

DUCOMMUN INC /DE/
Form 10-K
April 10, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common Stock, \$.01 par value per share	Name of each exchange on which registered New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

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information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price of which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter ended June 28, 2014 was approximately \$286 million.

The number of shares of common stock outstanding on March 31, 2015 was 10,964,901.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference:

(a) Proxy Statement for the 2015 Annual Meeting of Shareholders (the "2015 Proxy Statement"), incorporated partially in Part III hereof.

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EXPLANATORY NOTE

This Annual Report on Form 10-K for the year ended December 31, 2014 (“Form 10-K”) includes the restatement of certain of our previously issued consolidated financial statements and selected financial data. It also amends previously filed management’s discussion and analysis of financial condition and results of operations and other disclosures for the periods presented in this Form 10-K. As indicated in Note 2 to our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K, we corrected 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.

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.

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

Type of Financial Information:
Consolidated balance sheet

Date or Period:
As of December 31, 2013

Consolidated statements of income, comprehensive income,
shareholders’ equity, and cash flows

Years ended December 31, 2013 and 2012

Selected financial data	Years ended December 31, 2013, 2012, 2011 and 2010
Unaudited quarterly financial information	Quarters ended September 27, 2014, June 28, 2014 and March 29, 2014 and each quarter in the year ended December 31, 2013
Management's discussion and analysis of financial condition and results of operations	As of and for the years ended December 31, 2013 and 2012

In addition, we have identified material weaknesses related to our internal control over financial reporting for the year ended December 31, 2014. Disclosures related to these matters are included in Part II, Item 9A of this Form 10-K.

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We believe that presenting all of the amended and restated information regarding the Restated Periods in this Form 10-K allows investors to review all pertinent information in a single presentation. In addition, our Quarterly Reports on Form 10-Q to be filed during 2015 will include the restated 2014 comparable prior quarter and year to date periods. We have not filed and do not intend to file amendments to (i) our Quarterly Reports on Form 10-Q for the first three quarterly periods in the year ended December 31, 2014 or (ii) our Annual Report on Form 10-K for the year ended December 31, 2013 (collectively, the “Affected Periods”). Accordingly, investors should rely only on the financial information and other disclosures regarding the Restated Periods in this Form 10-K or in future filings with the SEC (as applicable), and not on any previously issued or filed reports, earnings releases or similar communications relating to those periods.

The combined impact of the adjustments and specified line items in the Affected Periods resulting from the restatement is described in Note 2 to our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K. The following items of this Form 10-K are impacted as a result of the restatement:

- Part I, Item 1A, Risk Factors
- Part II, Item 6, Selected Financial Data
- Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Part II, Item 9A, Controls and Procedures
- Part IV, Item 15, Exhibits and Financial Statement Schedules

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FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be preceded by, followed by or include the words “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate” or similar expressions. These statements are based on the beliefs and assumptions of our management. Generally, forward-looking statements include information concerning our possible or assumed future actions, events or results of operations. Forward-looking statements specifically include, without limitation, the information in this Form 10-K regarding: future sales, earnings, cash flow, uses of cash and other measures of financial performance, projections or expectations for future operations, our plans with respect to completed acquisitions, future acquisitions and dispositions and expected business opportunities that may be available to us.

Although we believe that the expectations reflected in the forward-looking statements are based on reasonable assumptions, these forward-looking statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. We cannot guarantee future results, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. All written and oral forward-looking statements made in connection with this Form 10-K that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by “Risk Factors” contained within Part I, Item 1A of this Form 10-K and other cautionary statements included herein. We are under no duty to update any of the forward-looking statements after the date of this Form 10-K to conform such statements to actual results or to changes in our expectations.

The information in this Form 10-K is not a complete description of our business. There can be no assurance that other factors will not affect the accuracy of these forward-looking statements or that our actual results will not differ materially from the results anticipated in such forward-looking statements. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include, but are not limited to, those factors or conditions described under “Risk Factors” contained within Part I, Item 1A of this Form 10-K and the following:

- our ability to manage and otherwise comply with our covenants with respect to our outstanding indebtedness;
- our ability to service our indebtedness;
- the cyclical nature of our end-use markets and the level of new commercial and military aircraft orders;
- industry and customer concentration;
- production rates for various commercial and military aircraft programs;
- the level of U.S. Government defense spending, including the impact of sequestration;
 - compliance with applicable regulatory requirements and changes in regulatory requirements, including regulatory requirements applicable to government contracts and sub-contracts;
- further consolidation of customers and suppliers in our markets;
- product performance and delivery;
- start-up costs, manufacturing inefficiencies and possible overruns on contracts;
- increased design, product development, manufacturing, supply chain and other risks and uncertainties associated with our growth strategy to become a Tier 2 supplier of higher-level assemblies;
- our ability to manage the risks associated with international operations and sales;
- possible goodwill and other asset impairments;
- the impact and timing of our internal controls remediation;
- economic and geopolitical developments and conditions;
 - unfavorable developments in the global credit markets;
- our ability to operate within highly competitive markets;
- technology changes and evolving industry and regulatory standards;
- the risk of environmental liabilities; and
- litigation with respect to us.

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We caution the reader that undue reliance should not be placed on any forward-looking statements, which speak only as of the date of this Form 10-K. We do not undertake any duty or responsibility to update any of these forward-looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect actual outcomes.

PART I

ITEM 1. BUSINESS

GENERAL

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 and Ducommun AeroStructures. We are the successor to a business that was founded in California in 1849 and reincorporated in Delaware in 1970.

ACQUISITIONS

Acquisitions have been an important element of our growth strategy. We have supplemented our organic growth by identifying, acquiring and integrating acquisition opportunities that result in broader, more sophisticated product and service offerings while diversifying and expanding our customer base and markets.

For example, in June 2011, we acquired all of the outstanding stock of LaBarge Inc., (the “LaBarge Acquisition”), a provider of electronics manufacturing services to aerospace, defense and other diverse markets for \$325.3 million (net of cash acquired and acquisition costs), funded by internally generated cash, senior unsecured notes and a senior secured term loan totaling \$390.0 million. The LaBarge Acquisition has positioned us to benefit from customers that are increasingly outsourcing their integrated electronic content on their platforms and consolidating their supplier base to companies with expanded capabilities.

PRODUCTS AND SERVICES

Business Segment Information

We operate through two primary strategic businesses, Ducommun LaBarge Technologies (“DLT”) and Ducommun Aerostructures (“DAS”), each of which is a reportable operating segment. The results of operations among our operating segments vary due to differences in competitors, customers, extent of proprietary deliverables and performance. DLT designs, engineers and manufactures high-reliability products used in worldwide technology-driven markets including aerospace, defense, natural resources, industrial, and medical and other end-use markets. DLT’s product offerings primarily range from prototype development to complex assemblies as discussed in more detail below. DAS designs, engineers and manufactures large, complex contoured aerospace structural components and assemblies and supplies composite and metal bonded structures and assemblies. DAS’s products are primarily used on commercial aircraft, military fixed-wing aircraft and military and commercial rotary-wing aircraft.

Ducommun LaBarge Technologies (“DLT”)

DLT has three major product offerings in electronics manufacturing for diverse, high-reliability applications: complex cable assemblies and interconnect systems, printed circuit board assemblies, and higher-level electronic, electromechanical and mechanical assemblies. Components and assemblies are provided principally for domestic and foreign commercial and military fixed-wing aircraft, military and commercial rotary-wing aircraft and space programs. In addition, we provide select industrial high-reliability applications for the industrial automation, natural resources (mine automation and drilling), and medical and other end-use markets. We build custom, high-performance electronics and electromechanical systems. Our products include sophisticated radar enclosures, aircraft avionics racks and shipboard communications and control enclosures, printed circuit board assemblies, cable assemblies, wire harnesses, and interconnect systems and other high-level complex assemblies. DLT utilizes a highly-integrated production process, including manufacturing, engineering, fabrication, machining, assembly, electronic integration, and related processes. Engineering, technical and program management services, including design, development, and integration and testing of circuit card assemblies and cable assemblies, are provided to a wide range of customers.

In response to customer needs and utilizing our in-depth engineering expertise, DLT is also considered a leading supplier of engineered products including, illuminated pushbutton switches and panels for aviation and test systems, microwave and millimeter switches and filters for radio frequency systems and test instrumentation, and motors and resolvers for motion control.

