DUCOMMUN INC /DE/
Form 10-K
March 06, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-8174

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

Delaware	95-0693330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
23301 Wilmington Avenue, Carson, California	90745-6209
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (310) 513-7200
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price of which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter ended July 2, 2016 was $219 million.

The number of shares of common stock outstanding on February 21, 2017 was 11,195,101.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference:

(a) Proxy Statement for the 2017 Annual Meeting of Shareholders (the “2017 Proxy Statement”), incorporated partially in Part III hereof.

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FORWARD-LOOKING STATEMENTS AND RISK FACTORS

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

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

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

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

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

PART I

ITEM 1. BUSINESS

GENERAL

Ducommun Incorporated ("Ducommun," "the Company," "we," "us" or "our") is a leading global provider of engineering and manufacturing services for high-performance products and high-cost-of failure applications used primarily in the aerospace and defense ("A&D"), industrial, medical and other industries (collectively, "Industrial"). Ducommun differentiates itself as a full-service solution-based provider, offering a wide range of value-added products and services in our primary businesses of electronics, structures, and integrated solutions. We operate through two primary business segments: Electronic Systems and Structural Systems. We are the successor to a business that was founded in California in 1849 and reincorporated in Delaware in 1970.

ACQUISITIONS

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

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

PRODUCTS AND SERVICES

Business Segment Information

We operate through two primary strategic businesses Electronic Systems and Structural Systems, each of which is a reportable segment. The results of operations among our operating segments vary due to differences in competitors, customers, extent of proprietary deliverables and performance. Electronic Systems designs, engineers and manufactures high-reliability electronic and electromechanical products used in worldwide technology-driven markets including A&D and Industrial end-use markets. Electronic Systems' product offerings primarily range from prototype development to complex assemblies as discussed in more detail below. Structural Systems designs, engineers and manufactures large, complex contoured aerostructure components and assemblies and supplies composite and metal bonded structures and assemblies. Structural Systems' products are primarily used on commercial aircraft, military fixed-wing aircraft and military and commercial rotary-wing aircraft.

Electronic Systems

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

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

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Electronic Systems also provides engineering expertise for aerospace system design, development, integration, and testing. We leverage the knowledge base, capabilities, talent, and technologies of this focused capability into direct support of our customers.

Structural Systems

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

AEROSPACE AND DEFENSE END-USE MARKETS OVERVIEW

Our largest end-use markets are the aerospace and defense markets and our revenues from these markets represented 89% of our total net revenues in 2016. These markets are serviced by suppliers which are stratified, from the lowest value provided to the highest, into four tiers: Tier 3, Tier 2, Tier 1 and original equipment manufacturers (“OEMs”). The OEMs provide the highest value and are also known as prime contractors (“Primes”). We derive a significant portion of our revenues from subcontracts with OEMs. As the prime contractor for various programs and platforms, the OEMs sell to their customers, who may include, depending upon the application, the U.S. Federal Government, foreign, state and local governments, global commercial airline carriers, regional jet carriers and various other customers. The OEMs also sell to global leasing companies that lease commercial aircraft. A significant portion of our revenues is earned from subcontracts with the Primes. Tier 3 suppliers principally provide components or detailed parts. Tier 2 suppliers provide more complex, value-added parts and may also assume more design risk, manufacturing risk, supply chain risk and project management risk than Tier 3 suppliers. Tier 1 suppliers manufacture aircraft sections and purchase assemblies. We currently compete primarily with Tier 2 and Tier 3 suppliers. Our business growth strategy is to differentiate ourselves from competitors by providing more complex assemblies to our customers as a Tier 2 supplier.

Commercial Aerospace End-Use Market

The commercial aerospace end-use market is highly cyclical and is impacted by the level of global air passenger traffic in general, which in turn is influenced by global economic conditions, fleet fuel and maintenance costs and geopolitical developments. Revenues from the commercial aerospace end-use market represented 48% of our total net revenues for 2016.

Passenger traffic growth was estimated at approximately 6% in 2016. Although growth was strong across all major world regions, there continues to be significant variation between regions and airline business models. Airlines operating in the Middle East and Asia Pacific regions, as well as low-cost-carriers globally, are currently leading passenger growth.

