

DUCOMMUN INC /DE/  
Form 10-Q  
May 07, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2012

OR

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

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

Commission File Number 1-8174

**DUCOMMUN INCORPORATED**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

23301 Wilmington Avenue, Carson, California 90745-6209

(Address of principal executive offices) (Zip Code)

(310) 513-7200

(Registrant's telephone number, including area code)

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

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

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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 definitions of large accelerated filer, accelerated filer, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of March 31, 2012, there were outstanding 10,558,803 shares of common stock.

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**DUCOMMUN INCORPORATED**

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**Table of Contents****DUCOMMUN INCORPORATED AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands)**

|   | (Unaudited)<br>March 31,<br>2012 | December 31,<br>2011 |
|---|----------------------------------|----------------------|
| <b>Assets</b>                               |                                  |                      |
| <b>Current Assets:</b>                      |                                  |                      |
| Cash and cash equivalents                   | \$ 31,212                        | \$ 41,449            |
| Accounts receivable                         | 94,723                           | 96,174               |
| Unbilled receivables                        | 3,313                            | 3,286                |
| Inventories                                 | 157,292                          | 154,503              |
| Production cost of contracts                | 19,988                           | 18,711               |
| Deferred income taxes                       | 12,286                           | 12,020               |
| Other current assets                        | 10,913                           | 14,648               |
| <b>Total Current Assets</b>                 | <b>329,727</b>                   | <b>340,791</b>       |
| Property and Equipment, Net                 | 99,524                           | 98,477               |
| Goodwill                                    | 163,845                          | 163,845              |
| Intangibles                                 | 184,979                          | 187,854              |
| Other Assets                                | 16,369                           | 17,120               |
|   | <b>\$ 794,444</b>                | <b>\$ 808,087</b>    |
| <b>Liabilities and Shareholders' Equity</b> |                                  |                      |
| <b>Current Liabilities:</b>                 |                                  |                      |
| Current portion of long-term debt           | \$ 1,950                         | \$ 1,960             |
| Accounts payable                            | 57,155                           | 60,675               |
| Accrued liabilities                         | 42,056                           | 53,823               |
| <b>Total Current Liabilities</b>            | <b>101,161</b>                   | <b>116,458</b>       |
| Long-Term Debt, Less Current Portion        | 389,795                          | 390,280              |
| Deferred Income Taxes                       | 71,465                           | 72,043               |
| Other Long-Term Liabilities                 | 24,709                           | 25,022               |
| <b>Total Liabilities</b>                    | <b>587,130</b>                   | <b>603,803</b>       |
| <b>Commitments and Contingencies</b>        |                                  |                      |
| <b>Shareholders' Equity:</b>                |                                  |                      |
| Common stock                                | 107                              | 107                  |
| Treasury stock                              | (1,924)                          | (1,924)              |
| Additional paid-in capital                  | 65,018                           | 64,378               |
| Retained earnings                           | 151,438                          | 149,048              |
| Accumulated other comprehensive loss        | (7,325)                          | (7,325)              |
| <b>Total Shareholders' Equity</b>           | <b>207,314</b>                   | <b>204,284</b>       |
|   | <b>\$ 794,444</b>                | <b>\$ 808,087</b>    |

See accompanying notes to consolidated financial statements.



**Table of Contents****DUCOMMUN INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

|  | <b>Three Months Ended</b> |                 |
|--|---------------------------|-----------------|
|  | <b>March 31,</b>          | <b>April 2,</b> |
|  | <b>2012</b>               | <b>2011</b>     |
| <b>Sales and Service Revenues:</b>                           |                           |                 |
| Product sales  | \$ 177,502                | \$ 91,333       |
| Service revenues   | 6,841                     | 8,220           |
| Net Sales  | 184,343                   | 99,553          |
| <b>Operating Costs and Expenses:</b>                         |                           |                 |
| Cost of product sales  | 144,403                   | 74,839          |
| Cost of service revenues                                     | 5,469                     | 6,306           |
| Selling, general and administrative expenses                 | 22,612                    | 14,149          |
| <b>Total Operating Costs and Expenses</b>                    | <b>172,484</b>            | <b>95,294</b>   |
| Operating Income   | 11,859                    | 4,259           |
| Interest Expense   | (8,239)                   | (260)           |
| Income Before Taxes  | 3,620                     | 3,999           |
| Income Tax Expense   | (1,230)                   | (1,076)         |
| Net Income   | \$ 2,390                  | \$ 2,923        |
| <b>Earnings Per Share:</b>                                   |                           |                 |
| Basic earnings per share                                     | \$ 0.23                   | \$ 0.28         |
| Diluted earnings per share                                   | \$ 0.23                   | \$ 0.27         |
| <b>Weighted Average Number of Common Shares Outstanding:</b> |                           |                 |
| Basic  | 10,546                    | 10,526          |
| Diluted  | 10,574                    | 10,634          |

*See accompanying notes to consolidated financial statements.*

**Table of Contents****DUCOMMUN INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

|   | <b>Three Months Ended</b> |                 |
|---|---------------------------|-----------------|
|   | <b>March 31,</b>          | <b>April 2,</b> |
|   | <b>2012</b>               | <b>2011</b>     |
| <b>Cash Flows from Operating Activities:</b>                                  |                           |                 |
| Net Income  | \$ 2,390                  | \$ 2,923        |
| Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities: |                           |                 |
| Depreciation and amortization   | 6,804                     | 3,411           |
| Stock-based compensation expense  | 566                       | 609             |
| Deferred income tax benefit   | (844)                     | (799)           |
| Income tax benefit from stock-based compensation                              | 114                       | 229             |
| Recovery of doubtful accounts   | (36)                      | (92)            |
| Other - decrease/(increase), net  | 408                       | (277)           |
| <b>Changes in Assets and Liabilities:</b>                                     |                           |                 |
| Accounts receivable - decrease/(increase)                                     | 1,487                     | (8,897)         |
| Unbilled receivables - (increase)   | (27)                      | (1,227)         |
| Inventories - (increase)  | (2,789)                   | (8,518)         |
| Production cost of contracts - (increase)                                     | (1,340)                   | (1,377)         |
| Other - decrease/(increase), net  | 3,913                     | (1,435)         |
| Accounts payable - (decrease)   | (3,520)                   | (4,865)         |
| Accrued and other liabilities - (decrease)                                    | (11,919)                  | (5,012)         |
| <b>Net Cash Used in Operating Activities</b>                                  | <b>(4,793)</b>            | <b>(25,327)</b> |
| <b>Cash Flows from Investing Activities:</b>                                  |                           |                 |
| Purchase of property and equipment  | (4,917)                   | (1,509)         |
| Acquisition of business, net of cash acquired                                 |                           | (400)           |
| Proceeds from the sale of assets  | 3                         | 337             |
| <b>Net Cash Used in Investing Activities</b>                                  | <b>(4,914)</b>            | <b>(1,572)</b>  |
| <b>Cash Flows from Financing Activities:</b>                                  |                           |                 |
| Repayments of debt  | (491)                     |                 |
| Borrowings of senior notes and term loan                                      |                           | 18,490          |
| Cash dividends paid   |                           | (790)           |
| Net cash effect of exercise related to stock options                          | (39)                      |                 |
| <b>Net Cash (Used in)/Provided by Financing Activities</b>                    | <b>(530)</b>              | <b>17,700</b>   |
| <b>Net Decrease in Cash and Cash Equivalents</b>                              | <b>(10,237)</b>           | <b>(9,199)</b>  |
| Cash and Cash Equivalents - Beginning of Period                               | 41,449                    | 10,268          |
| <b>Cash and Cash Equivalents - End of Period</b>                              | <b>\$ 31,212</b>          | <b>\$ 1,069</b> |

*See accompanying notes to consolidated financial statements.*





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**DUCOMMUN INCORPORATED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**Consolidation**

The consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries ( Ducommun or the Company ), after eliminating intercompany balances and transactions. The consolidated balance sheet is unaudited as of March 31, 2012, the consolidated statements of operations are unaudited for the three months ended March 31, 2012 and April 2, 2011 and the consolidated statements of cash flows are unaudited for the three months ended March 31, 2012 and April 2, 2011. The financial information included in this Form 10-Q should be read in conjunction with the Company s consolidated financial statements and related notes thereto included in the Form 10-K for the year ended December 31, 2011. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year ending December 31, 2012.