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DLT also provides engineering expertise for aerospace system design, development, integration, and test. We leverage the knowledge base, capabilities, talent, and technologies of this focused capability into direct support of our customers. Our expertise includes engineering capabilities in systems engineering, aerodynamics, propulsion, guidance-navigation-and control (“GNC”), lethality/warheads, simulations, avionics, structures, software, inertial measurement units, seeker/sensors, and signal/data processing.

Ducommun AeroStructures (“DAS”)

DAS has three major product offerings to support a global customer base: commercial aircraft, military fixed-wing aircraft, and military and commercial rotary-wing aircraft. Our applications include structural components, structural assemblies and bonded (metal and composite) components. In the structural components products, DAS designs, engineers, and manufactures large complex contoured aluminum, titanium and Inconel® aerostructure components for the aerospace industry. Structural assembly products include winglets, engine components, and fuselage structural panels for aircraft. Metal and composite bonded structures and assemblies products include aircraft wing spoilers, large fuselage skins, rotor blades on rotary-wing aircraft and components, flight control surfaces and engine components. To support these products, DAS maintains advanced machine milling, stretch-forming, hot-forming, metal bonding, composite layup, and chemical milling capabilities and has an extensive engineering capability to support both design and manufacturing.

AEROSPACE AND DEFENSE END-USE MARKETS OVERVIEW

Our largest end-use markets are the aerospace and defense markets and our sales to these markets represent approximately 82% of our net revenues in 2014. These markets are serviced by suppliers which are stratified, from the lowest value provided to the highest, into four tiers; Tier 3, Tier 2, Tier 1 and original equipment manufacturers (“OEMs”). The OEMs provide the highest value and are also known as prime contractors or primes. We derive a significant portion of our revenue from subcontracts with OEMs. As the prime contractor for various programs and platforms, the OEMs sell to their customers, who may include, depending upon the application, the U.S. Federal Government, foreign, state and local governments, global commercial airline carriers, regional jet carriers and various other customers. The OEMs also sell to global leasing companies that lease commercial aircraft. A significant portion of our revenue is earned from subcontracts with the primes. Tier 3 suppliers principally provide components or detailed parts. Tier 2 suppliers provide more complex, value-added parts and may also assume more design risk, manufacturing risk, supply chain risk and project management risk than Tier 3 suppliers. Tier 1 suppliers manufacture aircraft sections and purchase assemblies. We currently compete primarily with Tier 2 and Tier 3 suppliers. Our business growth strategy is to differentiate ourselves from competitors by providing more complex assemblies to our customers as a Tier 2 supplier.

Commercial Aerospace End-Use Market

The commercial aerospace end-use market is highly cyclical and is impacted by the level of global air passenger traffic in general, which in turn is influenced by global economic conditions, fleet fuel and maintenance costs and geopolitical developments. Sales into the commercial aerospace end-use market represented approximately 33% of our 2014 net revenues.

Growth in the world’s gross domestic product (“GDP”) is a contributor to global air passenger traffic expansion. Emerging economies in Asia, the Middle East and Latin America, where the GDP per capita expands at a faster rate than the developed markets, are contributing to the growth rate for new commercial aircraft. The demand for air travel is also expected to be influenced by a cyclical rebound and improvement in the economies of the more mature markets of Europe and North America.

Fuel performance has been and will continue to be an increasingly important component of the commercial airlines’ profitability and will continue to be driving demand for newer, more fuel efficient engine designs. Market acceptance is growing for these types of more fuel efficient aircraft from The Boeing Company (“Boeing”) and Airbus Group, formerly known as the European Aeronautic, Defense & Space Company (“EADS”), through their wholly owned subsidiary Airbus (“Airbus”). Replacement of aging fleets due to increasing costs of maintenance or obsolescence and availability of newer, more efficient aircraft also influences commercial aircraft build rates, but to a lesser degree. Further, the availability of internal or external funding impacts commercial aircraft build rates. Failure of our customers to obtain financing may result in cancellation or deferral of orders.

Industry projections estimate growth rates in air traffic in the mid-single digits and strength in commercial aerospace over the next few years. Boeing's projections in their 2014 Annual Report on Form 10-K filed with the SEC estimate a growth rate of 5% per year for passenger and cargo traffic, based on a projected average annual worldwide real economic growth rate of 3%, over the next 20 years in the commercial aircraft market. We believe we are well positioned given our product capabilities to participate in the steady projected growth rate for commercial air traffic and build rates for large commercial aircraft for the airframe manufacturing industry.

Defense End-Use Market

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Our defense end-use market includes products used in military and space, including technologies and structures applications. The defense end-use market is highly cyclical and is impacted by the level of government defense spending. Government defense spending is impacted by national defense policies and priorities, political climates, fiscal budgetary constraints, U.S. Federal budget deficits, projected economic growth and the level of global military or security threats, or other conflicts. Sales into the military and space end-use market represented approximately 49% of our net revenues during 2014.

U.S. Government appropriations have and likely will continue to be affected by larger U.S. Government budgetary issues and related legislation. In 2011, the Congress enacted the Budget Control Act, as amended by the American Taxpayer Relief Act of 2012 (“BCA”), and the Bipartisan Budget Act of 2013. Pursuant to the terms of the BCA, a sequestration went into effect on March 1, 2013 resulting in an approximate 8% reduction to the Department of Defense (“DoD”) budget for fiscal year (“FY”) 2013 to approximately \$496 billion, excluding funding for military personnel. The FY 2014 DoD base budget was essentially flat at \$496 billion and FY 2015 remains at a similar level. Unless Congress and the President of the United States (the “Administration”) agree to further amend or revoke the BCA, the DoD base budget is expected to increase very modestly to approximately \$500 billion for FY 2016. In the years beyond FY 2016, the BCA permits annual increases for DoD base budget funding of approximately 2% with such caps remaining in effect through FY 2023. The Administration has publicly signaled its intent to submit budget requests that are significantly higher than the BCA caps, as it did in submitting the FY 2016 budget request with all the years exceeding the caps under the BCA. Such levels of DoD budget funding would require the Congress to enact legislation to raise the BCA caps. In the event that DoD appropriations exceed the BCA caps in any fiscal year through FY 2023, an across-the-board sequestration would go into effect, as occurred in FY 2013. Conversely, the Congress could choose to reduce any above-BCA cap budget request, as it did for FY 2014 appropriations.

We derive a significant portion of our business from customers whose principal sales are to the U.S. Government and from direct sales by us to the U.S. Government. Thus, future budget cuts, including cuts mandated by sequestration, or future procurement decisions associated with the authorization and appropriations process could have a material effect on our results of operations, financial position and cash flows. In addition, if Congress is unable to pass appropriation bills in a timely manner, a government shutdown could result which could have impact above and beyond those resulting from budget cuts or sequestration. For additional information related to our sales from customers whose principal sales are to the U.S. Government and our direct sales to the U.S. Government, see “Risk Factors” contained within Part I, Item 1A of this Annual Report on Form 10-K (“Form 10-K”).

NON-AEROSPACE AND DEFENSE END-USE MARKETS OVERVIEW

Our non-aerospace and defense end-use markets, (natural resources, industrial, and medical and other) are diverse and are impacted by the customers’ needs for increasing electronic content and a desire to outsource. Factors expected to impact these markets include capital and industrial goods spending, the number of oil-rigs operating and the level of natural gas exploration in North America and general economic conditions. Our products are used in industrial test systems, energy exploration systems, semiconductor fabrication units, glass electronic manufacturing systems, mine automation and control systems, patient monitoring devices, respiratory care devices, biodecontamination equipment and other technology-driven products. Sales into the industrial end-use markets were approximately 18% of our net revenues during 2014.

We believe our business in these markets has stabilized and we are well positioned for these markets.

SALES AND MARKETING

Our commercial sales are substantially dependent on airframe manufacturers’ production rates of new aircraft. Deliveries of new aircraft by airframe manufacturers are dependent on the financial capacity of its customers, primarily airlines and leasing companies, to purchase the aircraft. Thus, sales of commercial aircraft could be affected as a result of changes in new aircraft orders, or the cancellation or deferral by airlines of purchases of ordered aircraft. Further, our sales for commercial aircraft programs could be affected by changes in our customers’ inventory levels and changes in our customers’ aircraft production build rates. In recent years, both major large aircraft manufacturers, Boeing and Airbus, have announced higher build rates due to increases in production of existing programs, including more fully-developed models, and by the introduction of new platforms.