In addition, airline financial performance also plays a role in the demand for new capacity. Airlines continue to focus on increasing revenues through alliances, partnerships, new marketing initiatives, and effective leveraging of ancillary services and related revenues. Airlines are also relentlessly focusing on reducing costs by renewing fleets to leverage more efficient airplanes and in 2016, continued to benefit significantly from lower fuel costs. As a result, market acceptance is growing for these types of more fuel efficient aircraft from The Boeing Company (“Boeing”) and Airbus Group, formerly known as the European Aeronautic, Defense & Space Company (“EADS”), through their wholly owned subsidiary Airbus (“Airbus”).

Further, the availability of internal or external funding impacts commercial aircraft build rates. Failure of our customers to obtain financing may result in cancellation or deferral of orders.

The long-term outlook for the industry continues to remain positive due to the fundamental drivers of air travel growth: economic growth and the increasing propensity to travel due to increased trade, globalization, and improved airline services driven by liberalization of air traffic rights between countries. Boeing's 20 year forecast projections in their 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") estimate a long-term average growth rate of almost 5% per year for passenger traffic and more than 4% per year for cargo traffic. This is based on long term global economic growth projections of almost 3% average annual gross domestic product ("GDP") growth. We believe we are well positioned given our product capabilities to participate in the steady projected growth rate for commercial air traffic and build rates for large commercial aircraft for the airframe manufacturing industry.

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Defense End-Use Market

Our defense end-use market includes products used in military and space, including technologies and structures applications. The defense end-use market is highly cyclical and is impacted by the level of government defense spending. Government defense spending is impacted by national defense policies and priorities, political climates, fiscal budgetary constraints, U.S. Federal budget deficits, projected economic growth and the level of global military or security threats, or other conflicts. Revenues from the military and space end-use market in 2016 represented 41% of our total net revenues during 2016.

The new U.S. administration and key members of the 115th Congress have expressed a general desire to reverse the effects of the budgetary reductions of the past several years. However, the Budget Control Act of 2011 (“2011 Act”), which mandated limits on U.S. government discretionary spending, remains in effect through the 2021 government fiscal year causing budget uncertainty and continue risk of future sequestration cuts.

In addition, there continues to be uncertainty related to program-level appropriations for the U.S. Department of Defense (“U.S. DoD”) and other government agencies within the overall budgetary framework described above. Future budget cuts or investment priority changes could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these events could have a material effect on the results of our operations, financial position and/or cash flows.

In addition to the risks described above, if Congress is unable to pass appropriations bills in a timely manner, a government shutdown could occur and the impact may be above and beyond those resulting from budget cuts, sequestration, or program-level appropriations. For example, requirements to furlough employees in the U.S. DoD or other government agencies could result in payment delays, impair our ability to perform work on existing contracts, and/or negatively impact future orders. For additional information related to our revenues from customers whose principal sales are to the U.S. Government and our direct sales to the U.S. Government, see “Risk Factors” contained within Part I, Item 1A of this Annual Report on Form 10-K (“Form 10-K”).

INDUSTRIAL END-USE MARKETS OVERVIEW

Our industrial, medical and other (collectively, “Industrial”) end-use markets are diverse and are impacted by the customers’ needs for increasing electronic content and a desire to outsource. Factors expected to impact these markets include capital and industrial goods spending and general economic conditions. Our products are used in heavy industrial manufacturing systems and certain medical applications. Revenues from the Industrial end-use markets were 11% of our total net revenues during 2016.

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

SALES AND MARKETING

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

Military components manufactured by us are employed in many of the country’s front-line fighters, bombers, rotary-wing aircraft and support aircraft, as well as land and sea-based applications. Our defense business is diversified among a number of military manufacturers and programs. In the space sector, we continue to support various unmanned launch vehicle and satellite programs.

Our sales into the Industrial end-use markets are customer focused in the various markets and driven primarily by their capital spending and manufacturing outsourcing demands.