The Company supplies products and services primarily to the aerospace and defense industries. The Company s subsidiaries are organized into two strategic businesses, each of which is a reportable operating segment. The accounting policies of the segments are the same as those of the Company. Ducommun AeroStructures ( DAS ) engineers and manufactures aerospace structural components and assemblies. Ducommun LaBarge Technologies ( DLT ) was formed in June 2011 by the combination of our former Ducommun Technologies segment ( DTI ) and LaBarge (See Note 2). DLT designs, engineers and manufactures a broad range of electronic, electromechanical and interconnect systems and components. In addition, DLT provides technical and program management services (including design, development, integration and testing of prototype products) principally for advanced weapons and missile defense systems.

There have been no changes in the Company s significant accounting policies during the three months ended March 31, 2012. The financial information included in this Form 10-Q should be read in conjunction with the Company s consolidated financial statements and related notes thereto included in the Form 10-K for the year ended December 31, 2011.

**Earnings Per Share**

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in each period. Diluted earnings per share is computed by dividing income available to common

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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 weighted average number of shares outstanding used to compute earnings per share is as follows:

|   | <b>Three Months Ended</b> |                          |
|---|---------------------------|--------------------------|
|   | <b>March 31,<br/>2012</b> | <b>April 2,<br/>2011</b> |
| Basic weighted average shares outstanding   | 10,546,000                | 10,526,000               |
| Dilutive potential common shares            | 28,000                    | 110,000                  |
| <br>  |                           |                          |
| Diluted weighted average shares outstanding | 10,574,000                | 10,636,000               |

The numerator used to compute diluted earnings per share is as follows:

|                                | <b>Three Months Ended</b> |                          |
|--------------------------------|---------------------------|--------------------------|
|                                | <b>March 31,<br/>2012</b> | <b>April 2,<br/>2011</b> |
| Net earnings (total numerator) | \$ 2,390,000              | \$ 2,923,000             |

The weighted average number of shares outstanding, included in the table below, is excluded from the computation of diluted earnings per share because the average market price did not exceed the exercise price. However, these shares may be potentially dilutive common shares in the future.

|  | <b>Three Months Ended</b> |                          |
|--|---------------------------|--------------------------|
|  | <b>March 31,<br/>2012</b> | <b>April 2,<br/>2011</b> |
| Stock options and stock units                      | 1,116,000                 | 398,000                  |
| <b><u>Accumulated Other Comprehensive Loss</u></b> |                           |                          |

Certain items such as pension liability adjustments are presented as a separate component of shareholders' equity. Accumulated other comprehensive loss, as reflected in the Consolidated Balance Sheets under the equity section, is comprised of cumulative pension and retirement liability adjustments of \$7,325,000, net of tax, at March 31, 2012 and December 31, 2011, respectively.

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### **Inventory Adjustment**

During the first quarter of 2012 the Company determined that approximately \$379,000 of engineering research and development costs had been capitalized in error in inventory in prior periods. The Company assessed the materiality of this error and concluded it was immaterial to previously reported annual and interim amounts.

### **Recent Accounting Pronouncements**

In June 2011, the FASB issued amendments to disclosure requirements for presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued an amendment to defer the presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for annual and interim financial statements. The implementation of the amended accounting guidance did not have a material impact on our consolidated financial position or results of operations. There was no other comprehensive income or loss reported as of March 31, 2012.

In December 2011, the FASB issued guidance enhancing disclosure requirements about the nature of an entity's right to offset and related arrangements associated with its financial instruments and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed, and the related net exposure. The new guidance will be effective for us beginning July 1, 2013. Other than requiring additional disclosures, we do not anticipate any material impact on our financial statements upon adoption.

### **Use of Estimates**

Certain amounts and disclosures included in the consolidated financial statements required management to make estimates and judgments that affect the amounts of assets, liabilities, 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.

### **Note 2. Acquisition**

On June 28, 2011, the Company completed the acquisition of all the outstanding stock of LaBarge, Inc. ( LaBarge ), formerly a publicly-owned company based in St. Louis, Missouri for \$325,315,000 (net of cash acquired and excluding acquisition costs). LaBarge was a broad-based provider of electronics to technology-driven companies in diverse markets. LaBarge had

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significant sales to customers in the aerospace, defense, natural resources, industrial, medical and other commercial markets. The Company provided its customers with sophisticated electronic, electromechanical and mechanical products through contract design and manufacturing services. The operating results for the acquisition have been included in the consolidated statements of operations since the date of the acquisition.

The Company believes the LaBarge acquisition will allow us to expand our presence significantly in the aerospace and defense markets, as well as diversify our sales base across new markets, including industrial, natural resources, medical and other commercial end markets. More specifically, the Company expects to realize the following benefits from the LaBarge acquisition:

Strengthen our market position as a significant Tier 2 supplier for both structural and electronic assemblies

Diversify our end markets

Expand our platforms work content on existing programs and capabilities on new and existing programs

Increase value-added manufacturing services content in our product portfolio

Expand our technology product portfolio

Realize potential synergies.

The following table presents unaudited pro forma consolidated operating results for the Company for the three months ended March 31, 2012 and April 2, 2011, as if the LaBarge acquisition had occurred as of January 1, 2010.

|                                   | (In thousands, except per share data) |                  |
|-----------------------------------|---------------------------------------|------------------|
|                                   | Three Months Ended                    |                  |
|                                   | March 31,<br>2012                     | April 2,<br>2011 |
| Net sales                         | \$ 184,343                            | \$ 182,767       |
| Net income/(loss)                 | 2,390                                 | 2,103            |
| Basic earnings/(loss) per share   | 0.23                                  | 0.20             |
| Diluted earnings/(loss) per share | 0.23                                  | 0.20             |

The consolidated financial statements reflect initial estimates of the fair value of the assets acquired and liabilities assumed and the related allocation of the purchase price for LaBarge. The principal estimates of fair value have been determined using expected net present value techniques utilizing a 14% discount rate. Customer relationships are valued assuming an

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annual attrition rate of 6.5%. There were no changes in the initial estimates of the fair value of the assets and liabilities assumed during the first quarter of 2012. We do not expect that the finalization of our initial purchase price allocation will result in any significant adjustments.

**Note 3. Inventories**

Inventories consist of the following:

|                            | (In thousands)    |                      |
|----------------------------|-------------------|----------------------|
|                            | March 31,<br>2012 | December 31,<br>2011 |
| Raw materials and supplies | \$ 71,074         | \$ 72,067            |
| Work in process            | 83,643            | 79,982               |
| Finished goods             | 12,714            | 13,433               |
|                            | 167,431           | 165,482              |
| Less progress payments     | 10,139            | 10,979               |
| Total                      | \$ 157,292        | \$ 154,503           |

**Note 4. Long-Term Debt**

Long-term debt is summarized as follows:

|  | (In thousands)    |                      |
|--|-------------------|----------------------|
|  | March 31,<br>2012 | December 31,<br>2011 |
| Senior Unsecured Notes                       | \$ 200,000        | \$ 200,000           |
| Senior Secured Term Loan                     | 188,575           | 189,050              |
| Notes and Other Liabilities for Acquisitions | 3,170             | 3,190                |
| Total Debt                                   | 391,745           | 392,240              |
| Less Current Portion                         | 1,950             | 1,960                |
| Total Long-Term Debt                         | \$ 389,795        | \$ 390,280           |

At March 31, 2012, the Company had \$58,425,000 of unused revolving lines of credit, after deducting \$1,575,000 for outstanding standby letters of credit. The Company had no outstanding revolver loans and was in compliance with all covenants at March 31, 2012.

The weighted average interest rate on borrowings outstanding was 7.67% at March 31, 2012, compared to 3.55% at April 2, 2011. The carrying amount of long-term debt approximates fair value, which was estimated using Level 2 inputs, including the terms of the related debt, recent transactions and estimates using interest rates currently available to the Company for debt with similar terms and remaining maturities.