Military components manufactured by us are employed in many of the country's front-line fighters, bombers, rotary-wing aircraft and support aircraft, as well as land and sea-based applications. Engineering, technical and program management services are provided principally for the United States defense, space and homeland security programs. Our defense business is diversified among a number of military manufacturers and programs. In the space sector, we continue to support various unmanned launch vehicle and satellite programs.

Our sales into the industrial, natural resources, and medical and other commercial markets are customer focused in the various markets and driven primarily by their capital spending and manufacturing outsourcing demands.

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We continue to broaden and diversify our customer base in the end-use markets we serve by providing innovative product and service solutions through drawing on our core competencies, experience and technical expertise. Net revenues related to military and space (defense technologies and defense structures), commercial aerospace, and non-aerospace and defense end-use markets in 2014 and 2013 were as follows:

Many of our contracts are fixed price contracts subject to termination at the convenience of the customer (as well as for default). In the event of termination for convenience, the customer generally is required to pay the costs we have incurred and certain other fees through the date of termination. Larger, long-term government subcontracts may have provisions for milestone payments, progress payments or cash advances for purchase of inventory.

Our marketing efforts primarily consist of developing strong, long-term relationships with our customers, which provide the basis for future sales. These close relationships allow us to gain a better insight into each customer's business needs, identify ways to provide greater value to the customer, and allow us to be designed in early in various products and/or high volume products.

SEASONALITY

The timing of our revenue is governed by the purchasing patterns of our customers, and, as a result, we may not generate revenue equally during the year. However, no material portion of our business is considered to be seasonal.

MAJOR CUSTOMERS

We currently generate the majority of our revenues from the aerospace and defense industries. As a result, we have significant sales to certain customers. Boeing and Raytheon each were approximately ten percent or greater of our 2014 net revenues. Sales to our top ten customers, including Boeing and Raytheon, were approximately 59% of our 2014 net revenues. Net sales by major customer for 2014 and 2013 were as follows:

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Net sales to our customers, except the U.S. Government, are diversified over a number of different military and space, commercial aerospace, natural resources, industrial, medical and other products. For additional information on sales to major customers, see Note 15 to our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K.

RESEARCH AND DEVELOPMENT

We perform concurrent engineering with our customers and product development activities under our self-funded programs as well as under contracts with others. Concurrent engineering and product development activities are performed for commercial, military and space applications. Further, we perform high-technology systems engineering and analysis, principally under customer-funded contracts, with a focus on sensors system simulation, engineering and integration activities.

RAW MATERIALS AND COMPONENTS

Raw materials and components used in the manufacturing of our products include aluminum, titanium, steel and carbon fibers, as well as a wide variety of electronic interconnect and circuit card assemblies and components. These raw materials are generally available from a number of suppliers and are generally in adequate supply. However, from time to time, we have experienced increases in lead times for and limited availability of, aluminum, titanium and certain other raw materials and/or components. Moreover, certain components, supplies and raw materials for our operations are purchased from single source suppliers and occasionally, directed by our customers. In such instances, we strive to develop alternative sources and design modifications to minimize the potential for business interruptions.

COMPETITION

The markets we serve are highly competitive, and our products and services are affected by varying degrees of competition. We compete worldwide with domestic and international companies in most markets. These companies may have competitive advantages as a result of greater financial resources, economies of scale and bundled products and services that we do not offer. Additional information related to competition is discussed in “Risk Factors” contained within Part I, Item 1A of this Form 10-K. Our ability to compete depends principally upon the breadth of our technical capabilities, the quality of our goods and services, competitive pricing, product performance, design and engineering capabilities, new product innovation, the ability to solve specific customer problems, and customer relationships.

PATENTS AND LICENSES

We have several patents, but we do not believe that our operations are dependent upon any single patent or group of patents. In general, we rely on technical superiority, continual product improvement, exclusive product features, superior lead time, on-time delivery performance, quality, and customer relationships to maintain our competitive advantage.

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 sales. As a result, trends in our overall level of backlog may not be indicative of trends in our future sales. Backlog was approximately \$559.3 million at December 31, 2014, compared to approximately \$620.0 million at December 31, 2013. The decrease in backlog was primarily in the defense technologies end-use markets. Approximately \$447.4 million of total backlog is expected to be delivered during 2015.

ENVIRONMENTAL MATTERS

Our business, operations and facilities are subject to numerous stringent federal, state and local environmental laws and regulations issued by government agencies, including the Environmental Protection Agency (“EPA”). Among other matters, these regulatory authorities impose requirements that regulate the emission, discharge, generation, management, transport and disposal of hazardous materials, pollutants and contaminants. These regulations govern public and private response actions to hazardous or regulated substances that threaten to release, or have been released to the environment, and they require us to obtain and maintain licenses and permits in connection with our operations. We may also be required to investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. Additionally, this extensive regulatory framework imposes significant compliance burdens and risks on us. We anticipate that capital expenditures will continue to be required for the

foreseeable future to upgrade and maintain our environmental compliance efforts, however, we do not expect such expenditures to be material in 2015 and the foreseeable future.

DAS has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its facilities located in Adelanto (a.k.a. El Mirage) and Monrovia, California. Based on currently available

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information, we have accrued approximately \$1.5 million for our estimated liabilities related to these sites. For further information, see Note 14 in the accompanying notes to consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K. In addition, see “Risk Factors” contained within Part I, Item 1A of this Form 10-K for certain risks related to environmental matters.

EMPLOYEES

As of December 31, 2014, we employed approximately 3,150 people, of which approximately 378 are subject to collective bargaining agreements expiring on July 1, 2015 and January 1, 2016. We believe our relations with our employees are good. See “Risk Factors” contained within Part I, Item 1A of this Form 10-K for additional information regarding certain risks related to our employees.

AVAILABLE INFORMATION

General information about us can be obtained from our website address at www.ducommun.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments (including restatements) to those reports, if any, are available free of charge on our website as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission (the “SEC”). Information included in our website is not incorporated by reference in this Annual Report on Form 10-K. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including our company.

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ITEM 1A. RISK FACTORS

Our business, financial condition, results of operations and cash flows may be affected by known and unknown risks, uncertainties and other factors. We have summarized below the significant, known material risks to our business. Additional risk factors not currently known to us or that we currently believe are immaterial may also impair our business, financial condition, results of operations and cash flows. Any of these risks, uncertainties and other factors could cause our future financial results to differ materially from recent financial results or from currently anticipated future financial results. The risk factors below should be considered together with the information included elsewhere in this Annual Report on Form 10-K (“Form 10-K”) as well as other required filings by us to the SEC.

RISKS RELATED TO OUR CAPITAL STRUCTURE

Our indebtedness could limit our financing options, adversely affect our financial condition, and prevent us from fulfilling our debt obligations.

At December 31, 2014, we had approximately \$290.0 million of outstanding long-term debt, consisting primarily of \$200.0 million of senior unsecured notes (the “Notes”) and approximately \$90.0 million under our senior secured term loan (the “Term Loan”). As a result, we currently have a relatively higher level of indebtedness than industry participants. The debt was the direct result of our LaBarge Acquisition.

In 2012, we began steps to reduce our debt by making approximately \$25.0 million of voluntary principal prepayments on the Term Loan. In 2013, we paid an additional approximately \$30.0 million of voluntary principal prepayments on our Term Loan. In 2014, we paid another approximately \$42.6 million of additional voluntary principal prepayments. We believe that these prepayments will help facilitate our plans to refinance in 2015. Our ability to complete a debt refinancing in 2015 may be limited, as discussed below in this risk factor. We may have to undertake alternative financing plans, such as selling assets; reducing or delaying scheduled expansions and/or capital investments; or seeking various forms of capital. Our ability to complete alternative financing plans may be affected by circumstances and economic events outside of our control. We cannot ensure that we would be able to refinance our debt or enter into alternative financing plans in adequate amounts on commercially reasonable terms, terms acceptable to us or at all, or that such plans guarantee that we would be able to meet our debt obligations.

