impairment testing is performed in accordance with ASC 350, Intangibles Goodwill and Other. Under guidelines established by FASB ASC Topic 280, Segment Reporting (***ASC 280***). LaBarge operates as one operating segment. However, the goodwill impairment analysis is performed at a reporting unit level. A reporting unit is one level below an operating segment as defined by ASC 280. Goodwill is recorded on three of LaBarge s reporting units. The goodwill was a result of purchase accounting during the acquisition of these reporting units.

LaBarge estimates the fair value of its reporting units based on a combination of a market approach and an income approach. The income approach utilizes the discounted cash flow model and the market approach is based on market data for a group of guideline companies. LaBarge also considers its market capitalization on the date of the impairment testing, compared with the sum of the fair values of all reporting units including those without goodwill recorded.

The discounted cash flow analysis requires LaBarge to make estimates and judgments about the future cash flows of each reporting unit. The future cash flow forecasts for each reporting unit are based on historical and forecasted net sales and operating costs. This, in turn, involves further estimates such as expected future net sales and expense growth rates, working capital needs at each reporting unit and future capital expenditures required to meet the net sales growth. The discount rate is based on the estimated weighted average cost of capital for each reporting unit, which considers the risk inherent in each reporting unit.

LaBarge performed its annual impairment test of goodwill as of June 1, 2010, and concluded that no impairment charges were required. Total goodwill is $43.4 million. Based on the annual impairment test completed as of June 1, 2010, LaBarge determined that the fair value of two of the reporting units, which represented $24.3 million of the total goodwill, was substantially in excess of the carrying value of the reporting units.

The remaining reporting unit, which was acquired in December 2008, had goodwill of $19.1 million at June 1, 2010. The fair value of this reporting unit exceeded the carrying value of this unit by more than 20%. However, this reporting unit is a relatively recent acquisition that was purchased prior to the economic slowdown and the disruptive events in the credit markets. The estimates and assumptions made in LaBarge s estimate of the fair value of this reporting unit are inherently subject to significant uncertainties, many of which are beyond the control of LaBarge, and there is no assurance that these results can be achieved. The primary assumptions for which there is a reasonable possibility of the occurrence of variation that would significantly affect the measurement value include the assumptions regarding discount rate utilized, net sales growth, expected operating profit margins and working capital requirements.

The following is a summary analysis of the significant assumptions used by LaBarge to estimate the fair value of this reporting unit using the income approach and how the assumptions were developed:

Discount rate: The discount rate represents the expected return on capital and is based on the estimated weighted average cost of capital for the reporting unit. The discount rate used in determining the fair value of the reporting unit was 16%. This rate considers the risk inherent in the projections used to estimate the fair value of the reporting unit. This rate takes into account the uncertainty about the expected net sales growth of the reporting unit and expected operating margins as well as the past performance of the reporting unit. A change in the discount rate of 1% would indicate that the fair value of the reporting unit remains in excess of the carrying value of the unit and such excess would be less than 20%.

67

Net sales growth assumptions: Projected annual growth assumptions are based on LaBarge s and its peers historical operating performance adjusted for current and expected competitive and economic factors surrounding the EMS industry. The long-term expected growth rate for the EMS industry is 7%. LaBarge expects sales growth rates for this reporting unit to exceed the long term industry average of 7% during the next five years, as LaBarge recovers from the economic slowdown in fiscal years 2009 and 2010. The growth rates will then normalize to industry rates and LaBarge used a terminal growth rate of 3% to calculate the terminal value in the discounted cash flow analysis. LaBarge expects the growth rates for the reporting unit to exceed the long-term growth rate of the EMS industry because (1) LaBarge expects that in fiscal year 2011, and fiscal year 2012, existing customers of the reporting unit will recover to their sales rates prior to the economic slowdown and (2) LaBarge believes that with access to LaBarge s larger sales force and more competitive financial strength, the reporting unit will be able to attract new customers and gain additional business from existing customers.