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In connection with the acquisition of LaBarge on June 28, 2011, the Company borrowed \$190,000,000 under a senior secured term loan and entered into a senior secured revolving credit facility of \$60,000,000. Both the term loan and the credit facility provide the option of choosing the LIBOR rate (with a Libor rate floor of 1.25%) plus 4.25%, or the Alternate Base Rate (with an Alternate Base Rate floor of 2.25%) plus 3.25%. The Alternate Base Rate is the greater of the (a) Prime rate and (b) Federal Funds rate plus 0.5%. The term loan requires quarterly principal payments of \$475,000 beginning on September 30, 2011 and mandatory prepayment of certain amounts of excess cash flow on an annual basis beginning 2012. Principal payments of \$475,000 were paid in September and December 2011, and March 2012. The revolving credit facility matures on June 28, 2016 and the term loan matures on June 30, 2017. The revolving credit facility and term loan contain minimum Earnings Before Interest, Taxes, Depreciation and Amortization ( EBITDA ) and maximum leverage ratio covenants under certain circumstances, as well as limitations on future disposition of property, capital expenditures, investments, acquisitions, repurchase of stock, dividends, and outside indebtedness.

In connection with the acquisition of LaBarge, the Company also issued \$200,000,000 of senior unsecured notes with interest of 9.75% per annum, payable semi-annually on January 15 and July 15 of each year, beginning in 2012. The senior unsecured notes mature on July 15, 2018, at which time the entire principal amount is due.

In connection with the DAS-New York acquisition in December 2008, the Company issued a promissory note in the initial principal amount of \$7,000,000 with interest of 5% per annum payable annually on each anniversary of the closing date (December 23). Principal of the promissory note in the amount of \$4,000,000 was paid on June 23, 2011 and \$3,000,000 is payable December 23, 2013.

### **Note 5. Shareholders Equity**

The Company is authorized to issue five million shares of preferred stock. At March 31, 2012 and December 31, 2011, no preferred shares were issued or outstanding.

### **Note 6. Employee Benefit Plans**

The Company has a defined benefit pension plan covering certain hourly employees of a subsidiary. Pension plan benefits are generally determined on the basis of the retiree's age and length of service. Assets of the defined benefit pension plan are composed primarily of fixed income and equity securities. The Company also has a retirement plan covering certain current and retired employees from the LaBarge acquisition (the LaBarge Retirement Plan ). The liability for the LaBarge Retirement Plan included in accrued employee compensation and long term liabilities was \$0.6 million and \$5.5 million, respectively, at March 31, 2012 and December 31, 2011. These two plans above have been combined in the tables below.

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The components of net periodic pension cost for the defined benefit pension plan and the LaBarge Retirement Plan are as follows:

|  | (In thousands)     |                  |
|--|--------------------|------------------|
|  | Three Months Ended |                  |
|  | March 31,<br>2012  | April 2,<br>2011 |
| Service cost                                     | \$ 241             | \$ 131           |
| Interest cost                                    | 238                | 229              |
| Expected return on plan assets                   | (265)              | (279)            |
| Amortization of actuarial loss                   | 287                | 108              |
| <b>Net periodic post retirement benefit cost</b> | <b>\$ 501</b>      | <b>\$ 189</b>    |

**Note 7. Indemnifications**

The Company has made guarantees and indemnities under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions, including revenue transactions in the ordinary course of business. In connection with certain facility leases the Company has indemnified its lessors for certain claims arising from the facility or the lease. The Company indemnifies its directors and officers to the maximum extent permitted under the laws of the State of Delaware. However, the Company has a directors and officers insurance policy that may reduce its exposure in certain circumstances and may enable it to recover a portion of future amounts that may be payable, if any. The duration of the guarantees and indemnities varies and, in many cases is indefinite but subject to statute of limitations. The majority of guarantees and indemnities do not provide any limitations of the maximum potential future payments the Company could be obligated to make. Historically, payments related to these guarantees and indemnities have been immaterial. The Company estimates the fair value of its indemnification obligations as insignificant based on this history and insurance coverage and has, therefore, not recorded any liability for these guarantees and indemnities in the accompanying consolidated balance sheets.

**Note 8. Income Taxes**

The Company records the interest charge and the penalty charge, if any, with respect to uncertain tax positions as a component of tax expense. During the three months ended March 31, 2012 and April 2, 2011, the Company recognized approximately \$28,000 and \$17,000, respectively, in interest related to uncertain tax positions. The Company had approximately \$256,000 and \$228,000 for the payment of interest and penalties accrued at March 31, 2012 and December 31, 2011, respectively.

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The Company's total amount of unrecognized tax benefits was approximately \$2,348,000 and \$2,194,000 at March 31, 2012 and December 31, 2011, respectively. These amounts, if recognized, would affect the annual income tax rate.

The Company's federal income tax return for 2009, California franchise (income) tax returns for 2008 and 2009 and Texas franchise (margin) tax return for 2009 have been selected for examination. Management does not expect the results of this examination to have a material impact on the Company's financial statements. Federal income tax returns after 2006, California franchise (income) tax returns after 2006 and other state income tax returns after 2006 are subject to examination.

### **Note 9. Contingencies**

Ducommun was named as a defendant in class actions filed in April 2011 by purported stockholders of LaBarge against LaBarge, its Board of Directors and Ducommun in connection with the LaBarge acquisition. In January 2012, the Delaware Chancery Court approved the settlement of the class action which included the payment of \$600,000 for plaintiffs' attorney fees.

Ducommun is a defendant in a lawsuit entitled United States of America ex rel Taylor Smith, Jeannine Prewitt and James Ailes v. The Boeing Company and Ducommun Inc., filed in the United States District Court for the District of Kansas (the District Court). The lawsuit is 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. The lawsuit alleges that Ducommun sold unapproved parts to the Boeing Commercial Airplane Group-Wichita Division which were installed by Boeing in aircraft ultimately sold to the United States Government. The number of Boeing aircraft subject to the lawsuit has been reduced to 21 aircraft following the District Court's granting of partial summary judgment in favor of Boeing and Ducommun. The lawsuit seeks damages, civil penalties and other relief from the defendants for presenting or causing to be presented false claims for payment to the United States Government. Although the amount of alleged damages are not specified, the lawsuit seeks 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 \$10,000 for each false claim made on or before September 28, 1999, and \$11,000 for each false claim made on or after September 28, 1999, together with attorneys' fees and costs. One of Relators' experts has opined that the United States Government's damages are in the amount of \$833 million. After investigating the allegations, the United States Government has declined to intervene in the lawsuit. Ducommun intends to defend itself vigorously against the lawsuit. Ducommun, at this time, is unable to estimate what, if any, liability it may have in connection with the lawsuit.

DAS has been directed by California environmental agencies to investigate and take corrective action for ground water contamination at its facilities located in El Mirage and Monrovia, California. Based on currently available information, the Company has established a reserve for its estimated liability for such investigation and corrective action of approximately \$1,509,000 at March 31, 2012. DAS also faces liability as a potentially responsible party for



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hazardous waste disposed at two landfills located in Casmalia and West Covina, California. DAS and other companies and government entities have entered into consent decrees with respect to each landfill 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, at the West Covina landfill the Company preliminarily estimates that the range of its future liabilities in connection with the landfill is between approximately \$640,000 and \$3,300,000. The Company has established a reserve for its estimated liability, in connection with the West Covina landfill of approximately \$640,000 at March 31, 2012. The Company'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, the Company makes various commitments and incurs contingent liabilities. While it is not feasible to predict the outcome of these matters, the Company 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 consolidated financial position, results of operations or cash flows.

**Note 10. Business Segment Information**

The Company supplies products and services primarily to the aerospace and defense industries. The Company's subsidiaries are organized into two strategic businesses, each of which is a reportable operating segment. The accounting policies of the segments are the same as those of the Company. Ducommun AeroStructures ( DAS ) engineers and manufactures aerospace structural components and assemblies. Ducommun LaBarge Technologies ( DLT ) was formed in June 2011 by the combination of our former Ducommun Technologies segment ( DTI ) and LaBarge (See Note 2). DLT designs, engineers and manufactures a broad range of electronic, electromechanical and interconnect systems and components. In addition, DLT provides technical and program management services (including design, development, integration and testing of prototype products) principally for advanced weapons and missile defense systems.