Our high level of debt could:

- limit our ability to obtain additional financing to fund future working capital, capital expenditures, investments or acquisitions or other general corporate requirements;
 - require a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, investments or acquisitions or other general corporate purposes;
- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;
- place us at a disadvantage compared to other, less leveraged competitors;
- expose us to the risk of increased borrowing costs and higher interest rates as borrowings under our Credit Facilities bear interest at variable rates, which could further adversely impact our cash flows;
- limit our flexibility to plan for and react to changes in our business and the industry in which we compete;
- restrict us from making strategic acquisitions or causing us to make non-strategic divestitures;
- expose us to risk of rating agency downgrades and unfavorable changes in the global credit markets;
 - make it more difficult for us to satisfy our obligations with respect to the Notes and our other debt and maintain financial ratios as discussed below; and
- prevent us from raising the funds necessary to repurchase all Notes tendered to us upon the occurrence of certain changes of control, which failure to repurchase would constitute an event of default under the indenture governing the Notes.

The occurrence of any one of these events could have an adverse effect on our business, financial condition, results of operations and ability to satisfy our obligations in respect of our outstanding debt.

We require a considerable amount of cash to service our indebtedness.

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Our ability to make payments on and to refinance our debt and to fund planned capital expenditures and working capital needs, will depend upon our ability to generate significant cash in the future. Our ability to generate cash is subject to economic, financial, competitive, legislative, regulatory and other factors that may be beyond our control. The \$200.0 million Notes bear interest of 9.75% per annum, payable semi-annually. At December 31, 2014, the outstanding balance on the Term Loan was approximately \$90.0 million with an interest rate of 4.75%, consisting of a London Interbank Offered Rate (“LIBOR”) interest rate floor of 1.00%, plus a margin of 3.75%, with interest paid quarterly. In 2013, we successfully repriced our Term Loan by 0.75%, resulting in the current lower rate. Should interest rates increase above the interest rate floor of 1.00%, our debt service cost will increase. Any inability to generate sufficient cash flow could have a material adverse effect on our financial condition or results of operations. While we expect to meet all of our financial obligations, we cannot ensure you that our business will generate sufficient cash flow from operations in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs. In conjunction with the issuance of the Term Loan in 2011, we obtained a \$60.0 million Revolving Credit Facility (“Revolving Credit Facility”), (collectively the “Credit Facilities”). We cannot ensure that future borrowings will be available under the Revolving Credit Facility, in an amount sufficient to enable us to pay our debt or fund our other liquidity needs, if at all.

We require a considerable amount of cash to fund our anticipated voluntary principal prepayments on our Term Loan. Our ability to continue to reduce our Term Loan through voluntary principal prepayments will be a contributing factor to our ability to refinance our debt in 2015. Our ability to make such prepayments will depend upon our ability to generate significant cash in the future. We cannot ensure that our business will generate sufficient cash flow from operations to fund any such prepayments.

The covenants in the credit agreement to our Credit Facilities and the indenture governing the Notes impose restrictions that may limit our operating and financial flexibility and may limit our ability to make payments on the Notes.

In the event that a certain minimum amount is borrowed and outstanding under our Revolving Credit Facility, for so long as any such amount is outstanding, we will be required to comply with a leverage covenant, as defined in the credit agreement. Furthermore, our consolidated earnings before interest, taxes and depreciation and amortization (“EBITDA”), as defined by the credit agreement to our Credit Facilities, as of the end of any fiscal quarter on a trailing four-quarter basis, is not permitted to be less than \$50.0 million. The leverage covenant decreases over the term of the Revolving Credit Facility, which will require us to generate either increasing cash flows or increasing EBITDA in the future. For example, in October 2013, we completed an amendment to the credit agreement to our Credit Facilities which partially mitigated the impact of the leverage covenant by increasing the leverage ratio by 0.75 for all future periods. We believe the voluntary prepayments on the Term Loan will help reduce our leverage, as defined in the credit agreement.

At December 31, 2014, no amounts were outstanding under the Revolving Credit Facility which would have required us to comply with the leverage covenant. However, we would have been in compliance with such leverage covenant. At December 31, 2014, we were in compliance with the EBITDA covenant. There is no assurance that we will continue to be in compliance with the leverage covenant or the EBITDA covenant in future periods.

Our credit agreement to the Credit Facilities and the indenture governing the Notes contain a number of significant restrictions and covenants that limit our ability, among other things, to incur additional indebtedness, to create liens, to make certain payments, investments and capital expenditures, to pay dividends, to engage in transactions with affiliates, to sell certain assets or enter into mergers.

These covenants could materially and adversely affect our ability to finance our future operations or capital needs. Furthermore, they may restrict our ability to expand, pursue our business strategies and otherwise conduct our business. Our ability to comply with these covenants may be affected by circumstances and events beyond our control, such as prevailing economic conditions and changes in regulations, and we cannot ensure that we will be able to comply with such covenants. These restrictions also limit our ability to obtain future financings to withstand a future downturn in our business or the economy in general. In addition, complying with these covenants may also cause us to take actions that are not favorable to holders of the Notes and may make it more difficult for us to successfully execute our business strategy and compete against companies that are not subject to such restrictions.

A breach of any covenant in credit agreement to the Credit Facilities or the agreements and indentures governing any other indebtedness that we may have outstanding from time to time, including the indenture governing the Notes, would result in a default under that agreement or indenture after any applicable grace periods. A default, if not waived, could result in acceleration of the debt outstanding under the agreement and in a default with respect to, and an acceleration of, the debt outstanding under other debt agreements. If that occurs, we may not be able to make all of the required payments or borrow

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sufficient funds to refinance such debt. A default could permit our lenders to foreclose on any of our assets securing such debt. Even if new financing were available at that time, it may not be on terms or amounts that are acceptable to us or terms as favorable as our current agreements. If our debt is in default for any reason, our business, results of operations and financial condition could be materially and adversely affected.

We may not be able to make the change of control offer required by the indenture governing the Notes.

We may be unable to purchase the Notes upon a change of control, as defined in the indenture governing the Notes.

Upon a change of control, we will be required to offer to purchase all of the Notes then outstanding for cash at 101% of the principal amount plus accrued and unpaid interest, if any, on the date of purchase on the Notes. If a change of control were to occur, we may not have sufficient funds to pay the change of control purchase price and we may be required to secure third-party financing to do so. However, we may not be able to obtain such financing on commercially reasonable terms, on terms acceptable to us or at all.

A change of control under the indenture governing the Notes may also result in an event of default under our Credit Facilities which may cause the acceleration of indebtedness outstanding thereunder, in which case, proceeds of collateral pledged to secure borrowings thereunder would be used to repay such borrowings before we repay the Notes. In addition, our future indebtedness may also contain restrictions on our ability to repurchase the Notes upon certain events, including transactions that could constitute a change of control under the indenture governing the Notes. Our failure to repurchase the Notes upon a change of control would constitute an event of default under the indenture governing the Notes and would have a material adverse effect on our financial condition.

The typical trading volume of our common stock may affect an investor's ability to sell significant stock holdings in the future without negatively impacting stock price.

The level of trading activity may vary daily and typically represents only a small percentage of outstanding shares. As a result, a stockholder who sells a significant amount of shares in a short period of time could negatively affect our share price.

Our amount of debt may require us to raise additional capital to fund operations.

We may sell additional shares of common stock or other equity securities to raise capital in the future, which could dilute the value of an investor's holdings.

RISKS RELATED TO OUR BUSINESS

Our end-use markets are cyclical.

We sell our products into aerospace, defense, and industrial end-use markets, which are cyclical and have experienced periodic declines. Our sales are, therefore, unpredictable and tend to fluctuate based on a number of factors, including global economic conditions, geopolitical developments and conditions, and other developments affecting our end-use markets and the customers served. Consequently, results of operations in any period should not be considered indicative of the operating results that may be experienced in any future period.

We depend upon a selected base of industries and customers, which subjects us to unique risks which may adversely affect us.

We currently generate a majority of our revenue from customers in the aerospace and defense industry. Our business depends, in part, on the level of new military and commercial aircraft orders. As a result, we have significant sales to certain customers. Sales to the Boeing Company comprise the majority of our commercial aerospace end-use market. A significant portion of our net sales in our military and space end-use markets are made under subcontracts with OEMs, under their prime contracts with the U. S. Government. We had significant sales to Raytheon Company in 2014 in our defense technologies end-use market.

