DUCOMMUN INC /DE/
Form 10-Q
November 04, 2015
Table of Contents

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

FORM 10-Q

---

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

For the quarterly period ended 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 incorporation or organization)	(I.R.S. Employer 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
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 x

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

Table of Contents

DUCOMMUN INCORPORATED AND SUBSIDIARIES

		Page
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (unaudited)	3
	Condensed Consolidated Balance Sheets as of October 3, 2015 and December 31, 2014	3
	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended October 3, 2015 and September 27, 2014 (As Restated)	4
	Condensed Consolidated Statements of Comprehensive (Loss) Income for the Three and Nine Months Ended October 3, 2015 and September 27, 2014 (As Restated)	5
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 3, 2015 and September 27, 2014 (As Restated)	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	32
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	33
Item 1A.	Risk Factors	33
Item 4.	Mine Safety Disclosures	34
Item 6.	Exhibits	35
Signatures		37

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Ducommun Incorporated and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands, except share and per share data)

	October 3, 2015	December 31, 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.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014 As Restated	October 3, 2015	September 27, 2014 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.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014 As Restated	October 3, 2015	September 27, 2014 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.

Table of Contents

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

	Nine Months Ended	
	October 3, 2015	September 27, 2014 As Restated
Cash Flows from Operating Activities		
Net (Loss) Income	$(9,706)	$14,711
Adjustments to Reconcile Net (Loss) Income to 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.

Table of Contents

Ducommun Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Summary of Significant Accounting Policies
Basis of Presentation
The unaudited condensed consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries ("Ducommun," the "Company," "we," "us" or "our"), after eliminating intercompany balances and transactions. T
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 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

7

Table of Contents

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)		(In thousands, except per share data)	
	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014 As Restated	October 3, 2015	September 27, 2014 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)		(In thousands)	
	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 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

8

Table of Contents

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 maybe 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

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

Table of Contents

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

Table of Contents

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):

Table of Contents

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

Table of Contents

Unaudited Condensed Consolidated Statement of Income:	Three Months Ended September 27, 2014			Nine Months Ended September 27, 2014		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As 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 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 Outstanding						
Basic	10,921	—	10,921	10,902	—	10,902
Diluted	11,150	—	11,150	11,202	—	11,202

Unaudited Condensed Consolidated Statement of Comprehensive Income:	Three Months Ended September 27, 2014			Nine Months Ended September 27, 2014		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Net Income	$2,622	$ 311	$2,933	$13,723	$ 988	$14,711
Pension Adjustments						
Amortization of actuarial loss and prior service costs, net of tax benefit of approximately $40 and $124 for the three months and nine months ended September 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

Table of Contents

Unaudited Condensed Consolidated Cash Flow Statement:	Nine Months Ended September 27, 2014 As Reported	Adjustments	As Restated
Cash Flows from Operating Activities			
Net Income	$13,723	$ 988	$14,711
Adjustments to Reconcile Net Income to			
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):

Table of Contents

	Severance and 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, 2015	December 31, 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 AeroStructures	Ducommun LaBarge Technologies	Consolidated Ducommun
Gross goodwill	$57,243	$182,048	$239,291
Accumulated goodwill impairment	—	(81,722)	(81,722)
Balance at December 31, 2014	$57,243	$100,326	$157,569
Balance at October 3, 2015	$57,243	$100,326	$157,569

Note 6. Accrued Liabilities

The components of accrued liabilities were as follows:

16

Table of Contents

	(In thousands)	
	October 3, 2015	December 31, 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, 2015		December 31, 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

Table of Contents

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) Three Months Ended		(In thousands) Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 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, 2015	October 3, 2015
Amortization of actuarial losses - total before tax [(1)]	$(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

Table of Contents

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

Table of Contents

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) Three Months Ended		(In thousands) Nine Months Ended	
	October 3, 2015	September 27, 2014 As Restated	October 3, 2015	September 27, 2014 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 [1]	(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:

Table of Contents

	(In thousands)	
	October 3, 2015	December 31, 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

Table of Contents

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

Restatement of Previously Issued Financial Statements

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

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

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

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

Overview

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

Ducommun LaBarge Technologies (“DLT”) and Ducommun AeroStructures (“DAS”).
Third quarter 2015 recap:

- Third quarter revenue was approximately $161.7 million

Table of Contents

- 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

Table of Contents

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) Three Months Ended		(In thousands) Nine Months Ended	
	October 3, 2015	September 27, 2014 As Restated	October 3, 2015	September 27, 2014 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.

Table of Contents

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) Three Months Ended				(in thousands, except per share data) Nine Months Ended			
	October 3, 2015	% of Net Revenues	September 27, 2014	% of Net Revenues	October 3, 2015	% of Net Revenues	September 27, 2014	% of Net Revenues
			As Restated	As Restated			As Restated	As 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 and Administrative Expenses	21,205	13.1 %	23,050	12.2 %	64,707	12.7 %	65,005	11.7 %
Operating (Loss) 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 Extinguishment of 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 Before Taxes	(16,447)	(10.2)%	4,687	2.5 %	(16,420)	(3.2)%	22,206	4.0 %
Income Tax (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) Tax Rate	(42.1)%	nm	37.4 %	nm	(40.9)%	nm	33.8 %	nm
Diluted (Loss) Earnings Per 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:

25

Table of Contents

	Three Months Ended					Nine Months Ended				
		(In thousands)		% of Net Revenues			(In thousands)		% of Net Revenues	
	Change	October 3 2015	September 27, 2014	October 3 2015	September 27, 2014	Change	October 3 2015	September 27, 2014	October 3 2015	Septembe 2014
Consolidated Ducommun										
Military and space										
Defense technologies	$(9,227)	$54,182	$63,409	34%	34%	$(23,049)	$160,344	$183,393	31%	33%
Defense structures	(16,785)	15,762	32,547	10%	17%	(39,296)	57,826	97,122	11%	18%
Commercial aerospace	218	61,166	60,948	38%	32%	14,685	192,090	177,405	38%	32%
Natural 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 other	1,479	12,772	11,293	7%	6%	5,311	38,472	33,161	8%	5%
Total	$(26,494)	$161,670	$188,164	100%	100%	$(44,998)	$509,435	$554,433	100%	100%