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Financial information by reportable segment is set forth below:

|  | (In thousands)     |                  | %            |
|--|--------------------|------------------|--------------|
|  | Three Months Ended |                  |              |
|  | March 31,<br>2012  | April 2,<br>2011 | Change       |
| <b>Net Sales:</b>  |                    |                  |              |
| Ducommun AeroStructures                                      | \$ 74,287          | \$ 72,204        | 2.9%         |
| Ducommun LaBarge Technologies                                | 110,056            | 27,349           | 302.4%       |
| <b>Total Net Sales</b>                                       | <b>\$ 184,343</b>  | <b>\$ 99,553</b> | <b>85.2%</b> |
| <b>Segment Operating Income (1)</b>                          |                    |                  |              |
| Ducommun AeroStructures                                      | \$ 6,591           | \$ 7,067         |              |
| Ducommun LaBarge Technologies                                | 8,302              | 2,123            |              |
|  | 14,893             | 9,190            |              |
| <b>Corporate General and Administrative Expenses (2) (3)</b> | <b>(3,034)</b>     | <b>(4,931)</b>   |              |
| <b>Total Operating Income</b>                                | <b>\$ 11,859</b>   | <b>\$ 4,259</b>  |              |
| <b>Depreciation and Amortization Expenses:</b>               |                    |                  |              |
| Ducommun AeroStructures                                      | \$ 2,056           | \$ 2,557         |              |
| Ducommun LaBarge Technologies                                | 4,697              | 850              |              |
| Corporate Administration                                     | 51                 | 4                |              |
|  | \$ 6,804           | \$ 3,411         |              |
| <b>Capital Expenditures:</b>                                 |                    |                  |              |
| Ducommun AeroStructures                                      | \$ 2,457           | \$ 759           |              |
| Ducommun LaBarge Technologies                                | 2,437              | 687              |              |
| Corporate Administration                                     | 23                 | 63               |              |
| <b>Total Capital Expenditures</b>                            | <b>\$ 4,917</b>    | <b>\$ 1,509</b>  |              |

(1) Before certain allocated corporate overhead.

(2) Includes approximately \$0.15 million and \$1.4 million of acquisition-related transaction expenses related to the LaBarge acquisition in the three months ended March 31, 2012 and April 2, 2011, respectively.

(3) Certain expenses, previously incurred at the operating segments, are now included in the corporate general and administrative expenses as a result of the Company's organizational changes.

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Segment assets include assets directly identifiable with each segment. Corporate assets include assets not specifically identified with a business segment, including cash.

|                                       | (In thousands)    |                      |
|---------------------------------------|-------------------|----------------------|
|                                       | March 31,<br>2012 | December 31,<br>2011 |
| Total Assets:                         |                   |                      |
| Ducommun AeroStructures               | \$ 247,496        | \$ 240,950           |
| Ducommun LaBarge Technologies         | 485,653           | 495,247              |
| Corporate Administration              | 61,296            | 71,890               |
| <b>Total Assets</b>                   | <b>\$ 794,445</b> | <b>\$ 808,087</b>    |
| Goodwill and Intangibles:             |                   |                      |
| Ducommun AeroStructures               | \$ 69,600         | \$ 70,314            |
| Ducommun LaBarge Technologies         | 279,224           | 281,385              |
| <b>Total Goodwill and Intangibles</b> | <b>\$ 348,824</b> | <b>\$ 351,699</b>    |

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

***Overview***

Ducommun Incorporated ( Ducommun or the Company ), through its subsidiaries, provides engineering and manufacturing services primarily to the aerospace and defense industry through a wide spectrum of electronics and structural applications. We design, engineer and manufacture mission-critical aerostructure and critical electronics and electromechanical components and subassemblies. We also provide engineering, technical and program management services. Our products and services are used on domestic and foreign commercial and military aircraft, helicopter, missile and space programs, as well as in certain industrial, natural resources, medical and other commercial markets. We operate through two primary business units: DLT and DAS.

A summary of highlights for the first quarter ended March 31, 2012 includes:

Net sales increased 85% in 2012 versus 2011, reflecting increased sales of \$84,364,000 from the LaBarge, Inc. acquisition

Net income was \$2,390,000, or \$0.23 per diluted share, for the first quarter of 2012

Cash used in operating activities in the first quarter of 2012 was \$4,793,000, an improvement of \$20,534,000 compared to the first quarter of 2011

Firm backlog at the end of the first quarter 2012 was approximately \$647,252,000.

On June 28, 2011, the Company completed the acquisition of all the outstanding stock of LaBarge, Inc. ( LaBarge ), formerly a publicly-owned company based in St. Louis, Missouri for \$325,315,000 (net of cash acquired and excluding acquisition costs). LaBarge had significant sales to customers in the aerospace, defense, natural resources, industrial, medical and other commercial markets. The Company provides its customers with sophisticated electronic, electromechanical and mechanical products through contract design and manufacturing services. The operating results for the acquisition have been included in the consolidated statements of operations since the date of the acquisition.

In connection with the acquisition of LaBarge on June 28, 2011, the Company borrowed \$190,000,000 under a senior secured term loan and entered into a senior secured revolving credit facility of \$60,000,000. Both the term loan and the credit facility provide the option of choosing the LIBOR rate (with a Libor rate floor of 1.25%) plus 4.25%, or the Alternate Base Rate (with an Alternate Base Rate floor of 2.25%) plus 3.25%. The Alternate Base Rate is the greater of the (a) Prime rate and (b) Federal Funds rate plus 0.5%. The term loan requires quarterly principal payments of \$475,000 beginning on September 30, 2011 and mandatory prepayment of certain amounts of excess cash flow on an annual basis beginning in 2012. Principal payments of \$475,000 were paid in September and December 2011. The revolving credit facility matures on

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June 28, 2016 and the term loan matures on June 30, 2017. The revolving credit facility and term loan contain minimum Earnings Before Interest, Taxes, Depreciation and Amortization ( EBITDA ) and maximum leverage ratio covenants under certain circumstances, as well as limitations on future disposition of property, capital expenditures, investments, acquisitions, repurchase of stock, dividends, and outside indebtedness.

In connection with the acquisition of LaBarge, the Company also issued \$200,000,000 of senior unsecured notes with interest of 9.75% per annum, payable semi-annually on January 15 and July 15 of each year, beginning in 2012 and ending 2018, at which time the entire principal amount is due. The first interest payment was made in January 2012.

The Company believes the LaBarge acquisition will allow us to expand our presence significantly in the aerospace and defense markets, as well as diversify our sales base across new markets, including industrial, natural resources, medical and other commercial end markets. More specifically, the Company expects to realize the following benefits from the LaBarge acquisition:

Strengthen our market position as a significant Tier 2 supplier for both structural and electronic assemblies

Diversify our end markets

Expand our platforms work content on existing programs and capabilities on new and existing programs

Increase value-added manufacturing services content in our product portfolio

Expand our technology product portfolio

Realize potential synergies.

For the three months ended March 31, 2012, we generated sales of \$184,343,000 and recorded a net income of \$2,390,000. EBITDA and Adjusted EBITDA for the three months ended March 31, 2012 were \$18,657,000 and \$19,024,000, respectively. See below for certain information regarding EBITDA and Adjusted EBITDA, including reconciliations of EBITDA and Adjusted EBITDA to net income. We view EBITDA and Adjusted EBITDA as important operating performance measures that serve as a basis for measuring business segment operating performance. We use EBITDA and Adjusted EBITDA internally as complementary financial measures to evaluate the performance of our businesses and, when viewed with our GAAP financial results and accompanying reconciliations, we believe they provide additional useful information to gain an understanding of the factors and trends affecting our businesses. We have expanded our operations significantly through the recent LaBarge acquisition. As a result,

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our operating income has included significant charges for amortization and merger-related transaction and change-in-control compensation expenses. EBITDA and Adjusted EBITDA exclude these charges and provide meaningful information about the operating performance of our businesses apart from the amortization and merger-related transactions and change-in-control compensation expenses, as well as interest and tax expenses.