Our customers may experience delays in the launch of new products, labor strikes, diminished liquidity or credit unavailability, weak demand for their products, or other difficulties in their business. In addition, sequestration is causing additional uncertainty in the placement of orders.

Our sales to our top ten customers, which represented approximately 59% of our total 2014 net revenues, were diversified over a number of different military and space, commercial aerospace, natural resources, industrial, medical and other products. Any significant change in production rates by these customers would have a material effect on our results of operations and cash flows. There is no assurance that our current significant customers will continue to buy products from us at current levels, and that we will retain any or all of our existing customers, or that we will be able

to form new relationships with customers upon the loss of one or more of our existing customers. This risk may be further complicated by pricing pressures, intense

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competition prevalent in our industry and other factors. A significant reduction in sales to any of our major customers, the loss of a major customer, or a default on a major customer on accounts receivable could have a material adverse impact on our financial results.

In addition, we generally make sales under purchase orders and contracts that are subject to cancellation, modification or rescheduling. Changes in the economic environment and the financial condition of the industries we serve could result in customer cancellation of contractual orders or requests for rescheduling. Some of our contracts have specific provisions relating to schedule and performance, and failure to deliver in accordance with such provisions could result in cancellations, modifications, rescheduling and/or penalties, in some cases at the customers' convenience and without prior notice. While we have normally recovered our direct and indirect costs, such cancellations, modifications, or rescheduling that cannot be replaced in a timely fashion, could have a material adverse effect on our financial results. A significant portion of our business depends upon U.S. Government defense spending.

We derive a significant portion of our business from customers whose principal sales are to the U.S. Government and from direct sales by us to the U.S. Government. Accordingly, the success of our business depends upon government spending generally or for specific departments or agencies in particular. Such spending, among other factors, is subject to the uncertainties of governmental appropriations and national defense policies and priorities, constraints of the budgetary process, timing and potential changes in these policies and priorities, and the adoption of new laws or regulations or changes to existing laws or regulations.

These and other factors could cause the government and government agencies, or prime contractors that use us as a subcontractor, to reduce their purchases under existing contracts, to exercise their rights to terminate contracts at-will or to abstain from exercising options to renew contracts, any of which could have a material adverse effect on our business, financial condition and results of operations.

Further, certain U.S. Government programs in which we participate may extend for several years; however, these programs are typically funded annually. Changes in the government's strategy and priorities may affect our existing programs and future opportunities. Our government contracts and related orders with the U.S. Government are subject to cancellation, or delay, if appropriations for subsequent performance periods are not made. The termination of funding for existing or new U.S. Government programs, or delays in payment, could have a material adverse effect on our financial results. Although we are not yet able to determine how sequestration will impact specific programs and contracts related to us, we expect the reduced U.S. Department of Defense ("U.S. DoD") budgeted spending that began in fiscal 2014 will continue to result in lower or delayed awards on some of our programs. Reductions, cancellations or delays impacting existing contracts or programs could have a material effect on our financial results.

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

The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. Government contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. DoD. Such audits and reviews could result in adjustments to our contract costs and profitability.

However, we cannot ensure the outcome of any future audits and adjustments may be required to reduce net sales or profits upon completion and final negotiation of audits. If any audit or review were to uncover inaccurate costs or improper activities, we could be subject to penalties and sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from conducting future business with the U.S. Government. Any such outcome could have a material adverse effect on our financial results.

Contracts with some of our customers, including Federal government contracts, contain provisions which give our customers a variety of rights that are unfavorable to us and the OEMs to whom we provide products and services, including the ability to terminate a contract at any time for convenience.

Contracts with some of our customers, including Federal government contracts, contain provisions and are subject to laws and regulations that provide rights and remedies not typically found in commercial contracts. These provisions may allow our customers to:

- terminate existing contracts, in whole or in part, for convenience, as well as for default, or if funds for contract performance for any subsequent year become unavailable;
- suspend or debar us from doing business with the federal government or with a governmental agency;

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prohibit future procurement awards with a particular agency as a result of a finding of an organizational conflict of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors;

claim rights in products and systems produced by us; and

control or prohibit the export of the products and related services we offer.

If the U.S. Government terminates a contract for convenience, the counterparty with whom we have contracted on a subcontract may terminate its contract with us. As a result of any such termination, whether on a direct government contract or subcontract, we may recover only our incurred or committed costs, settlement expenses and profit on work completed prior to the termination. If the U.S. Government terminates a direct contract with us for default, we may not even recover those amounts and instead may be liable for excess costs incurred by the U.S. Government in procuring undelivered items and services from another source. Contracts with foreign governments generally contain similar provisions relating to termination at the convenience of the customer.

In addition, the U.S. Government is typically required to open all programs to competitive bidding and, therefore, may not automatically renew any of its prime contracts. If one or more of our government prime or subcontracts is terminated or cancelled, our failure to replace sales generated from such contracts would result in lower sales and have an adverse effect on our business, results of operations and financial condition.

Further consolidation in the aerospace industry could adversely affect our business and financial results.

The aerospace and defense industry is experiencing significant consolidation, including our customers, competitors and suppliers. Consolidation among our customers may result in delays in the award of new contracts and losses of existing business. Consolidation among our competitors may result in larger competitors with greater resources and market share, which could adversely affect our ability to compete successfully. Consolidation among our suppliers may result in fewer sources of supply and increased cost to us.

We rely on our suppliers to meet the quality or delivery expectations of our customers.

Our ability to deliver our products and services on schedule is dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials, internal and supplier produced parts and structures, conversion of raw materials into parts and assemblies, and performance of suppliers and others.

We rely on numerous third-party suppliers for raw materials and a large proportion of the components used in our production process. Certain of these raw materials and components are available only from single sources or a limited number of suppliers, or similarly, customers' specifications may require us to obtain raw materials and/or components from a single source or certain suppliers. Many of our suppliers are small companies with limited financial resources and manufacturing capabilities. We do not currently have the ability to manufacture these components ourselves.

These and other factors, including the loss of a critical supplier or raw materials and/or component shortages, could cause disruptions or cost inefficiencies in our operations compared to our competitors that have greater direct purchasing power, which could have a material adverse effect on our financial results.

We use estimates when bidding on fixed-price contracts. Changes in our estimates could adversely affect our financial results.

We enter into contracts providing for a firm, fixed-price for the sale of some of our products regardless of the production costs incurred by us. In many cases, we make multi-year firm, fixed-price commitments to our customers, without assurance that our anticipated production costs will be achieved. Contract bidding and accounting require judgment relative to assessing risks, estimating contract net sales and costs, including estimating cost increases over time and efficiencies to be gained, and making assumptions for supplier sourcing and quality, manufacturing scheduling and technical issues over the life of the contract. Such assumptions can be particularly difficult to estimate for contracts with new customers. Our failure to accurately estimate these costs can result in reduced profits or incurred losses. Because of the significance of the judgments and estimates involved, it is possible that materially different amounts could be obtained if different assumptions were used or if the underlying circumstances were to change. Therefore, any changes in our underlying assumptions, circumstances or estimates could have a material adverse effect on our financial results. For example, in the fourth quarter of 2013, we recorded a charge in the DAS segment for the estimated cost to complete of approximately \$5.2 million, consisting of \$3.9 million for the Embraer Legacy 450/500 aircraft contracts, and \$1.3 million for the Boeing 777 wing tip contract. The charges resulted from

difficulties in achieving previously anticipated cost reductions, including delays in transferring work to our lower-cost Guaymas, Mexico facility. The charge for the Embraer Legacy 450/500 contracts also reflects estimated cost overruns for customer driven changes on both the development and production phases of the contracts. See “Revenue Recognition” and “Provision for

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Estimated Losses on Contracts” in Part II, Item 7, Management’s Discussion and Analysis—Critical Accounting Policies, of this Annual Report on Form 10-K for further information.

As we move up the value chain to become a Tier 2 supplier, enhanced design, product development, manufacturing, supply chain project management and other skills will be required.

We may encounter difficulties as we execute our growth strategy to move up the value chain to become a Tier 2 supplier of more complex, value-added assemblies. Difficulties we may encounter include, but are not limited to, the need for enhanced and expanded product design skills, enhanced ability to control and influence our suppliers, enhanced quality control systems and infrastructure, enhanced large-scale project management skills, and expanded industry certifications. Assuming incremental project design responsibilities would require us to assume additional risk in developing cost estimates and could expose us to increased risk of losses. There can be no assurance that we will be successful in obtaining the enhanced skills required to be a Tier 2 supplier or that our customers will outsource such functions to us.