Operating profit margin assumptions: The forecasted operating profit used in the income approach for the reporting unit is expected to improve in future years as a result of implementing lean efficiency improvements, leveraging LaBarge wide purchasing agreements and leveraging fixed costs.

Working Capital assumptions and capital expenditures: Working capital requirements were forecasted based on the reporting unit s historical performance and considering industry averages. Capital expenditures were forecasted based on current spending plans for the next two fiscal years and on industry averages thereafter.

LaBarge also used the market approach to estimate the fair value of the reporting unit. LaBarge utilizes the guideline public company method in which valuation pricing multiples are derived from the market share prices of stocks of companies that are engaged in the same or similar lines of business as the reporting unit and that are actively traded on a free and open market. The derived multiples are then applied to the reporting unit s financial metrics producing indications of value, which are correlated to reach a final indication of value. LaBarge used EBITDA multiples based on the last 12 months and for the next 12 months to estimate fair value using a market approach. These multiples range from 5.0 to 7.0 times EBITDA. In addition, LaBarge included a control premium in this analysis. This resulted in a market value that was within 10% of the estimated fair value using the income approach.

LaBarge believes the market data used in the market approach and the estimated future cash flows and discount rate used in the income approach are reasonable; however, changes in estimates could materially affect LaBarge s estimates of the fair value of the reporting units and, therefore, the results of LaBarge s impairment analysis. If the current economic conditions deteriorate, causing a decline in LaBarge s stock price or expected cash flows, impairments to one or more businesses could occur in future periods whether or not connected to the annual impairment analysis. Any related losses or required write-downs could have a material adverse effect on LaBarge s financial results.

LaBarge is currently monitoring a situation with one of the customers of this reporting unit, which is discussed in detail under Risk Factors Risks Related to the Combined Business.

Recent Accounting Pronouncements

In April 2010, the Financial Accounting Standards Board (***FASB***) issued updated guidance on the use of the milestone method of revenue recognition that applies to research and development transactions in which one or more payments are contingent upon achieving uncertain future events or circumstances. This update provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. This guidance is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Ducommun is currently evaluating the impact of this guidance and has not yet determined the impact of the standard, if any, on its financial position or results of operations.

In December 2010, the FASB issued ASU 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations (***ASU 2010-29***). Under ASU 2010-29, supplemental pro forma information disclosures pertaining to acquisitions should be presented as if the business combination(s) occurred as of the beginning of the prior annual period when comparative financial statements are presented. ASU 2010-29 is effective for business combinations consummated in fiscal periods beginning after December 15, 2010.

Quantitative and Qualitative Disclosure About Market Risk

Upon consummation of the Transactions, the New Term Loan Facility and the New Revolving Credit Facility will bear interest at our option, based on either the London Interbank Offered Rate (***LIBOR***), or a base rate. In addition, we expect the LaBarge swap agreement to be terminated in connection with the LaBarge Acquisition. As a result, we will be subject to interest rate risks due to fluctuations in LIBOR and the base rate, which will affect our periodic interest costs.

We are not subject to any significant foreign currency risks since all sales (including LaBarge s) are made in United States dollars.

Description of Other Indebtedness

New Credit Facilities

Concurrently with the closing of the notes offering and the Merger, we expect to enter into the New Credit Facilities with a syndicate of lenders consisting of (a) a $190.0 million new senior secured term loan facility that will be fully borrowed concurrently with the closing of the offering in order to consummate the Transactions and (b) up to a $60.0 million New Revolving Credit Facility, a portion of which (but no more than $10.0 million) may be drawn at the closing of the notes offering. The New Term Loan Facility matures in June 2017 and the New Revolving Credit Facility matures in June 2016. Upon the satisfaction of certain conditions, including but not limited to the agreement of lenders to provide such facilities or commitments, we will have the option to add one or more incremental term loan facilities or increase commitments under our New Revolving Credit Facility by an aggregate amount of up to $75.0 million.

