

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

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**FORM 10-Q**

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

For the quarterly period ended April 2, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8174

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**DUCOMMUN INCORPORATED**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-0693330**  
(I.R.S. Employer  
Identification No.)

**23301 Wilmington Avenue, Carson, California**  
(Address of principal executive offices)

**90745-6209**  
(Zip code)

**Registrant's telephone number, including area code: (310) 513-7200**

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

As of April 27, 2016, the registrant had 11,147,804 shares of common stock outstanding.

## DUCOMMUN INCORPORATED AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**Ducommun Incorporated and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(Unaudited)  
(In thousands, except share and per share data)

	April 2, 2016	December 31, 2015
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 6,439	\$ 5,454
Accounts receivable, net of allowance for doubtful accounts of \$294 and \$359 at April 2, 2016 and December 31, 2015, respectively	77,664	77,089
Inventories	127,080	115,404
Production cost of contracts	9,667	10,290
Other current assets	8,441	13,389
Assets held for sale	—	41,636
<b>Total Current Assets</b>	<b>229,291</b>	<b>263,262</b>
Property and equipment, net of accumulated depreciation of \$131,863 and \$128,533 at April 2, 2016 and December 31, 2015, respectively	95,602	96,551
Goodwill	82,554	82,554
Intangibles, net	108,359	110,621
Deferred income taxes	353	324
Other assets	3,215	3,769
<b>Total Assets</b>	<b>\$ 519,374</b>	<b>\$ 557,081</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Current portion of long-term debt	\$ 19	\$ 26
Accounts payable	47,418	40,343
Accrued liabilities	42,496	36,458
Liabilities held for sale	—	6,780
<b>Total Current Liabilities</b>	<b>89,933</b>	<b>83,607</b>
Long-term debt, less current portion	186,032	240,661
Deferred income taxes	25,052	26,528
Other long-term liabilities	17,692	18,954
<b>Total Liabilities</b>	<b>318,709</b>	<b>369,750</b>
Commitments and contingencies (Notes 11, 13)		
Shareholders' Equity		
Common stock - \$0.01 par value; 35,000,000 shares authorized; 11,147,366 and 11,084,318 issued at April 2, 2016 and December 31, 2015, respectively	111	111
Additional paid-in capital	75,269	75,200
Retained earnings	131,173	117,623
Accumulated other comprehensive loss	(5,888)	(5,603)
<b>Total Shareholders' Equity</b>	<b>200,665</b>	<b>187,331</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 519,374</b>	<b>\$ 557,081</b>

*See accompanying notes to condensed consolidated financial statements.*

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

	Three Months Ended	
	April 2, 2016	April 4, 2015
Net Revenues	\$ 142,148	\$ 172,920
Cost of Sales	115,179	146,159
Gross Profit	26,969	26,761
Selling, General and Administrative Expenses	22,676	23,134
Operating Income	4,293	3,627
Interest Expense	(2,399)	(6,661)
Gain on Divestitures	18,815	—
Income (Loss) Before Taxes	20,709	(3,034)
Income Tax Expense (Benefit)	7,159	(1,061)
Net Income (Loss)	\$ 13,550	\$ (1,973)
Earnings (Loss) Per Share		
Basic earnings (loss) per share	\$ 1.22	\$ (0.18)
Diluted earnings (loss) per share	\$ 1.21	\$ (0.18)
Weighted-Average Number of Common Shares Outstanding		
Basic	11,100	10,964
Diluted	11,240	10,964

*See accompanying notes to condensed consolidated financial statements.*

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

	Three Months Ended	
	April 2, 2016	April 4, 2015
Net Income (Loss)	\$ 13,550	\$ (1,973)
Other Comprehensive (Loss) Income		
Amortization of actuarial losses and prior service costs, net of tax benefit of approximately \$68 and \$97 for the three months ended April 2, 2016 and April 4, 2015, respectively	123	125
Change in unrealized gains and losses on cash flow hedges, net of tax benefit (expense) of \$239 and zero for the three months ended April 2, 2016 and April 4, 2015, respectively	(408)	—
Other Comprehensive (Loss) Income	(285)	125
Comprehensive Income (Loss)	<u>\$ 13,265</u>	<u>\$ (1,848)</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Three Months Ended	
	April 2, 2016	April 4, 2015
<b>Cash Flows from Operating Activities</b>		
Net Income (Loss)	\$ 13,550	\$ (1,973)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and amortization	5,855	6,914
Gain on divestitures	(18,815)	—
Stock-based compensation expense	1,000	1,624
Deferred income taxes	(2,562)	751
Excess tax benefits from stock-based compensation	—	(109)
Recovery of doubtful accounts	(65)	(62)
Other	(1,370)	643
Changes in Assets and Liabilities:		
Accounts receivable	1,972	210
Inventories	(12,366)	1,399
Production cost of contracts	429	95
Other assets	7,084	4,412
Accounts payable	7,303	342
Accrued and other liabilities	3,437	(10,761)
<b>Net Cash Provided by Operating Activities</b>	<b>5,452</b>	<b>3,485</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(3,801)	(5,572)
Proceeds from sale of assets	—	9
Proceeds from divestitures	55,272	—
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>51,471</b>	<b>(5,563)</b>
<b>Cash Flows from Financing Activities</b>		
Repayments of senior unsecured notes and term loans	(55,000)	(10,000)
Repayments of other debt	(7)	(6)
Excess tax benefits from stock-based compensation	—	109
Net proceeds from issuance of common stock under stock plans	(931)	(947)
<b>Net Cash Used in Financing Activities</b>	<b>(55,938)</b>	<b>(10,844)</b>
Net Increase (Decrease) in Cash and Cash Equivalents	985	(12,922)
Cash and Cash Equivalents at Beginning of Period	5,454	45,627
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 6,439</b>	<b>\$ 32,705</b>

*See accompanying notes to condensed consolidated financial statements.*

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

**Note 1. Summary of Significant Accounting Policies**Description of Business

We are a leading global provider of engineering and manufacturing services for high-performance products and high-cost-of failure applications used primarily in the aerospace and defense (“A&D”), industrial, natural resources, medical and other industries (collectively, “Industrial”). Our subsidiaries are organized into two strategic businesses: Electronic Systems segment and Structural Systems segment, each of which is a reportable operating segment. Electronic Systems 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. Electronic Systems’ product offerings range from prototype development to complex assemblies. Structural Systems designs, engineers and manufactures large, complex contoured aerospace structural components and assemblies and supplies composite and metal bonded structures and assemblies. Structural Systems’s products are used on commercial aircraft, military fixed-wing aircraft and military and commercial rotary-wing aircraft. All reportable operating segments follow the same accounting principles.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries (“Ducommun,” the “Company,” “we,” “us” or “our”), after eliminating intercompany balances and transactions. The December 31, 2015 condensed consolidated balance sheet data was derived from audited financial statements, but does not contain all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”).

Our significant accounting policies were described in Part IV, Item 15(a)(1), “Note 1. Summary of Significant Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2015. We followed the same accounting policies for interim reporting. The financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of management, all adjustments, consisting of recurring accruals, have been made that are necessary to fairly state our condensed consolidated financial position, statements of income, comprehensive income and cash flows in accordance with GAAP for the periods covered by this Quarterly Report on Form 10-Q. The results of operations for the three months ended April 2, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016.

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

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

Use of Estimates

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

Supplemental Cash Flow Information

	(In thousands)	
	Three Months Ended	
	April 2, 2016	April 4, 2015
Interest paid	\$ 2,081	\$ 11,397
Taxes paid	—	—
Non-cash activities:		
Purchases of property and equipment not paid	215	714

Earnings (Loss) Per Share

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

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

	(In thousands, except per share data) Three Months Ended	
	April 2, 2016	April 4, 2015
Net earnings (loss)	\$ 13,550	\$ (1,973)
Weighted-average number of common shares outstanding		
Basic weighted-average common shares outstanding	11,100	10,964
Dilutive potential common shares	140	—
Diluted weighted-average common shares outstanding	11,240	10,964
Earnings (loss) per share		
Basic	\$ 1.22	\$ (0.18)
Diluted	\$ 1.21	\$ (0.18)

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

	(In thousands) Three Months Ended	
	April 2, 2016	April 4, 2015
Stock options and stock units	593	916

Fair Value

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

Cash and Cash Equivalents

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

Derivative Instruments

We recognize derivative instruments on our consolidated balance sheets at their fair value. On the date that we enter into a derivative contract, we designate the derivative instrument as a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a derivative instrument that will not be accounted for using hedge accounting methods. As of April 2, 2016, all of our derivative instruments were designated as cash flow hedges.

We record changes in the fair value of a derivative instrument that is highly effective and that is designated and qualifies as a cash flow hedge in other comprehensive income (loss), net of tax until our earnings are affected by the variability of cash flows of the underlying hedge. We record any hedge ineffectiveness and amounts excluded from effectiveness testing in current period earnings within interest expense. We report changes in the fair values of derivative instruments that are not designated or do not qualify for hedge accounting in current period earnings. We classify cash flows from derivative instruments on the



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consolidated statements of cash flows in the same category as the item being hedged or on a basis consistent with the nature of the instrument.

When we determine that a derivative instrument is not highly effective as a hedge, we discontinue hedge accounting prospectively. In all situations in which we discontinue hedge accounting and the derivative instrument remains outstanding, we will carry the derivative instrument at its fair value on our consolidated balance sheets and recognize subsequent changes in its fair value in our current period earnings.

### Inventories

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

### Production Cost of Contracts

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

### Assets Held For Sale

In the fourth quarter of 2015, we made the decision to sell our Huntsville, Alabama and Iuka, Mississippi (collectively, "Miltec") operations and our Pittsburgh, Pennsylvania operation, both of which were part of our Electronic Systems operating segment, and as a result, we met the criteria for assets held for sale. However, the proposed sale of these two operations did not represent a strategic shift in our business and thus, were included in the ongoing operating results in the consolidated statements of operations for all periods presented.