Risks associated with operating and conducting our business outside the United States could adversely impact us. We have facilities in Thailand and Mexico and also derive a portion of our net sales from direct foreign sales. Further, our customers may derive portions of their sales to non-U.S. customers. As a result, we are subject to the risks of conducting and operating our business internationally, including:

- political instability;
- economic and geopolitical developments and conditions;
- compliance with a variety of international laws, as well as U.S. laws affecting the activities of U.S. companies conducting business abroad, including, but not limited to, the Foreign Corrupt Practices Act;
- imposition of taxes, export controls, tariffs, embargoes and other trade restrictions;
- and
- difficulties repatriating funds or restrictions on cash transfers.

While the impact of these factors is difficult to predict, any one or more of these factors could have a material adverse effect on our financial results.

Goodwill and/or other assets could be impaired in the future, which could result in substantial charges.

Goodwill is tested for impairment on an annual basis during our fourth quarter or more frequently if events or circumstances occur which could indicate potential impairment. We also test intangible assets with indefinite life periods for potential impairment annually and on an interim basis if there are indicators of potential impairment. We evaluate amortizable intangible assets, fixed assets, and production cost of contracts for impairment if there are indicators of a potential impairment. In assessing the recoverability of goodwill, management is required to make certain critical estimates and assumptions. These estimates and assumptions include projected sales levels, including addition of new customers, programs or platforms and increased content on existing programs or platforms, improvements in manufacturing efficiency, and reductions in operating costs. Due to many variables inherent in the estimation of a business’s fair value and the relative size of our recorded goodwill, differences in estimates and assumptions may have a material effect on the results of our impairment analysis. If any of these or other estimates and assumptions are not realized in the future, or if market multiples decline, we may be required to record an impairment charge for goodwill in addition to the pre-tax impairment charge of approximately \$54.3 million recorded in 2011. Impairment charges may be incurred against other intangible assets or long-term assets if asset utilization declines, customer demand declines or other circumstances indicate that the asset carrying value may not be recoverable. For example, in the fourth quarter of 2013 we recorded a pre-tax asset impairment charge of \$7.0 million to production cost of contracts for the Embraer Legacy 450/500 and Boeing 777 wing tip contracts. Our production cost of contracts as of December 31, 2014 was approximately \$11.7 million or 1.6% of total assets. Our goodwill and other intangible assets as of December 31, 2014 were approximately \$312.7 million, or 42% of total assets. See “Goodwill and Indefinite-Lived Intangible Assets” and “Production Cost of Contracts” in Part II, Item 7, Management’s Discussion and Analysis—Critical Accounting Policies, of this Annual Report on Form 10-K for further information.

OTHER RISKS

Our operations are subject to numerous extensive, complex, costly and evolving laws, regulations and restrictions, and failure to comply with these laws, regulations and restrictions could subject us to penalties and sanctions that could

harm our business.

Prime contracts with various agencies of the U.S. Government, and subcontracts with other prime contractors, are subject to numerous laws and regulations which affect how we do business with our customers and may impose added costs on our

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business. As a result, our contracts and operations are subject to numerous, extensive, complex, costly and evolving laws, regulation and restrictions, principally by the U.S. Government or their agencies. These laws, regulation and restrictions govern items including, but not limited to, the formation, administration and performance of U.S. Government contracts, disclosure of cost and pricing data, civil penalties for violations or false claims to the U.S. Government for payment, define reimbursable costs, establish ethical standards for the procurement process and control the import and export of defense articles and services.

Noncompliance could expose us to liability for penalties, including termination of our U.S. Government contracts and subcontracts, disqualification from bidding on future U.S. Government contracts and subcontracts, suspension or debarment from U.S. Government contracting and various other fines and penalties. Noncompliance found by any one agency could result in fines, penalties, debarment or suspension from receiving additional contracts with all U.S. Government agencies. Given our dependence on U.S. Government business, suspension or debarment could have a material adverse effect on our financial results.

In addition, the U.S. Government may revise its procurement practices or adopt new contract rules and regulations, at any time, including increased usage of fixed-price contracts and procurement reform. Such changes could impair our ability to obtain new contracts or subcontracts or renew contracts or subcontracts under which we currently perform when those contracts are put up for recompetition. Any new contracting methods could be costly or administratively difficult for us to implement and could adversely affect our future net sales.

In addition, our international operations subject us to numerous U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, repatriation of earnings, exchange controls, the Foreign Corrupt Practices Act and the anti-boycott provisions of the U.S. Export Administration Act. Changes in regulations or political environments may affect our ability to conduct business in foreign markets including investment, procurement and repatriation of earnings. Failure by us or our sales representatives or consultants to comply with these laws and regulations could result in certain liabilities and could possibly result in suspension or debarment from government contracts or suspension of our export privileges, which could have a material adverse effect on our financial results.

Customer pricing pressures could reduce the demand and/or price for our products and services.

All the markets we serve are highly competitive and price sensitive. We compete worldwide with a number of domestic and international companies that have substantially greater manufacturing, purchasing, marketing and financial resources than we do. Many of our customers have the in-house capability to fulfill their manufacturing requirements. Our larger competitors may be able to vie more effectively for very large-scale contracts than we can by providing different or greater capabilities or benefits such as technical qualifications, past performance on large-scale contracts, geographic presence, price and availability of key professional personnel. If we are unable to successfully compete for new business, our net sales growth and operating margins may decline.

Several of our major customers have completed extensive cost containment efforts and we expect continued pricing pressures in 2015 and beyond. Competitive pricing pressures may have an adverse effect on our financial condition and operating results. Further, there can be no assurance that competition from existing or potential competitors in other segments of our business will not have a material adverse effect on our financial results. If we do not continue to compete effectively and win contracts, our future business, financial condition, results of operations and our ability to meet our financial obligations may be materially compromised.

Our products and processes are subject to risks of obsolescence as a result of changes in technology and evolving industry and regulatory standards.

The future success of our business depends in large part upon our and our customers' ability to maintain and enhance technological capabilities, develop and market manufacturing services that meet changing customer needs and successfully anticipate or respond to technological advances in manufacturing processes on a cost-effective and timely basis, while meeting evolving industry and regulatory standards. To address these risks, we invest in product design and development, and undertake capital expenditures. There can be no guarantee that our product design and development efforts will be successful, or that funds required to be invested in product design and development or incurred as capital expenditures will not increase materially in the future.

Environmental liabilities could adversely affect our financial results.

We are subject to various U.S. and foreign environmental laws and regulations, including those relating to the use, storage, transport, discharge and disposal of hazardous chemicals and materials used and emissions generated during our manufacturing process. We do not carry insurance for these potential environmental liabilities. Any failure by us to comply with present or future regulations could subject us to future liabilities or the suspension of production, which could have a material adverse

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effect on our financial results. Moreover, some environmental laws relating to contaminated sites can impose joint and several liability retroactively regardless of fault or the legality of the activities giving rise to the contamination. Compliance with existing or future environmental laws and regulations may require extensive capital expenditures, increase our cost or impact our production capabilities. Even if such expenditures are made, there can be no assurance that we will be able to comply. We have been directed to investigate and take corrective action for groundwater contamination at certain sites. Our ultimate liability for such matters will depend upon a number of factors. See Note 14 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K for further information.

Cyber security attacks, internal system or service failures may adversely impact our business and operations. Any system or service disruptions, including those caused by projects to improve our information technology systems, if not anticipated and appropriately mitigated, could disrupt our business and impair our ability to effectively provide products and related services to our customers and could have a material adverse effect on our business. We could also be subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, intruders or hackers, computer viruses, natural disasters, power shortages or terrorist attacks. Cyber security threats are evolving and include, but are not limited to, malicious software, unauthorized attempts to gain access to sensitive, confidential or otherwise protected information related to us or our products, customers or suppliers, or other acts that could lead to disruptions in our business. Any such failures could cause loss of data and interruptions or delays in our business, cause us to incur remediation costs, subject us to claims and damage our reputation. In addition, the failure or disruption of our communications or utilities could cause us to interrupt or suspend our operations or otherwise adversely affect our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption which would adversely affect our business, results of operations and financial condition.