We continue to broaden and diversify our customer base in the end-use markets we serve by providing innovative product and service solutions through drawing on our core competencies, experience and technical expertise. Net revenues related to military and space (defense technologies and defense structures), commercial aerospace, and Industrial end-use markets in 2016 and 2015 were as follows:

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

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

SEASONALITY

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

MAJOR CUSTOMERS

We currently generate the majority of our revenues from the aerospace and defense industries. As a result, we have significant revenues from certain customers. Boeing was greater than ten percent and Raytheon Company ("Raytheon"), Spirit AeroSystems Holdings, Inc. ("Spirit"), and United Technologies Corporation ("United Technologies") each were greater than five percent of our 2016 net revenues. Revenues from our top ten customers, including Boeing, Raytheon, Spirit, and United Technologies, were 59% of total net revenues during 2016. Net revenues by major customer for 2016 and 2015 were as follows:

Net revenues from our customers, except the U.S. Government, are diversified over a number of different military and space, commercial aerospace, industrial, medical and other products. For additional information on revenues from major customers, see Note 17 to our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K.

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RESEARCH AND DEVELOPMENT

We perform concurrent engineering with our customers and product development activities under our self-funded programs, as well as under contracts with others. Concurrent engineering and product development activities are performed for commercial, military and space applications.

RAW MATERIALS AND COMPONENTS

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

COMPETITION

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

PATENTS AND LICENSES

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

BACKLOG

Backlog is subject to delivery delays or program cancellations, which are beyond our control. Backlog is affected by timing differences in the placement of customer orders and tends to be concentrated in certain programs and customers. As a result, trends in our overall level of backlog may not be indicative of trends in our future revenues. Backlog was $600.3 million at December 31, 2016, compared to $574.4 million at December 31, 2015. The net increase in backlog was primarily in the military and space end-use markets and commercial aerospace end-use markets, partially offset by a decrease in the industrial end use markets. $480.2 million of total backlog is expected to be delivered during 2017.

ENVIRONMENTAL MATTERS

Our business, operations and facilities are subject to numerous stringent federal, state and local environmental laws and regulations issued by government agencies, including the Environmental Protection Agency (“EPA”). Among other matters, these regulatory authorities impose requirements that regulate the emission, discharge, generation, management, transport and disposal of hazardous materials, pollutants and contaminants. These regulations govern public and private response actions to hazardous or regulated substances that threaten to release, or have been released to the environment, and they require us to obtain and maintain licenses and permits in connection with our operations. We may also be required to investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. Additionally, this extensive regulatory framework imposes significant compliance burdens and risks on us. We anticipate that capital expenditures will continue to be required for the foreseeable future to upgrade and maintain our environmental compliance efforts, however, we do not expect such expenditures to be material in 2017 and the foreseeable future.

Structural Systems has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its facilities located in Adelanto (a.k.a., El Mirage) and Monrovia, California. Based on currently available information, we have accrued $1.5 million for our estimated liabilities related to these sites. For further information, see Note 16 in the accompanying notes to consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K. In addition, see Risk Factors contained within Part I, Item 1A of this Form 10-K for certain risks related to environmental matters.

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EMPLOYEES

As of December 31, 2016, we employed 2,700 people, of which 400 are subject to collective bargaining agreements expiring in June 2018 and January 2019. We believe our relations with our employees are good. See Risk Factors contained within Part I, Item 1A of this Form 10-K for additional information regarding certain risks related to our employees.

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

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

RISKS RELATED TO OUR CAPITAL STRUCTURE

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

In July 2015, we completed the refinancing of our existing debt by entering into a new credit facility to replace the existing credit facilities. The new credit facility consists of a $275.0 million senior secured term loan, which matures on June 26, 2020 ("Term Loan"), and a $200.0 million senior secured revolving credit facility ("Revolving Credit Facility"), which matures on June 26, 2020 (collectively, the "Credit Facilities").

At December 31, 2016, we had $170.0 million of outstanding long-term debt under the Term Loan. The debt was the direct result of our LaBarge Acquisition. There are no further required payments under the Credit Facilities until June 2020.

Our ability to complete a debt refinancing in the future may be limited, as discussed below in this risk factor. We may have to undertake alternative financing plans, such as selling assets; reducing or delaying scheduled expansions and/or capital investments; or seeking various forms of capital. Our ability to complete alternative financing plans may be affected by circumstances and economic events outside of our control. We cannot ensure that we would be able to refinance our debt or enter into alternative financing plans in adequate amounts on commercially reasonable terms, terms acceptable to us or at all, or that such plans guarantee that we would be able to meet our debt obligations.