### **Non-GAAP Financial Measures**

To supplement financial information presented in accordance with GAAP, we use additional measures to clarify and enhance the understanding of our respective past performance and future prospects such as EBITDA and Adjusted EBITDA and the related financial ratios. We define these measures, explain how they are calculated and provide reconciliations of these measures to the most comparable GAAP measure in the tables below. EBITDA, Adjusted EBITDA and the related financial ratios, as presented in this Form 10-Q, are supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. They are not a measurement of our financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP, or as an alternative to net cash provided by operating activities as measures of our liquidity. We present EBITDA, Adjusted EBITDA and the related financial ratios, as applicable, because we believe that measures such as these provide useful information with respect to our ability to meet our future debt service, capital expenditures, working capital requirements and overall operating performance. In addition, we utilize EBITDA and Adjusted EBITDA when interpreting operating trends and results of operations of our respective businesses. The presentation of these measures should not be interpreted to mean that our future results will be unaffected by unusual or nonrecurring items.

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

They do not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments

They do not reflect changes in, or cash requirements for, our working capital needs

They do not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt

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

They are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows

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They do not reflect the impact on earnings of charges resulting from matters unrelated to our ongoing operations, and

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

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

However, the Company believes that EBITDA and Adjusted EBITDA are useful to an investor in evaluating our results of operations because these measures:

Are widely used by investors to measure a company's operating performance without regard to items excluded from the calculation of such terms, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired, among other factors

Help investors to evaluate and compare the results of our operations from period to period by removing the effect of our capital structure from our operating performance, and

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

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

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

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

Acquisition related expenses, including change in control compensation, may be useful to investors for determining current cash flow

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

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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.

Management uses non-GAAP measures only to supplement our GAAP results and to provide additional information that is useful to gain an understanding of the factors and trends affecting our business.

The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA. Adjusted EBITDA for the first quarter of 2012 increased to \$19,030,000, or 10.3% of sales compared with \$9,070,000, or 9.1% of sales, for the comparable period last year.

|   | (In thousands)     |                  |
|---|--------------------|------------------|
|   | Three Months Ended |                  |
|   | March 31,<br>2012  | April 2,<br>2011 |
| Net income  | \$ 2,390           | \$ 2,923         |
| Depreciation & amortization (1)                                 | 6,804              | 3,411            |
| Interest expense, net (2)                                       | 8,239              | 260              |
| Income tax provision  | 1,230              | 1,076            |
| <b>EBITDA</b>   | <b>\$ 18,663</b>   | <b>\$ 7,670</b>  |
| Acquisition-related transaction expenses (3)                    | 151                | 1,400            |
| Acquisition-related change-in-control compensation expenses (4) | 216                |                  |
|   | 367                | 1,400            |
| <b>Adjusted EBITDA</b>  | <b>\$ 19,030</b>   | <b>\$ 9,070</b>  |

- (1) Includes amortization of intangibles and additional depreciation expense related to the LaBarge acquisition and prior acquisitions.
- (2) Includes deferred financing costs in connection with the LaBarge acquisition.
- (3) Includes investment banking, accounting, legal, tax and valuation expenses as a direct result of the LaBarge acquisition.
- (4) Acquisition-related transaction cost resulting from a change-in-control provision for certain LaBarge key executives and employees arising in connection with the LaBarge acquisition.



**Table of Contents****Critical Accounting Policies**

There have been no changes in the Company's significant accounting policies during the three months ended March 31, 2012. The financial information included in this Form 10-Q should be read in conjunction with the Company's consolidated financial statements and related notes thereto included in the Form 10-K for the year ended December 31, 2011.

**Results of Operations****First Quarter of 2012 Compared to First Quarter of 2011**

Sales, gross profit as a percentage of sales, selling, general and administrative expense as a percentage of sales, the effective tax rate and the diluted earnings per share in 2012 and 2011, respectively, were as follows:

|                            | (in thousands)    |                  |
|----------------------------|-------------------|------------------|
|                            | First Quarter     |                  |
|                            | March 31,<br>2012 | April 2,<br>2011 |
| Sales                      | \$ 184,343        | \$ 99,553        |
| Gross Profit % of Sales    | 18.7%             | 18.5%            |
| SG&A Expense % of Sales    | 12.3%             | 14.2%            |
| Effective Tax Rate         | 34.0%             | 26.9%            |
| Diluted Earnings Per Share | \$ 0.23           | \$ 0.27          |

The Company's net sales by end use segment during the first quarters 2012 and 2011, respectively, were approximately as follows:

**Net Sales by Market**

| Sales                 | Change    | (in thousands)    |                  | % sales |        |
|-----------------------|-----------|-------------------|------------------|---------|--------|
|                       |           | First Quarter     |                  | 2012    | 2011   |
| Consolidated Ducommun |           | March 31,<br>2012 | April 2,<br>2011 |         |        |
| Military and Space    | \$ 33,169 | \$ 87,469         | \$ 54,300        | 47.4%   | 54.5%  |
| Commercial Aerospace  | 6,010     | 51,263            | 45,253           | 27.8    | 45.5   |
| Natural Resources     | 19,206    | 19,206            |                  | 10.4    |        |
| Industrial            | 16,654    | 16,654            |                  | 9.0     |        |
| Medical & Other       | 9,751     | 9,751             |                  | 5.3     |        |
| Total                 | \$ 84,790 | \$ 184,343        | \$ 99,553        | 100.0%  | 100.0% |

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| Sales                          | Change          | (in thousands)<br>First Quarter |                  | % Sales       |               |
|--------------------------------|-----------------|---------------------------------|------------------|---------------|---------------|
|                                |                 | March 31,<br>2012               | April 2,<br>2011 | 2012          | 2011          |
| <b>Ducommun AeroStructures</b> |                 |                                 |                  |               |               |
| Military & Space               | \$ 6            | \$ 32,793                       | \$ 32,787        | 44.1%         | 45.4%         |
| Commercial Aerospace           | 2,077           | 41,494                          | 39,417           | 55.9          | 54.6          |
| Natural Resources              |                 |                                 |                  |               |               |
| Industrial                     |                 |                                 |                  |               |               |
| Medical & Other                |                 |                                 |                  |               |               |
| <b>Total</b>                   | <b>\$ 2,083</b> | <b>\$ 74,287</b>                | <b>\$ 72,204</b> | <b>100.0%</b> | <b>100.0%</b> |

| Sales                                | Change           | (in thousands)<br>First Quarter |                  | % Sales       |               |
|--------------------------------------|------------------|---------------------------------|------------------|---------------|---------------|
|                                      |                  | March 31,<br>2012               | April 2,<br>2011 | 2012          | 2011          |
| <b>Ducommun LaBarge Technologies</b> |                  |                                 |                  |               |               |
| Military & Space                     | \$ 33,163        | \$ 54,676                       | \$ 21,513        | 49.7%         | 78.7%         |
| Commercial Aerospace                 | 3,933            | 9,769                           | 5,836            | 8.9           | 21.3          |
| Natural Resources                    | 19,206           | 19,206                          |                  | 17.5          |               |
| Industrial                           | 16,654           | 16,654                          |                  | 15.1          |               |
| Medical & Other                      | 9,751            | 9,751                           |                  | 8.9           |               |
| <b>Total</b>                         | <b>\$ 82,707</b> | <b>\$ 110,056</b>               | <b>\$ 27,349</b> | <b>100.0%</b> | <b>100.0%</b> |

The Company had substantial sales to Boeing, Raytheon, Schlumberger, Owens-Illinois, and Spirit AeroSystems. During the first quarters 2012 and 2011, sales to these customers were as follows:

**Net Sales to Top Customers**

| Sales              | (in thousands)<br>First Quarter |                  |
|--------------------|---------------------------------|------------------|
|                    | March 31,<br>2012               | April 2,<br>2011 |
| Boeing             | \$ 27,691                       | \$ 24,234        |
| Raytheon           | 11,867                          | 7,375            |
| Schlumberger       | 10,930                          |                  |
| Owens-Illinois     | 10,207                          |                  |
| Spirit AeroSystems | 9,613                           |                  |
| <b>Total</b>       | <b>\$ 70,308</b>                | <b>\$ 31,609</b> |

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|                    | (in thousands)<br>First Quarter<br>March 31,<br>2012 |
|--------------------|--|
| <b>Receivables</b> |  |
| Boeing             | \$ 9,671   |
| Owens-Illinois     | 8,438  |
| Spirit AeroSystems | 6,310  |
| Raytheon           | 5,140  |
| <b>Total</b>       | <b>\$ 29,559</b>                                     |

The sales and receivables relating to Boeing, Owens-Illinois, Spirit AeroSystems and Raytheon are diversified over a number of different military and space, commercial, aerospace, natural resources, industrial medical and other programs.

