

DUCOMMUN INC /DE/  
Form 10-Q  
November 04, 2015  
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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 October 3, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-8174

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

Delaware 95-0693330  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

23301 Wilmington Avenue, Carson, California 90745-6209  
(Address of principal executive offices) (Zip code)  
Registrant's telephone number, including area code: (310) 513-7200

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of October 21, 2015, the registrant had 11,083,369 shares of common stock outstanding.



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DUCOMMUN INCORPORATED AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Ducommun Incorporated and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and per share data)

|  | October 3,<br>2015 | December 31,<br>2014 |
|--|--------------------|----------------------|
| Assets   |                    |                      |
| Current Assets   |                    |                      |
| Cash and cash equivalents  | \$12,241           | \$45,627             |
| Accounts receivable, net of allowance for doubtful accounts of \$241 and \$252 at October 3, 2015 and December 31, 2014, respectively                  | 86,235             | 91,060               |
| Inventories  | 137,317            | 142,842              |
| Production cost of contracts   | 11,609             | 11,727               |
| Deferred income taxes  | 12,432             | 13,783               |
| Other current assets   | 22,700             | 23,702               |
| Total Current Assets   | 282,534            | 328,741              |
| Property and equipment, net of accumulated depreciation of \$137,556 and \$128,457 at October 3, 2015 and December 31, 2014, respectively              | 98,335             | 99,068               |
| Goodwill   | 157,569            | 157,569              |
| Intangibles, net   | 147,580            | 155,104              |
| Other assets   | 6,383              | 7,117                |
| Total Assets   | \$692,401          | \$747,599            |
| Liabilities and Shareholders' Equity   |                    |                      |
| Current Liabilities  |                    |                      |
| Current portion of long-term debt  | \$2,215            | \$26                 |
| Accounts payable   | 50,852             | 58,979               |
| Accrued liabilities  | 43,434             | 52,066               |
| Total Current Liabilities  | 96,501             | 111,071              |
| Long-term debt, less current portion   | 257,820            | 290,026              |
| Deferred income taxes  | 69,696             | 69,448               |
| Other long-term liabilities  | 18,913             | 20,484               |
| Total Liabilities  | 442,930            | 491,029              |
| Commitments and contingencies (Notes 10, 12)   |                    |                      |
| Shareholders' Equity   |                    |                      |
| Common stock - \$0.01 par value; 35,000,000 shares authorized; 11,083,369 and 10,952,268 issued at October 3, 2015 and December 31, 2014, respectively | 111                | 110                  |
| Additional paid-in capital   | 74,395             | 72,206               |
| Retained earnings  | 181,199            | 190,905              |
| Accumulated other comprehensive loss   | (6,234)            | (6,651)              |
| Total Shareholders' Equity   | 249,471            | 256,570              |
| Total Liabilities and Shareholders' Equity   | \$692,401          | \$747,599            |
| See accompanying notes to condensed consolidated financial statements.   |                    |                      |

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

|  | Three Months Ended |                                      | Nine Months Ended  |                                      |
|--|--------------------|--------------------------------------|--------------------|--------------------------------------|
|  | October 3,<br>2015 | September 27,<br>2014<br>As Restated | October 3,<br>2015 | September 27,<br>2014<br>As Restated |
| Net Revenues   | \$ 161,670         | \$ 188,164                           | \$ 509,435         | \$ 554,433                           |
| Cost of Sales  | 141,642            | 155,052                              | 431,439            | 447,728                              |
| Gross Profit   | 20,028             | 33,112                               | 77,996             | 106,705                              |
| Selling, General and Administrative Expenses         | 21,205             | 23,050                               | 64,707             | 65,005                               |
| Operating (Loss) Income                              | (1,177 )           | 10,062                               | 13,289             | 41,700                               |
| Interest Expense                                     | (3,392 )           | (6,975 )                             | (16,499 )          | (21,094 )                            |
| Loss on Extinguishment of Debt                       | (11,878 )          | —                                    | (14,720 )          | —                                    |
| Other Income   | —                  | 1,600                                | 1,510              | 1,600                                |
| (Loss) Income Before Taxes                           | (16,447 )          | 4,687                                | (16,420 )          | 22,206                               |
| Income Tax (Benefit) Expense                         | (6,932 )           | 1,754                                | (6,714 )           | 7,495                                |
| Net (Loss) Income                                    | \$ (9,515 )        | \$ 2,933                             | \$ (9,706 )        | \$ 14,711                            |
| (Loss) Earnings Per Share                            |                    |                                      |                    |                                      |
| Basic (loss) earnings per share                      | \$ (0.86 )         | \$ 0.27                              | \$ (0.88 )         | \$ 1.35                              |
| Diluted (loss) earnings per share                    | \$ (0.86 )         | \$ 0.26                              | \$ (0.88 )         | \$ 1.31                              |
| Weighted-Average Number of Common Shares Outstanding |                    |                                      |                    |                                      |
| Basic  | 11,083             | 10,921                               | 11,035             | 10,902                               |
| Diluted  | 11,083             | 11,150                               | 11,035             | 11,202                               |

See accompanying notes to condensed consolidated financial statements.

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

|   | Three Months Ended |                                      | Nine Months Ended  |                                      |
|---|--------------------|--------------------------------------|--------------------|--------------------------------------|
|   | October 3,<br>2015 | September 27,<br>2014<br>As Restated | October 3,<br>2015 | September 27,<br>2014<br>As Restated |
| Net (Loss) Income   | \$ (9,515 )        | \$ 2,933                             | \$ (9,706 )        | \$ 14,711                            |
| Other Comprehensive Loss  |                    |                                      |                    |                                      |
| Amortization of actuarial losses and prior service costs, net of tax benefit of approximately \$83 and \$40 for the three months ended October 3, 2015 and September 27, 2014, respectively, and approximately \$248 and \$124 for the nine months ended October 3, 2015 and September 27, 2014, respectively | (139 )             | (66 )                                | (417 )             | (192 )                               |
| Other Comprehensive Loss  | (139 )             | (66 )                                | (417 )             | (192 )                               |
| Comprehensive (Loss) Income   | \$ (9,376 )        | \$ 2,999                             | \$ (9,289 )        | \$ 14,903                            |
| See accompanying notes to condensed consolidated financial statements.  |                    |                                      |                    |                                      |

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

|   | Nine Months Ended  |                                      |
|---|--------------------|--------------------------------------|
|   | October 3,<br>2015 | September 27,<br>2014<br>As Restated |
| Cash Flows from Operating Activities  |                    |                                      |
| Net (Loss) Income   | \$(9,706           | ) \$14,711                           |
| Adjustments to Reconcile Net (Loss) Income to<br>Net Cash Provided by Operating Activities: |                    |                                      |
| Depreciation and amortization   | 20,064             | 21,829                               |
| Stock-based compensation expense  | 2,792              | 2,520                                |
| Deferred income taxes   | 1,599              | 2,073                                |
| Excess tax benefits from stock-based compensation   | (516               | ) (139                               |
| Recovery of doubtful accounts   | (11                | ) (214                               |
| Noncash loss on extinguishment of debt  | 4,970              | —                                    |
| Other   | 7,180              | (149                                 |
| Changes in Assets and Liabilities:  |                    |                                      |
| Accounts receivable   | 4,836              | (12,273                              |
| Inventories   | 5,525              | (4,961                               |
| Production cost of contracts  | (560               | ) (1,408                             |
| Other assets  | 1,614              | 6,633                                |
| Accounts payable  | (7,626             | ) (2,447                             |
| Accrued and other liabilities   | (18,076            | ) (5,400                             |
| Net Cash Provided by Operating Activities   | 12,085             | 20,775                               |
| Cash Flows from Investing Activities  |                    |                                      |
| Purchases of property and equipment   | (11,803            | ) (9,329                             |
| Proceeds from sale of assets  | 289                | 83                                   |
| Insurance recoveries related to property and equipment                                      | 1,510              | 1,600                                |
| Net Cash Used in Investing Activities   | (10,004            | ) (7,646                             |
| Cash Flows from Financing Activities  |                    |                                      |
| Borrowings from senior secured revolving credit facility                                    | 65,000             | —                                    |
| Repayment of senior secured revolving credit facility                                       | (65,000            | ) —                                  |
| Borrowings from term loan   | 275,000            | —                                    |
| Repayments of senior unsecured notes and term loans   | (305,000           | ) (22,500                            |
| Repayments of other debt  | (17                | ) (19                                |
| Debt issuance costs   | (4,848             | ) —                                  |
| Excess tax benefits from stock-based compensation   | 516                | 139                                  |
| Net proceeds from issuance of common stock under stock plans                                | (1,118             | ) 1,289                              |
| Net Cash Used in Financing Activities   | (35,467            | ) (21,091                            |
| Net (Decrease) Increase in Cash and Cash Equivalents  | (33,386            | ) (7,962                             |
| Cash and Cash Equivalents at Beginning of Period  | 45,627             | 48,814                               |
| Cash and Cash Equivalents at End of Period  | \$12,241           | \$40,852                             |

See accompanying notes to condensed consolidated financial statements.





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## Ducommun Incorporated and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Note 1. Summary of Significant Accounting Policies

## Basis of Presentation

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

Our significant accounting policies were described in Part IV, Item 15(a)(1), “Note 1. Summary of Significant Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2014. We followed the same accounting policies for interim reporting. The financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of management, all adjustments, consisting of recurring accruals, have been made that are necessary to fairly state our condensed consolidated financial position, statements of income, comprehensive income and cash flows in accordance with GAAP for the periods covered by this Quarterly Report on Form 10-Q. The results of operations for the three and nine months ended October 3, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.

Our fiscal quarters typically end on the Saturday closest to the end of March, June and September for the first three fiscal quarters of each year, and ends on December 31 for our fourth fiscal quarter. As a result of using fiscal quarters for the first three quarters combined with leap years, our first and fourth fiscal quarters can range between 12 1/2 weeks to 13 1/2 weeks while the second and third fiscal quarters remain at a constant 13 weeks per fiscal quarter. Certain reclassifications have been made to prior period amounts to conform to the current year’s presentation.

## Supplemental Cash Flow Information

|  | Nine Months Ended |                                   |
|--|-------------------|-----------------------------------|
|  | October 3, 2015   | September 27, 2014<br>As Restated |
| Interest paid                                | \$24,066          | \$24,090                          |
| Taxes paid                                   | 1,150             | 3,410                             |
| Non-cash activities:                         |                   |                                   |
| Purchases of property and equipment not paid | 957               | 418                               |

## Use of Estimates

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

## Restatement of Previously Issued Consolidated Financial Statements

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

identified and disclosed immaterial adjustments. We have reflected our

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restated unaudited quarterly condensed consolidated financial information as of and for the three and nine months ended September 27, 2014 herein. See Note 2 for additional information.