Each of our current and future domestic subsidiaries (except for certain immaterial subsidiaries) will guarantee our obligations under our New Credit Facilities. Our and our subsidiary guarantors obligations under our New Credit Facilities will be secured by substantially all of our and our subsidiary guarantors assets.

We will be required to make mandatory prepayments of amounts outstanding under our New Credit Facilities with 100% of the net proceeds received from certain sales or other dispositions of all or any part of our and our subsidiaries assets subject to certain reinvestment rights and repatriation issues, 100% of the net proceeds received by us or any of our subsidiaries from the issuance of certain debt or preferred stock, 100% of all casualty and condemnation proceeds received by us or any of our subsidiaries (subject to certain reinvestment rights), and 50% of our consolidated excess cash flow (subject to stepdowns to 25% and 0% based upon a defined total leverage ratio), in each case subject to specified thresholds and qualifications.

In the event that, within one year of the closing date of the New Credit Facilities, the New Term Loan Facility is refinanced with the proceeds of indebtedness with a lower applicable margin or yield than that applicable to the New Term Loan Facility or a lender s portion of the New Term Loan Facility is mandatorily assigned in the event such lender does not consent to certain repricing events under the term loan facility, then such refinancings or assignments shall be made at 101% of the principal amount so refinanced or assigned.

The New Credit Facilities will contain affirmative and negative covenants reasonably customary for similar credit facilities, including, among others, limitations on:

- dispositions of assets and changes of business and ownership;
- mergers and acquisitions;
- dividends, stock repurchases and redemptions and other restricted payments;
- indebtedness and preferred stock and prepayment, amendment and redemption thereof;
- loans, investments and advances;
- liens and further negative pledges;
- transactions with affiliates;

- sale and leaseback transactions;
- capital expenditures; and
- restrictions affecting subsidiaries.

The negative covenants are subject to customary and other agreed-upon exceptions.

If, at any time during the relevant fiscal quarter, (i) the sum of (a) any amounts outstanding under the New Revolving Credit Facility (including swingline borrowings) plus (b) the amount drawn under any letters of credit exceeds $1.0 million; or (ii) the aggregate amount of outstanding letters of credit exceeds $5.0 million, the New Revolving Credit Facility will be subject to a maximum total leverage ratio. In addition, our consolidated EBITDA as of the end of any fiscal quarter on a trailing four-quarters basis is not permitted to be less than $50.0 million.

Our New Credit Facilities will contain customary events of default, including, without limitation, payment defaults, breach of representations and warranties, covenant defaults, cross-defaults to certain material indebtedness, certain events of bankruptcy and insolvency, certain events under ERISA, material judgments, and a change of control. A breach of the maximum total leverage ratio shall only constitute an event of default under the New Revolving Credit Facility, and not an event of default under the term loan facility, until the earlier of (x) the date that is 45 days after the date such event of default occurred and is continuing with respect to the New Revolving Credit Facility and (y) the date on which the administrative agent or the lenders under the New Revolving Credit Facility have accelerated the New Revolving Credit Facility or have commenced the exercise of remedies with respect to the New Revolving Credit Facility. If an event of default occurs under the New Credit Facilities, the administrative agent and lenders thereunder are entitled to take various actions, including the acceleration of amounts due thereunder, termination of commitments under our New Revolving Credit Facility and all other actions permitted to be taken by a secured creditor under applicable law.

Summary Consolidated Historical and Pro Forma Financial Data

The following tables set forth our summary historical consolidated financial data as of and for the fiscal years ended December 31, 2010, 2009 and 2008. Our summary consolidated income statement data presented below for the years ended December 31, 2010, 2009 and 2008 and the balance sheet data as of December 31, 2010 and 2009 have been derived from our audited consolidated financial statements filed with the SEC. The summary consolidated balance sheet data as of December 31, 2008 have been derived from our audited consolidated financial statements not included herein. Our summary historical consolidated financial data presented below for the three months ended April 3, 2010 and April 2, 2011 have been derived from and should be read together with our unaudited consolidated financial statements and related notes filed with the SEC. Our summary consolidated historical statement of income data for the twelve months ended April 2, 2011 have been derived by subtracting our unaudited consolidated financial data for the three months ended April 3, 2010 from our audited consolidated financial data for the fiscal year ended December 31, 2010 and then adding our unaudited consolidated financial data for the three months ended April 2, 2011. In the opinion of management, such unaudited financial data contains all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such unaudited consolidated financial data.