Our level of debt could:

- limit our ability to obtain additional financing to fund future working capital, capital expenditures, investments or acquisitions or other general corporate requirements;
- require a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, investments or acquisitions or other general corporate purposes;
- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;
- place us at a disadvantage compared to other, less leveraged competitors;
- expose us to the risk of increased borrowing costs and higher interest rates as approximately one half of our borrowings under our Credit Facilities bear interest at variable rates, which could further adversely impact our cash flows;
- limit our flexibility to plan for and react to changes in our business and the industry in which we compete;
- restrict us from making strategic acquisitions or causing us to make non-strategic divestitures;

- expose us to risk of rating agency downgrades and unfavorable changes in the global credit markets; and
- make it more difficult for us to satisfy our obligations with respect to the Credit Facilities and our other debt.

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

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

Our ability to make payments on our debt in the future and to fund planned capital expenditures and working capital needs, will depend upon our ability to generate significant cash in the future. Our ability to generate cash is subject to economic, financial, competitive, legislative, regulatory and other factors that may be beyond our control.

The Credit Facilities bear interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as a London Interbank Offered Rate ["LIBOR"]) plus an applicable margin ranging from 1.50% to 2.75% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America's prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.75% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly. In October 2015, we entered into interest rate cap hedges designated as cash flow hedges, with maturity dates of June 2020 and notional value in aggregate, totaling $135.0 million. At December 31, 2016, the outstanding balance on the Credit Facilities was $170.0 million with an average interest rate of 3.25%. Should interest rates increase significantly, even though $135.0 million of our debt was hedged, our debt service cost will increase. Any inability to generate sufficient cash flow could have a material adverse effect on our financial condition or results of operations.

While we expect to meet all of our financial obligations, we cannot ensure that our business will generate sufficient cash flow from operations in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs.

We require a considerable amount of cash to fund our anticipated voluntary principal prepayments on our Credit Facilities.

Our ability to continue to reduce the debt outstanding under our Credit Facilities through voluntary principal prepayments will be a contributing factor to our ability to meet the leverage ratio covenant and keeping our interest rate towards the lower end of the interest rate range as defined in the Credit Facilities. Our ability to make such prepayments will depend upon our ability to generate significant cash in the future. We cannot ensure that our business will generate sufficient cash flow from operations to fund any such prepayments.

The covenants in the credit agreement to our Credit Facilities impose restrictions that may limit our operating and financial flexibility.

We are required to comply with a leverage covenant as defined in the credit agreement to the Credit Facilities. The leverage covenant is defined as Consolidated Funded Indebtedness less unrestricted cash and cash equivalents in excess of $10.0 million, divided by consolidated earnings before interest, taxes and depreciation and amortization ("EBITDA"). The leverage covenant decreases over the term of the Credit Facilities, which will require us to lower our outstanding debt or increase our EBITDA in the future. We believe the voluntary prepayments on the Credit Facilities will help reduce our leverage, as defined in the credit agreement.

At December 31, 2016, we were in compliance with the leverage covenant under the Credit Facility. However, there is no assurance that we will continue to be in compliance with the leverage covenant in future periods.

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

These covenants could materially and adversely affect our ability to finance our future operations or capital needs. Furthermore, they may restrict our ability to expand, pursue our business strategies and otherwise conduct our business. Our ability to comply with these covenants may be affected by circumstances and events beyond our control, such as prevailing economic conditions and changes in regulations, and we cannot ensure that we will be able to comply with such covenants. These restrictions also limit our ability to obtain future financings to withstand a future downturn in our business or the economy in general.

A breach of any covenant in credit agreement to the Credit Facilities would result in a default under the Credit Facilities agreement. A default, if not waived, could result in acceleration of the debt outstanding under the agreement. A default could permit our lenders to foreclose on any of our assets securing such debt. Even if new financing were available at that time, it

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may not be on terms or amounts that are acceptable to us or terms as favorable as our current agreements. If our debt is in default for any reason, our business, results of operations and financial condition could be materially and adversely affected.

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

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

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

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

RISKS RELATED TO OUR BUSINESS

Our end-use markets are cyclical.