## Description of Business

We are a leading global provider of engineering and manufacturing services for high-performance products and high-cost-of failure applications used primarily in the aerospace, defense, industrial, natural resources, medical and other industries. Our subsidiaries are organized into two strategic businesses: Ducommun AeroStructures (“DAS”) and Ducommun LaBarge Technologies (“DLT”), each of which is a reportable operating segment. DAS designs, engineers and manufactures large, complex contoured aerospace structural components and assemblies and supplies composite and metal bonded structures and assemblies. DAS products are used on commercial aircraft, military fixed-wing aircraft and military and commercial rotary-wing aircraft. DLT designs, engineers and manufactures high-reliability products used in worldwide technology-driven markets including aerospace and defense, natural resources, industrial and medical and other end-use markets. DLT’s product offerings range from prototype development to complex assemblies. All reportable operating segments follow the same accounting principles.

## (Loss) Earnings Per Share

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

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

|  | (In thousands, except per share data)<br>Three Months Ended |                                      | (In thousands, except per share data)<br>Nine Months Ended |                                      |
|--|---|--------------------------------------|--|--------------------------------------|
|  | October 3,<br>2015  | September 27,<br>2014<br>As Restated | October 3,<br>2015   | September 27,<br>2014<br>As Restated |
| Net (loss) earnings                                  | \$ (9,515 )   | \$ 2,933                             | \$ (9,706 )  | \$ 14,711                            |
| Weighted-average number of common shares outstanding |   |                                      |  |                                      |
| Basic weighted-average common shares outstanding     | 11,083  | 10,921                               | 11,035   | 10,902                               |
| Dilutive potential common shares                     | —   | 229                                  | —  | 300                                  |
| Diluted weighted-average common shares outstanding   | 11,083  | 11,150                               | 11,035   | 11,202                               |
| (Loss) earnings per share                            |   |                                      |  |                                      |
| Basic  | \$ (0.86 )  | \$ 0.27                              | \$ (0.88 )   | \$ 1.35                              |
| Diluted  | \$ (0.86 )  | \$ 0.26                              | \$ (0.88 )   | \$ 1.31                              |

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

|                               | (In thousands)<br>Three Months Ended |                       | (In thousands)<br>Nine Months Ended |                       |
|-------------------------------|--------------------------------------|-----------------------|-------------------------------------|-----------------------|
|                               | October 3,<br>2015                   | September 27,<br>2014 | October 3,<br>2015                  | September 27,<br>2014 |
| Stock options and stock units | 885                                  | 229                   | 902                                 | 187                   |

## Cash and Cash Equivalents

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

Provision for Estimated Losses on Contracts

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

### Inventory Valuation

Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. Market value for raw materials is based on replacement costs, and is based on net realizable value for other inventory classifications. Inventoried costs include raw materials, outside processing, direct labor and allocated overhead, adjusted for any abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) incurred. Costs under long-term contracts are accumulated into, and removed from, inventory on the same basis as other contracts. We assess the inventory carrying value and reduce it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. We maintain an allowance for potentially excess and obsolete inventories and inventories that are carried at costs that are higher than their estimated net realizable values.

### Production Cost of Contracts

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

### Fair Value

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

### Accumulated Other Comprehensive Loss

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

### Recent Accounting Pronouncements

### Recently Issued Accounting Standards

In August 2015, the FASB issued ASU 2015-15, "Imputation of Interest (Subtopic 835-30)" ("ASU 2015-15"), which provides guidance on the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. In ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," it requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability but does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Thus, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new guidance is effective for annual and interim periods within those annual periods, beginning after December 15, 2015, which will be our interim period beginning

January 1, 2016. Early adoption is permitted. We had approximately \$4.6 million of debt issuance costs and approximately \$260.0 million of total debt as of October 3, 2015, and thus, we do not believe that adoption of this new guidance will have a significant impact on our condensed consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330)" ("ASU 2015-11"), which requires inventory within the scope of ASU 2015-11 to be measured at the lower of cost and net realizable value. Subsequent measurement is unchanged for

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inventory measured using last-in, first-out (“LIFO”) or the retail inventory value. The new guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2017. Early adoption is permitted as of the beginning of an interim or annual reporting period. We are evaluating the impact of this standard but currently do not anticipate it will have a significant impact on our condensed consolidated financial statements.

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

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

In April 2015, the FASB issued ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”), which changes the presentation of debt issuance costs in financial statements. Under ASU 2015-03, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of those costs is reported as interest expense. The new guidance is effective for annual and interim periods within those annual periods, beginning after December 15, 2015, which will be our interim period beginning January 1, 2016. Early adoption is permitted. We had approximately \$4.6 million of debt issuance costs and approximately \$260.0 million of total debt as of October 3, 2015, and thus, we do not believe that adoption of this new guidance will have a significant impact on our condensed consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20)” (“ASU 2015-01”), which eliminates from U.S. GAAP the concept of extraordinary items. Current guidance requires separate classification, presentation, and disclosure of extraordinary events and transactions. In addition, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. The new guidance is effective for annual and interim periods within those annual periods, beginning after December 15, 2015, which will be our interim period beginning January 1, 2016. Early adoption is permitted provided it is applied from the beginning of the annual period of adoption. We are evaluating the impact of this standard but currently do not anticipate it will have a significant impact on our condensed consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”), which defines management’s responsibility to evaluate whether there is substantial doubt about a company’s ability to continue as a going concern. ASU 2014-15 also provide principles and definitions that are intended to reduce diversity

in the timing and content of disclosures in the financial statement footnotes. The new guidance is effective for annual periods ending after December 15, 2016, which will be our year ending December 31, 2016, and interim periods beginning after December 15, 2016, which will be our interim period beginning January 1, 2017. Early adoption is permitted. We are evaluating the impact of this standard but currently do not anticipate it will have a significant impact on our condensed consolidated financial statements.

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



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material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. It requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. Thus, it depicts the transfer of promised goods or services to customers in an amount that reflects the consideration an entity expects to receive in exchange for those goods or services. Companies have the option of applying the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. In August 2015, the FASB issued ASU 2015-14, "Revenue From Contracts With Customers (Topic 606)" ("ASU 2015-14"), which defer the effective date of ASU 2014-09 by one year to annual periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The new guidance is effective for us beginning January 1, 2018 and will provide us additional time to evaluate the method and impact that ASU 2014-09 will have on our condensed consolidated financial statements.

#### Note 2. Restatement

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

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

As a result of the Forward Loss Adjustments, cost of goods sold increased (decreased) approximately \$6.7 million in 2009, \$1.3 million in 2010, \$(0.3) million in 2011, \$(2.2) million in 2012, \$(0.9) million in 2013, and \$(0.8) million in the nine months ended September 27, 2014.

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

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that were established as a result of shared-based compensation expenses recorded previously and should have been reduced as the tax deductions were utilized. Moreover, the restated amounts include previously identified and disclosed immaterial adjustments.

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

This Quarterly Report on Form 10-Q for the quarter ended October 3, 2015 includes the impact of the restatement on the comparative unaudited quarterly financial information for the quarter ended September 27, 2014. Certain reclassifications have been made to prior period amounts to conform to the current year's presentation.

The account balances labeled "As Reported" in the following tables for the quarter ended September 27, 2014 represent the previously reported unaudited balances in our Quarterly Report on Form 10-Q for the quarter ended September 27, 2014. The effects of these prior period errors on our unaudited condensed consolidated financial statements are as follows (in thousands, except per share data):

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| Unaudited Condensed Consolidated Balance Sheet:   | September 27, 2014 |             |             |   |
|---|--------------------|-------------|-------------|---|
|   | As Reported        | Adjustments | As Restated |   |
| Assets  |                    |             |             |   |
| Current Assets  |                    |             |             |   |
| Cash and cash equivalents   | \$40,852           | \$—         | \$40,852    |   |
| Accounts receivable (less allowance for doubtful accounts of \$275 at September 27, 2014)                     | 104,396            | —           | 104,396     |   |
| Inventories   | 145,468            | —           | 145,468     |   |
| Production cost of contracts  | 10,375             | —           | 10,375      |   |
| Deferred income taxes   | 13,664             | 1,521       | 15,185      |   |
| Other current assets  | 20,444             | 1,486       | 21,930      |   |
| Total Current Assets  | 335,199            | 3,007       | 338,206     |   |
| Property and Equipment, Net   | 93,181             | —           | 93,181      |   |
| Goodwill  | 161,940            | (4,371      | ) 157,569   |   |
| Intangibles, Net  | 157,694            | —           | 157,694     |   |
| Other Assets  | 7,657              | —           | 7,657       |   |
| Total Assets  | \$755,671          | \$(1,364    | ) \$754,307 |   |
| Liabilities and Shareholders' Equity  |                    |             |             |   |
| Current Liabilities   |                    |             |             |   |
| Current portion of long-term debt   | \$26               | \$—         | \$26        |   |
| Accounts payable  | 55,083             | —           | 55,083      |   |
| Accrued liabilities   | 42,916             | 3,871       | 46,787      |   |
| Total Current Liabilities   | 98,025             | 3,871       | 101,896     |   |
| Long-Term Debt, Less Current Portion  | 310,157            | —           | 310,157     |   |
| Deferred Income Taxes   | 73,078             | (500        | ) 72,578    |   |
| Other Long-Term Liabilities   | 16,858             | (300        | ) 16,558    |   |
| Total Liabilities   | 498,118            | 3,071       | 501,189     |   |
| Commitments and Contingencies   |                    |             |             |   |
| Shareholders' Equity  |                    |             |             |   |
| Common stock - \$0.01 par value; 35,000,000 shares authorized; 10,945,806 shares issued at September 27, 2014 | 109                | —           | 109         |   |
| Additional paid-in capital  | 72,563             | (1,633      | ) 70,930    |   |
| Retained earnings   | 188,551            | (2,802      | ) 185,749   |   |
| Accumulated other comprehensive loss  | (3,670             | ) —         | (3,670      | ) |
| Total Shareholders' Equity  | 257,553            | (4,435      | ) 253,118   |   |
| Total Liabilities and Shareholders' Equity  | \$755,671          | \$(1,364    | ) \$754,307 |   |