Our historical operating results are not necessarily indicative of our future operating results. See Risk Factors and our and LaBarge s audited and unaudited consolidated financial statements and the related notes filed with the SEC. You should read the summary financial data presented below in conjunction with The Transactions, Unaudited Pro Forma Condensed Combined Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Ducommun, Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations LaBarge, and our and LaBarge s audited and unaudited consolidated financial statements and the related notes filed with the SEC. Our audited consolidated financial statements and unaudited consolidated financial statements filed with the SEC do not reflect the impact of the Transactions.

The following tables also set forth our summary unaudited pro forma condensed combined financial data for the year ended December 31, 2010 and as of and for the twelve months ended April 2, 2011. Our summary unaudited pro forma condensed combined financial data give effect to the following (among other things):

- the LaBarge Acquisition;
- the offering of the notes;
- the entry into the New Credit Facilities and borrowings under the New Term Loan Facility;
- the repayment of the Existing Ducommun Credit Facility; and
- the repayment of the Existing LaBarge Credit Facility.

The summary unaudited pro forma condensed combined financial data have been developed by applying pro forma adjustments to the historical audited and unaudited consolidated financial statements of Ducommun and LaBarge filed with the SEC. The summary unaudited pro forma condensed combined balance sheet data are presented as if the Transactions had occurred as of April 2, 2011. The summary unaudited pro forma condensed combined income statement data is presented as if the Transactions had occurred on January 1, 2010.

Due to the fact that the end dates of Ducommun s and LaBarge s fiscal periods differ, and in order to present pro forma results for comparable periods:

the summary unaudited pro forma condensed combined balance sheet data as of April 2, 2011 are presented based on Ducommun s balance sheet as of April 2, 2011 and LaBarge s balance sheet as of April 3, 2011;

70

the summary unaudited pro forma condensed combined income statement data for the year ended December 31, 2010 are presented based on Ducommun s audited results for the fiscal year ended December 31, 2010 and LaBarge s combined results for its four quarters ended January 2, 2011 (LaBarge s fiscal year end was June 27, 2010); and

the summary unaudited pro forma condensed combined income statement data for the twelve months ended April 2, 2011 are presented based on Ducommun s combined results for its four quarters ended April 2, 2011 and LaBarge s combined results for its four quarters ended April 3, 2011.

The Merger will be accounted for under the acquisition method of accounting, which requires the total acquisition cost (purchase price payable for LaBarge s equity in the Merger plus the fair value of assumed liabilities of LaBarge) to be allocated to the tangible and intangible assets acquired based on their estimated fair values. The excess of the acquisition cost over the amounts allocated to LaBarge s assets will be recognized as goodwill.

The summary unaudited pro forma condensed combined financial data have been provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Ducommun would have been had the Transactions occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or the financial position of Ducommun.

See Unaudited Pro Forma Condensed Combined Financial Data for a complete description of the adjustments and assumptions underlying the summary unaudited pro forma financial data below.