On January 22, 2016, we entered into an agreement, and completed the sale on the same date, to sell our operation located in Pittsburgh, Pennsylvania for a preliminary sales price of approximately \$38.5 million in cash, subject to finalization of the working capital amount. We divested this facility as part of our overall strategy to streamline operations, which includes consolidating our footprint. Preliminary net assets sold were approximately \$24.0 million, net liabilities sold were approximately \$4.0 million, and direct transaction costs incurred during the current period were approximately \$0.2 million, resulting in a gain on divestiture of approximately \$18.3 million.

In February 2016, we entered into an agreement to sell our Miltec operation for a preliminary sales price of approximately \$14.6 million, in cash, subject to post-closing adjustments. We divested this facility as part of our overall strategy to streamline operations, which includes consolidating our footprint. We completed the sale on March 25, 2016. Preliminary net assets sold were approximately \$15.4 million, net liabilities sold were approximately \$2.6 million, and direct transaction costs incurred during the current period were approximately \$1.3 million, resulting in a gain on divestiture of approximately \$0.5 million.

The carrying values of the major classes of assets and liabilities related to these assets held for sale were as follows:

	(In thousands)	
	April 2, 2016	December 31, 2015
<b>Assets</b>		
Accounts receivable (less allowance for doubtful accounts of zero and \$24 at April 2, 2016 and December 31, 2015, respectively)	\$ —	\$ 9,395
Inventory	—	6,453
Deferred income taxes	—	1,246
Other current assets	—	3,315
Total current assets	—	20,409
Property and equipment, net of accumulated depreciation of zero and \$8,509 at April 2, 2016 and December 31, 2015, respectively	—	1,941
Goodwill	—	17,772
Other intangible assets	—	1,514
	\$ —	\$ 41,636
<b>Liabilities</b>		
Accounts payable	\$ —	\$ 4,836
Accrued liabilities	—	1,944
	\$ —	\$ 6,780

#### Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, as reflected in the condensed consolidated balance sheets under the equity section, was comprised of cumulative pension and retirement liability adjustments and changes in the fair value, net of tax, of a derivative instrument that is highly effective and that is designated and qualifies as a cash flow hedge.

#### Provision for Estimated Losses on Contracts

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

#### Recent Accounting Pronouncements

##### *New Accounting Guidance Adopted in 2016*

In August 2015, the FASB issued ASU 2015-15, “Imputation of Interest (Subtopic 835-30)” (“ASU 2015-15”), which provides guidance on the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. Other guidance does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Thus, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new guidance is effective for us beginning January 1, 2016. We did not have debt issuance costs associated with line-of-credit arrangements and thus, the adoption of this new guidance did not have a significant impact on our condensed consolidated financial statements.

In June 2015, the FASB issued ASU 2015-10, “Technical Corrections and Improvements” (“ASU 2015-10”), which covers a wide range of Topics in the Codification. The amendments in ASU 2015-10 represent changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost on most entities. The amendments in this new guidance that require transition guidance are effective for us beginning January 1, 2016. The adoption of this standard did not have a significant impact on our condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40):

Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” (“ASU 2015-05”), which provides guidance on fees paid by a customer in a cloud computing arrangement. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance is effective for us beginning January 1, 2016. The adoption of this standard did not have a significant impact on our condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”), which changes the presentation of debt issuance costs in financial statements. Under ASU 2015-03, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of those costs is reported as interest expense. The new guidance is effective for us beginning January 1, 2016. As a result of the adoption of this new guidance, we reclassified approximately \$4.0 million of debt issuance costs against approximately \$190.0 million of total debt as of April 2, 2016.

In January 2015, the FASB issued ASU 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20)” (“ASU 2015-01”), which eliminates from U.S. GAAP the concept of extraordinary items. Current guidance requires separate classification, presentation, and disclosure of extraordinary events and transactions. In addition, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. The new guidance is effective for us beginning January 1, 2016. The adoption of this standard did not have a significant impact on our condensed consolidated financial statements.

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

#### *Recently Issued Accounting Standards*

In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”), which clarifies the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, which will be our interim period beginning January 1, 2018. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods with that reporting period. We are evaluating the impact of this standard.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”), which is intended to improve the accounting for employee share-based payments. The new guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2017. Early adoption is permitted in any interim or annual reporting period. We are evaluating the impact of this standard but currently do not anticipate it will have a significant impact on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, “Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships” (“ASU 2016-05”), which clarifies that a change in the counter party to a derivative instrument designated as a hedging instrument does not require dedesignation of that hedging relationship, provided that all other hedge accounting criteria are met. The new guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2017. Early adoption is permitted as of the beginning of an interim period on a modified retrospective basis. We are evaluating the impact of this standard but currently do not anticipate it will have a significant impact on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which requires lessees to present right-of-use assets and lease liabilities on the balance sheet. Lessees are required to apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2019. We are evaluating the impact of this standard but currently anticipate it will impact our condensed consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330)” (“ASU 2015-11”), which requires inventory within the scope of ASU 2015-11 to be measured at the lower of cost and net realizable value. Subsequent measurement is unchanged for inventory measured using last-in, first-out (“LIFO”) or the retail inventory value. The new guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2017. Early adoption is permitted as of the beginning of an interim or annual reporting period. We are evaluating the impact of this standard but currently do not anticipate it will have a significant impact on our condensed consolidated financial statements.

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

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

**Note 2. Restructuring Activities**

*Summary of Restructuring Plans*

In September 2015, management approved and commenced implementation of several restructuring actions, including organizational re-alignment, consolidation and relocation of the New York facilities that was completed by December 2015, closure of the Houston facility that was completed by December 2015, and closure of the St. Louis facility that was completed in April 2016, all of which are part of our overall strategy to streamline operations. We have recorded a cumulative total of approximately \$2.2 million for severance and benefits and loss on early exit from leases. We do not expect to record additional accruals related to these restructuring plans.

As of April 2, 2016, we have accrued approximately \$0.5 million for severance and benefits and early exit from lease in the Electronic Systems segment and approximately \$1.0 million for severance and benefits and loss on early exit from lease in the Structural Systems segment, all of which were charged to selling, general and administrative expenses.

Our restructuring activities in the three months ended April 2, 2016 were as follows (in thousands):

	December 31, 2015	Three Months Ended April 2, 2016			April 2, 2016
	Balance	Charges	Cash Payments	Change in Estimates	Balance
Severance and benefits	\$ 722	\$ 22	\$ (335)	\$ —	\$ 409
Lease termination	1,181	—	(130)	—	1,051
Ending balance	\$ 1,903	\$ 22	\$ (465)	\$ —	\$ 1,460

**Note 3. Fair Value Measurements**

Fair value is defined as the price that would be received for an asset or the price that would be paid to transfer a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The accounting standard provides a framework for measuring fair value using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair value are as follows:

*Level 1* - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

*Level 2* - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

*Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our financial instruments consist primarily of cash and cash equivalents and interest rate cap derivatives designated as cash flow hedging instruments. Assets and liabilities measured at fair value on a recurring basis were as follows (in thousands):

	As of April 2, 2016				As of December 31, 2015			
	Fair Value Measurements Using			Total Balance	Fair Value Measurements Using			Total Balance
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>Assets</b>								
Money market funds <sup>(1)</sup>	\$ 6,342	\$ —	\$ —	\$ 6,342	\$ 4,587	\$ —	\$ —	\$ 4,587
Interest rate cap hedges <sup>(2)</sup>	—	391	—	391	—	963	—	963
<b>Total Assets</b>	<b>\$ 6,342</b>	<b>\$ 391</b>	<b>\$ —</b>	<b>\$ 6,733</b>	<b>\$ 4,587</b>	<b>\$ 963</b>	<b>\$ —</b>	<b>\$ 5,550</b>

(1) Included as cash and cash equivalents.

(2) Interest rate cap hedge premium included as other current assets and other assets.

The fair value of the interest rate cap hedge agreements was determined using pricing models that use observable market inputs as of the balance sheet date, a Level 2 measurement.

There were no transfers between Level 1, Level 2, or Level 3 financial instruments in the three months ended April 2, 2016.

**Note 4. Financial Instruments**
*Derivative Instruments and Hedging Activities*

We periodically enter into cash flow derivative transactions, such as interest rate cap agreements, to hedge exposure to various risks related to interest rates. We assess the effectiveness of the interest rate cap hedges at inception of the hedge. We recognize all derivatives at their fair value. For cash flow designated hedges, the effective portion of the changes in fair value of the derivative contract are recorded in accumulated other comprehensive income (loss), net of taxes, and are recognized in net earnings at the time earnings are affected by the hedged transaction. Adjustments to record changes in fair values of the derivative contracts that are attributable to the ineffective portion of the hedges, if any, are recognized in earnings. We present derivative instruments in our consolidated statements of cash flows' operating, investing, or financing activities consistent with the cash flows of the hedged item.

Our interest rate cap hedges were designated as cash flow hedges and deemed highly effective at the inception of the hedges. These interest rate cap hedges mature concurrently with the term loan in June 2020. During the three months ended April 2, 2016, the interest rate cap hedges continued to be highly effective and approximately \$0.4 million, net of tax, was recognized in other comprehensive income. No amount was recorded in the condensed consolidated statements of operations during the three months ended April 2, 2016. See Note 8.