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| Unaudited Condensed Consolidated<br>Statement of Income: | Three Months Ended September 27,<br>2014 |             |                | Nine Months Ended September 27,<br>2014 |             |                |
|--|--|-------------|----------------|---|-------------|----------------|
|  | As<br>Reported                           | Adjustments | As<br>Restated | As<br>Reported                          | Adjustments | As<br>Restated |
| Net Revenues   | \$188,164                                | \$ —        | \$188,164      | \$554,433                               | \$ —        | \$554,433      |
| Cost of Sales  | 154,770                                  | 282         | 155,052        | 448,526                                 | (798 )      | 447,728        |
| Gross Profit   | 33,394                                   | (282 )      | 33,112         | 105,907                                 | 798         | 106,705        |
| Selling, General and Administrative<br>Expenses          | 23,050                                   | —           | 23,050         | 65,005                                  | —           | 65,005         |
| Operating Income   | 10,344                                   | (282 )      | 10,062         | 40,902                                  | 798         | 41,700         |
| Interest Expense   | (6,975 )                                 | —           | (6,975 )       | (21,094 )                               | —           | (21,094 )      |
| Other Income   | 1,600                                    | —           | 1,600          | 1,600                                   | —           | 1,600          |
| Income Before Taxes                                      | 4,969                                    | (282 )      | 4,687          | 21,408                                  | 798         | 22,206         |
| Income Tax Expense                                       | 2,347                                    | (593 )      | 1,754          | 7,685                                   | (190 )      | 7,495          |
| Net Income   | \$2,622                                  | \$ 311      | \$2,933        | \$13,723                                | \$ 988      | \$14,711       |
| Earnings Per Share                                       |  |             |                |   |             |                |
| Basic earnings per share                                 | \$0.24                                   | \$ 0.03     | \$0.27         | \$1.26                                  | \$ 0.09     | \$1.35         |
| Diluted earnings per share                               | \$0.24                                   | \$ 0.03     | \$0.26         | \$1.23                                  | \$ 0.09     | \$1.31         |
| Weighted-Average Number of Shares<br>Outstanding         |  |             |                |   |             |                |
| Basic  | 10,921                                   | —           | 10,921         | 10,902                                  | —           | 10,902         |
| Diluted  | 11,150                                   | —           | 11,150         | 11,202                                  | —           | 11,202         |

| Unaudited Condensed Consolidated<br>Statement of Comprehensive Income:   | Three Months Ended September<br>27, 2014 |             |                | Nine Months Ended September 27,<br>2014 |             |                |
|--|--|-------------|----------------|---|-------------|----------------|
|  | As<br>Reported                           | Adjustments | As<br>Restated | As<br>Reported                          | Adjustments | As<br>Restated |
| Net Income   | \$2,622                                  | \$ 311      | \$2,933        | \$13,723                                | \$ 988      | \$14,711       |
| Pension Adjustments  |  |             |                |   |             |                |
| Amortization of actuarial loss and prior<br>service costs, net of tax benefit of<br>approximately \$40 and \$124 for the three<br>months and nine months ended September<br>27, 2014 | (66 )                                    | —           | (66 )          | (192 )                                  | —           | (192 )         |
| Other Comprehensive Loss   | (66 )                                    | —           | (66 )          | (192 )                                  | —           | (192 )         |
| Comprehensive Income   | \$2,688                                  | \$ 311      | \$2,999        | \$13,915                                | \$ 988      | \$14,903       |

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|  | Nine Months Ended September 27,<br>2014 |             |                |
|--|---|-------------|----------------|
| Unaudited Condensed Consolidated Cash Flow Statement:                                | As<br>Reported                          | Adjustments | As<br>Restated |
| Cash Flows from Operating Activities   |   |             |                |
| Net Income   | \$ 13,723                               | \$ 988      | \$ 14,711      |
| Adjustments to Reconcile Net Income to<br>Net Cash Provided by Operating Activities: |   |             |                |
| Depreciation and amortization  | 21,829                                  | —           | 21,829         |
| Stock-based compensation expense   | 2,520                                   | —           | 2,520          |
| Deferred income taxes  | 1,775                                   | 298         | 2,073          |
| Excess tax benefits from stock-based compensation                                    | (139 )                                  | —           | (139 )         |
| Recovery of doubtful accounts  | (214 )                                  | —           | (214 )         |
| Other  | 649                                     | (798 )      | (149 )         |
| Changes in Assets and Liabilities:   |   |             |                |
| Accounts receivable  | (12,273 )                               | —           | (12,273 )      |
| Inventories  | (4,961 )                                | —           | (4,961 )       |
| Production cost of contracts   | (1,408 )                                | —           | (1,408 )       |
| Other assets   | 7,121                                   | (488 )      | 6,633          |
| Accounts payable   | (2,447 )                                | —           | (2,447 )       |
| Accrued and other liabilities  | (5,400 )                                | —           | (5,400 )       |
| Net Cash Provided by Operating Activities  | 20,775                                  | —           | 20,775         |
| Cash Flows from Investing Activities   |   |             |                |
| Purchases of property and equipment  | (9,329 )                                | —           | (9,329 )       |
| Proceeds from sales of assets  | 83                                      | —           | 83             |
| Insurance recoveries related to property and equipment                               | 1,600                                   | —           | 1,600          |
| Net Cash Used in Investing Activities  | (7,646 )                                | —           | (7,646 )       |
| Cash Flows from Financing Activities   |   |             |                |
| Repayments of senior unsecured notes and term loans                                  | (22,500 )                               | —           | (22,500 )      |
| Repayment of other debt  | (19 )                                   | —           | (19 )          |
| Excess tax benefits from stock-based compensation                                    | 139                                     | —           | 139            |
| Net proceeds from issuance of common stock under stock plans                         | 1,289                                   | —           | 1,289          |
| Net Cash Used in Financing Activities  | (21,091 )                               | —           | (21,091 )      |
| Net Decrease in Cash and Cash Equivalents  | (7,962 )                                | —           | (7,962 )       |
| Cash and Cash Equivalents at Beginning of Year                                       | 48,814                                  | —           | 48,814         |
| Cash and Cash Equivalents at End of Year   | \$ 40,852                               | \$ —        | \$ 40,852      |

## Note 3. Restructuring Activities

## Summary of Restructuring Plans

In September 2015, management approved and commenced implementation of several restructuring actions, including organizational re-alignments, consolidation and relocation of the New York facilities by December 2015, closure of the Houston facility by December 2015, and closure of the St. Louis facility by April 2016, all of which are part of our overall strategy to streamline operations.

In the three months ended October 3, 2015, we have accrued approximately \$0.5 million for severance and benefits and approximately \$0.3 million for severance and benefits and charged to selling, general and administrative expenses in the DLT and DAS segments, respectively, and expect to record additional accruals totaling approximately \$1.7 million to \$2.0 million for severance and benefits and loss on early exit from leases in the fourth quarter of 2015. Our restructuring activities in the three and nine months ended October 3, 2015 were as follows (in thousands):



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|                            |                           |
|----------------------------|---------------------------|
|                            | Severance and<br>Benefits |
| Balance at July 4, 2015    | \$—                       |
| Gross charges              | 806                       |
| Cash payments              | —                         |
| Balance at October 3, 2015 | \$806                     |

## Note 4. Inventories

Inventories consisted of the following:

|                            |                    |                      |
|----------------------------|--------------------|----------------------|
|                            | (In thousands)     |                      |
|                            | October 3,<br>2015 | December 31,<br>2014 |
| Raw materials and supplies | \$72,797           | \$77,033             |
| Work in process            | 56,510             | 61,458               |
| Finished goods             | 11,949             | 14,116               |
|                            | 141,256            | 152,607              |
| Less progress payments     | 3,939              | 9,765                |
| Total                      | \$137,317          | \$142,842            |

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

## Note 5. Goodwill

We perform our annual goodwill impairment test during the fourth quarter each year. As of fourth quarter 2014, the date of our most recent annual goodwill impairment test, the carrying amounts of goodwill for the DAS, DLT, and Miltec internal reporting units were approximately \$57.2 million, \$92.0 million, and \$8.4 million, respectively. However, certain factors may result in the need to perform an impairment test prior to the fourth quarter, including significant under performance of our business relative to expected operating results, significant adverse economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, a decision to divest individual businesses within a reporting unit, or a decision to group individual businesses differently. At times, our market capitalization had declined below book value, which if it continues for an extended period of time, is a factor that could lead to a conclusion that a triggering event has occurred. As our market capitalization declines recently have been temporary in nature and our market capitalization has exceeded our book value, we do not consider these temporary declines in market capitalization to be a triggering event in the fiscal quarter ended October 3, 2015. However, it is considered at least reasonably possible that our determination that goodwill is not impaired could change in the near term if any the factors noted above occurs.

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

|                                 |                            |                                     |                          |
|---------------------------------|----------------------------|-------------------------------------|--------------------------|
|                                 | (In thousands)             |                                     |                          |
|                                 | Ducommun<br>AeroStructures | Ducommun<br>LaBarge<br>Technologies | Consolidated<br>Ducommun |
| Gross goodwill                  | \$57,243                   | \$182,048                           | \$239,291                |
| Accumulated goodwill impairment | —                          | (81,722                             | ) (81,722                |
| Balance at December 31, 2014    | \$57,243                   | \$100,326                           | \$157,569                |
| Balance at October 3, 2015      | \$57,243                   | \$100,326                           | \$157,569                |

## Note 6. Accrued Liabilities



The components of accrued liabilities were as follows:

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|                                     | (In thousands)     |                      |
|-------------------------------------|--------------------|----------------------|
|                                     | October 3,<br>2015 | December 31,<br>2014 |
| Accrued compensation                | \$ 18,560          | \$ 25,352            |
| Accrued income and sales tax        | 1,524              | 1,580                |
| Customer deposits                   | 698                | 1,139                |
| Interest payable                    | 249                | 9,439                |
| Provision for forward loss reserves | 13,540             | 4,734                |
| Other                               | 8,863              | 9,822                |
| Total                               | \$ 43,434          | \$ 52,066            |

## Note 7. Long-Term Debt

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

|   | (In thousands)     |                      |  |   |
|---|--------------------|----------------------|--|---|
|   | October 3,<br>2015 | December 31,<br>2014 |  |   |
| New term loan                             | \$ 260,000         | \$ —                 |  |   |
| Senior unsecured notes (fixed 9.75%)      | —                  | 200,000              |  |   |
| Senior secured term loan (floating 4.75%) | —                  | 90,000               |  |   |
| Other debt (fixed 5.41%)                  | 35                 | 52                   |  |   |
| Total debt                                | 260,035            | 290,052              |  |   |
| Less current portion                      | 2,215              | 26                   |  |   |
| Total long-term debt                      | \$ 257,820         | \$ 290,026           |  |   |
| Weighted-average interest rate            | 2.82               | % 8.20               |  | % |

In June 2015, we completed a new credit facility to replace the Existing Credit Facilities. The new credit facility consists of a \$275.0 million senior secured term loan, which matures on June 26, 2020 (“New Term Loan”), and a \$200.0 million senior secured revolving credit facility (“New Revolving Credit Facility”), which matures on June 26, 2020 (collectively, the “New Credit Facilities”). The New Credit Facilities bear interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR) plus an applicable margin ranging from 1.50% to 2.75% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.75% per year, in each case based upon the consolidated total net adjusted leverage ratio. The undrawn portions of the commitments of the New Credit Facilities are subject to a commitment fee ranging from 0.175% to 0.300%, based upon the consolidated total net adjusted leverage ratio.