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

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

We currently generate a majority of our revenues from customers in the aerospace and defense industry. Our business depends, in part, on the level of new military and commercial aircraft orders. As a result, we have significant sales to certain customers. Sales to the Boeing Company and Spirit AeroSystems Holdings, Inc. comprise the majority of our commercial aerospace end-use market. A significant portion of our net sales in our military and space end-use markets are made under subcontracts with OEMs, under their prime contracts with the U. S. Government. We had significant sales to Raytheon Company in 2016 in our defense technologies end-use market.

Our customers may experience delays in the launch of new products, labor strikes, diminished liquidity or credit unavailability, weak demand for their products, or other difficulties in their business. In addition, sequestration and a shift in government spending priorities have caused and may continue to cause additional uncertainty in the placement of orders.

Our sales to our top ten customers, which represented 59% of our total 2016 net revenues, were diversified over a number of different aerospace and defense and Industrial products. Any significant change in production rates by these customers would have a material effect on our results of operations and cash flows. There is no assurance that our current significant customers will continue to buy products from us at current levels, or that we will retain any or all of our existing customers, or that we will be able to form new relationships with customers upon the loss of one or more of our existing customers. This risk may be further complicated by pricing pressures, intense competition prevalent in our industry and other factors. A significant reduction in sales to any of our major customers, the loss of a major customer, or a default of a major customer on accounts receivable could have a material adverse impact on our financial results.

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

A significant portion of our business depends upon U.S. Government defense spending.

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

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timing and potential changes in these policies and priorities, and the adoption of new laws or regulations or changes to existing laws or regulations.

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

Further, the levels of U.S. Department of Defense (“U.S. DoD”) spending in future periods are difficult to predict and are impacted by numerous factors such as the political environment, U.S. foreign policy, macroeconomic conditions and the ability of the U.S. Government to enact relevant legislation such as the authorization and appropriations bills. In addition, significant budgetary delays and constraints have already resulted in reduced spending levels, and additional reductions may be forthcoming. The Budget Control Act (“2011 Act”) established limits on U.S. government discretionary spending, including a reduction of defense spending between the 2012 and 2021 U.S. Government fiscal years. Accordingly, long-term uncertainty remains with respect to overall levels of defense spending and it is likely that U.S. Government discretionary spending levels will continue to be subject to pressure.

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

The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. Government contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. DoD. Such audits and reviews could result in adjustments to our contract costs and profitability. However, we cannot ensure the outcome of any future audits and adjustments may be required to reduce net sales or profits upon completion and final negotiation of audits. If any audit or review were to uncover inaccurate costs or improper activities, we could be subject to penalties and sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from conducting future business with the U.S. Government. Any such outcome could have a material adverse effect on our financial results.

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

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

- terminate existing contracts, in whole or in part, for convenience, as well as for default, or if funds for contract performance for any subsequent year become unavailable;
- suspend or debar us from doing business with the federal government or with a governmental agency;
- prohibit future procurement awards with a particular agency as a result of a finding of an organizational conflict of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors;
- claim rights in products and systems produced by us; and
- control or prohibit the export of the products and related services we offer.

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

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

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

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

Our growth strategy includes evaluating selected acquisitions, which entails certain risks to our business and financial performance.

We have historically achieved a portion of our growth through acquisitions and expect to evaluate selected future acquisitions as part of our strategy for growth. Any acquisition of another business, including the LaBarge Acquisition, entails risks, and it is possible that we will not realize the expected benefits from an acquisition or that an acquisition will adversely affect our existing operations. Acquisitions entail certain risks, including:

- difficulty in integrating the operations and personnel of the acquired company within our existing operations or in maintaining uniform standards;
- loss of key employees or customers of the acquired company;
- the failure to achieve anticipated synergies;
- unrecorded liabilities of acquired companies that we fail to discover during our due diligence investigations or that are not subject to indemnification or reimbursement by the seller; and
- management and other personnel having their time and resources diverted to evaluate, negotiate and integrate acquisitions.