We may not have the ability to renew facilities leases on terms favorable to us and relocation of operations presents risks due to business interruption.

Certain of our manufacturing facilities and offices are leased and have lease terms that expire between 2015 and 2020. The majority of these leases provide renewal options at the fair market rental rate at the time of renewal, which, if renewed, could be significantly higher than our current rental rates. We may be unable to offset these cost increases by charging more for our products and services. Furthermore, continued economic conditions may continue to negatively impact and create greater pressure in the commercial real estate market, causing higher incidences of landlord default and/or lender foreclosure of properties, including properties occupied by us. While we maintain certain non-disturbance rights in most cases, it is not certain that such rights will in all cases be upheld and our continued right of occupancy in such instances is potentially jeopardized. An occurrence of any of these events could have a material adverse effect on our financial results.

Additionally, if we choose to move any of our operations, those operations will be subject to additional relocation costs and associated risks of business interruption.

The occurrence of litigation in which we could be named as a defendant is unpredictable.

From time to time, we and our subsidiaries are involved in various legal and other proceedings that are incidental to the conduct of our business. While we believe no current proceedings, if adversely determined, could have a material adverse effect on our financial results, no assurances can be given. Any such claims may divert financial and management resources that would otherwise be used to benefit our operations and could have a material adverse effect on our financial results.

Product liability claims in excess of insurance could adversely affect our financial results and financial condition.

We face potential liability for personal injury or death as a result of the failure of products designed or manufactured by us. Although we currently maintain product liability insurance (including aircraft product liability insurance), any material product liability not covered by insurance could have a material adverse effect on our financial condition, results of operations and cash flows.

Damage or destruction of our facilities caused by storms, earthquake or other causes could adversely affect our financial results and financial condition.

We have operations located in regions of the U.S. that may be exposed to damaging storms, earthquakes and other natural disasters. Although we maintain standard property casualty insurance covering our properties and may be able to recover costs associated with certain natural disasters through insurance, we do not carry any earthquake insurance because of the cost of such insurance. Many of our properties are located in Southern California, an area subject to earthquake activity. Our California facilities generated approximately \$251.8 million in net sales during 2014. Even if covered by insurance, any significant damage or destruction of our facilities due to storms, earthquakes or other natural disasters could result in our inability to meet

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customer delivery schedules and may result in the loss of customers and significant additional costs to us. Thus, any significant damage or destruction of our properties could have a material adverse effect on our business, financial condition or results of operations.

We are dependent upon our ability to attract and retain key personnel.

Our success depends in part upon our ability to attract and retain key engineering, technical and managerial personnel, at both the executive and plant level. We face competition for management, engineering and technical personnel from other companies and organizations. The loss of members of our senior management group, or key engineering and technical personnel, could negatively impact our ability to grow and remain competitive in the future and could have a material adverse effect on our financial results.

Labor disruptions by our employees could adversely affect our business.

As of December 31, 2014, we employed approximately 3,150 people. Two of our operating units are parties to collective bargaining agreements, covering 159 full time hourly employees and 219 employees, and will expire July 1, 2015 and January 1, 2016, respectively. Although we have not experienced any material labor-related work stoppage and consider our relations with our employees to be good, labor stoppages may occur in the future. If the unionized workers were to engage in a strike or other work stoppage, if we are unable to negotiate acceptable collective bargaining agreements with the unions or if other employees were to become unionized, we could experience a significant disruption of our operations, higher ongoing labor costs and possible loss of customer contracts, which could have an adverse effect on our business and results of operations.

We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, adversely impact the reliability of our financial reports, cause us to submit our financial reports in an untimely fashion, result in material misstatements in our financial statements and cause current and potential stockholders to lose confidence in our financial reporting, which in turn could adversely affect the trading price of our common stock. We have concluded that there are material weaknesses in our internal control over financial reporting as 1) the process to communicate, educate, and measure our employees' understanding of ethical standards and code of conduct across the company was not maintained, 2) the structure, authority, and responsibilities to ensure the objectives of internal control over financial reporting were adequately achieved was not maintained, 3) the design of our internal controls did not include a review of the accuracy of labor distribution to various departments and 4) the process to reconcile and review our income tax accounts was not adequate. These material weaknesses resulted in material misstatements of our historical financial statements, which necessitated a restatement of 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 for errors in the contract forward loss reserve, cost of goods sold, deferred income taxes, goodwill, goodwill impairment, additional-paid-in-capital and income tax expense, as applicable, in each reporting period. Additionally, these material weaknesses could result in a material misstatement of account balances or disclosures that would result in a misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Thus, management has determined that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2014.

Under standards established by the Public Company Accounting Oversight Board ("PCAOB"), a material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis. The existence of this issue could adversely affect us, our reputation or investor perceptions of us. We have and will continue to take additional measures to remediate the underlying causes of the material weaknesses noted above. As we continue to evaluate and work to remediate the material weaknesses, we may determine to take additional measures to address the control deficiencies. Also, see Item 9A in Part II of this Form 10-K. We expect to incur additional costs remediating these material weaknesses.

Although we plan to complete this remediation process as quickly as possible, we cannot at this time estimate how long it will take, and our measures may not prove to be successful in remediating these material weaknesses. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or

significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results. In addition, if we are unable to successfully remediate these material weaknesses and if we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements and debt covenant requirements.

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The restatement of our consolidated financial statements and possible related events, should they occur, may consume our time and resources and may have an adverse effect on our business and stock price.

As discussed in Note 2 to our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K, we have restated in this Form 10-K our consolidated financial statements 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; and (ii) the year end reconciliation of income taxes payable and deferred tax balances identified errors primarily in 2013, 2012, and 2011.

As with all corporate controls, we cannot be certain that the measures we have taken, and are taking, to remedy the errors since they were discovered will ensure that no errors occur in the future. Further, the restatement may affect investor confidence in the accuracy of our financial reporting and disclosures, may raise reputational issues for our business and may negatively impact our stock price.

Although we have now completed the restatement, we cannot guarantee that we will not receive regulatory inquiries or be subject to litigation regarding our restated financial statements or related matters. Were any such future regulatory inquiries or litigation to occur, regardless of the outcome, such actions would likely consume internal resources and result in additional legal and consulting costs.

Enacted and proposed changes in securities laws and regulations have increased our costs and may continue to increase our costs in the future.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), enacted in July 2010, expands federal regulation of corporate governance matters. While some provisions of the Dodd-Frank Act are effective upon enactment, others will be implemented upon the SEC’s adoption of related rules and regulations. The scope and timing of the adoption of such rules and regulations is uncertain and accordingly, the cost of compliance with the Dodd-Frank Act is also uncertain.

The Dodd-Frank Act contains provisions to improve transparency and accountability concerning the supply of certain minerals originating from the Democratic Republic of Congo and adjoining countries that are believed to be benefiting armed groups (“Conflict Minerals”). The provision does not prevent companies from using conflict minerals; however the SEC mandates due diligence, disclosure and reporting requirements for companies which manufacture products that include components containing such conflict minerals in a Form SD (“Form SD”). These due diligence, disclosure and initial reporting requirements applied to our activities in calendar year 2013 and our first annual filing was completed by the June 2, 2014 due date. These regulations and disclosures in our Form SDs could result in our customers’ request to not use Conflict Minerals in our products they purchase from us. The number of suppliers who provide conflict-free minerals may be limited and thus, decrease the availability and increase the prices of components free of such Conflict Minerals used in our products. In addition, the compliance process will be both time-consuming and costly. Since our supply chain is complex, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through our due diligence procedures, which may harm our reputation with our customers and other stakeholders. In addition, we may be unable to satisfy customers who require that all components included in our products be conflict-free, which could place us at a competitive disadvantage.