Further, we are required to make mandatory prepayments of amounts outstanding under the New Term Loan. The mandatory prepayments will be made quarterly, equal to 5.0% per year of the original aggregate principal amount during the first two years and increase to 7.5% per year during the third year, and increase to 10.0% per year during the fourth year and fifth years, with the remaining balance payable on June 26, 2020. The loans under the New Revolving Credit Facility are due on June 26, 2020. As of October 3, 2015, we were in compliance with all covenants required under the New Credit Facilities.

We have been making voluntary principal prepayments on a quarterly basis on our senior secured term loan and in conjunction with the closing of the New Credit Facilities in second quarter 2015, we drew down approximately \$65.0 million on the New Revolving Credit Facility and used those proceeds along with current cash on hand to extinguish the existing senior secured term loan of approximately \$80.0 million. We expensed the unamortized debt issuance costs related to the existing senior secured term loan of approximately \$2.8 million as part of extinguishing the existing senior secured term loan in second quarter 2015. We also incurred approximately \$4.8 million of debt issuance costs related to the New Credit Facilities and those costs are capitalized and being amortized over the five year life of the New Credit Facilities.

In addition, on June 29, 2015, we initiated a call notice to retire all of the \$200.0 million senior unsecured notes (“Existing Notes”) on July 27, 2015. We drew down on the New Term Loan in the amount of \$275.0 million. Along with the call notice

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amount and paying the call premium of approximately \$9.8 million, we also paid down the \$65.0 million drawn on the New Revolving Credit Facility in the previous quarter. We expensed the call premium of approximately \$9.8 million and debt issuance costs related to the Existing Notes of approximately \$2.1 million upon extinguishing the Existing Notes in the current three months ended October 3, 2015.

Further, we made voluntary principal prepayments of approximately \$15.0 million under the New Term Loan during the three months ended October 3, 2015.

As of October 3, 2015, we had approximately \$198.5 million of unused borrowing capacity under the New Revolving Credit Facility, after deducting approximately \$1.5 million for standby letters of credit.

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

Subsequent to the quarter ended October 3, 2015, we entered into interest rate cap hedges designated as cash flow hedges with maturity dates of June 2020, and in aggregate, totaling approximately \$135.0 million of our debt. We paid a total of approximately \$1.0 million in connection with the interest rate cap hedges.

#### Note 8. Shareholders' Equity

We are authorized to issue five million shares of preferred stock. At October 3, 2015 and December 31, 2014, no preferred shares were issued or outstanding.

#### Note 9. Employee Benefit Plans

The components of net periodic pension expense were as follows:

|                                  | (In thousands)     |               | (In thousands)    |               |
|----------------------------------|--------------------|---------------|-------------------|---------------|
|                                  | Three Months Ended |               | Nine Months Ended |               |
|                                  | October 3,         | September 27, | October 3,        | September 27, |
|                                  | 2015               | 2014          | 2015              | 2014          |
| Service cost                     | \$ 196             | \$ 174        | \$ 589            | \$ 520        |
| Interest cost                    | 338                | 320           | 1,013             | 958           |
| Expected return on plan assets   | (374 )             | (351 )        | (1,121 )          | (1,052 )      |
| Amortization of actuarial losses | 222                | 106           | 665               | 316           |
| Net periodic pension cost        | \$382              | \$ 249        | \$1,146           | \$ 742        |

The components of the reclassifications of net actuarial losses from accumulated other comprehensive loss to net income for the three months ended October 3, 2015 were as follows:

|  | (In thousands)     |                   |
|--|--------------------|-------------------|
|  | Three Months Ended | Nine Months Ended |
|  | October 3,         | October 3,        |
|  | 2015               | 2015              |
| Amortization of actuarial losses - total before tax <sup>(1)</sup> | \$(222 )           | \$(665 )          |
| Tax benefit  | 83                 | 248               |
| Net of tax   | \$(139 )           | \$(417 )          |

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

#### Note 10. Indemnifications

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

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

### Note 11. Income Taxes

We recorded an income tax benefit of approximately \$(6.9) million (effective tax benefit rate of 42%) for the three months ended October 3, 2015 compared to an income tax expense of approximately \$1.8 million (effective tax rate of 37%) for the three months ended September 27, 2014. The difference between the statutory tax rate of 35% and the effective tax benefit rate for the three months ended October 3, 2015 was primarily due to a benefit for the Qualified Domestic Production Activities Deduction and release of reserves as a result of the expiration of statute of limitations, partially offset by state taxes. The difference between the statutory tax rate of 35% and the effective tax benefit rate for the three months ended September 27, 2014 was primarily due to a benefit for the Qualified Domestic Production Activities Deduction and release of reserves as a result of the expiration of statute of limitations, partially offset by state taxes.

We recorded an income tax benefit of approximately \$(6.7) million (effective tax benefit rate of 41%) for the nine months ended October 3, 2015 compared to an income tax expense of approximately \$7.5 million (effective tax rate of 34%) for the nine months ended September 27, 2014. The difference between the statutory tax rate of 35% and the effective tax benefit rate for the nine months ended October 3, 2015 was primarily due to a benefit for the Qualified Domestic Production Activities Deduction and release of reserves as a result of the expiration of statute of limitations, partially offset by state taxes. The difference between the statutory tax rate of 35% and the effective tax benefit rate for the nine months ended September 27, 2014 was primarily due to a benefit for the Qualified Domestic Production Activities Deduction and release of reserves as a result of the expiration of statute of limitations, partially offset by state taxes.

Our unrecognized tax benefits were approximately \$2.6 million and \$2.8 million as of October 3, 2015 and December 31, 2014, respectively. Approximately \$1.5 million, if recognized, would affect the annual income tax rate. We do not reasonably expect significant increases or decreases to our unrecognized tax benefits in the next twelve months.

### Note 12. Contingencies

On October 8, 2014, the United States District Court for the District of Kansas (the “District Court”) granted summary judgment in favor of The Boeing Company (“Boeing”) and Ducommun and dismissed the lawsuit entitled United States of America ex rel Taylor Smith, Jeannine Prewitt and James Ailes v. The Boeing Company and Ducommun Inc.. The lawsuit was a qui tam action brought by three former Boeing employees (“Relators”) against Boeing and Ducommun on behalf of the United States of America for violations of the United States False Claims Act. Relators have appealed the dismissal to the Tenth Circuit Court of Appeals. The lawsuit alleged that Ducommun sold unapproved parts to Boeing which were installed by Boeing in aircraft ultimately sold to the United States Government and that Boeing and Ducommun submitted or caused to be submitted false claims for payment relating to 21 aircraft sold by Boeing to the United States Government. The lawsuit sought damages in an amount equal to three times the amount of damages the United States Government sustained because of the defendants’ actions, plus a civil penalty of \$10 thousand for

each false claim made on or before September 28, 1999, and \$11 thousand for each false claim made on or after September 28, 1999, together with attorneys' fees and costs. The Relators claimed that the United States Government sustained damages of \$1.6 billion (the contract purchase price of 21 aircraft) or, alternatively, \$851 million (the alleged diminished value and increased maintenance cost of the 21 aircraft). After investigating the allegations, the United States Government declined to intervene in the lawsuit.

DAS has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its facilities located in El Mirage and Monrovia, California. Based on currently available information, Ducommun has established a reserve for its estimated liability for such investigation and corrective action of approximately \$1.5 million at October 3, 2015, which is reflected in other long-term liabilities on its consolidated balance sheet.

DAS also faces liability as a potentially responsible party for hazardous waste disposed at landfills located in Casmalia and West Covina, California. DAS and other companies and government entities have entered into consent decrees with respect to

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these landfills with the United States Environmental Protection Agency and/or California environmental agencies under which certain investigation, remediation and maintenance activities are being performed. Based on currently available information, Ducommun preliminarily estimates that the range of its future liabilities in connection with the landfill located in West Covina, California is between approximately \$0.4 million and \$3.1 million. Ducommun has established a reserve for its estimated liability, in connection with the West Covina landfill of approximately \$0.4 million at October 3, 2015, which is reflected in other long-term liabilities on its consolidated balance sheet.

Ducommun's ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities, and the allocation of liability among potentially responsible parties.