	Fiscal Year Ended December 31,			Twelve Months Ended (unaudited)	Three Months Ended (unaudited)		Pro Forma (unaudited)	
	2010	**2009**	**2008(a)**	**April 2, 2011**	**April 2, 2011**	**April 3, 2010**	**Twelve Months Ended April 2, 2011**	**Fiscal Year Ended December 31, 2010**
				(In thousands)				
Statement of Income:								
Product sales	$ 367,563	$ 372,371	$ 344,617	$ 366,508	$ 91,333	$ 92,388	$ 699,024	$ 691,600
Service revenues	40,843	58,377	59,186	37,195	8,220	11,868	37,195	40,843
Net sales	408,406	430,748	403,803	403,703	99,553	104,256	736,219	732,443
Costs of product sales	296,104	305,705	273,974	295,341	74,839	75,601	561,926	557,833
Cost of service revenues	32,156	46,210	47,926	29,125	6,306	9,337	29,125	32,156
SG&A expenses	53,678	49,615	50,548	55,365	14,149	12,463	101,509	108,363
Goodwill impairment(b)		12,936	13,064					
Total operating costs and expenses	381,938	414,466	385,512	$ 379,831	95,294	97,401	692,560	698,352
Operating Income	26,468	16,282	18,291	23,872	4,259	6,855	43,659	34,091
Interest expense	(1,805)	(2,522)	(1,242)	(1,513)	(260)	(552)	(33,283)	(34,652)
Income (loss) before taxes	24,663	13,760	17,049	22,359	3,999	6,303	10,376	(561)
Income tax (expense) benefit	(4,855)	(3,577)	(3,937)	(3,851)	(1,076)	(2,080)	2,089	6,377
Net income	$ 19,808	$ 10,183	$ 13,112	$ 18,508	$ 2,923	$ 4,223	$ 12,465	$ 5,816

	As of December 31,			As of (unaudited)	Pro Forma (unaudited)
	2010	**2009**	**2008**		

				April 2, 2011	April 3, 2010	As of April 2, 2011
			(In thousands)			
Balance Sheet Data:						
Cash and cash equivalents	$ 10,268	$ 18,629	$ 3,508	$ 1,069	$ 1,497	$ 39,661
Working capital	90,106	85,825	69,672	112,507	97,877	223,693
Total assets	345,452	353,909	366,186	357,510	348,612	851,980
Total debt	3,280	28,252	30,719	21,769	3,280	393,089
Total shareholders equity	254,185	233,886	224,446	257,207	237,798	257,207

	Fiscal Year Ended December 31,			Twelve Months Ended (unaudited)	Three Months Ended (unaudited)		Pro Forma (unaudited)	
	2010	2009	2008(b)	April 2, 2011	April 2, 2011	April 3, 2010	Twelve Months Ended April 2, 2011	Year Ended December 31, 2010
				($ in thousands)				
Other Financial Data:								
EBITDA(c)	$ 42,582	$ 45,172	$ 44,455	$ 40,329	$ 8,279	$ 10,532	$ 82,684	$ 72,744
Adjusted EBITDA(c)	46,245	50,313	44,455	45,138	11,188	12,295	90,493	90,816
Adjusted EBITDA margin(c)(d)	11.3%	11.7%	11.0%	11.2%	11.2%	11.8%	12.3%	12.4%
Capital expenditures	7,106	7,689	12,418	7,156	1,509	1,459	11,098	10,422

(a) In December 2008, we acquired DynaBil, which is now a part of DAS. This transaction was accounted for as a purchase business combination.

(b) Reflects goodwill impairment charges resulting from annual impairment testing required by ASC Topic 350 Goodwill and Other Intangibles (***ASC 350***).

(c) EBITDA and Adjusted EBITDA are non-GAAP financial measures. We use EBITDA and Adjusted EBITDA as supplemental financial measures. EBITDA is defined by us as net income (loss) before interest expense, income tax expense and depreciation and amortization (excluding amortization of debt issuance costs). Adjusted EBITDA is defined by us as EBITDA adjusted to add back or deduct certain items that are unusual in nature or not comparable from period to period. EBITDA and Adjusted EBITDA, as used and defined by us, may not be comparable to similarly-titled measures employed by other companies and are not measures of performance calculated in accordance with GAAP. EBITDA and Adjusted EBITDA should not be considered in isolation or as substitutes for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP. EBITDA and Adjusted EBITDA provide no information regarding a company s capital structure, borrowings, interest costs, capital expenditures and working capital movement or tax position. However, our management team believes that EBITDA and Adjusted EBITDA are 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 term, 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;
- 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 structure; 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.