The recorded fair value of the derivative financial instruments in the consolidated balance sheets were as follows:

	(In thousands) April 2, 2016		(In thousands) December 31, 2015	
	Other Current Assets	Other Long Term Assets	Other Current Assets	Other Long Term Assets
<b>Derivatives Designated as Hedging Instruments</b>				
Cash Flow Hedges:				
Interest rate cap premiums	\$ —	\$ 391	\$ 1	\$ 962
<b>Total Derivatives</b>	<b>\$ —</b>	<b>\$ 391</b>	<b>\$ 1</b>	<b>\$ 962</b>

#### Note 5. Inventories

Inventories consisted of the following:

	(In thousands)	
	April 2, 2016	December 31, 2015
Raw materials and supplies	\$ 63,919	\$ 61,840
Work in process	59,088	49,299
Finished goods	10,180	10,073
	133,187	121,212
Less progress payments	6,107	5,808
<b>Total</b>	<b>\$ 127,080</b>	<b>\$ 115,404</b>

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

#### Note 6. Goodwill

Gross goodwill and accumulated goodwill impairment were approximately \$164.3 million and \$81.7 million, respectively, as of April 2, 2016 and December 31, 2015. The goodwill is related to the Electronic Systems segment.

Certain factors may result in the need to perform an impairment test prior to the fourth quarter, which is when we perform our annual goodwill impairment test, including significant under performance of our business relative to expected operating results, significant adverse economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, a decision to divest individual businesses within a reporting unit, or a decision to group individual businesses differently. At times, our market capitalization had declined below book value, which if it continues for an extended period of time, is a factor that could lead to a conclusion that a triggering event has occurred. As our market capitalization declines recently have been temporary in nature and our market capitalization has exceeded our book value, we do not consider these temporary declines in market capitalization to be a triggering event in the fiscal quarter ended April 2, 2016. However, it is considered at least reasonably possible that our determination that goodwill for our Electronic Systems segment was not impaired could change in the near term if any the factors noted above occurs.

#### Note 7. Accrued Liabilities

The components of accrued liabilities were as follows:

	(In thousands)	
	April 2, 2016	December 31, 2015
Accrued compensation	\$ 17,602	\$ 13,521
Accrued income tax and sales tax	5,358	1,513
Customer deposits	2,275	1,758
Interest payable	103	58
Provision for forward loss reserves	10,194	11,925
Other	6,964	7,683
<b>Total</b>	<b>\$ 42,496</b>	<b>\$ 36,458</b>

**Note 8. Long-Term Debt**

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

	(In thousands)	
	April 2, 2016	December 31, 2015
New term loan	\$ 190,000	\$ 245,000
Other debt (fixed 5.41%)	19	26
<b>Total debt</b>	<b>190,019</b>	<b>245,026</b>
Less current portion	19	26
<b>Total long-term debt</b>	<b>\$ 190,000</b>	<b>\$ 245,000</b>
Less debt issuance costs	\$ 3,968	\$ 4,339
<b>Total long-term debt, net of debt issuance costs</b>	<b>\$ 186,032</b>	<b>\$ 240,661</b>
Weighted-average interest rate	3.33%	3.07%

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

Further, we are required to make mandatory prepayments of amounts outstanding under the New Term Loan. The mandatory prepayments will be made quarterly, equal to 5.0% per year of the original aggregate principal amount during the first two years and increase to 7.5% per year during the third year, and increase to 10.0% per year during the fourth year and fifth years, with the remaining balance payable on June 26, 2020. The loans under the New Revolving Credit Facility are due on June 26, 2020. As of April 2, 2016, we were in compliance with all covenants required under the New Credit Facilities.

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

In addition, we retired all of the \$200.0 million senior unsecured notes (“Existing Notes”) in July 2015. We drew down on the New Term Loan in the amount of \$275.0 million. Along with the call notice amount and paying the call premium of approximately \$9.8 million, we also paid down the \$65.0 million outstanding on the New Revolving Credit Facility. We expensed the call premium of approximately \$9.8 million and debt issuance costs related to the Existing Notes of approximately \$2.1 million upon extinguishing the Existing Notes in July 2015.

Further, we made voluntary principal prepayments of approximately \$55.0 million under the New Term Loan during the three months ended April 2, 2016.

As of April 2, 2016, we had approximately \$198.5 million of unused borrowing capacity under the New Revolving Credit Facility, after deducting approximately \$1.5 million for standby letters of credit.

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

In October 2015, we entered into interest rate cap hedges designated as cash flow hedges with maturity dates of June 2020, and in aggregate, totaling approximately \$135.0 million of our debt. We paid a total of approximately \$1.0 million in connection with entering into the interest rate cap hedges. See Note 4 for further discussion.

#### Note 9. Shareholders' Equity

We are authorized to issue five million shares of preferred stock. At April 2, 2016 and December 31, 2015, no preferred shares were issued or outstanding.

#### Note 10. Employee Benefit Plans

The components of net periodic pension expense were as follows:

	(In thousands)	
	Three Months Ended April 2, 2016	April 4, 2015
Service cost	\$ 133	\$ 196
Interest cost	342	338
Expected return on plan assets	(370)	(374)
Amortization of actuarial losses	191	222
Net periodic pension cost	<u>\$ 296</u>	<u>\$ 382</u>

The components of the reclassifications of net actuarial losses from accumulated other comprehensive loss to net income for the three months ended April 2, 2016 were as follows:

	(In thousands)	
	Three Months Ended April 2, 2016	
Amortization of actuarial losses - total before tax <sup>(1)</sup>	\$	(191)
Tax benefit		68
Net of tax	<u>\$</u>	<u>(123)</u>

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

#### Note 11. Indemnifications

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

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

#### Note 12. Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily due to research and development ("R&D") tax credits and deductions available for domestic production activities. Our effective tax rate may be subject to fluctuations during the year as new information is obtained,



which may affect the assumptions used to estimate the annual effective tax rate, including factors such as expected utilization of R&D tax credits, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where we conduct business. We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating loss and tax credit carryovers.

We record a valuation allowance against our deferred tax assets to reduce the net carrying value to an amount that we believe is more likely than not to be realized. When we establish or reduce our valuation allowance against our deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period when that determination is made.

We recorded income tax expense of approximately \$7.2 million (effective tax rate of 35%) for the three months ended April 2, 2016 compared to an income tax benefit of approximately \$(1.1) million (effective tax benefit rate of 35%) for the three months ended April 4, 2015. The increase in the effective tax rate for the three months ended April 2, 2016 compared to the three months ended April 4, 2015 was primarily due to pretax income in the current three month period mainly driven by an approximately \$18.8 million gain on divestitures of our Pittsburgh and Miltec operations. The increase was partially offset by the release of a valuation allowance related to a capital loss carryforward that can be used to offset the net capital gain generated from the divestitures and the U.S. Federal research and development tax credit that was permanently extended in the fourth quarter of 2015.

Our unrecognized tax benefits were approximately \$3.0 million as of both April 2, 2016 and December 31, 2015. Approximately \$2.1 million, if recognized, would affect the annual income tax rate. We do not anticipate any significant increases or decreases to our unrecognized tax benefits in the next twelve months.

### **Note 13. Contingencies**

On October 8, 2014, the United States District Court for the District of Kansas (the "District Court") granted summary judgment in favor of The Boeing Company ("Boeing") and Ducommun and dismissed the lawsuit entitled *United States of America ex rel Taylor Smith, Jeannine Prewitt and James Ailes v. The Boeing Company and Ducommun Inc.* The lawsuit was a qui tam action brought by three former Boeing employees ("Relators") against Boeing and Ducommun on behalf of the United States of America for violations of the United States False Claims Act. Relators have appealed the dismissal to the Tenth Circuit Court of Appeals. The lawsuit alleged that Ducommun sold unapproved parts to Boeing which were installed by Boeing in aircraft ultimately sold to the United States Government and that Boeing and Ducommun submitted or caused to be submitted false claims for payment relating to 21 aircraft sold by Boeing to the United States Government. The lawsuit sought damages in an amount equal to three times the amount of damages the United States Government sustained because of the defendants' actions, plus a civil penalty of \$10 thousand for each false claim made on or before September 28, 1999, and \$11 thousand for each false claim made on or after September 28, 1999, together with attorneys' fees and costs. The Relators claimed that the United States Government sustained damages of \$1.6 billion (the contract purchase price of 21 aircraft) or, alternatively, \$851 million (the alleged diminished value and increased maintenance cost of the 21 aircraft). After investigating the allegations, the United States Government declined to intervene in the lawsuit.

Structural Systems has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its facilities located in El Mirage and Monrovia, California. Based on currently available information, Ducommun has established a reserve for its estimated liability for such investigation and corrective action of approximately \$1.5 million at April 2, 2016, which is reflected in other long-term liabilities on its consolidated balance sheet.

Structural Systems also faces liability as a potentially responsible party for hazardous waste disposed at landfills located in Casmalia and West Covina, California. Structural Systems and other companies and government entities have entered into consent decrees with respect to these landfills with the United States Environmental Protection Agency and/or California environmental agencies under which certain investigation, remediation and maintenance activities are being performed. Based on currently available information, Ducommun preliminarily estimates that the range of its future liabilities in connection with the landfill located in West Covina, California is between approximately \$0.4 million and \$3.1 million. Ducommun has established a reserve for its estimated liability, in connection with the West Covina landfill of approximately \$0.4 million at April 2, 2016, which is reflected in other long-term liabilities on its consolidated balance sheet. Ducommun's ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities, and the allocation of liability among potentially responsible parties.

In the normal course of business, Ducommun and its subsidiaries are defendants in certain other litigation, claims and inquiries, including matters relating to environmental laws. In addition, Ducommun makes various commitments and incurs contingent liabilities. While it is not feasible to predict the outcome of these matters, Ducommun does not presently expect that any sum it

may be required to pay in connection with these matters would have a material adverse effect on its condensed consolidated financial position, results of operations or cash flows.