Sales for 2012 increased 85% to \$184,343,000 as compared to \$99,553,000 for the same period ended 2011, primarily reflecting sales of \$84,364,000 from the LaBarge acquisition.

**Cost of Sales and Gross Profit**

|                         | (dollars in thousands)<br>First Quarter |                  |
|-------------------------|---|------------------|
|                         | March 31,<br>2012                       | April 2,<br>2011 |
| Cost of Sales           | \$ 149,872                              | \$ 81,145        |
| Percent of Net Sales    | 81.3%                                   | 81.5%            |
| Gross Profit            | \$ 34,471                               | \$ 18,408        |
| Gross Profit % of Sales | 18.7%                                   | 18.5%            |

Gross profit margins vary considerably by contract. The increase in both gross profit dollars and margins in 2012 was primarily due to the increase in gross profit from the LaBarge acquisition, partially offset by lower gross profit dollars and margins from engineering services and DAS, primarily due to a high proportion of sales of lower margin products.

**Table of Contents****Selling, General and Administrative Expenses**

|  | (dollars in thousands) |                  |
|--|------------------------|------------------|
|  | First Quarter          |                  |
|  | March 31,<br>2012      | April 2,<br>2011 |
| Selling, General and Administrative Expenses | \$ 22,612              | \$ 14,149        |
| % of Net Sales                               | 12.3%                  | 14.2%            |

The SG&A expenses increased primarily due to SG&A expenses from the newly acquired LaBarge organization of \$9,667,000 (including \$1,949,000 for amortization of intangibles), partially offset by lower acquisition-related transaction expense from the LaBarge acquisition and integration cost synergies realized in the first quarter of 2012. The SG&A expense also increased due to a \$379,000 charge for engineering research and development costs that were capitalized in error in inventory in prior periods. The Company assessed the materiality of this error and concluded it was immaterial to previously reported annual and interim amounts.

**Interest Expense**

|                   | (dollars in thousands) |                  |
|-------------------|------------------------|------------------|
|                   | First Quarter          |                  |
|                   | March 31,<br>2012      | April 2,<br>2011 |
| Interest Expenses | \$ 8,239               | \$ 260           |
| % of Net Sales    | 4.4%                   | 0.3%             |

The increase in interest expense was due to higher levels of debt and associated interest rates related to the LaBarge acquisition.

**Income Tax Expenses**

|                    | (dollars in thousands) |                  |
|--------------------|------------------------|------------------|
|                    | First Quarter          |                  |
|                    | March 31,<br>2012      | April 2,<br>2011 |
| Income Taxes       | \$ 1,230               | \$ 1,076         |
| Effective Tax Rate | 34.0%                  | 26.9%            |

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The increase in income tax expense in 2012 was due to a higher effective tax rate. The Company had an effective tax rate of 34.0% in the first quarter 2012, compared to an effective tax rate of 26.9% in the first quarter 2011. The Company's effective tax rate for the first quarter of 2012 reflected no current year federal research and development tax benefits and the effective tax rate for 2011 included federal research and development tax benefits.

The Company had net income of \$2,390,000, or \$0.23 per fully diluted share, for three months ended March 31, 2012, compared to net income of \$2,923,000, or \$0.27 per fully diluted share, for the three months ended April 2, 2011.

**Business Segment Performance**

We report our financial performance based on the following two reportable segments: Ducommun AeroStructures ( DAS ) and Ducommun LaBarge Technologies ( DLT ). The results of operations among our operating segments vary due to differences in competitors, customers, extent of proprietary deliverables and performance. Ducommun AeroStructures ( DAS ) engineers and manufactures aerospace structural components and subassemblies.

Ducommun LaBarge Technologies ( DLT ) was formed in June 2011 by the combination of our former Ducommun Technologies segment ( DTI ) and LaBarge. DLT designs, engineers and manufactures a broad range of electronic, electromechanical and interconnect systems and components. In addition, DLT provides technical and program management services (including design, development, and integration and testing of prototype products) principally for advanced weapons and missile defense systems.

We currently generate a majority of our revenue from customers in the aerospace and defense industry. In addition, we service technology driven markets in the industrial, natural resources and medical markets. The following table summarizes our net sales by end-market by business segment. The loss of one or more of our major customers, an economic downturn or a reduction in commercial aircraft production rates or defense markets could have a material adverse effect on our business.

**Table of Contents****DUCOMMUN INCORPORATED AND SUBSIDIARIES****BUSINESS SEGMENT PERFORMANCE****(In thousands)****(Unaudited)**

|  | <b>Three Months</b> |                 |               |
|--|---------------------|-----------------|---------------|
|  | <b>March 31,</b>    | <b>April 2,</b> | <b>Change</b> |
|  | <b>2012</b>         | <b>2011</b>     |               |
| Net Sales:   |                     |                 |               |
| Ducommun AeroStructures  | \$ 74,287           | \$ 72,204       | 2.9%          |
| Ducommun LaBarge Technologies                                    | 110,056             | 27,349          | 302.4%        |
| Total Net Sales  | \$ 184,343          | \$ 99,553       | 85.2%         |
| Segment Operating Income (1)                                     |                     |                 |               |
| Ducommun AeroStructures  | \$ 6,591            | \$ 7,067        |               |
| Ducommun LaBarge Technologies (5)                                | 8,302               | 2,123           |               |
|  | 14,893              | 9,190           |               |
| Corporate General and Administrative Expenses (3)(5)             | (3,034)             | (4,931)         |               |
| Total Operating Income   | \$ 11,859           | \$ 4,259        |               |
| EBITDA (1)   |                     |                 |               |
| Ducommun AeroStructures  |                     |                 |               |
| Operating Income   | \$ 6,591            | \$ 7,067        |               |
| Depreciation and Amortization                                    | 2,056               | 2,557           |               |
|  | 8,647               | 9,624           |               |
| Ducommun LaBarge Technologies                                    |                     |                 |               |
| Operating Income   | 8,302               | 2,123           |               |
| Depreciation and Amortization                                    | 4,697               | 850             |               |
|  | 12,999              | 2,973           |               |
| Corporate General and Administrative Expenses (2)(3)             |                     |                 |               |
| Operating Loss   | (3,034)             | (4,931)         |               |
| Depreciation and Amortization                                    | 51                  | 4               |               |
|  | (2,983)             | (4,927)         |               |
| EBITDA   | \$ 18,663           | \$ 7,670        |               |
| Adjusted EBITDA  |                     |                 |               |
| Acquisition-related transaction expenses (3)(4)                  | \$ 151              | \$ 1,400        |               |
| Acquisitioin-related change-in-control compensation expenses (5) | 216                 |                 |               |
|  | 367                 | 1,400           |               |
| Adjusted EBITDA  | \$ 19,030           | \$ 9,070        |               |

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Capital Expenditures:

|                               |          |          |
|-------------------------------|----------|----------|
| Ducommun AeroStructures       | \$ 2,457 | \$ 759   |
| Ducommun LaBarge Technologies | 2,437    | 687      |
| Corporate Administration      | 23       | 63       |
| Total Capital Expenditures    | \$ 4,917 | \$ 1,509 |

- (1) Before certain allocated corporate overhead.
- (2) Includes approximately \$0.15 million and \$1.4 million of acquisition-related transaction expenses related to the LaBarge acquisition in the three months ended March 31, 2012 and April 2, 2011, respectively.
- (3) Certain expenses, previously incurred by the operating units, are now included in the corporate general and administrative expense as a result of the Company's organizational changes.
- (4) Includes investment banking, accounting, legal, tax and valuation expenses as a direct result of the LaBarge acquisition.
- (5) Includes approximately \$0.22 million of acquisition-related transaction costs resulting from a change-in-control provision for certain LaBarge key executives and employees arising in connection with the LaBarge acquisition in the three months ended March 31, 2012.