There are significant limitations to using EBITDA and Adjusted EBITDA as measures of performance, including the inability to analyze the effect of certain recurring and non-recurring items that materially affect our net income or loss, the lack of comparability of results of operations of different companies and the different methods of calculating EBITDA and Adjusted EBITDA reported by different companies.

The following table sets forth a reconciliation of Ducommun s historical and pro forma net income to Ducommun s EBITDA and Adjusted EBITDA for the periods presented:

	Fiscal Year Ended December 31,			Twelve Months Ended (unaudited)	Three Months Ended (unaudited)		Pro Forma (unaudited)	
	2010	2009	2008	April 2, 2011	April 2, 2011	April 3, 2010	Twelve Months Ended April 2, 2011	Year Ended December 31, 2010
				(In thousands)				
Net income	$ 19,808	$ 10,183(1)	$ 13,112(1)(2)	$ 18,508	$ 2,923	$ 4,223	$ 12,465	$ 5,816
Depreciation & amortization	13,597	13,550	10,477	13,551	3,411	3,457	34,737(3)	35,005(3)
Interest expense, net	1,805	2,522	1,242	1,513	260	552	33,283	34,652
Income tax provision	4,855	3,577	3,937	3,851	1,076	2,080	(2,089)	(6,377)
Non-cash stock based compensation	2,517	2,404	2,623	2,906	609	220	4,288	3,648
Goodwill impairment		12,936	13,064					
EBITDA	$ 42,582	$ 45,172	$ 44,455	$ 40,329	$ 8,279	$ 10,532	$ 82,684	$ 72,744
Non-recurring program start-up costs(4)	4,948			4,694	1,509	1,763	4,694	4,948
Prior period accrual adjustment(5)	(1,285)			(1,285)			(1,285)	(1,285)
Inventory step-up write-off(6)		5,141						2,100
Merger related change of control compensation expense(7)								7,909
Merger related cost savings(8)							4,400	4,400
One time merger related costs(9)				1,400	1,400			
Adjusted EBITDA	$ 46,245	$ 50,313	$ 44,455	$ 45,138	$ 11,188	$ 12,295	$ 90,493	$ 90,816

(1) Reflects goodwill impairment charges resulting from annual impairment testing required by ASC 350.

(2) In December 2008, we acquired DynaBil, which is now a part of DAS. This transaction was accounted for as a purchase business combination.

(3) Includes amortization of intangibles and fixed asset write-up expense related to the LaBarge Acquisition.

(4) Consists of non-recurring expenses related to investments in tooling required to support newer programs with higher complex engineering content in connection with the implementation of our strategy of transitioning to Tier 2 supplier status.

(5) Reflects the reversal of certain accounts payable accruals recorded in prior periods.

(6) For the pro forma year ended December 31, 2010, reflects additional cost of sales resulting from purchase accounting adjustments to inventory associated with our acquisition of LaBarge; and, for the year ended December 31, 2009, reflects additional cost of sales resulting from purchase accounting adjustments to inventory associated with our December 2008 acquisition of DynaBil.

(7) Reflects the reversal of compensation expense consisting of required change of control payments to certain members of LaBarge management in connection with the LaBarge Acquisition that is included in pro forma net income for the year ended December 31, 2010. As the pro forma income statement data give effect to the Transactions (including the incurrence of such compensation expense) as of January 1, 2010, no corresponding adjustment is required for the twelve months ended April 2, 2011.

(8) Includes estimated anticipated supply chain synergies and operational synergies, the elimination of estimated duplicate public company and corporate overhead costs and estimated reduced compensation expense relating to the departure of certain executives of LaBarge in addition to the reversal of change of control payments referenced in note (7) above.

(9) Includes estimated legal and other diligence costs incurred in connection with the LaBarge Acquisition.

(d) Adjusted EBITDA margin is defined by us to mean Adjusted EBITDA as a percentage of net sales.