#### Note 14. Business Segment Information

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

Financial information by reportable operating segment was as follows:

	(In thousands) Three Months Ended	
	April 2, 2016	April 4, 2015
<b>Net Revenues</b>		
Structural Systems	\$ 64,017	\$ 72,058
Electronic Systems	78,131	100,862
Total Net Revenues	<u>\$ 142,148</u>	<u>\$ 172,920</u>
<b>Segment Operating Income</b>		
Structural Systems	\$ 2,724	\$ 2,138
Electronic Systems	7,053	6,285
	9,777	8,423
Corporate General and Administrative Expenses <sup>(1)</sup>	(5,484)	(4,796)
Operating Income	<u>\$ 4,293</u>	<u>\$ 3,627</u>
<b>Depreciation and Amortization Expenses</b>		
Structural Systems	\$ 2,057	\$ 2,513
Electronic Systems	3,761	4,359
Corporate Administration	37	42
Total Depreciation and Amortization Expenses	<u>\$ 5,855</u>	<u>\$ 6,914</u>
<b>Capital Expenditures</b>		
Structural Systems	\$ 2,054	\$ 3,334
Electronic Systems	347	1,490
Corporate Administration	—	4
Total Capital Expenditures	<u>\$ 2,401</u>	<u>\$ 4,828</u>

(1) Includes costs not allocated to either the Structural Systems or Electronic Systems operating segments.

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

	(In thousands)	
	April 2, 2016	December 31, 2015
<b>Total Assets</b>		
Structural Systems	\$ 182,157	\$ 179,134
Electronic Systems	325,987	363,227
Corporate Administration	11,230	14,720
Total Assets	<u>\$ 519,374</u>	<u>\$ 557,081</u>
<b>Goodwill and Intangibles</b>		
Structural Systems	\$ 4,586	\$ 4,866
Electronic Systems	186,327	207,595
Total Goodwill and Intangibles	<u>\$ 190,913</u>	<u>\$ 212,461</u>

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

### 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 segments: Electronic Systems and Structural Systems, each of which is a reportable segment.

First quarter 2016 highlights:

- First quarter revenue was approximately \$142.1 million
- Net income of approximately \$13.6 million, or \$1.21 per diluted share
- Adjusted EBITDA for the quarter was approximately \$11.1 million
- Backlog increased to approximately \$563.5 million

Adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) was approximately \$11.1 million and \$12.2 million for the three months ended April 2, 2016 and April 4, 2015, respectively. See “Non-GAAP Financial Measures” below for certain information regarding Adjusted EBITDA, including reconciliation of 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 Adjusted EBITDA provides additional useful information to clarify and enhance the understanding of the factors and trends affecting our past performance and future prospects. We define these measures, explain how they are calculated and provide reconciliations of these measures to the most comparable GAAP measure in the table below. Adjusted EBITDA and the related financial ratios, as presented in this Quarterly Report on Form 10-Q (“Form 10-Q”), are supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. They are not a measurement of our financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP, or as an alternative to net cash provided by operating activities as measures of our liquidity. The presentation of these measures should not be interpreted to mean that our future results will be unaffected by unusual or nonrecurring items.

We use Adjusted EBITDA non-GAAP operating performance measures internally as complementary financial measures to evaluate the performance and trends of our businesses. We present 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.

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

- They do not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- They do not reflect changes in, or cash requirements for, our working capital needs;
- They do not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- They are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- They do not reflect the impact on earnings of charges resulting from matters unrelated to our ongoing operations; and

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

Because of these limitations, 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 Adjusted EBITDA only as supplemental information. See our condensed consolidated financial statements contained in this Form 10-Q.

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

- Are widely used by investors to measure a company's operating performance without regard to items excluded from the calculation of such terms, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired, among other factors;
- 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 or subtracted from our net income when calculating Adjusted EBITDA:

- Interest expense may be useful to investors for determining current cash flow;
- 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;
- Depreciation may be useful to investors because it generally represents the wear and tear on our property and equipment used in our operations;
- 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;
- Stock-based compensation may be useful to our investors for determining current cash flow; and
- Gain on divestitures may be useful to our investors in evaluating our core operating performance.

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

	(In thousands) Three Months Ended	
	April 2, 2016	April 4, 2015
Net income (loss)	\$ 13,550	\$ (1,973)
Interest expense	2,399	6,661
Income tax expense (benefit)	7,159	(1,061)
Depreciation	3,401	3,889
Amortization	2,454	3,025
Stock-based compensation expense	1,000	1,624
Gain on divestitures	(18,815)	—
Adjusted EBITDA	<u>\$ 11,148</u>	<u>\$ 12,165</u>
% of net revenues	7.8%	7.0%

Adjusted EBITDA as a percentage of net revenues increased in the three months ended April 2, 2016 compared to the three months ended April 4, 2015 primarily due to net income as a result of higher gross margins in the current-year quarter.

**Results of Operations****First Quarter of 2016 Compared to First Quarter of 2015**

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

	(in thousands, except per share data) Three Months Ended			
	April 2, 2016	% of Net Revenues	April 4, 2015	% of Net Revenues
Net Revenues	\$ 142,148	100.0 %	\$ 172,920	100.0 %
Cost of Sales	115,179	81.0 %	146,159	84.5 %
Gross Profit	26,969	19.0 %	26,761	15.5 %
Selling, General and Administrative Expenses	22,676	16.0 %	23,134	13.4 %
Operating Income	4,293	3.0 %	3,627	2.1 %
Interest Expense	(2,399)	(1.7)%	(6,661)	(3.9)%
Gain on Divestitures	18,815	13.2 %	—	— %
Income (Loss) Before Taxes	20,709	14.6 %	(3,034)	(1.8)%
Income Tax Expense (Benefit)	7,159	nm	(1,061)	nm
Net Income (Loss)	<u>\$ 13,550</u>	9.5 %	<u>\$ (1,973)</u>	(1.1)%
Effective Tax (Benefit) Rate	34.6%	nm	(35.0)%	nm
Diluted Earnings (Loss) Per Share	\$ 1.21	nm	\$ (0.18)	nm

nm = not meaningful

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

Net revenues by end-use market and operating segment during the first fiscal three months of 2016 and 2015, respectively, were as follows:

	Three Months Ended				
	Change	(In thousands)		% of Net Revenues	
		April 2, 2016	April 4, 2015	April 2, 2016	April 4, 2015
<b>Consolidated Ducommun</b>					
Military and space					
Defense technologies	\$ (8,663)	\$ 42,861	\$ 51,524	30%	30%
Defense structures	(4,527)	14,914	19,441	11%	11%
Commercial aerospace	374	66,759	66,385	47%	38%
Industrial	(17,956)	17,614	35,570	12%	21%
Total	\$ (30,772)	\$ 142,148	\$ 172,920	100%	100%
<b>Structural Systems</b>					
Military and space (defense structures)	\$ (4,527)	\$ 14,914	\$ 19,441	23%	27%
Commercial aerospace	(3,514)	49,103	52,617	77%	73%
Total	\$ (8,041)	\$ 64,017	\$ 72,058	100%	100%
<b>Electronic Systems</b>					
Military and space (defense technologies)	\$ (8,663)	\$ 42,861	\$ 51,524	55%	51%
Commercial aerospace	3,888	17,656	13,768	23%	14%
Industrial	(17,956)	17,614	35,570	22%	35%
Total	\$ (22,731)	\$ 78,131	\$ 100,862	100%	100%

Net revenues for the three months ended April 2, 2016 were approximately \$142.1 million, compared to approximately \$172.9 million for the three months ended April 4, 2015. The year-over-year decrease was primarily due to the following:

- Approximately \$15.4 million lower revenues in the industrial end-use markets due to the divestiture of the Pittsburgh operation in January 2016 and the closure of the Houston operation in December 2015; and
- Approximately \$13.2 million lower revenues in the military and space end-use markets mainly due to the decrease in U.S. government defense spending and shifting spending priorities, which impacted our fixed-wing and helicopter platforms and pushed out scheduled deliveries of these products to customers.

Going forward, as a result of the closure of the Houston operation and the divestitures of the Pittsburgh and Miltec operations during the first quarter of 2016, Electronic Systems revenues will be lower by approximately \$20.0 million per quarter.

#### Net Revenues by Major Customers

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

	Three Months Ended	
	April 2, 2016	April 4, 2015
Boeing Company	19%	15%
Raytheon Company	7%	7%
Total top ten customers <sup>(1)</sup>	59%	53%

(1) Includes the Boeing Company and Raytheon Company.

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

	April 2, 2016	December 31, 2015
Boeing	18%	13%
Raytheon	7%	12%

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

### Gross Profit

Gross profit consists of net revenues less cost of sales. Cost of sales includes the cost of production of finished products and other expenses related to inventory management, manufacturing quality, and order fulfillment. Gross profit margin increased year-over-year in the three months ended April 2, 2016 to approximately 19% compared to the three months ended April 4, 2015 of approximately 15% primarily due to the following:

- Total material costs as a percentage of sales decreased approximately 3% or \$4.2 million year-over-year as a result of our ongoing supply chain initiatives and favorable product mix; and
- Manufacturing efficiencies as a percentage of sales improved as a result of the ongoing headcount reductions and facility rationalization initiatives which contributed approximately \$1.4 million in gross profit.

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

SG&A expenses decreased year-over-year in the three months ended April 2, 2016 compared to the three months ended April 4, 2015 primarily due to the following:

- A decrease of approximately \$0.9 million in other personnel costs related to ongoing headcount reductions; and
- A decrease of approximately \$0.9 million related to the divestiture of the Pittsburgh operation on January 22, 2016;
- Partially offset by an increase of approximately \$0.9 million related to one-time retirement charges; and
- An increase of approximately \$0.5 million in research and development costs related to new program awards announced in 2015.