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Ducommun AeroStructures: DAS segment net sales increased by 2.9% to \$74,287,000 for the three months ended March 31, 2012. The increase in sales was primarily due to increased shipments of commercial aerospace products.

Ducommun LaBarge Technologies: DLT segment net sales increased by 302.4% to \$110,056,000 for the three months ended March 31, 2012. Net sales increased primarily due to \$84,365,000 in sales from the LaBarge acquisition, partially offset by lower revenues for engineering services and the legacy Ducommun DTI manufacturing business.

DAS segment operating income and EBITDA were down in the three months of 2012 compared to the three months of 2011. Operating income for 2012 first quarter was \$6,591,000, or 8.9% of sales compared to \$7,067,000, or 9.8% of sales in the comparable period in 2011. Operating income was lower in the 2012 period primarily due to a higher proportion of sales of lower margin products. Adjusted EBITDA was \$8,647,000, or 11.6% of sales, compared with Adjusted EBITDA of \$9,624,000, or 13.3% of sales for the prior year period.

DLT segment operating income and EBITDA were up in the three months of 2012 compared to the three months of 2011. Operating income for 2012 first quarter was \$8,302,000, or 7.5% of sales, compared to operating income of \$2,123,000, or 7.8% of sales in the comparable period in 2011. Operating income was higher in the 2012 period primarily due to \$7,209,000 of operating income from the LaBarge acquisition, partially offset by lower operating income for engineering services and the legacy Ducommun DTI manufacturing business. Adjusted EBITDA was \$13,215,000, or 12.0% of sales, compared with Adjusted EBITDA of \$2,973,000, or 10.9% of sales in the first quarter of 2011.

Corporate General and Administrative Expenses ( CG&A ) were down in the three months of 2012 compared to the three months of 2011. CG&A expenses for the first quarter 2012 were \$3,034,000, or 1.6% of sales, as compared to \$4,931,000, or 5.0% of sales, in the 2011 first quarter. CG&A was lower in the first quarter of 2012 primarily due to the reduction in acquisition-related transaction expense from the LaBarge acquisition and integration cost synergies realized.

## **Backlog**

Backlog is subject to delivery delays or program cancellations, which are beyond our control. As of March 31, 2012, firm backlog was \$647,252,000, compared to \$636,358,000 at December 31, 2011. The increase in backlog is mainly due to higher backlog for Boeing commercial aircraft and commercial helicopter programs. Approximately \$365,000,000 of total backlog is expected to be delivered during 2012. Trends in the Company's overall level of backlog, however, may not be indicative of trends in future sales because the Company's backlog is affected by timing differences in the placement of customer orders and because the Company's backlog tends to be concentrated in several programs to a greater extent than sales.



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Backlog at March 31, 2012 was broken down as follows:

|                              |            | (in thousands)    |                      |
|------------------------------|------------|-------------------|----------------------|
|                              | Change     | March 31,<br>2012 | December 31,<br>2011 |
| <b>Ducommun Incorporated</b> |            |                   |                      |
| Military and Space           | \$ (1,799) | \$ 352,710        | \$ 354,509           |
| Commercial Aerospace         | 17,457     | 209,674           | 192,217              |
| Natural Resources            | (8,178)    | 31,271            | 39,449               |
| Industrial                   | (1,715)    | 24,675            | 26,390               |
| Medical & Other              | 5,129      | 28,922            | 23,793               |
| Total                        | \$ 10,894  | \$ 647,252        | \$ 636,358           |

|                                |            | (in thousands)    |                      |
|--------------------------------|------------|-------------------|----------------------|
|                                | Change     | March 31,<br>2012 | December 31,<br>2011 |
| <b>Ducommun AeroStructures</b> |            |                   |                      |
| Military and Space             | \$ (7,069) | \$ 134,685        | \$ 141,754           |
| Commercial Aerospace           | 16,253     | 187,286           | 171,033              |
| Natural Resources              |            |                   |                      |
| Industrial                     |            |                   |                      |
| Medical & Other                |            |                   |                      |
| Total                          | \$ 9,184   | \$ 321,971        | \$ 312,787           |

|                                      |          | (in thousands)    |                      |
|--------------------------------------|----------|-------------------|----------------------|
|                                      | Change   | March 31,<br>2012 | December 31,<br>2011 |
| <b>Ducommun LaBarge Technologies</b> |          |                   |                      |
| Military and Space                   | \$ 5,270 | \$ 218,025        | \$ 212,755           |
| Commercial Aerospace                 | 1,204    | 22,388            | 21,184               |
| Natural Resources                    | (8,178)  | 31,271            | 39,449               |
| Industrial                           | (1,715)  | 24,675            | 26,390               |
| Medical & Other                      | 5,129    | 28,922            | 23,793               |
| Total                                | \$ 1,710 | \$ 325,281        | \$ 323,571           |

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### **Financial Condition**

#### **Cash Flow Summary**

Net cash used in operating activities for the first quarters 2012 and 2011 was \$4,793,000 and \$25,327,000, respectively. The \$20,534,000 improvement reflects better working capital management and improved operating efficiency. Net cash used in operating activities during the first quarter of 2012 was impacted by lower net income, an increase in inventory, primarily related to work-in-process for production jobs, payments of accounts payable, and payments in 2012 for expenses recorded in accrued liabilities in 2011, partially offset by a decrease in accounts receivables.

Net cash used in investing activities for the first three months of 2012 was \$4,914,000. This consisted of \$4,917,000 of capital expenditures and proceeds of \$3,000 from the sale of assets.

Net cash used in financing activities for the first three months of 2012 of \$530,000 included \$491,000 of repayment of senior notes, term loan and revolver debt and \$39,000 net cash effect related to the exercise of stock options.

#### **Liquidity and Capital Resources**

At March 31, 2012, the Company had \$58,425,000 of unused revolving lines of credit, after deducting \$1,575,000 for outstanding standby letters of credit. The Company had no outstanding revolver loans and was in compliance with all covenants at March 31, 2012. The weighted average interest rate on borrowings outstanding was 7.67% at March 31, 2012, compared to 3.55% at April 2, 2011. The carrying amount of long-term debt approximates fair value based on the terms of the related debt, recent transactions and estimates using interest rates currently available to the Company for debt with similar terms and remaining maturities.

In connection with the acquisition of LaBarge on June 28, 2011, the Company borrowed \$190,000,000 under a senior secured term loan and entered into a senior secured revolving credit facility of \$60,000,000. Both the term loan and the credit facility provide the option of choosing the LIBOR rate (with a Libor rate floor of 1.25%) plus 4.25%, or the Alternate Base Rate (with an Alternate Base Rate floor of 2.25%) plus 3.25%. The Alternate Base Rate is the greater of the (a) Prime rate and (b) Federal Funds rate plus 0.5%. The term loan requires quarterly principal payments of \$475,000 beginning on September 30, 2011 and mandatory prepayment of certain amounts of excess cash flow on an annual basis beginning 2012. Principal payments of \$475,000 were paid in September and December 2011, and March 2012. The revolving credit facility matures on June 28, 2016 and the term loan matures on June 30, 2017. The revolving credit facility and term loan contain minimum Earnings Before Interest, Taxes, Depreciation and Amortization ( EBITDA ) and maximum leverage ratio covenants under certain circumstances, as well as limitations on future disposition of property, capital expenditures, investments, acquisitions, repurchase of stock, dividends, and outside indebtedness.