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

## Note 13. Business Segment Information

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

Financial information by reportable operating segment was as follows:

|  | (In thousands)                           |                                      | (In thousands)                          |                                      |
|--|--|--------------------------------------|---|--------------------------------------|
|  | Three Months Ended<br>October 3,<br>2015 | September 27,<br>2014<br>As Restated | Nine Months Ended<br>October 3,<br>2015 | September 27,<br>2014<br>As Restated |
| Net Revenues   |  |                                      |   |                                      |
| DAS  | \$64,170                                 | \$ 81,357                            | \$212,306                               | \$ 241,627                           |
| DLT  | 97,500                                   | 106,807                              | 297,129                                 | 312,806                              |
| Total Net Revenues   | \$161,670                                | \$ 188,164                           | \$509,435                               | \$ 554,433                           |
| Segment Operating Income                                     |  |                                      |   |                                      |
| DAS  | \$(6,028 )                               | \$ 6,908                             | \$2,980                                 | \$ 28,067                            |
| DLT  | 8,598                                    | 8,288                                | 22,575                                  | 26,089                               |
|  | 2,570                                    | 15,196                               | 25,555                                  | 54,156                               |
| Corporate General and Administrative Expenses <sup>(1)</sup> | (3,747 )                                 | (5,134 )                             | (12,266 )                               | (12,456 )                            |
| Operating Income   | \$(1,177 )                               | \$ 10,062                            | \$13,289                                | \$ 41,700                            |
| Depreciation and Amortization Expenses                       |  |                                      |   |                                      |
| DAS  | \$2,386                                  | \$ 2,272                             | \$7,009                                 | \$ 8,242                             |
| DLT  | 4,207                                    | 4,391                                | 12,928                                  | 13,442                               |
| Corporate Administration                                     | 42                                       | 41                                   | 127                                     | 145                                  |
| Total Depreciation and Amortization Expenses                 | \$6,635                                  | \$ 6,704                             | \$20,064                                | \$ 21,829                            |
| Capital Expenditures   |  |                                      |   |                                      |
| DAS  | \$2,329                                  | \$ 1,266                             | \$8,080                                 | \$ 3,986                             |
| DLT  | 758                                      | 1,761                                | 3,196                                   | 4,736                                |
| Corporate Administration                                     | 4  | 1                                    | 10                                      | 25                                   |
| Total Capital Expenditures                                   | \$3,091                                  | \$ 3,028                             | \$11,286                                | \$ 8,747                             |

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

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

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|                                | (In thousands)     |                      |
|--------------------------------|--------------------|----------------------|
|                                | October 3,<br>2015 | December 31,<br>2014 |
| Total Assets                   |                    |                      |
| DAS                            | \$240,035          | \$245,925            |
| DLT                            | 408,912            | 427,719              |
| Corporate Administration       | 43,454             | 73,955               |
| Total Assets                   | \$692,401          | \$747,599            |
| Goodwill and Intangibles       |                    |                      |
| DAS                            | \$62,456           | \$63,497             |
| DLT                            | 242,693            | 249,176              |
| Total Goodwill and Intangibles | \$305,149          | \$312,673            |

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

## Restatement of Previously Issued Financial Statements

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

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

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

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

## Overview

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

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

Third quarter 2015 recap:

•Third quarter revenue was approximately \$161.7 million

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Net loss of approximately \$9.5 million, or \$0.86 per share

EBITDA for the quarter was approximately \$5.5 million

New financing structure completed with redemption of the \$200 million senior unsecured notes

Backlog increased to approximately \$552.6 million

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) was approximately \$5.5 million and \$18.4 million and Adjusted EBITDA was approximately \$6.3 million and \$18.4 million for the three months ended October 3, 2015 and September 27, 2014, respectively. See “Non-GAAP Financial Measures” below for certain information regarding EBITDA and Adjusted EBITDA, including reconciliation of EBITDA and Adjusted EBITDA to net income.

Non-GAAP Financial Measures

When viewed with our financial results prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and accompanying reconciliations, we believe EBITDA and Adjusted EBITDA provide additional useful information to clarify and enhance the understanding of the factors and trends affecting our past performance and future prospects. We define these measures, explain how they are calculated and provide reconciliations of these measures to the most comparable GAAP measure in the tables below. EBITDA, Adjusted EBITDA, and the related financial ratios as presented in this Form 10-Q, are supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. They are not a measurement of our financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP, or as an alternative to net cash provided by operating activities as measures of our liquidity. The presentation of these measures should not be interpreted to mean that our future results will be unaffected by unusual or nonrecurring items.

We use EBITDA and Adjusted EBITDA as non-GAAP operating performance measures internally as complementary financial measures to evaluate the performance and trends of our businesses. We present EBITDA, Adjusted EBITDA, and the related financial ratios, as applicable, because we believe that measures such as these provide useful information with respect to our ability to meet our future debt service, capital expenditures, working capital requirements and overall operating performance.

EBITDA and Adjusted EBITDA has limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

- They do not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- They do not reflect changes in, or cash requirements for, our working capital needs;
- They do not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;

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

- They are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- They do not reflect the impact on earnings of charges resulting from matters unrelated to our ongoing operations; and
- Other companies in our industry may calculate EBITDA and Adjusted EBITDA differently from us, limiting their usefulness as comparative measures.

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

However, in spite of the above limitations, we believe that EBITDA 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 terms, which can vary substantially from company to company



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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 performance; and

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

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

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

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

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

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

• Restructuring charges maybe useful to investors as these are not deemed core operating expenses.

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

|                                | (In thousands)     |               | (In thousands)    |               |   |
|--------------------------------|--------------------|---------------|-------------------|---------------|---|
|                                | Three Months Ended |               | Nine Months Ended |               |   |
|                                | October 3,         | September 27, | October 3,        | September 27, |   |
|                                | 2015               | 2014          | 2015              | 2014          |   |
|                                |                    | As Restated   |                   | As Restated   |   |
| Net (loss) income              | \$ (9,515 )        | \$ 2,933      | \$ (9,706 )       | \$ 14,711     |   |
| Depreciation and amortization  | 6,635              | 6,704         | 20,064            | 21,829        |   |
| Interest expense               | 3,392              | 6,975         | 16,499            | 21,094        |   |
| Loss on extinguishment of debt | 11,878             | —             | 14,720            | —             |   |
| Income tax (benefit) expense   | (6,932 )           | 1,754         | (6,714 )          | 7,495         |   |
| EBITDA                         | \$ 5,458           | \$ 18,366     | \$ 34,863         | \$ 65,129     |   |
| Restructuring charges          | 806                | —             | 806               | —             |   |
| Adjusted EBITDA                | \$ 6,264           | \$ 18,366     | \$ 35,669         | \$ 65,129     |   |
| % of net revenues              | 3.9                | % 9.8         | % 7.0             | % 11.7        | % |

EBITDA and Adjusted EBITDA decreased in both the three and nine months ended October 3, 2015 compared to the three and nine months ended September 27, 2014, primarily due to lower net revenues, mainly in the military and space end-use markets as a result of the decrease in U.S. government defense spending and delay in the timing of when these products are required by our customers, and lower income tax expense primarily due to lower pretax income, income tax benefit, partially offset by the loss on extinguishment of debt as a result of the call premium to redeem the \$200.0 million senior unsecured notes and writing off the unamortized debt issuance costs when the existing \$200.0 million senior unsecured notes were extinguished.

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## Results of Operations

## Third Quarter of 2015 Compared to Third Quarter of 2014

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

|   | (in thousands, except per share data)<br>Three Months Ended |                         |                                      |   | (in thousands, except per share data)<br>Nine Months Ended |                         |                                      |   |  |  |
|---|---|-------------------------|--------------------------------------|---|--|-------------------------|--------------------------------------|---|--|--|
|   | October 3,<br>2015  | %<br>of Net<br>Revenues | September 27,<br>2014<br>As Restated | %<br>of Net<br>Revenues<br>As<br>Restated | October 3,<br>2015   | %<br>of Net<br>Revenues | September 27,<br>2014<br>As Restated | %<br>of Net<br>Revenues<br>As<br>Restated |  |  |
| Net Revenues  | \$ 161,670  | 100.0 %                 | \$ 188,164                           | 100.0 %                                   | \$ 509,435   | 100.0 %                 | \$ 554,433                           | 100.0 %                                   |  |  |
| Cost of Sales   | 141,642   | 87.6 %                  | 155,052                              | 82.4 %                                    | 431,439  | 84.7 %                  | 447,728                              | 80.8 %                                    |  |  |
| Gross Profit  | 20,028  | 12.4 %                  | 33,112                               | 17.6 %                                    | 77,996   | 15.3 %                  | 106,705                              | 19.2 %                                    |  |  |
| Selling, General<br>and<br>Administrative<br>Expenses | 21,205  | 13.1 %                  | 23,050                               | 12.2 %                                    | 64,707   | 12.7 %                  | 65,005                               | 11.7 %                                    |  |  |
| Operating (Loss)<br>Income                            | (1,177 )  | (0.7 )%                 | 10,062                               | 5.3 %                                     | 13,289   | 2.6 %                   | 41,700                               | 7.5 %                                     |  |  |
| Interest Expense                                      | (3,392 )  | (2.1 )%                 | (6,975 )                             | (3.7 )%                                   | (16,499 )  | (3.2 )%                 | (21,094 )                            | (3.8 )%                                   |  |  |
| Loss on<br>Extinguishment of<br>Debt                  | (11,878 )   | (7.3 )%                 | —                                    | — %                                       | (14,720 )  | (2.9 )%                 | —                                    | — %                                       |  |  |
| Other Income  | —   | — %                     | 1,600                                | 0.9 %                                     | 1,510  | 0.3 %                   | 1,600                                | 0.3 %                                     |  |  |
| (Loss) Income<br>Before Taxes                         | (16,447 )   | (10.2 )%                | 4,687                                | 2.5 %                                     | (16,420 )  | (3.2 )%                 | 22,206                               | 4.0 %                                     |  |  |
| Income Tax<br>(Benefit) Expense                       | (6,932 )  | nm                      | 1,754                                | nm  | (6,714 )   | nm                      | 7,495                                | nm  |  |  |
| Net (Loss) Income                                     | \$(9,515 )  | (5.9 )%                 | \$ 2,933                             | 1.6 %                                     | \$(9,706 )   | (1.9 )%                 | \$ 14,711                            | 2.7 %                                     |  |  |
| Effective (Benefit)<br>Tax Rate                       | (42.1 )%  | nm                      | 37.4 %                               | nm  | (40.9 )%   | nm                      | 33.8 %                               | nm  |  |  |
| Diluted (Loss)<br>Earnings Per<br>Share               | \$(0.86 )   | nm                      | \$ 0.26                              | nm  | \$(0.88 )  | nm                      | \$ 1.31                              | nm  |  |  |