### Interest Expense

Interest expense decreased year over year in the three months ended April 2, 2016 compared to the three months ended April 4, 2015 primarily due to a lower outstanding debt balance as a result of voluntary principal prepayments of our term loan and a lower average interest rate as a result of completing the refinancing of our debt in July 2015.

### Gain on Divestitures

Gain on divestitures for the three months ended April 2, 2016 consisted of the divestitures of the Pittsburgh operation with a pretax gain of approximately \$18.3 million and the Miltec operation with a pretax gain of approximately \$0.5 million. (see Note 1 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q).

### Income Tax Expense (Benefit)

We recorded income tax expense of approximately \$7.2 million (effective tax rate of 35%) for the three months ended April 2, 2016 compared to an income tax benefit of approximately \$(1.1) million (effective tax benefit rate of 35%) for the three months ended April 4, 2015. The increase in the effective tax rate for the three months ended April 2, 2016 compared to the three months ended April 4, 2015 was primarily due to pretax income in the current three month period mainly driven by an approximately \$18.8 million gain on divestitures of our Pittsburgh and Miltec operations. The increase was partially offset by the release of a valuation allowance related to a capital loss carryforward that can be used to offset the capital gain generated from the divestitures and the U.S. Federal research and development tax credit that was permanently extended in the fourth quarter of 2015.

Our unrecognized tax benefits were approximately \$3.0 million as of both April 2, 2016 and December 31, 2015. Approximately \$2.1 million, if recognized, would affect the annual income tax rate. We do not anticipate any significant increases or decreases to our unrecognized tax benefits in the next twelve months.

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

Net income (loss) and earnings (loss) per share for the three months ended April 2, 2016 were approximately \$13.6 million, or \$1.21 per diluted share, compared to a net loss and loss per share of approximately \$(2.0) million, or \$(0.18) per share, for the three months ended

April 4, 2015. The increase in net income for the three months ended April 2, 2016 compared to a net loss for the three months ended April 4, 2015 was primarily due to a pretax gain on divestitures of the Pittsburgh and Miltec operations of approximately \$18.8 million and lower interest expense of approximately \$4.3 million.

### Business Segment Performance

We report our financial performance based upon the two reportable operating segments: Structural Systems and Electronic Systems. The results of operations differ between our reportable operating segments due to differences in competitors, customers, extent of proprietary deliverables and performance. The following table summarizes our business segment performance for the three months ended April 2, 2016 and April 4, 2015:

	% Change	Three Months Ended			
		(In thousands)		% of Net Revenues	
		April 2, 2016	April 4, 2015	April 2, 2016	April 4, 2015
<b>Net Revenues</b>					
Structural Systems	(11.2)%	\$ 64,017	\$ 72,058	45.0 %	41.7 %
Electronic Systems	(22.5)%	78,131	100,862	55.0 %	58.3 %
Total Net Revenues	(17.8)%	\$ 142,148	\$ 172,920	100.0 %	100.0 %
<b>Segment Operating Income</b>					
Structural Systems		\$ 2,724	\$ 2,138	4.3 %	3.0 %
Electronic Systems		7,053	6,285	9.0 %	6.2 %
		9,777	8,423		
Corporate General and Administrative Expenses <sup>(1)</sup>		(5,484)	(4,796)	(3.9)%	(2.8)%
Total Operating Income		\$ 4,293	\$ 3,627	3.0 %	2.1 %
<b>Adjusted EBITDA</b>					
Structural Systems					
Operating Income		\$ 2,724	\$ 2,138		
Depreciation and Amortization		2,057	2,513		
		4,781	4,651	7.5 %	6.5 %
Electronic Systems					
Operating Income		7,053	6,285		
Gain on Divestitures <sup>(2)</sup>		18,815	—		
Depreciation and Amortization		3,761	4,359		
		29,629	10,644	37.9 %	10.6 %
Corporate General and Administrative Expenses <sup>(1)</sup>					
Operating Loss		(5,484)	(4,796)		
Gain on Divestitures <sup>(2)</sup>		(18,815)	—		
Depreciation and Amortization		37	42		
Stock-Based Compensation Expense		1,000	1,624		
		(23,262)	(3,130)		
Adjusted EBITDA		\$ 11,148	\$ 12,165	7.8 %	7.0 %
<b>Capital Expenditures</b>					
Structural Systems		\$ 2,054	\$ 3,334		
Electronic Systems		347	1,490		
Corporate Administration		—	4		
Total Capital Expenditures		\$ 2,401	\$ 4,828		

(1) Includes costs not allocated to either the Structural Systems or Electronic Systems operating segments.

(2) Includes gain on divestitures of the Pittsburgh and Miltec operations.

### Structural Systems

Structural Systems' net revenues in the three months ended April 2, 2016 compared to the three months ended April 4, 2015 decreased



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approximately \$8.0 million primarily due to the following:

- Approximately \$4.5 million decrease in military and space revenues mainly due to the decrease in U.S. government defense spending and shifting spending priorities which impacted scheduled deliveries on our fixed-wing and helicopter platforms; and
- Approximately \$3.5 million decrease in commercial aerospace revenue related to the wind down of a regional jet program.

The Structural Systems segment operating income increased slightly in the three month period ending April 2, 2016 primarily due to improved operating efficiencies related to ongoing cost improvement initiatives.

Adjusted EBITDA was approximately \$4.8 million or 7% of revenue for the current three months of fiscal 2016 compared to approximately \$4.7 million or 6% of revenue for the three months ended April 4, 2015.

### Electronic Systems

Electronic Systems' net revenues in the three months ended April 2, 2016 compared to the three months ended April 4, 2015 decreased approximately \$22.7 million primarily due to the following:

- An approximately \$15.4 million decrease as a result of the divestiture of the Pittsburgh operation in January 2016 and the closure of the Houston operation in December 2015; and
- An approximately \$8.7 million decrease in military and space revenue mainly due to the decrease in U.S. government defense spending and shifting spending priorities which impacted scheduled deliveries on our fixed-wing and helicopter platforms;
- Partially offset by an approximate \$3.9 million increase in our commercial aerospace revenue through added content with existing customers.

Electronic Systems' segment operating income increased in the three month period ending April 2, 2016 compared to the three months ended April 4, 2015 primarily due to improved operating efficiencies related to ongoing cost improvement initiatives that was partially offset by the divestiture of our Pittsburgh operation.

Adjusted EBITDA was approximately \$29.6 million or 38% of revenue for the current three months of fiscal 2016 compared to approximately \$10.6 million or 11% of revenue primarily due to a pretax gain on divestitures of the Pittsburgh and Miltec operations of approximately \$18.8 million.

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

CG&A expenses increased approximately \$0.7 million in the three months ending April 2, 2016 compared to the three months ended April 4, 2015 primarily due to one-time retirement charges of approximately \$0.9 million in the first quarter of 2016, partially offset by other cost reduction initiatives of approximately \$0.4 million.

### **Backlog**

Backlog is subject to delivery delays or program cancellations, which are beyond our control. Backlog is affected by timing differences in the placement of customer orders and tends to be concentrated in several programs to a greater extent than our net revenues. Backlog in industrial markets tends to be of a shorter duration and is generally fulfilled within a 3-month period. As a result of these factors, trends in our overall level of backlog may not be indicative of trends in our future net revenues. Approximately \$450.8 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of April 2, 2016 and December 31, 2015:

	Change	(In thousands)	
		April 2, 2016	December 31, 2015
<b><u>Consolidated Ducommun</u></b>			
Military and space			
Defense technologies	\$ 27,599	\$ 196,160	\$ 168,561
Defense structures	5,989	64,810	58,821
Commercial aerospace	(1,575)	267,618	269,193
Industrial	(14,302)	34,933	49,235
Total	<u>\$ 17,711</u>	<u>\$ 563,521</u>	<u>\$ 545,810</u>
<b><u>Structural Systems</u></b>			
Military and space (defense structures)	\$ 5,989	\$ 64,810	\$ 58,821
Commercial aerospace	(5,388)	218,648	224,036
Total	<u>\$ 601</u>	<u>\$ 283,458</u>	<u>\$ 282,857</u>
<b><u>Electronic Systems</u></b>			
Military and space (defense technologies)	\$ 27,599	\$ 196,160	\$ 168,561
Commercial aerospace	3,813	48,970	45,157
Industrial	(14,302)	34,933	49,235
Total	<u>\$ 17,110</u>	<u>\$ 280,063</u>	<u>\$ 262,953</u>

## Liquidity and Capital Resources

### Available Liquidity

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

	(In millions)	
	April 2, 2016	December 31, 2015
Total debt, including long-term portion	\$ 190.0	\$ 245.0
Weighted-average interest rate on debt	3.33%	3.07%
Term Loan interest rate	3.33%	3.07%
Cash and cash equivalents	\$ 6.4	\$ 5.5
Unused Revolving Credit Facility	\$ 198.5	\$ 198.5

In June 2015, we completed a new credit facility to replace the Existing Credit Facilities. The new credit facility consists of a \$275.0 million senior secured term loan, which matures on June 26, 2020 (“New Term Loan”), and a \$200.0 million senior secured revolving credit facility (“New Revolving Credit Facility”), which matures on June 26, 2020 (collectively, the “New Credit Facilities”). We are required to make mandatory prepayments of amounts outstanding under the New Term Loan. In addition, we retired all of the \$200.0 million senior unsecured notes (“Existing Notes”) in July 2015. We drew down on the New Term Loan in the amount of \$275.0 million. Along with the call notice amount and paying the call premium of approximately \$9.75 million, we also paid down the \$65.0 million drawn on the New Revolving Credit Facility in the previous quarter. As of April 2, 2016, we were in compliance with all covenants required under the New Credit Facilities. See Note 8 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

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

We expect to spend a total of approximately \$18.0 million to \$22.0 million for capital expenditures in 2016 financed by cash generated from operations, principally to support new contract awards at Structural Systems and Electronic Systems. As part of our strategic plan to become a Tier 2 supplier, additional up-front investment in tooling will be required for newer programs which have higher engineering content and higher levels of complexity in assemblies.