Summary Consolidated Historical Financial Data of LaBarge

The following tables set forth LaBarge s summary historical consolidated financial data. The summary consolidated statements of income data presented below for the years ended June 27, 2010, June 28, 2009 and June 29, 2008 have been derived from LaBarge s audited consolidated financial statements filed with the SEC. The summary consolidated balance sheet data as of June 29, 2008 has been derived from LaBarge s audited consolidated financial statements filed with the SEC. The summary historical consolidated financial data presented below as of April 3, 2011 and for the nine months ended April 3, 2011 and March 28, 2010 has been derived from, and should be read together with, LaBarge s unaudited consolidated financial statements and related notes filed with the SEC. LaBarge s summary consolidated historical statement of income data for the twelve months ended April 3, 2011 have been derived by subtracting its unaudited consolidated financial data for the nine months ended March 28, 2010 from its audited consolidated financial data for the fiscal year ended June 27, 2010 and then adding its unaudited consolidated financial data for the nine months ended April 3, 2011. In the opinion of LaBarge management, such unaudited financial data contains all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such unaudited consolidated financial data.

LaBarge s historical results presented below are not necessarily indicative of the results that can be expected for any future period and you should read the following information in conjunction with the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations LaBarge, Unaudited Pro Forma Condensed Combined Financial Data and LaBarge s audited and unaudited consolidated financial statements filed with the SEC.

	As of and for the Fiscal Year Ended			Twelve Months Ended (unaudited)	Nine Months Ended (unaudited)	
	June 27, 2010	June 28, 2009	June 29, 2008	April 3, 2011	April 3, 2011	March 28, 2010
	($ in thousands)					
Statement of Income:						
Net sales	$ 289,303	$ 273,368	$ 279,485	$ 332,516	$ 250,103	$ 206,890
Cost of sales	231,677	222,583	224,498	265,585	199,467	165,559
Gross Profit	57,626	50,785	54,987	66,931	50,636	41,331
Selling and administrative expense	33,935	32,810	29,557	37,633	29,048	25,350
Operating income	23,691	17,975	25,430	29,298	21,588	15,981
Interest expense	1,711	1,294	1,459	1,413	1,031	1,329
Other expense (income), net	(55)	14	133	111	160	(6)
Earnings before income taxes	22,035	16,667	23,838	27,774	20,397	14,658
Income tax expense	7,147	6,329	9,011	9,963	7,406	4,590
Net earnings	$ 14,888	$ 10,338	$ 14,827	$ 17,811	$ 12,991	$ 10,068
Balance Sheet Data (at end of period):						
Cash and cash equivalents	$ 2,301	$ 4,297	$ 1,646		$ 6,219	$ 4,195
Working capital	58,496	56,007	46,747		66,531	55,971
Total assets	204,522	190,835	160,472		213,066	200,537
Long-term debt	25,258	39,326	447		17,300	27,765
Short-term debt	12,069	6,162	15,182		10,461	11,603
Total stockholders equity	115,640	103,151	91,469		129,335	111,593
Other Financial Data:						
EBITDA(a)	$ 32,989	$ 24,905	$ 30,720	$ 38,127	$ 27,858	$ 22,720
Adjusted EBITDA(a)	34,093	33,933	32,165	41,009	30,479	23,563
Adjusted EBITDA margin(b)	11.8%	12.4%	11.5%	12.3%	12.2%	11.4%
Capital expenditures	4,162	10,799	4,840	3,942	3,380	3,600