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

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

We rely on numerous third-party suppliers for raw materials and a large proportion of the components used in our production process. Certain of these raw materials and components are available only from single sources or a limited number of suppliers, or similarly, customers' specifications may require us to obtain raw materials and/or components from a single source or certain suppliers. Many of our suppliers are small companies with limited financial resources and manufacturing capabilities. We do not currently have the ability to manufacture these components ourselves. These and other factors, including the loss of a critical supplier or raw materials and/or component shortages, could cause disruptions or cost inefficiencies in our operations compared to our competitors that have greater direct purchasing power, which could have a material adverse effect on our financial results.

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

We enter into contracts providing for a firm, fixed-price for the sale of some of our products regardless of the production costs incurred by us. In many cases, we make multi-year firm, fixed-price commitments to our customers, without assurance that our anticipated production costs will be achieved. Contract bidding and accounting require judgment relative to assessing risks, estimating contract net sales and costs, including estimating cost increases over time and efficiencies to be gained, and making assumptions for supplier sourcing and quality, manufacturing scheduling and technical issues over the life of the contract. Such assumptions can be particularly difficult to estimate for contracts with new customers. Our failure to accurately estimate these costs can result in reduced profits or incurred losses. Due to the significance of the judgments and estimates involved, it is possible that materially different amounts could be obtained if different assumptions were used or if the underlying circumstances were to change. Therefore, any changes in our underlying assumptions, circumstances or estimates could have a material adverse effect on our financial results. For example, in the third quarter of 2015, we recorded a charge in the Structural Systems segment related to a regional jet program for estimated cost overruns of $10.0 million. See "Provision for Estimated Losses on Contracts" in Note 1 to our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K for further information.

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

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

Risks associated with operating and conducting our business outside the United States could adversely impact us.

We have manufacturing facilities in Thailand and Mexico and also derive a portion of our net revenues from direct foreign sales. Further, our customers may derive portions of their revenues from non-U.S. customers. As a result, we are subject to the risks of conducting and operating our business internationally, including:

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

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

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

Goodwill is tested for impairment on an annual basis during our fourth quarter or more frequently if events or circumstances occur which could indicate potential impairment. For example, our annual goodwill impairment testing in the fourth quarter of 2015 indicated the Structural Systems reporting unit's carrying value exceeded its fair value as a result of the lowered revenues and cash flows outlook in our military and space end-use markets due to the decrease in U.S. government defense spending and thus, requiring us to perform Step Two of the goodwill impairment test. Based on the Step Two test, we impaired the entire goodwill for the Structural Systems reporting unit of $57.2 million in 2015.

We also test intangible assets with indefinite life periods for potential impairment annually and on an interim basis if there are indicators of potential impairment. For example, in performing our annual impairment test in the fourth quarter of 2015, we concluded the fair value of the indefinite-lived trade name to be zero as a result of divesting businesses in Electronic Systems and our discontinuation of the use of the trade name. Thus, we recorded an impairment of $32.9 million, which was the remaining carrying value of the trade name.

In addition, we evaluate amortizable intangible assets, fixed assets, and production cost of contracts for impairment if there are indicators of a potential impairment.

In assessing the recoverability of goodwill, management is required to make certain critical estimates and assumptions. These estimates and assumptions include projected sales levels, including the addition of new customers, programs or platforms and increased content on existing programs or platforms, improvements in manufacturing efficiency, and reductions in operating costs. Due to many variables inherent in the estimation of a business's fair value and the relative size of our recorded goodwill, differences in estimates and assumptions may have a material effect on the results of our impairment analysis. If any of these or other estimates and assumptions are not realized in the future, or if market multiples decline, we may be required to record an additional impairment charge for goodwill.

Further, additional impairment charges may be incurred against other intangible assets or long-term assets if asset utilization declines, customer demand declines or other circumstances indicate that the asset carrying value may not be recoverable.

Our production cost of contracts as of December 31, 2016 was $11.3 million or 2% of total assets. Our goodwill and other intangible assets as of December 31, 2016 were $184.1 million, or 36% of total assets. See “Goodwill and Indefinite-Lived

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Intangible Assets" and "Production Cost of Contracts" in Note 7 of our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K for further information.