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

### **Cash Flow Summary**

Net cash provided by operating activities for the three months ended April 2, 2016 increased to approximately \$5.5 million, compared to approximately \$3.5 million in the three months ended April 4, 2015. The higher net cash generated during the first three months of 2016 was primarily due to higher net income as a result of higher gross margins.

Net cash provided by investing activities of approximately \$51.5 million for the three months ended April 2, 2016 was primarily due to proceeds from the divestiture of the Pittsburgh and Miltec operations, partially offset by capital expenditures, principally to support new contract awards at Structural Systems and Electronic Systems. The decrease in purchases of property and equipment compared to the prior year was primarily due to timing of the capital expenditures.

Net cash used in financing activities for the three months ended April 2, 2016 of approximately \$55.9 million was primarily due to voluntary principal prepayments on our new term loan of approximately \$55.0 million as a result of the proceeds received from divestiture of the Pittsburgh and Miltec operations during the current-year quarter.

### **Off-Balance Sheet Arrangements**

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

### **Critical Accounting Policies**

The preparation of our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States requires estimation and judgment that affect the reported amounts of net revenues, expenses, assets and liabilities. For a description of our critical accounting policies, please refer to “Critical Accounting Policies” in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2015 Annual Report on Form 10-K. There have been no material changes in any of our critical accounting policies during the three months ended April 2, 2016.

### **Recent Accounting Pronouncements**

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

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

Our main market risk exposure relates to changes in U.S. and U.K. interest rates on our outstanding long-term debt. At April 2, 2016, we had borrowings of approximately \$190.0 million under our Term Loan that bear interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR) plus an applicable margin ranging from 1.50% to 2.75% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.75% per year, in each case based upon the consolidated total net adjusted leverage ratio. A hypothetical 10% increase or decrease in the interest rate would have an immaterial impact on our financial condition and results of operations.

### **Item 4. Controls and Procedures**

#### Disclosure Controls and Procedures

The Company’s chief executive officer (“CEO”) and chief financial officer (“CFO”) have conducted an evaluation of the Company’s disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of April 2, 2016. The Company had previously reported a material weakness in internal control over financial reporting related to the design and effective monitoring controls over the accuracy and appropriate classification of reported labor hours associated with contracts accounted for under the percentage-of-completion method using units of delivery. This material weakness was described in Item 9A in the Management’s Report on Internal Control Over Financial Reporting in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. As a result of the material weakness in the Company’s internal control over financial reporting, which was not remediated as of April 2, 2016, the CEO and CFO concluded the Company’s disclosure controls and procedures were not effective as of April 2, 2016.

***Management's Remediation Activities***

We are committed to remediating the control deficiencies that constitute the material weakness described above by implementing changes to our internal control over financial reporting. Our Chief Financial Officer is responsible for implementing changes and improvements in the internal control over financial reporting and for remediating the control deficiencies that gave rise to the material weakness.

Action to be taken or in process include designing and implementing our internal controls over the ongoing review of the related labor distributions used in our estimates of anticipated costs used in the forward loss reserve analysis. We are also still in the process of testing certain of these processes and procedures.

While significant progress has been made to enhance our internal control over financial reporting relating to the material weakness, additional time will be required to assess and ensure the sustainability of these processes and procedures. We expect to complete the planned remedial actions during 2016, however, we cannot make any assurances that such actions will be completed during 2016. Until the remediation steps set forth above are fully implemented and concluded to be operating effectively, the material weakness described above will continue to exist.

Changes in Internal Control over Financial Reporting

Except as otherwise discussed above under "Management's Remediation Activities," there were no changes in our internal control over financial reporting during the three months ended April 2, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Note 13 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for a description of our legal proceedings.

**Item 1A. Risk Factors**

See Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of our risk factors. There have been no material changes in the three months ended April 2, 2016 to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 6. Exhibits**

- 2.1 Agreement and Plan of Merger, dated as of April 3, 2011, among Ducommun Incorporated, DLBMS, Inc. and LaBarge, Inc. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on April 5, 2011.
- 2.2 Stock Purchase Agreement dated January 22, 2016, by and among Ducommun Incorporated, Ducommun LaBarge Technologies, Inc., as Seller, LaBarge Electronics, Inc., and Intervala, LLC, as Buyer. Incorporated by reference to Exhibit 2.1 to Form 8-K dated January 25, 2016.
- 2.3 Stock Purchase Agreement dated February 24, 2016, by and between Ducommun LaBarge Technologies, Inc., as Seller, and General Atomics, as Buyer. Incorporated by reference to Exhibit 2.1 to Form 8-K dated February 24, 2016.
- 3.1 Restated Certificate of Incorporation filed with the Delaware Secretary of State on May 29, 1990. Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 1990.
- 3.2 Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on May 27, 1998. Incorporated by reference to Exhibit 3.2 to Form 10-K for the year ended December 31, 1998.
- 3.3 Bylaws as amended and restated on March 19, 2013. Incorporated by reference to Exhibit 99.1 to Form 8-K dated March 22, 2013.
- 3.4 Amendment No. 2 to Bylaws dated August 1, 2013. Incorporated by reference to Exhibit 99.2 to Form 8-K dated August 5, 2013.
- 10.1 Credit Agreement, dated as of June 29, 2015, among Ducommun Incorporated, certain of its subsidiaries, Bank of America, N.A., as administrative agent, swingline lender and issuing bank, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 29, 2015.
- \*10.2 2007 Stock Incentive Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 29, 2010.
- \*10.3 2013 Stock Incentive Plan (Amended and Restated March 18, 2015). Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on April 22, 2015.
- \*10.4 Form of Nonqualified Stock Option Agreement, for grants to employees under the 2013 Stock Incentive Plan, and the 2007 Stock Incentive Plan. Incorporated by reference to Exhibit 10.8 to Form 10-K for the year ended December 31, 2003.
- \*10.5 Form of Performance Stock Unit Agreement for 2014 and 2015. Incorporated by reference to Exhibit 10.19 to Form 8-K dated April 28, 2014.
- \*10.6 Form of Performance Stock Unit Agreement for 2016 and after.
- \*10.7 Form of Restricted Stock Unit Agreement. Incorporated by reference to Exhibit 99.1 to Form 8-K dated May 8, 2007.
- \*10.8 Form of Directors' Restricted Stock Unit Agreement. Incorporated by reference to Exhibit 99.1 to Form 8-K dated May 10, 2010.
- \*10.9 Form of Key Executive Severance Agreement entered with five current executive officers of Ducommun. Incorporated by reference to Exhibit 99.1 to Form 8-K dated January 3, 2008. All of the Key Executive Severance Agreements are identical except for the name of the executive officer, the address for notice, and the date of the Agreement:

<u>Executive Officer</u>	<u>Date of Agreement</u>
Kathryn M. Andrus	February 18, 2014
Douglas L. Groves	February 18, 2014
James S. Heiser	December 31, 2007
Anthony J. Reardon	December 31, 2007
Rosalie F. Rogers	November 5, 2009

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\*10.10 Form of Indemnity Agreement entered with all directors and officers of Ducommun. Incorporated by reference to Exhibit 10.8 to Form 10-K for the year ended December 31, 1990. All of the Indemnity Agreements are identical except for the name of the director or officer and the date of the Agreement:

<u>Director/Officer</u>	<u>Date of Agreement</u>
Kathryn M. Andrus	January 30, 2008
Richard A. Baldrige	March 19, 2013
Joseph C. Berenato	November 4, 1991
Gregory S. Churchill	March 19, 2013
Robert C. Ducommun	December 31, 1985
Dean W. Flatt	November 5, 2009
Douglas L. Groves	February 12, 2013
Jay L. Haberland	February 2, 2009
James S. Heiser	May 6, 1987
Robert D. Paulson	March 25, 2003
Anthony J. Reardon	January 8, 2008
Jerry L. Redondo	October 1, 2015
Rosalie F. Rogers	July 24, 2008
Christopher D. Wampler	January 1, 2016

\*10.11 Ducommun Incorporated 2016 Bonus Plan. Incorporated by reference to Exhibit 99.3 to Form 8-K dated March 1, 2016.

\*10.12 Directors' Deferred Compensation and Retirement Plan, as amended and restated February 2, 2010. Incorporated by reference to Exhibit 10.15 to Form 10-K for the year ended December 31, 2009.

31.1 Certification of Principal Executive Officer.

31.2 Certification of Principal Financial Officer.

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

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

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\* Indicates an executive compensation plan or arrangement.

SIGNATURES

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

Date: May 9, 2016

By: /s/ Anthony J. Reardon

Anthony J. Reardon  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: May 9, 2016

By: /s/ Douglas L. Groves

Douglas L. Groves  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: May 9, 2016

By: /s/ Christopher D. Wampler

Christopher D. Wampler  
Vice President, Controller and Chief Accounting Officer  
(Principal Accounting Officer)

DUCOMMUN INCORPORATED  
PERFORMANCE STOCK UNIT AGREEMENT

This performance stock unit agreement is made as of January 1, 2016 (the "Effective Date"), between Ducommun Incorporated, a Delaware corporation (the "Corporation"), and \_\_\_\_\_ ("Award Holder").

RECITALS

This performance stock unit agreement is pursuant to the 2013 Stock Incentive Plan (the "Plan").