nm = not meaningful

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

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

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|  | Three Months Ended |                                     |                                     |   |             | Nine Months Ended |                                     |                                     |   |             |
|--|--------------------|-------------------------------------|-------------------------------------|---|-------------|-------------------|-------------------------------------|-------------------------------------|---|-------------|
|  | Change             | (In thousands)<br>October 3<br>2015 | (In thousands)<br>September<br>2014 | % of Net Revenues<br>October 3<br>2015    September 27,<br>2014 |             | Change            | (In thousands)<br>October 3<br>2015 | (In thousands)<br>September<br>2014 | % of Net Revenues<br>October 3<br>2015    September<br>2014 |             |
| <b>Consolidated</b>  |                    |                                     |                                     |   |             |                   |                                     |                                     |   |             |
| Ducommun<br>Military and<br>space<br>Defense<br>technologies | \$(9,227 )         | \$54,182                            | \$63,409                            | 34%   | 34%         | \$(23,049)        | \$160,344                           | \$183,393                           | 31%   | 33%         |
| Defense<br>structures  | (16,785 )          | 15,762                              | 32,547                              | 10%   | 17%         | (39,296 )         | 57,826                              | 97,122                              | 11%   | 18%         |
| Commercial<br>aerospace                                      | 218                | 61,166                              | 60,948                              | 38%   | 32%         | 14,685            | 192,090                             | 177,405                             | 38%   | 32%         |
| Natural<br>resources   | (3,251 )           | 7,107                               | 10,358                              | 4%  | 6%          | (5,963 )          | 25,961                              | 31,924                              | 5%  | 6%          |
| Industrial   | 1,072              | 10,681                              | 9,609                               | 7%  | 5%          | 3,314             | 34,742                              | 31,428                              | 7%  | 6%          |
| Medical and<br>other   | 1,479              | 12,772                              | 11,293                              | 7%  | 6%          | 5,311             | 38,472                              | 33,161                              | 8%  | 5%          |
| <b>Total</b>   | <b>\$(26,494)</b>  | <b>\$161,670</b>                    | <b>\$188,164</b>                    | <b>100%</b>   | <b>100%</b> | <b>\$(44,998)</b> | <b>\$509,435</b>                    | <b>\$554,433</b>                    | <b>100%</b>   | <b>100%</b> |
| <b>DAS</b>   |                    |                                     |                                     |   |             |                   |                                     |                                     |   |             |
| Military and<br>space<br>(defense<br>structures)             | \$(16,785)         | \$15,762                            | \$32,547                            | 25%   | 40%         | \$(39,296)        | \$57,826                            | \$97,122                            | 27%   | 40%         |
| Commercial<br>aerospace                                      | (402 )             | 48,408                              | 48,810                              | 75%   | 60%         | 9,975             | 154,480                             | 144,505                             | 73%   | 60%         |
| <b>Total</b>   | <b>\$(17,187)</b>  | <b>\$64,170</b>                     | <b>\$81,357</b>                     | <b>100%</b>   | <b>100%</b> | <b>\$(29,321)</b> | <b>\$212,306</b>                    | <b>\$241,627</b>                    | <b>100%</b>   | <b>100%</b> |
| <b>DLT</b>   |                    |                                     |                                     |   |             |                   |                                     |                                     |   |             |
| Military and<br>space<br>(defense<br>technologies)           | \$(9,227 )         | \$54,182                            | \$63,409                            | 56%   | 59%         | \$(23,049)        | \$160,344                           | \$183,393                           | 54%   | 59%         |
| Commercial<br>aerospace                                      | 620                | 12,758                              | 12,138                              | 13%   | 11%         | 4,710             | 37,610                              | 32,900                              | 13%   | 11%         |
| Natural<br>resources   | (3,251 )           | 7,107                               | 10,358                              | 7%  | 10%         | (5,963 )          | 25,961                              | 31,924                              | 9%  | 10%         |
| Industrial   | 1,072              | 10,681                              | 9,609                               | 11%   | 9%          | 3,314             | 34,742                              | 31,428                              | 12%   | 10%         |
| Medical and<br>other   | 1,479              | 12,772                              | 11,293                              | 13%   | 11%         | 5,311             | 38,472                              | 33,161                              | 12%   | 10%         |
| <b>Total</b>   | <b>\$(9,307 )</b>  | <b>\$97,500</b>                     | <b>\$106,807</b>                    | <b>100%</b>   | <b>100%</b> | <b>\$(15,677)</b> | <b>\$297,129</b>                    | <b>\$312,806</b>                    | <b>100%</b>   | <b>100%</b> |

Net revenues for the three months ended October 3, 2015 were approximately \$161.7 million, compared to approximately \$188.2 million for the three months ended September 27, 2014. The net revenues decrease year-over-year primarily reflects an approximate 27% decrease in revenue in the military and space end-use markets mainly due to the decrease in U.S. government defense spending as well as shifting of their spending priorities which impacted our fixed-wing and helicopter platforms, combined with a delay in the timing of when these products are



required by our customers, and an approximate 2% decrease in revenue in the non-aerospace and defense (“non-A&D”) end-use markets.

Net revenues for the nine months ended October 3, 2015 were approximately \$509.4 million, compared to approximately \$554.4 million for the nine months ended September 27, 2014. The net revenues decrease year-over-year primarily reflects an approximate 22% decrease in revenue in the military and space end-use markets mainly due to the decrease in U.S. government defense spending as well as shifting of their spending priorities which impacted our fixed-wing and helicopter platforms, combined with a delay in the timing of when these products are required by our customers, partially offset by an approximate 8% increase in revenue in the commercial aerospace end-use markets and an approximate 3% increase in revenue in the non-A&D end-use markets.

Net Revenues by Major Customers

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

|                         | Three Months Ended |                       | Nine Months Ended  |                       |   |
|-------------------------|--------------------|-----------------------|--------------------|-----------------------|---|
|                         | October 3,<br>2015 | September 27,<br>2014 | October 3,<br>2015 | September 27,<br>2014 |   |
| Boeing Company          | 16                 | % 21                  | % 16               | % 20                  | % |
| Raytheon Company        | 9                  | % 9                   | % 8                | % 9                   | % |
| Total top ten customers | 57                 | % 61                  | % 55               | % 59                  | % |

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

|          | October 3,<br>2015 | December 31,<br>2014 |   |
|----------|--------------------|----------------------|---|
| Boeing   | 13                 | % 12                 | % |
| Raytheon | 9                  | % 10                 | % |

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

**Gross Profit**

Gross profit consists of net revenues less cost of sales. Cost of sales includes the cost of production of finished products and other expenses related to inventory management, manufacturing quality, and order fulfillment. Gross profit margin decreased year-over-year in the three months ended October 3, 2015 to approximately 12% compared to the three months ended September 27, 2014 of approximately 18% primarily due to higher cost of sales relative to net revenues as a result of higher forward loss reserves related to a regional jet program of approximately \$9.0 million, loss of efficiencies resulting from lower manufacturing volume of approximately \$3.9 million, unfavorable product mix of approximately \$2.1 million, partially offset by lower compensation and benefit costs of approximately \$1.6 million.

Gross profit margin decreased year-over-year in the nine months ended October 3, 2015 to approximately 15% compared to the nine months ended September 27, 2014 of approximately 19% primarily due to higher cost of sales relative to net revenues as a result of higher forward loss reserves related to a regional jet program of approximately \$12.1 million, unfavorable product mix of approximately \$10.4 million, and loss of efficiencies resulting from lower manufacturing volume of approximately \$7.4 million, partially offset by lower compensation and benefit costs of approximately \$1.5 million.

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

SG&A expenses decreased year-over-year in the three months ended October 3, 2015 compared to the three months ended September 27, 2014 primarily due to lower compensation and benefit costs of approximately \$1.2 million and lower discretionary expenses as a result of the cost savings initiatives we have implemented, partially offset by restructuring charges related to severance and benefits of approximately \$0.8 million.

SG&A expenses decreased slightly year-over-year in the nine months ended October 3, 2015 compared to the nine months ended September 27, 2014 primarily due to lower compensation and benefit costs of approximately \$1.1 million and lower discretionary expenses as a result of the cost savings initiatives we have implemented, partially offset by higher professional service fees of approximately \$1.4 million and restructuring charges related to severance and benefits of approximately \$0.8 million.

**Interest Expense**

Interest expense decreased year over year in both the three and nine months ended October 3, 2015 compared to the three and nine months ended September 27, 2014 primarily due to lower outstanding debt balances as a result of voluntary principal prepayments of our term loan each quarter during 2014 and each of the first three quarters of 2015 combined with a lower average interest rate in 2015 as a result of refinancing all the existing debt using the new credit facility as we continue to de-lever our balance sheet. We expect to realize annualized savings of approximately \$15.0 million in interest savings from the refinancing of debt.

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

Loss on extinguishment of debt for the three months ended October 3, 2015 was made up of the call premium to retire the existing \$200.0 million senior unsecured notes in July 2015 of approximately \$9.8 million and the write off of the unamortized debt issuance costs associated with the existing \$200.0 million senior unsecured notes of approximately \$2.1 million. Loss on extinguishment of debt for the nine months ended October 3, 2015 was made up of the call premium to retire the existing \$200.0 million senior unsecured notes in July 2015 of approximately \$9.8 million, the write off of the unamortized debt issuance costs associated with the existing \$200.0 million senior unsecured notes of approximately \$2.1 million, the write off of the unamortized debt issuance costs associated with the existing senior

secured term loan and existing senior secured revolving credit facility of approximately \$2.8 million when the existing senior secured term loan was paid off in June 2015 and both were replaced with the New Credit Facilities (see Note 7 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q).

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Other income was zero for the three months ended October 3, 2015 compared to approximately \$1.6 million for the three months ended September 27, 2014 primarily due to the prior year quarter had insurance recoveries related to property and equipment. Other income for the nine months ended October 3, 2015 and September 27, 2014 was made up of insurance recoveries related to property and equipment of approximately \$1.5 million and \$1.6 million, respectively.

**Income Tax (Benefit) Expense**

We recorded an income tax benefit of approximately \$(6.9) million (effective tax benefit rate of 42%) for the three months ended October 3, 2015 compared to an income tax expense of approximately \$1.8 million (effective tax rate of 37%) for the three months ended September 27, 2014. The difference between the statutory tax rate of 35% and the effective tax benefit rate for the three months ended October 3, 2015 was primarily due to a benefit for the Qualified Domestic Production Activities Deduction and release of reserves as a result of the expiration of statute of limitations, partially offset by state taxes. The difference between the statutory tax rate of 35% and the effective tax benefit rate for the three months ended September 27, 2014 was primarily due to a benefit for the Qualified Domestic Production Activities Deduction and release of reserves as a result of the expiration of statute of limitations, partially offset by state taxes.

We recorded an income tax benefit of approximately \$(6.7) million (effective tax benefit rate of 41%) for the nine months ended October 3, 2015 compared to an income tax expense of approximately \$7.5 million (effective tax rate of 34%) for the nine months ended September 27, 2014. The difference between the statutory tax rate of 35% and the effective tax benefit rate for the nine months ended October 3, 2015 was primarily due to a benefit for the Qualified Domestic Production Activities Deduction and release of reserves as a result of the expiration of statute of limitations, partially offset by state taxes. The difference between the statutory tax rate of 35% and the effective tax benefit rate for the nine months ended September 27, 2014 was primarily due to a benefit for the Qualified Domestic Production Activities Deduction and release of reserves as a result of the expiration of statute of limitations, partially offset by state taxes.