OTHER RISKS

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

Prime contracts with various agencies of the U.S. Government, and subcontracts with other prime contractors, are subject to numerous laws and regulations which affect how we do business with our customers and may impose added costs on our business. As a result, our contracts and operations are subject to numerous, extensive, complex, costly and evolving laws, regulations and restrictions, principally by the U.S. Government or their agencies. These laws, regulation and restrictions govern items including, but not limited to, the formation, administration and performance of U.S. Government contracts, disclosure of cost and pricing data, civil penalties for violations or false claims to the U.S. Government for payment, define reimbursable costs, establish ethical standards for the procurement process and control the import and export of defense articles and services.

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

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

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

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

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

Several of our major customers have completed extensive cost containment efforts and we expect continued pricing pressures in 2017 and beyond. Competitive pricing pressures may have an adverse effect on our financial condition and operating results. Further, there can be no assurance that competition from existing or potential competitors in other segments of our business will not have a material adverse effect on our financial results. If we do not continue to compete effectively and win contracts, our future business, financial condition, results of operations and our ability to meet our financial obligations may be materially compromised.

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

The future success of our business depends in large part upon our and our customers' ability to maintain and enhance technological capabilities, develop and market manufacturing services that meet changing customer needs and successfully anticipate or respond to technological advances in manufacturing processes on a cost-effective and timely basis, while meeting

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evolving industry and regulatory standards. To address these risks, we invest in product design and development, and incur related capital expenditures. There can be no guarantee that our product design and development efforts will be successful, or that funds required to be invested in product design and development or incurred as capital expenditures will not increase materially in the future.

Environmental liabilities could adversely affect our financial results.

We are subject to various federal, local, and foreign environmental laws and regulations, including those relating to the use, storage, transport, discharge and disposal of hazardous chemicals and materials used and emissions generated during our manufacturing process. We do not carry insurance for these potential environmental liabilities. Any failure by us to comply with present or future regulations could subject us to future liabilities or the suspension of production, which could have a material adverse effect on our financial results. Moreover, some environmental laws relating to contaminated sites can impose joint and several liability retroactively regardless of fault or the legality of the activities giving rise to the contamination. Compliance with existing or future environmental laws and regulations may require extensive capital expenditures, increase our cost or impact our production capabilities. Even if such expenditures are made, there can be no assurance that we will be able to comply. We have been directed to investigate and take corrective action for groundwater contamination at certain sites. Our ultimate liability for such matters will depend upon a number of factors. See Note 16 to our consolidated financial statements included in Part IV, Item 15(a) of this Form 10-K for further information.

Cyber security attacks, internal system or service failures may adversely impact our business and operations.

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

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

Certain of our manufacturing facilities and offices are leased and have lease terms that expire between 2019 and 2022. The majority of these leases provide renewal options at the fair market rental rate at the time of renewal, which, if renewed, could be significantly higher than our current rental rates. We may be unable to offset these cost increases by charging more for our products and services. Furthermore, continued economic conditions may continue to negatively impact and create greater pressure in the commercial real estate market, causing higher incidences of landlord default and/or lender foreclosure of properties, including properties occupied by us. While we maintain certain non-disturbance rights in most cases, it is not certain that such rights will in all cases be upheld and our continued right of occupancy in such instances is potentially jeopardized. An occurrence of any of these events could have a material adverse effect on our financial results.

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

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

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

on our financial results.
Product liability claims in excess of insurance could adversely affect our financial results and financial condition.
We face potential liability for personal injury or death as a result of the failure of products designed or manufactured by us. Although we currently maintain product liability insurance (including aircraft product liability insurance), any material product

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liability not covered by insurance could have a material adverse effect on our financial condition, results of operations and cash flows.

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

We have operations located in regions of the U.S. that may be exposed to damaging storms, earthquakes and other natural disasters. Although we maintain standard property casualty insurance covering our properties and may be able to recover costs associated with certain natural disasters through insurance, we do not carry any earthquake insurance because of the cost of such insurance. Many of our properties are located in Southern California, an area subject to earthquake activity. Our California facilities generated $190.8 million in net revenues during 2016. Even if covered by insurance, any significant damage or destruction of our facilities due to storms, earthquakes or other natural disasters could result in our inability to meet customer delivery schedules and may result in the loss of customers and significant additional costs to us. Thus, any significant damage or destruction of our properties could have a material adverse effect on our business, financial condition or results of operations.

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

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

Labor disruptions by our employees could adversely affect our business.