AGREEMENTS

1. Grant. The Corporation hereby grants to the Award Holder an award (the "Award") with a target (if the Corporation achieves the target level performance goals described in Exhibit A) of \_\_\_\_\_ performance stock units (the "Target Units"), and a maximum of up to two hundred percent (200%) of the Target Units (if Corporation achieves the maximum level performance goals described in Exhibit A), in each case subject to certain adjustments as described herein. Each performance stock unit represents the right to receive one share of Common Stock, subject to the conditions set forth in this performance stock unit agreement and the Plan.

2. Definitions. Unless the context clearly indicates otherwise, and subject to the terms and conditions of the Plan as the same may be amended from time to time, the following terms, when used in this performance stock unit agreement, shall have the meanings set forth in this Section 2.

"Common Stock" shall mean the Common Stock, \$.01 par value, of the Corporation or such other class of shares or other securities as may be applicable pursuant to the provisions of Section 7 of this performance stock unit agreement.

"Subsidiary" shall mean a corporation or other form of business entity more than 50% of the voting shares of which is owned or controlled, directly or indirectly, by the Corporation and which is designated by the Committee for participation in the Plan by the key employees thereof.

"Committee" shall mean the Compensation Committee of the Board of Directors of the Corporation, or if there is no such committee acting, the Board of Directors of the Corporation.



3. Vesting. The Award shall vest at the end of the 3-year performance period, beginning as of January 1, 2016 and ending on December 31, 2018 (the "Performance Period"). The vesting of the Award shall be subject to the Corporation achieving during the Performance Period the Diluted Earnings Per Share and the Leverage Ratios, as provided in Exhibit A attached hereto. Following the end of each fiscal year of the Performance Period and the collection of relevant data necessary to determine the extent to which the performance goals set forth in Exhibit A have been satisfied, the Committee will determine: (a) the amount of Diluted Earnings Per Share and the Leverage Ratio that was achieved by the Corporation for each fiscal year of the Performance Period, and (b) the percentage and number of the Target Units for each fiscal year (for each such fiscal year, the "Earned Units") that will become Vested Units (as defined in Exhibit A) as of the last day of the Performance Period or earlier as provided in Section 6(b). The Committee shall make these determinations in its sole discretion. The level of achievement of Diluted Earnings Per Share and the Leverage Ratio shall be evidenced by the Committee's written certification, in accordance with Internal Revenue Code Section 162(m). For the avoidance of doubt, any performance stock units subject to this Award that do not vest in accordance with the forgoing shall expire without consideration at the end of the Performance Period.

4. Settlement of Vested Units. Upon the vesting of all or a portion of the Award, one share of Common Stock shall be issuable for each Vested Unit (as defined in Exhibit A) (the "PSU Shares"). Thereafter, the Corporation will transfer such PSU Shares to the Award Holder upon the Committee's written certification as set forth in Section 3 and the satisfaction of any required tax withholding obligations, securities law registration or other requirements, and applicable stock exchange listing. No fractional shares shall be issued with respect to the Award. The Award Holder shall not acquire or have any rights as a shareholder of the Corporation by virtue of this performance stock unit agreement (or the Award evidenced hereby) until the certificates representing shares of Common Stock issuable pursuant to this Award are actually issued and delivered to the Award Holder in accordance with the terms of the Plan and this performance stock unit agreement.

5. Change in Control.

(a) In the event that a Change in Control occurs, the Target Units shall be deemed to have become fully vested immediately prior to the consummation of the Change in Control, provided, however, that the Committee may, in its discretion, increase (but not decrease) the number of performance stock units that are deemed to vest in the event of a Change in Control up to a maximum of two hundred percent (200%) of the Target Units.

(b) For purposes of this performance stock unit agreement, a "Change in Control" of the Corporation shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); provided that, without limitation, such a change in control shall be deemed conclusively to have occurred if (i) a tender offer shall be made and consummated for the ownership of 25% or more of the outstanding voting securities of the Corporation, (ii) the shareholders of the corporation approve that the Corporation be merged or consolidated with another corporation and as a result of such merger or consolidation less than 75% of the outstanding voting securities of the surviving or resulting

corporation shall be owned in the aggregate by the former shareholders of the Corporation, other than affiliates (within the meaning of the Exchange Act) of any party to such merger or consolidation, as the same shall have existed immediately prior to such merger or consolidation, (iii) the shareholders of the Corporation approve that the Corporation sell, lease, exchange or transfer substantially all of its assets to another corporation, entity or person which is not a wholly-owned subsidiary and all government regulatory approvals necessary for the consummation of such transaction shall have been obtained, (iv) a person, as defined in Sections 13(d) and 14(d) (as in effect on the date hereof) of the Exchange Act, shall acquire 35% or more of the outstanding voting securities of the Corporation (whether directly, indirectly, beneficially or of record), (v) the shareholders of the Corporation approve a plan or proposal for the liquidation or dissolution of the Corporation and all government regulatory approvals necessary for the consummation of such transaction shall have been obtained, or (vi) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election by the Corporation's shareholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period. For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3 (as in effect on the date hereof) under the Exchange Act. A sale or other change in control of any Subsidiary of the Corporation by which the Award Holder is employed shall not be deemed a Change in Control of the Corporation for purposes of this Agreement.

#### 6. Termination.

(a) If the Award Holder's employment with the Corporation or a Subsidiary terminates before the end of the Performance Period for any reason, except as provided in this Section 6 or in Section 5 above, then the Award will be forfeited and cancelled and surrendered to the Corporation without payment of any consideration, effective on the date of the Award Holder's termination of employment. Upon the termination of the Award Holder's employment with the Corporation or a Subsidiary as a result of (i) death or "permanent disability" (as defined herein) or (ii) "retirement" (as defined herein), the number of Vested Units and the vesting of such Vested Units shall be determined in accordance with Section 6(b) below. As used herein, the term "retirement" shall mean that, on the date on which the Award Holder terminates employment with the Corporation or a Subsidiary, either (x) the Award Holder is sixty-five (65) or more years of age, or (y) the combination of the Award Holder's age plus years of service equals not less than seventy (70). As used herein, the term "permanent disability" shall mean the date on which the Award Holder has not worked or been able to work due to physical or mental incapacity for a period of one hundred eighty (180) consecutive days.

(b) Upon the termination of the Award Holder's employment with the Corporation or a Subsidiary as a result of death, permanent disability or retirement as provided in Section 6(a), (i) for each full fiscal year that the Award Holder was employed by the Corporation or a Subsidiary, the Earned Units (as defined in Section 3) shall vest immediately, and (ii) for the last fiscal year (if less than a full fiscal year) that the Award Holder was employed by the Corporation or a Subsidiary, the Target Units covered by the Award shall be reduced to a number of performance stock units equal to the Target Units set forth in Section 1 multiplied by a fraction, (x) the numerator of which equals the number of full calendar quarters that have elapsed between

January 1 of such fiscal year and the date of termination of employment, and (y) the denominator of which equals four (4), and such performance stock units (as reduced) shall then vest at such time as they become Earned Units (as defined in Section 3) or as provided in Section 5, provided that the Award Holder has not rendered services, directly or indirectly, to any third party engaged in competition with the Corporation or its Subsidiaries.

7. Adjustments

(a) If the outstanding shares of Common Stock of the Corporation are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of the Corporation through recapitalization (other than the conversion of convertible securities according to their terms), reclassification, stock dividend, stock split or reverse stock split, an appropriate and proportionate adjustment shall be made, or if the Corporation shall spin-off, spin-out or otherwise distribute assets with respect to the outstanding shares of Common Stock of the Corporation, an appropriate and proportionate adjustment shall be made, in the number of performance stock units subject to this Award.

(b) In the event of the dissolution or liquidation of the Corporation, or upon any merger, consolidation or reorganization of the Corporation with any other corporations or entities as a result of which the Corporation is not the surviving corporation, or upon the sale of all or substantially all of the assets of the Corporation or the acquisition of more than 80% of the stock of the Corporation by another corporation or entity, there shall be substituted for each of the shares of Common Stock then subject to this Award the number and kind of shares of stock, securities or other assets which would have been issuable or payable in respect of or in exchange for such Common Stock then subject to the Award, as if the Award Holder had been the owner of such shares as of the transaction date. Any securities so substituted shall be subject to similar successive adjustments.

8. No Right to Continued Employment. Nothing in the Plan, in this performance stock unit agreement or in any other instrument executed pursuant thereto shall confer upon the Award Holder any right to continue in the employ of the Corporation or any Subsidiary of the Corporation or shall interfere in any way with the right of the Corporation or any such Subsidiary to at any time terminate the employment of the Award Holder with or without cause.

9. Legal Requirements. No shares issuable under this Award shall be issued or delivered unless and until, in the opinion of counsel for the Corporation, all applicable requirements of federal and state law and of the Securities and Exchange Commission pertaining to the issuance and sale of such shares and any applicable listing requirements of any national securities exchange on which shares of the same class are then listed, shall have been fully complied with. In connection with any such issuance or transfer, the person acquiring the shares shall, if requested by the Corporation, give assurances satisfactory to counsel to the Corporation in respect of such matters as the Corporation or any Subsidiary of the Corporation may deem desirable to assure compliance with all applicable legal requirements.

10. No Rights as a Shareholder. Neither the Award Holder nor any beneficiary or other person claiming under or through the Award Holder shall have any right, title or interest in or to any shares of Common Stock allocated or reserved for the purpose of the Plan or subject

to this Agreement except as to such shares of Common Stock, if any, as shall have been issued or transferred to such person.