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In connection with the acquisition of LaBarge, the Company also issued \$200,000,000 of senior unsecured notes with interest of 9.75% per annum, payable semi-annually on January 15 and July 15 of each year, beginning in 2012. The senior unsecured notes mature on July 15, 2018, at which time the entire principal amount is due.

In connection with the DAS-New York acquisition in December 2008, the Company issued a promissory note in the initial principal amount of \$7,000,000 with interest of 5% per annum payable annually on each anniversary of the closing date (December 23). Principal of the promissory note in the amount of \$4,000,000 was paid on June 23, 2011 and \$3,000,000 is payable December 23, 2013.

The Company expects to spend a total of approximately \$19,000,000 for capital expenditures in 2012. The increase in capital expenditures in 2012 from 2011 is principally to support new contract awards at DAS and DLT, including offshore manufacturing expansion. The Company believes the ongoing subcontractor consolidation makes acquisitions an increasingly important component of the Company's future growth. The Company will continue to make prudent acquisitions and capital expenditures for manufacturing equipment and facilities to support long-term contracts for commercial and military aircraft programs, defense, medical, natural resources, industrial and other commercial markets. As part of the Company's strategic direction in moving to a Tier 2 supplier additional up-front investment in tooling will be required for newer programs which have higher engineering content and higher levels of complexity in assemblies.

The Company continues to depend on operating cash flow and the availability of its bank line of credit to provide short-term liquidity. Cash from operations and bank borrowing capacity are expected to provide sufficient liquidity to meet the Company's obligations during the next twelve months.

The Company has made guarantees and indemnities under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions, including revenue transactions in the ordinary course of business. In connection with certain facility leases, the Company has indemnified its lessors for certain claims arising from the facility or the lease. The Company indemnifies its directors and officers to the maximum extent permitted under the laws of the State of Delaware. However, the Company has a directors and officers insurance policy that may reduce its exposure in certain circumstances and may enable it to recover a portion of future amounts that may be payable, if any. The duration of the guarantees and indemnities varies and, in many cases, is indefinite but subject to statute of limitations. The majority of guarantees and indemnities do not provide any limitations of the maximum potential future payments the Company could be obligated to make. Historically, payments related to these guarantees and indemnities have been immaterial. The Company estimates the fair value of its indemnification obligations as insignificant based on this history and insurance coverage and has, therefore, not recorded any liability for these guarantees and indemnities in the accompanying consolidated balance sheets. However, there can be no assurances that the Company will not have any future financial exposure under these indemnification obligations.

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As of March 31, 2012, the Company expects to make the following payments on its contractual obligations (in thousands):

| Contractual Obligations                             | Total      | Remainder<br>of 2012 | Payments Due by Period |               |               |
|---|------------|----------------------|------------------------|---------------|---------------|
|   |            |                      | 2013-<br>2014          | 2015-<br>2016 | After<br>2016 |
| Long-term debt                                      | \$ 391,745 | \$ 1,470             | \$ 6,877               | \$ 3,848      | \$ 379,550    |
| Operating leases                                    | 18,927     | 5,569                | 8,555                  | 3,271         | 1,532         |
| Pension liability                                   | 15,117     | 1,099                | 2,819                  | 3,032         | 8,167         |
| Liabilities related to uncertain tax position       | 2,604      | 427                  | 1,359                  | 818           |               |
| Future interest on notes payable and long-term debt | 180,130    | 17,660               | 59,554                 | 58,985        | 43,931        |
| Total   | \$ 608,523 | \$ 26,225            | \$ 79,164              | \$ 69,954     | \$ 433,180    |

Ducommun was named as a defendant in class actions filed in April, 2011 by purported stockholders of LaBarge against LaBarge, its Board of Directors and Ducommun in connection with the LaBarge acquisition. In January 2012, the Delaware Chancery Court approved the settlement of the class action which included the payment of \$600,000 for plaintiffs' attorney fees.

Ducommun is a defendant in a lawsuit entitled United States of America ex rel Taylor Smith, Jeannine Prewitt and James Ailes v. The Boeing Company and Ducommun Inc., filed in the United States District Court for the District of Kansas (the District Court). The lawsuit is 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. The lawsuit alleges that Ducommun sold unapproved parts to the Boeing Commercial Airplane Group-Wichita Division which were installed by Boeing in aircraft ultimately sold to the United States Government. The number of Boeing aircraft subject to the lawsuit has been reduced to 21 aircraft following the District Court's granting of partial summary judgment in favor of Boeing and Ducommun. The lawsuit seeks damages, civil penalties and other relief from the defendants for presenting or causing to be presented false claims for payment to the United States Government. Although the amount of alleged damages are not specified, the lawsuit seeks 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 \$10,000 for each false claim made on or before September 28, 1999, and \$11,000 for each false claim made on or after September 28, 1999, together with attorneys' fees and costs. One of Relators' experts has opined that the United States Government's damages are in the amount of \$833 million. After investigating the allegations, the United States Government has declined to intervene in the lawsuit. Ducommun intends to defend itself vigorously against the lawsuit. Ducommun, at this time, is unable to estimate what, if any, liability it may have in connection with the lawsuit.

DAS has been directed by California environmental agencies to investigate and take corrective action for ground water contamination at its facilities located in El Mirage and Monrovia, California. Based on currently available information, the Company has established a reserve for its estimated liability for such investigation and corrective action of approximately \$1,509,000 at December 31, 2011. DAS also faces liability as a potentially responsible party for

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hazardous waste disposed at two landfills located in Casmalia and West Covina, California. DAS and other companies and government entities have entered into consent decrees with respect to each landfill 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, at the West Covina landfill the Company preliminarily estimates that the range of its future liabilities in connection with the landfill is between approximately \$640,000 and \$3,300,000. The Company has established a reserve for its estimated liability, in connection with the West Covina landfill of approximately \$640,000 at March 31, 2011. The Company'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, the Company makes various commitments and incurs contingent liabilities. While it is not feasible to predict the outcome of these matters, the Company 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 consolidated financial position, results of operations or cash flows.

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

The Company's off-balance sheet arrangements consist of operating leases and indemnities.

### **Recent Accounting Pronouncements**

In June 2011, the FASB issued amendments to disclosure requirements for presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued an amendment to defer the presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for annual and interim financial statements. The implementation of the amended accounting guidance did not have a material impact on our consolidated financial position or results of operations. There was no other comprehensive income or loss reported as of March 31, 2012.

In December 2011, the FASB issued guidance enhancing disclosure requirements about the nature of an entity's right to offset and related arrangements associated with its financial instruments and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards

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followed, and the related net exposure. The new guidance will be effective for us beginning July 1, 2013. Other than requiring additional disclosures, we do not anticipate material impacts on our financial statements upon adoption.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company had no material market risk disclosures.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

The Company's chief executive officer and chief financial officer have concluded, based on 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)), that such disclosure controls and procedures were effective as of the end of the period covered by this report.

**Internal Control Over Financial Reporting**

There has been no change in the Company's internal control over financial reporting during the three months ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Item 3 of the Company's Form 10-K for the year ended December 31, 2011.

**Item 1A. Risk Factors**

See Item 1A of the Company's Form 10-K for the year ended December 31, 2011 for a discussion of risk factors.



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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Issuer Purchases of Equity Securities**

The Company is authorized to issue five million shares of preferred stock. At March 31, 2012 and December 31, 2011, no preferred shares were issued or outstanding.

In 2011, the Company terminated its stock repurchase program.

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**Item 6. Exhibits**

|         |  |
|---------|--|
| 11      | Reconciliation of Numerators and Denominators of the Basic and Diluted Earnings Per Share Computations                 |
| 31.1    | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                 |
| 31.2    | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                 |
| 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.LAB | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase  |

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**SIGNATURES**

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

**DUCOMMUN INCORPORATED**

(Registrant)

By:            /s/ Joseph P. Bellino  
                  Joseph P. Bellino  
                  Vice President and Chief Financial Officer  
                  (Duly Authorized Officer of the Registrant)

By:            /s/ Samuel D. Williams  
                  Samuel D. Williams  
                  Vice President and Controller  
                  (Chief Accounting Officer of the Registrant)

Date: May 7, 2012