(a) EBITDA and Adjusted EBITDA are non-GAAP financial measures. LaBarge management uses EBITDA and Adjusted EBITDA as supplemental financial measures to financial metrics calculated in accordance with GAAP. EBITDA is defined by LaBarge management as net income (loss) before interest expense, income tax expense, other expense (income) and depreciation and amortization (excluding amortization of debt issuance costs). Adjusted EBITDA is defined by LaBarge management as EBITDA adjusted to add back or deduct certain items that are unusual in nature or not comparable from period to period. EBITDA and Adjusted EBITDA, as used and defined by LaBarge management, may not be comparable to similarly titled measures employed by other companies and are not measures of performance calculated in accordance with GAAP. EBITDA and Adjusted EBITDA should not be considered in isolation or as substitutes for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP. EBITDA and Adjusted EBITDA provide no information regarding a company s capital structure, borrowings, interest costs, capital expenditures and working capital movement or tax position. However, LaBarge management believes that EBITDA and Adjusted EBITDA are useful to an investor in evaluating LaBarge s 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 term, 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;

74

help investors to evaluate and compare the results of LaBarge s operations from period to period by removing the effect of our capital structure from our operating structure; and

are used by LaBarge management team for various other purposes in presentations to LaBarge s board of directors as a basis for strategic planning and forecasting.

There are significant limitations to using EBITDA and Adjusted EBITDA as measures of performance, including the inability to analyze the effect of certain recurring and non-recurring items that materially affect LaBarge s net income or loss, the lack of comparability of results of operations of different companies and the different methods of calculating EBITDA and Adjusted EBITDA reported by different companies.

The following table sets forth a reconciliation of LaBarge s net earnings to LaBarge s EBITDA and Adjusted EBITDA:

	Fiscal Year Ended			Twelve Months Ended (unaudited)	Nine Months Ended (unaudited)	
	June 27, 2010	June 29, 2009	June 29, 2008	April 3, 2011	April 3, 2011	March 28, 2010
	(In thousands)					
Net earnings	$ 14,888	$ 10,338	$ 14,827	$ 17,811	$ 12,991	$ 10,068
Depreciation & amortization	9,298	6,930	5,290	8,829	6,270	6,739
Interest expense	1,711	1,294	1,459	1,413	1,031	1,329
Other expense (income)	(55)	14	133	111(1)	160(1)	(6)
Income tax provision	7,147	6,329	9,011	9,963	7,406	4,590
EBITDA	$ 32,989	$ 24,905	$ 30,720	$ 38,127	$ 27,858	$ 22,720
Non-cash stock based compensation	1,104	1,128	1,445	1,382	1,121	843
Loss due to customer bankruptcy(2)		7,900				
Acquisition related expenses				1,500	1,500	
Adjusted EBITDA	$ 34,093	$ 33,933	$ 32,165	$ 41,009	$ 30,479	$ 23,563

(1) Reflects costs incurred in connection with proposed settlement of SEC matter. See Business Legal Proceedings LaBarge.

(2) Reflects charges related to the bankruptcy of Eclipse Aviation Corporation. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations LaBarge.

(b) Adjusted EBITDA margin is defined by LaBarge management to mean Adjusted EBITDA as a percentage of net sales.

Item 8.01. Other Information.

On June 20, 2011, Ducommun issued a press release announcing that, in connection with the Merger, Ducommun intends to commence an offering (the ***Offering***) of the notes in a private offering. The notes will be offered only to qualified institutional buyers in accordance with Rule 144A and to non-U.S. persons under Regulation S under the Securities Act of 1933, as amended (***Securities Act***). Ducommun intends to use the net proceeds of the Offering to finance in part the purchase price to be paid in connection with the Merger. The notes have not been and will not be registered under the Securities Act, or any other securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and other applicable securities laws. A copy of the press release described above is attached hereto as Exhibit 99.1 and incorporated in this Item 8.01 by reference.

The information contained in this Current Report on Form 8-K is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy the notes, nor shall there be any offer, solicitation or sale of any notes in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Item 9.01. Financial Statements and Exhibits.

Exhibit 99.1 Press Release, dated June 20, 2011.

75

SIGNATURES

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

DUCOMMUN INCORPORATED
(Registrant)

Date: June 20, 2011

By: /s/ Anthony J. Reardon
Anthony J. Reardon
Chief Executive Officer and President

Exhibit Index

Exhibit 99.1	Press Release, dated June 20, 2011.