11. Withholding. The Corporation or any Subsidiary of the Corporation may make such provisions as it may deem appropriate for the withholding of any taxes which the Corporation or such Subsidiary determines it is required to withhold in connection with this performance stock unit agreement and the transactions contemplated hereby, and the Corporation or any such Subsidiary may require the Award Holder to pay to the Corporation or such Subsidiary in cash any amount or amounts which may be required to be paid as withheld taxes in connection with any issuance of Common Stock pursuant to this Award or any other transaction contemplated hereby as a condition to the issuance of shares of the Common Stock, provided, however, that any amount withheld for taxes in connection with this Award may, at the election of the Award Holder, be paid with previously issued shares of Common Stock or the deduction of shares of Common Stock to be issued in connection with this Award.

12. No Assignments. Neither this performance stock unit agreement, nor this Award nor any other rights and privileges granted hereby shall be transferred, assigned, pledged or hypothecated in any way, whether by operation of law of descent and distribution. Upon any attempt to so transfer, assign, pledge, hypothecate or otherwise dispose of this performance stock unit agreement, this Award or any other right or privilege granted hereby contrary to the provisions hereof, this performance stock unit agreement, this Award and all of such rights and privileges shall immediately become null and void.

13. Other Programs. Nothing contained in this performance stock unit agreement shall affect the right of the Award Holder to participate in and receive benefits under and in accordance with the then current provisions of any pension, insurance, profit-sharing or other employee benefit plan or program of the Corporation or of any Subsidiary of the Corporation.

14. The Plan. The Award hereby granted is subject to, and the Corporation and Award Holder agree to be bound by all of the terms and conditions of the Plan as the same may be amended from time to time in accordance with the terms thereof, but no such amendment may adversely affect the Award Holder's rights under this performance stock unit agreement. Award Holder acknowledges receipt of a complete copy of the Plan.

15. Committee Authority. All questions arising under the Plan or under this performance stock unit agreement shall be decided by the Committee in its total and absolute discretion. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this performance stock unit agreement, all of which shall be binding upon the Award Holder to the maximum extent permitted by the Plan.

16. Consideration. The consideration for the rights and benefits conferred on Award Holder by this Award are the services rendered by the Award Holder after and not before the grant of this Award.

17. Applicable Law. This Award has been granted as of the effective date set forth above at Los Angeles, California, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California.

DUCOMMUN INCORPORATED

By: \_\_\_\_\_  
Chief Executive Officer

By: \_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Award Holder

By his or her signature, the spouse of the Award Holder hereby agrees to be bound by all the terms and conditions of this written performance stock unit agreement.

\_\_\_\_\_  
Spouse of Award Holder

## PERFORMANCE STOCK UNIT AGREEMENT

Dated as of January 1, 2016

### Exhibit A

For purposes of this performance stock unit agreement, the “Diluted Earnings Per Share” means the diluted earnings per share of the Corporation for each of the Corporation’s fiscal years ending December 31, 2016, December 31, 2017 and December 31, 2018 as included in the Corporation’s audited financial statements, subject to adjustment as provided herein. The Diluted Earnings Per Share shall be adjusted (as determined by the Committee) (i) for changes in accounting, (ii) for discontinued operations (including businesses and product lines that are sold), (iii) to exclude gain or loss on the sale of any business or product line, including but not limited to post-closing adjustments to the purchase price, any indemnity or similar payments, and any costs or expenses in connection therewith, (iv) to exclude any asset impairment write-offs or charges (whether of goodwill, intangible or tangible assets), (v) to exclude any transaction-related costs or expenses arising in connection with the purchase or sale of any business or product line, including but not limited to the effects of Financial Accounting Standards Board Accounting Standards Codification Topic 805, (vi) to exclude any costs or expenses arising in connection with the refinancing, restructuring or prepayment of any Debt, including but not limited to the unamortized portion of any original issue discount, the unamortized portion of any original issue costs and expenses, and any prepayment or make-whole payments, costs or expenses and (vii) any restructuring, reorganization or other costs, expenses or charges that the Compensation Committee determines should be adjusted to fairly reflect the operating performance of the Company. An appropriate adjustment in the Diluted Earnings Per Share amounts in the table below also shall be made for any of the events described in Section 7(a) above.

For purposes of this performance stock unit agreement, the following terms mean for each of the Corporation’s fiscal years ended December 31, 2016, December 31, 2017 and December 31, 2018, the following: (i) “Leverage Ratio” means the Net Debt divided by the EBITDA of the Corporation, (ii) “Net Debt” means the Debt minus the cash and cash equivalents of the Corporation, (iii) “Debt” means the “Consolidated Funded Indebtedness” of the Corporation as defined in the Credit Agreement, dated as of June 26, 2015, among Ducommun Incorporated, certain of its subsidiaries, Bank of America, N.A., as administrative agent, swingline lender and issuing bank, and other lenders party thereto, as amended from time to time, or any new credit agreement in replacement thereof (the “Credit Agreement”), and (iv) “EBITDA” means the “Consolidated EBITDA” of the Corporation as defined in the Credit Agreement.

After the end of the Corporation’s fiscal year ending December 31, 2016, the Committee shall determine the Corporation’s Diluted Earnings Per Share for such fiscal year and the applicable percentage of Target Units earned with respect to such performance measure for such fiscal year, and the Corporation’s Leverage Ratio for such fiscal year and the applicable percentage of Target Units earned with respect to such performance measure for such fiscal year. After the end of the Corporation’s fiscal year ending December 31, 2017, the Committee shall determine the Corporation’s Diluted Earnings Per Share for such fiscal year and the applicable percentage of Target Units earned with respect to such performance measure for such fiscal year, and the

Corporation's Leverage Ratio for such fiscal year and the applicable percentage of Target Units earned with respect to such performance measure for such fiscal year. After the end of the Corporation's fiscal year ending December 31, 2018, the Committee shall determine the Corporation's Diluted Earnings Per Share for such fiscal year and the applicable percentage of Target Units earned with respect to such performance measure for such fiscal year, and the Leverage Ratio for such fiscal year and the applicable percentage of Target Units earned with respect to such performance measure for such fiscal year. Subject to the foregoing paragraphs and provided that the Award Holder has remained in the employment or service of the Corporation over the Performance Period, (except in the event of death, permanent disability or retirement as provided above), the number of performance stock units that will vest under this performance stock unit agreement shall be determined in accordance with the following table:

Diluted Earnings Per Share	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	Total @ Target
Threshold				
Vesting % of Target Units	5%	5%	5%	
Target Vesting % of Target Units	16.666%	16.666%	16.666%	50%
Maximum				
Vesting % of Target Units	33.333%	33.333%	33.333%	
Leverage Ratio	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	
Threshold				
Vesting % of Target Units	5%	5%	5%	
Target				
Vesting % of Target Units	16.666%	16.666%	16.666%	50%
Maximum				
Vesting % of Target Units	33.333%	33.333%	33.333%	_____
Total at Target				100%

In the event that the Corporation's Diluted Earnings Per Share and/or Leverage Ratio for any fiscal year of the Performance Period falls between two of the percentages listed in the table above, the applicable percentage of Target Units earned based on such achievement shall be determined by linear interpolation. The total number of performance stock units subject to the Award that vest based upon the Corporation's achievement over the Performance Period (as determined by the Committee) will be equal to the sum of (i) the Vesting Percentage determined by reference to the table above with respect to the Corporation's Diluted Earnings Per Share for the fiscal year ending December 31, 2016 multiplied by the number of Target Units set forth in Section 1 above, plus (ii) the Vesting Percentage determined by reference to the table above with respect to the Corporation's Leverage Ratio for the fiscal year ending December 31, 2016 multiplied by the number

of Target Units set forth in Section 1 above, plus (iii) the Vesting Percentage determined by reference to the table above with respect to the Corporation's Diluted Earnings Per Share for the fiscal year ending December 31, 2017 multiplied by the number of Target Units set forth in Section 1 above, plus (iv) the Vesting Percentage determined by reference to the table above with respect to the Corporation's Leverage Ratio for the fiscal year ending December 31, 2017 multiplied by the number of Target Units set forth in Section 1 above, plus (v) the Vesting Percentage determined by reference to the table above with respect to the Corporation's Diluted Earnings Per Share for the fiscal year ending December 31, 2018 multiplied by the number of Target Units set forth in Section 1 above, plus (vi) the Vesting Percentage determined by reference to the table above with respect to the Corporation's Leverage Ratio for the fiscal year ending December 31, 2018 multiplied by the number of Target Units set forth in Section 1 above (such units collectively, the "Vested Units"). Notwithstanding anything herein to the contrary, in no event will more than two hundred percent (200%) of the number of Target Units become vested hereunder. Performance stock units granted under this Award that are not vested and remain subject to forfeiture are referred to herein as "Unvested Units."



**Certification of Principal Executive Officer  
Pursuant to Section 302 of the  
Sarbanes-Oxley Act of 2002**

I, Anthony J. Reardon, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the "registrant") on Form 10-Q for the period ended April 2, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f), and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2016

/s/ Anthony J. Reardon

Anthony J. Reardon

Chairman and Chief Executive Officer

**Certification of Principal Financial Officer  
Pursuant to Section 302 of the  
Sarbanes-Oxley Act of 2002**

I, Douglas L. Groves, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the “registrant”) on Form 10-Q for the period ended April 2, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 9, 2016

/s/ Douglas L. Groves

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Douglas L. Groves

Vice President, Chief Financial Officer and Treasurer

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

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending April 2, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony J. Reardon, Chairman and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Anthony J. Reardon

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Anthony J. Reardon  
Chairman and Chief Executive Officer  
May 9, 2016

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending April 2, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas L. Groves, Vice President, Chief Financial Officer and Treasurer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Douglas L. Groves

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Douglas L. Groves  
Vice President, Chief Financial Officer and Treasurer  
May 9, 2016

The foregoing certification is accompanying the Form 10-Q solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being filed as part of the Form 10-Q or as a separate disclosure document.