Our efforts to comply with the Dodd-Frank Act and other evolving laws, regulations and standards are likely to result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities. Further, compliance with new and existing laws, rules, regulations and standards may make it more difficult and expensive for us to maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We occupy approximately 33 owned or leased facilities, totaling over 2.2 million square feet of manufacturing area and office space. At December 31, 2014, facilities which were in excess of 50,000 square feet each were occupied as follows:

Location	Segment	Square Feet	Expiration of Lease
Carson, California	Ducommun AeroStructures	286,000	Owned
Monrovia, California	Ducommun AeroStructures	274,000	Owned
Coxsackie, New York	Ducommun AeroStructures	168,000	Owned
Pittsburgh, Pennsylvania	Ducommun LaBarge Technologies	136,000	2017
Parsons, Kansas	Ducommun AeroStructures	120,000	Owned
Carson, California	Ducommun LaBarge Technologies	117,000	2016
Phoenix, Arizona	Ducommun LaBarge Technologies	100,000	2017
Joplin, Missouri	Ducommun LaBarge Technologies	92,000	Owned
Appleton, Wisconsin	Ducommun LaBarge Technologies	77,000	Owned
Orange, California	Ducommun AeroStructures	76,000	Owned
Adelanto, California	Ducommun AeroStructures	74,000	Owned
Huntsville, Arkansas	Ducommun LaBarge Technologies	69,000	2020
Iuka, Mississippi	Ducommun LaBarge Technologies	66,000	2016
Carson, California	Ducommun AeroStructures	65,000	2019
Coxsackie, New York	Ducommun AeroStructures	65,000	2015
Joplin, Missouri	Ducommun LaBarge Technologies	55,000	2016
Tulsa, Oklahoma	Ducommun LaBarge Technologies	55,000	Owned
Huntsville, Alabama	Ducommun LaBarge Technologies	52,000	2017
Berryville, Arkansas	Ducommun LaBarge Technologies	52,000	Owned

Management believes these properties are adequate to meet our current requirements, are in good condition and are suitable for their present use.

ITEM 3. LEGAL PROCEEDINGS

See Note 14 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K for a description of our legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange under the symbol DCO. As of December 31, 2014, we had approximately 207 holders of record of our common stock. We have not paid any dividends since the first quarter of 2011 and we do not expect to pay dividends for the foreseeable future. See "Available Liquidity" in Part II, Item 7, Management's Discussion and Analysis—Liquidity and Capital Resources—Available Liquidity, of this Annual Report on Form 10-K for further discussion on dividend restrictions under our Credit Facility. The following table sets forth the high and low closing prices per share of our common stock as reported on the New York Stock Exchange for the fiscal periods indicated:

	Years Ended December 31,			
	2014		2013	
	High	Low	High	Low
First Quarter	\$31.35	\$22.80	\$22.60	\$14.32
Second Quarter	\$27.74	\$22.45	\$26.71	\$17.79
Third Quarter	\$32.00	\$22.60	\$29.37	\$20.40
Fourth Quarter	\$29.54	\$23.52	\$30.98	\$24.17

See "Part III, Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS" for information relating to shares to be issued under equity compensation plans.

Issuer Purchases of Equity Securities

In 2011, we terminated our stock repurchase program.

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Performance Graph

The following graph compares the yearly percentage change in our cumulative total shareholder return with the cumulative total return of the Russell 2000 Index and the Spade Defense Index for the periods indicated, assuming the reinvestment of any dividends. The graph is not necessarily indicative of future price performance:

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ITEM 6. SELECTED FINANCIAL DATA

We have restated the selected financial data presented in this report as of and for each of the years ended December 31, 2013, 2012, 2011, and 2010 to reflect adjustments to our previously issued consolidated financial statements as more fully described in Note 2 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K (“Form 10-K”).

The following selected consolidated financial data should be read in conjunction with Part II, Item 7 and Part IV, Item 15(a) of this Form 10-K:

	(In thousands, except per share amounts)				
	Years Ended December 31,				
	2014	2013(a)(b)	2012(c)	2011(d)(e)(f)(g)	2010(h)
		As Restated	As Restated	As Restated	As Restated
Net Revenues	\$742,045	\$736,650	\$747,037	\$580,914	\$408,406
Gross Profit as a Percentage of Net Revenues	18.9	% 16.9	% 19.3	% 18.2	% 19.1
Income Before (Loss) Taxes	26,240	9,385	24,124	(53,798)	21,978
Income Tax Expense (Benefit)	6,373	(1,993)	6,501	(4,877)	3,976
Net Income (Loss)	\$19,867	\$11,378	\$17,623	\$(48,921)	\$18,002
Per Common Share					
Basic earnings (loss) per share	\$1.82	\$1.06	\$1.67	\$(4.64)	\$1.72
Diluted earnings (loss) per share	\$1.79	\$1.05	\$1.66	\$(4.64)	\$1.70
Dividends per share ⁽ⁱ⁾	\$—	\$—	\$—	\$0.07	\$0.30
Working Capital	\$217,670	\$225,323	\$219,774	\$218,665	\$84,550
Total Assets	\$747,599	\$762,645	\$777,275	\$805,823	\$347,419
Long-Term Debt, Including Current Portion	\$290,052	\$332,702	\$365,744	\$392,240	\$3,280
Total Shareholders' Equity	\$256,570	\$234,271	\$215,217	\$195,640	\$248,512

(a) The results for 2013 include an approximate \$14.1 million in charges related to the Embraer Legacy 450/500 and Boeing 777 wing tip contracts and was comprised of approximately \$7.0 million of asset impairment charges for production cost of contracts; approximately \$5.2 million of forward loss reserves and approximately \$1.9 million of inventory write-offs.

(b) See Note 2 to our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K.

(c) See Note 2 to our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K.

(d) In June 2011, we acquired LaBarge Inc., which is now a part of our DLT operating segment. The acquisition was accounted for as a business combination.

(e) The results for 2011 include a goodwill impairment charge of approximately \$54.3 million resulting from our annual impairment testing. The 2011 results also include approximately \$2.4 million of inventory step-up adjustments in cost of sales and approximately \$16.1 million of merger-related transaction expenses.

(f) The results for 2011 also included the correction of errors in prior periods primarily related to 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 then the subsequent adjustment of adjustments to the forward loss provision based on information available at the time (“Forward Loss Adjustments”). As a result of the Forward Loss Adjustments, cost of goods sold decreased approximately \$0.3 million in 2011.

(g) The results for 2011 additionally included the correction of errors as a result of the year end reconciliation of income taxes payable and deferred tax balances (“Tax Adjustments”). The Tax Adjustments 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, 1) reduced deferred income taxes by approximately \$2.7 million and 2)

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.

The results for 2010 included Forward Loss Adjustments and as a result, cost of goods sold increased approximately \$1.3 million. In addition, the adjustments related to the years prior to 2010 are reflected in the beginning retained earnings for 2010. The cumulative impact of these adjustments decreased retained earnings by approximately \$3.9 million, net of tax, at the beginning of 2010.

(i) We suspended payments of dividends after the first quarter of 2011.

Table of Contents**Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Restatement of Previously Issued Financial Statements**

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 (“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.

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.

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. The amounts in this Item 7 of this Annual Report on Form 10-K are reflective of the restatement which includes previously identified and disclosed immaterial adjustments. See Note 2 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K for additional information.

See Part II, Item 9A of this Annual Report on Form 10-K 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. We differentiate ourselves 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”). During 2014, we made significant progress in our plan to de-lever the balance sheet, reduce interest expense and further our ability to refinance our debt in 2015. While 2014 saw growth in our commercial aerospace and industrial revenue, it was

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partially offset by the continued weakness in defense revenue. Revenue and backlog for our commercial aerospace business remains strong, reflecting increased build rates.

Highlights for the year ended December 31, 2014 were as follows:

• 2014 net revenues were approximately \$742.0 million

• Net income was approximately \$19.9 million, or \$1.79 per diluted share

• Cash generated from operating activities was approximately \$53.4 million

• We made voluntary principal prepayments in aggregate of approximately \$42.6 million on the term loan

For the year ended December 31, 2014, EBITDA and Adjusted EBITDA was approximately \$83.3 million. See Non-GAAP Financial Measures below for certain information regarding EBITDA and Adjusted EBITDA, including reconciliations 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 Annual Report on Form 10-K (“Form 10-K”), 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 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 have 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 business or as a measure of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA only as supplemental information. See our consolidated financial statements contained in this Form 10-K.

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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 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 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;

• Asset impairments (including Goodwill) may be useful to our investors because it generally represents a decline in value in our assets used in our operations;

• Merger–related expenses may be useful to investors for determining current cash flow;

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

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

Reconciliations of net income to EBITDA and Adjusted EBITDA and the presentation of Adjusted EBITDA as a percentage of net sales were as follows:

(In thousands)		
Years Ended December 31,		
2014	2013	2012
	As Restated	