Our unrecognized tax benefits were approximately \$2.6 million and \$2.8 million as of October 3, 2015 and December 31, 2014, respectively. Approximately \$1.5 million, if recognized, would affect the annual income tax rate. We do not reasonably expect significant increases or decreases to our unrecognized tax benefits in the next twelve months.

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

Net (loss) income and (loss) per share for the three months ended October 3, 2015 were approximately \$(9.5) million, or \$(0.86) per share, compared to net income and earnings per share of approximately \$2.9 million, or \$0.26 per diluted share, for the three months ended September 27, 2014. The decrease to a net loss for the three months ended October 3, 2015 compared to net income for the three months ended September 27, 2014 was primarily due to loss on extinguishment of debt of approximately \$11.9 million, higher forward loss reserves related to a regional jet program of approximately \$9.0 million, loss of efficiencies resulting from lower manufacturing volume of approximately \$3.9 million, unfavorable product mix of approximately \$2.1 million, and restructuring charges related to severance and benefits of approximately \$0.8 million, partially offset by lower income tax expense of approximately \$8.7 million, lower interest expense of approximately \$3.6 million, and lower compensation and benefit costs of approximately \$3.0 million. We expect to realize annualized savings of approximately \$2.0 million to \$3.0 million related to the previously announced closure of two facilities plus an additional expected cost savings of approximately \$4.0 million to \$5.0 million annually from other cost savings initiatives already underway, and approximately \$15.0 million in interest savings from the refinancing of debt.

Net (loss) income and (loss) earnings per diluted share for the nine months ended October 3, 2015 were approximately \$(9.7) million, or \$(0.88) per share, compared to approximately \$14.7 million, or \$1.31 per diluted share, for the nine months ended September 27, 2014. Net loss for the nine months ended October 3, 2015 compared to net income for the nine months ended September 27, 2014 was primarily due to loss on extinguishment of debt of approximately \$14.7 million, higher forward loss reserves related to a regional jet program of approximately \$12.1 million, unfavorable product mix of approximately \$10.4 million, loss of efficiencies resulting from lower manufacturing

volume of approximately \$7.4 million, and restructuring charges related to severance and benefits of approximately \$0.8 million, partially offset by lower income tax expense of approximately \$14.2 million, lower interest expense of approximately \$4.6 million, and lower compensation and benefit costs of approximately \$2.6 million. We expect to realize annualized savings of approximately \$2.0 million to \$3.0 million related to the previously announced closure of two facilities plus an additional expected cost savings of approximately \$4.0 million to \$5.0 million annually from other cost savings initiatives already underway, and approximately \$15.0 million in interest savings from the refinancing of debt.

#### Business Segment Performance

We report our financial performance based upon the two reportable operating segments: DAS and DLT. The results of operations differ between our reportable operating segments due to differences in competitors, customers, extent of proprietary deliverables and

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performance. The following table summarizes our business segment performance for the three and nine months ended October 3, 2015 and September 27, 2014:

|  | Three Months Ended |                 |                                   |                   | Nine Months Ended                 |          |                 |                                   |                   |                                   |
|--|--------------------|-----------------|-----------------------------------|-------------------|-----------------------------------|----------|-----------------|-----------------------------------|-------------------|-----------------------------------|
|  | % Change           | (In thousands)  |                                   | % of Net Revenues |                                   | % Change | (In thousands)  |                                   | % of Net Revenues |                                   |
|  |                    | October 3, 2015 | September 27, 2014<br>As Restated | October 3, 2015   | September 27, 2014<br>As Restated |          | October 3, 2015 | September 27, 2014<br>As Restated | October 3, 2015   | September 27, 2014<br>As Restated |
| Net Revenues   |                    |                 |                                   |                   |                                   |          |                 |                                   |                   |                                   |
| DAS  | (21.1)%            | \$64,170        | \$81,357                          | 39.7 %            | 43.2 %                            | (12.1)%  | \$212,306       | \$241,627                         | 41.7 %            | 43.6 %                            |
| DLT  | (8.7 )%            | 97,500          | 106,807                           | 60.3 %            | 56.8 %                            | (5.0 )%  | 297,129         | 312,806                           | 58.3 %            | 56.4 %                            |
| Total Net Revenues   | (14.1)%            | \$161,670       | \$188,164                         | 100.0 %           | 100.0 %                           | (8.1 )%  | \$509,435       | \$554,433                         | 100.0 %           | 100.0 %                           |
| Segment Operating (Loss) Income                              |                    |                 |                                   |                   |                                   |          |                 |                                   |                   |                                   |
| DAS  |                    | \$(6,028 )      | \$6,908                           | (9.4 )%           | 8.5 %                             |          | \$2,980         | \$28,067                          | 1.4 %             | 11.6 %                            |
| DLT  |                    | 8,598           | 8,288                             | 8.8 %             | 7.8 %                             |          | 22,575          | 26,089                            | 7.6 %             | 8.3 %                             |
|  |                    | 2,570           | 15,196                            |                   |                                   |          | 25,555          | 54,156                            |                   |                                   |
| Corporate General and Administrative Expenses <sup>(1)</sup> |                    | (3,747 )        | (5,134 )                          | (2.3 )%           | (2.7 )%                           |          | (12,266 )       | (12,456 )                         | (2.4 )%           | (2.2 )%                           |
| Total Operating (Loss) Income                                |                    | \$(1,177 )      | \$10,062                          | (0.7 )%           | 5.3 %                             |          | \$13,289        | \$41,700                          | 2.6 %             | 7.5 %                             |
| EBITDA   |                    |                 |                                   |                   |                                   |          |                 |                                   |                   |                                   |
| DAS  |                    |                 |                                   |                   |                                   |          |                 |                                   |                   |                                   |
| Operating (Loss) Income                                      |                    | \$(6,028 )      | \$6,908                           |                   |                                   |          | \$2,980         | \$28,067                          |                   |                                   |
| Other Income <sup>(2)</sup>                                  |                    | —               | 1,600                             |                   |                                   |          | 1,510           | 1,600                             |                   |                                   |
| Depreciation and Amortization                                |                    | 2,386           | 2,272                             |                   |                                   |          | 7,009           | 8,242                             |                   |                                   |
|  |                    | (3,642 )        | 10,780                            | (5.7 )%           | 13.3 %                            |          | 11,499          | 37,909                            | 5.4 %             | 15.7 %                            |
| DLT  |                    |                 |                                   |                   |                                   |          |                 |                                   |                   |                                   |
| Operating Income   |                    | 8,598           | 8,288                             |                   |                                   |          | 22,575          | 26,089                            |                   |                                   |
| Depreciation and Amortization                                |                    | 4,207           | 4,391                             |                   |                                   |          | 12,928          | 13,442                            |                   |                                   |
|  |                    | 12,805          | 12,679                            | 13.1 %            | 11.9 %                            |          | 35,503          | 39,531                            | 11.9 %            | 12.6 %                            |
| Corporate General and Administrative Expenses <sup>(1)</sup> |                    |                 |                                   |                   |                                   |          |                 |                                   |                   |                                   |
| Operating Loss   |                    | (3,747 )        | (5,134 )                          |                   |                                   |          | (12,266 )       | (12,456 )                         |                   |                                   |
|  |                    | 42              | 41                                |                   |                                   |          | 127             | 145                               |                   |                                   |

|                                      |          |          |     |   |     |           |           |          |     |   |      |   |
|--------------------------------------|----------|----------|-----|---|-----|-----------|-----------|----------|-----|---|------|---|
| Depreciation and Amortization        | (3,705 ) | (5,093 ) |     |   |     | (12,139 ) | (12,311 ) |          |     |   |      |   |
| EBITDA                               | \$5,458  | \$18,366 | 3.4 | % | 9.8 | %         | \$34,863  | \$65,129 | 6.8 | % | 11.7 | % |
| Adjusted EBITDA                      |          |          |     |   |     |           |           |          |     |   |      |   |
| Restructuring Charges <sup>(3)</sup> | 806      | —        |     |   |     | 806       | —         |          |     |   |      |   |
| Adjusted EBITDA                      | 6,264    | 18,366   | 3.9 | % | 9.8 | %         | 35,669    | 65,129   | 7.0 | % | 11.7 | % |
| Capital Expenditures                 |          |          |     |   |     |           |           |          |     |   |      |   |
| DAS                                  | \$2,329  | \$1,266  |     |   |     | \$8,080   | \$3,986   |          |     |   |      |   |
| DLT                                  | 758      | 1,761    |     |   |     | 3,196     | 4,736     |          |     |   |      |   |
| Corporate Administration             | 4        | 1        |     |   |     | 10        | 25        |          |     |   |      |   |
| Total Capital Expenditures           | \$3,091  | \$3,028  |     |   |     | \$11,286  | \$8,747   |          |     |   |      |   |

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

(2) Insurance recoveries related to property and equipment included as other income.

(3) Includes restructuring charges for severance and benefits of approximately \$0.5 million and \$0.3 million recorded in the DLT and DAS operating segments, respectively.

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## Ducommun AeroStructures

DAS's net revenues in the three months ended October 3, 2015 compared to the three months ended September 27, 2014 decreased approximately 21% primarily due to an approximate 52% decrease in military and space revenue mainly due to the decrease in U.S. government defense spending as well as shifting of their spending priorities which impacted our fixed-wing and helicopter platforms, combined with a delay in the timing of when these products are required by our customers. DAS's net revenues in the nine months ended October 3, 2015 compared to the nine months ended September 27, 2014 decreased approximately 12% primarily due to an approximate 40% decrease in military and space revenue mainly due to the decrease in U.S. government defense spending as well as shifting of their spending priorities which impacted our fixed-wing and helicopter platforms, combined with a delay in the timing of when these products are required by our customers that was partially offset by approximate 7% increase in commercial aerospace revenue.

The DAS segment operating income decreased in the three month period ending October 3, 2015 primarily due to higher forward loss reserves related to a regional jet program of approximately \$9.0 million, unfavorable product mix of approximately \$2.9 million, loss of efficiencies resulting from lower manufacturing volume of approximately \$2.6 million, partially offset by lower compensation and benefit costs of approximately \$1.6 million. The DAS segment operating income decreased in the nine month period ending October 3, 2015 primarily due to higher forward loss reserves related to a regional jet program of approximately \$12.1 million, unfavorable product mix of approximately \$7.9 million, and loss of efficiencies resulting from lower manufacturing volume of approximately \$5.2 million, partially offset by lower compensation and benefit costs of approximately \$1.5 million.

EBITDA was approximately \$(3.6) million or 6% of revenue, and approximately \$11.5 million or 5% of revenue, for the current three and nine months of fiscal 2015, respectively, compared to approximately \$10.8 million or 13% of revenue, and approximately \$37.9 million or 16% of revenue, for the comparable three and nine months in the prior year, respectively.

## Ducommun LaBarge Technologies

DLT's net revenues in the three months ended October 3, 2015 compared to the three months ended September 27, 2014 decreased approximately 9% primarily due to an approximate 15% decrease in military and space revenue mainly due to the decrease in U.S. government defense spending as well as shifting of their spending priorities which impacted our fixed-wing platforms, combined with a delay in the timing of when these products are required by our customers, an approximate 2% decrease in non-A&D revenue, partially offset by an approximate 5% increase in commercial aerospace revenue. DLT's net revenues in the nine months ended October 3, 2015 compared to the nine months ended September 27, 2014 decreased approximately 5% primarily due to an approximate 13% decrease in military and space revenue mainly due to the decrease in U.S. government defense spending as well as shifting of their spending priorities which impacted our fixed-wing platforms, combined with a delay in the timing of when these products are required by our customers, partially offset by an approximate 14% increase in commercial aerospace revenue and an approximate 3% increase in non-A&D revenue.

DLT's segment operating income increased in the three month period ending October 3, 2015 compared to the three months ended September 27, 2014 primarily due to favorable product mix of approximately \$0.8 million and lower compensation and benefit costs of approximately \$0.7 million, partially offset by loss of efficiencies resulting from lower manufacturing volume of approximately \$1.3 million. DLT's segment operating income decreased in the nine month period ending October 3, 2015 compared to the nine months ended September 27, 2014 primarily due to unfavorable product mix of approximately \$2.5 million and loss of efficiencies resulting from lower manufacturing volume of approximately \$2.2 million, partially offset by lower manufacturing costs of approximately \$1.3 million and lower compensation and benefit costs of approximately \$1.1 million.

EBITDA was approximately \$12.8 million or 13% of revenue, and approximately \$35.5 million or 12% of revenue, for the current three and nine months of fiscal 2015, respectively, compared to approximately \$12.7 million or 12% of revenue, and approximately \$39.5 million or 13% of revenue, for the comparable three and nine months in the prior year, respectively.

## Corporate General and Administrative ("CG&amp;A")



CG&A expenses decreased approximately \$1.4 million in the three months ending October 3, 2015 compared to the three months ended September 27, 2014 primarily due to lower compensation and benefit costs of approximately \$0.7 million and lower discretionary expenses as a result of the cost savings initiatives we have implemented. CG&A expenses decreased approximately \$0.2 million in the nine months ending October 3, 2015 compared to the nine months ended September 27, 2014 primarily due to lower discretionary expenses as a result of the cost savings initiatives we have implemented.

#### Backlog

Backlog is subject to delivery delays or program cancellations, which are beyond our control. Backlog is affected by timing differences in the placement of customer orders and tends to be concentrated in several programs to a greater extent than our net revenues. Backlog in non-aerospace and defense markets tends to be of a shorter duration and is generally fulfilled within a 3-month period. As a result of

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these factors, trends in our overall level of backlog may not be indicative of trends in our future net revenues. Approximately \$442 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of October 3, 2015 and December 31, 2014:

|   | (In thousands) |                    |                      |
|---|----------------|--------------------|----------------------|
|   | Change         | October 3,<br>2015 | December 31,<br>2014 |
| Consolidated Ducommun                     |                |                    |                      |
| Military and space                        |                |                    |                      |
| Defense technologies                      | \$(13,642 )    | \$171,375          | \$185,017            |
| Defense structures                        | (7,630 )       | 67,159             | 74,789               |
| Commercial aerospace                      | 18,470         | 250,854            | 232,384              |
| Natural resources                         | (9,434 )       | 13,078             | 22,512               |
| Industrial                                | (2,404 )       | 21,927             | 24,331               |
| Medical and other                         | 7,955          | 28,202             | 20,247               |
| Total                                     | \$(6,685 )     | \$552,595          | \$559,280            |
| DAS                                       |                |                    |                      |
| Military and space (defense structures)   | \$(7,630 )     | \$67,159           | \$74,789             |
| Commercial aerospace                      | 7,002          | 206,409            | 199,407              |
| Total                                     | \$(628 )       | \$273,568          | \$274,196            |
| DLT                                       |                |                    |                      |
| Military and space (defense technologies) | \$(13,642 )    | \$171,375          | \$185,017            |
| Commercial aerospace                      | 11,468         | 44,445             | 32,977               |
| Natural resources                         | (9,434 )       | 13,078             | 22,512               |
| Industrial                                | (2,404 )       | 21,927             | 24,331               |
| Medical and other                         | 7,955          | 28,202             | 20,247               |
| Total                                     | \$(6,057 )     | \$279,027          | \$285,084            |

## Liquidity and Capital Resources

## Available Liquidity

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

|   | (In millions)      |                      |   |
|---|--------------------|----------------------|---|
|   | October 3,<br>2015 | December 31,<br>2014 |   |
| Total debt, including long-term portion | \$260.0            | \$290.1              |   |
| Weighted-average interest rate on debt  | 2.82               | % 8.20               | % |
| Term Loan interest rate                 | 2.82               | % 4.75               | % |
| Cash and cash equivalents               | \$12.2             | \$45.6               |   |
| Unused Revolving Credit Facility        | \$198.5            | \$58.5               |   |

In June 2015, we completed a new credit facility to replace the Existing Credit Facilities. The new credit facility consists of a \$275.0 million senior secured term loan, which matures on June 26, 2020 (“New Term Loan”), and a \$200.0 million senior secured revolving credit facility (“New Revolving Credit Facility”), which matures on June 26, 2020 (collectively, the “New Credit Facilities”). We are required to make mandatory prepayments of amounts outstanding under the New Term Loan. In addition, on June 29, 2015, we initiated a call notice to retire all of the \$200.0 million senior unsecured notes (“Existing Notes”) on July 27, 2015. We drew down on the New Term Loan in the amount of \$275.0 million. Along with the call notice amount and paying the call premium of approximately \$9.75 million, we also paid down the \$65.0 million drawn on the New Revolving Credit Facility in the previous quarter. We expensed the call premium of approximately \$9.8 million and debt issuance costs related to the Existing Notes of approximately \$2.1 million upon extinguishing the Existing Notes in the current three months ended October 3, 2015. As of October 3, 2015, we were in compliance with all covenants required under the New



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Credit Facilities. See Note 7 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

Subsequent to the quarter ended October 3, 2015, we entered into interest rate cap hedges designated as cash flow hedges with maturity dates of June 2020, and in aggregate, totaling approximately \$135.0 million of our debt. We paid a total of approximately \$1.0 million in connection with the interest rate cap hedges.

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

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

### Cash Flow Summary

Net cash provided by operating activities for the nine months ended October 3, 2015 decreased to approximately \$12.1 million, compared to approximately \$20.8 million in the nine months ended September 27, 2014. The lower net cash generated during the first nine months of 2015 was primarily due to lower net income that was partially offset by improved working capital management.

Net cash used in investing activities of approximately \$10.0 million for the nine months ended October 3, 2015 were primarily due to capital expenditures, principally to support new contract awards at DAS and DLT. The increase in net cash used compared to the prior year was primarily due to timing of capital expenditures that was partially offset by insurance recoveries related to property and equipment.

Net cash used in financing activities for the nine months ended October 3, 2015 of approximately \$35.5 million were primarily due to voluntary principal prepayments on our existing and new term loans of approximately \$40.0 million, call premium paid to redeem the \$200.0 million Existing Notes of approximately \$9.8 million, that was partially offset by proceeds from the New Term Loan net of redemption of the \$200.0 million Existing Notes and repayment of the New Revolving Credit Facility of approximately \$65.0 million.

### Off-Balance Sheet Arrangements

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

### Critical Accounting Policies

The preparation of our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States requires estimation and judgment that affect the reported amounts of net revenues, expenses, assets and liabilities. For a description of our critical accounting policies, please refer to “Critical Accounting Policies” in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2014 Annual Report on Form 10-K. There have been no material changes in any of our critical accounting policies during the three and nine months ended October 3, 2015.

### Recent Accounting Pronouncements

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

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

Our main market risk exposure relates to changes in U.S. and U.K. interest rates on our outstanding long-term debt. At October 3, 2015, we had borrowings of approximately \$260.0 million under our New Credit Facilities that bear interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR) plus an applicable margin ranging from 1.50% to 2.75% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.75% per year, in each case based upon the consolidated total net adjusted leverage ratio. A

hypothetical 10% increase or decrease in the interest rate would have an immaterial impact on our financial condition and results of operations.

Item 4. Controls and Procedures

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### Disclosure Controls and Procedures

The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have conducted an evaluation of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of October 3, 2015. The Company had previously reported material weaknesses in internal control over financial reporting related to (i) a long-term contract ("Contract") following the discovery of misconduct by employees in the recording of direct labor costs to the Contract from 2009 through the third quarter 2014 which resulted in the identification of a forward loss provision that should have been recorded in 2009 and the impact on subsequent periods of adjustments to the forward loss provision based on information available at the time ("Forward Loss Adjustments"); and (ii) the year end reconciliation of income taxes payable and deferred tax balances identified errors primarily in 2013, 2012, and 2011 ("Tax Adjustments"), which were described in Item 9A in the Management's Report on Internal Control Over Financial Reporting in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. As a result of the material weaknesses in the Company's internal control over financial reporting, which were not remediated as of October 3, 2015, the CEO and CFO concluded the Company's disclosure controls and procedures were not effective as of October 3, 2015.

### Remediation of Material Weaknesses

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

#### Actions taken:

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

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

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

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

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

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

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

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

### Changes in Internal Control over Financial Reporting

Except as otherwise discussed above under "Remediation of Material Weaknesses," there were no other changes in our internal control over financial reporting during the three months ended October 3, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

See Note 12 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for a description of our legal proceedings.

Item 1A. Risk Factors

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See Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of our risk factors. There have been no material changes in the nine months ended October 3, 2015 to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 6. Exhibits

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

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

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

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

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

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

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

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

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

31.1 Certification of Principal Executive Officer.

31.2 Certification of Principal Financial Officer.

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

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

\* Indicates an executive compensation plan or arrangement.



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SIGNATURES

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

Date: November 4, 2015

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

Date: November 4, 2015

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

Date: November 4, 2015

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