As of December 31, 2016, we employed 2,700 people. Two of our operating facilities are parties to collective bargaining agreements, covering 140 full time hourly employees in one of those facilities and 260 full time hourly employees in the other facility, and will expire in June 2018 and January 2019, respectively. Although we have not experienced any material labor-related work stoppage and consider our relations with our employees to be good, labor stoppages may occur in the future. If the unionized workers were to engage in a strike or other work stoppage, if we are unable to negotiate acceptable collective bargaining agreements with the unions or if other employees were to become unionized, we could experience a significant disruption of our operations, higher ongoing labor costs and possible loss of customer contracts, which could have an adverse effect on our business and results of operations.

We have identified a material weakness in our internal control over financial reporting which could, if not remediated, adversely impact the reliability of our financial reports, cause us to submit our financial reports in an untimely fashion, result in material misstatements in our financial statements and cause current and potential stockholders to lose confidence in our financial reporting, which in turn could adversely affect the trading price of our common stock.

We have concluded that there is a material weakness in our internal control over financial reporting related to the annual accounting for income taxes. There was an incorrect recording to a deferred tax asset of $1.6 million when this amount should have decreased our income tax benefit for the year and fourth quarter ended December 31, 2015. We assessed the materiality of this error and do not believe it is material to any prior interim or annual periods, however, we determined it was appropriate to revise our consolidated financial statements as of and for the year and quarter ended December 31, 2015 in this Form 10-K. Therefore, we have revised our December 31, 2015 consolidated balance sheet to increase non-current deferred tax liabilities by $1.6 million and revised our consolidated statement of operations for the year ended December 31, 2015 to increase our net loss by $1.6 million. We have also revised all related footnote disclosures in these consolidated financial statements to correct this error. This error had no effect on net cash provided by operating activities on our consolidated cash flow statement for the year ended December 31, 2015, however, management has determined that our internal control over financial reporting relating to the annual accounting for income taxes was not effective as of December 31, 2016.

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

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Although we plan to complete this remediation process as quickly as possible, we cannot at this time estimate how long it will take, and our measures may not prove to be successful in remediating this material weakness. If our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results. In addition, if we are unable to successfully remediate this material weakness and if we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements and debt covenant requirements.

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

In 2014, our Annual Report on Form 10-K included the restatement of our consolidated financial statements to correct errors in prior periods primarily related to (i) a long-term contract (“Contract”) following the discovery of misconduct by employees in the recording of direct labor costs to the Contract from 2009 through the third quarter 2014 which resulted in the identification of a forward loss provision that should have been recorded in 2009 and the impact on subsequent periods of adjustments to the forward loss provision based on information available at the time; and (ii) the year end reconciliation of income taxes payable and deferred tax balances identified errors primarily in 2013, 2012, and 2011.

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

Although the restatement was completed in the 2014 Annual Report on Form 10-K that was filed in April 2015, we cannot guarantee that we will not receive regulatory inquiries or be subject to litigation regarding our restated financial statements or related matters. If any such future regulatory inquiries or litigation to occur, regardless of the outcome, such actions would likely consume internal resources and result in additional legal and consulting costs.

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

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

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

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

Unanticipated changes in our tax provision or exposure to additional income tax liabilities could affect our profitability.

Significant judgment is required in determining our provision for income taxes. In the ordinary course of our business, there are transactions and calculations where the ultimate tax determination is uncertain. Furthermore, changes in income tax laws and

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regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain sales or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. In addition, we are regularly under audit by tax authorities. The final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We occupy 25 owned or leased facilities, totaling 1.9 million square feet of manufacturing area and office space. At December 31, 2016, facilities which were in excess of 50,000 square feet each were occupied as follows:

Location	Segment	Square Feet	Expiration of Lease
Carson, California	Structural Systems	299,000	Owned
Monrovia, California	Structural Systems	274,000	Owned
Coxsackie, New York	Structural Systems	168,000	Owned
Parsons, Kansas	Structural Systems	120,000	Owned
Carson, California	Electronic Systems	117,000	2021
Phoenix, Arizona	Electronic Systems	100,000	2022
Joplin, Missouri	Electronic Systems	92,000	Owned
Appleton, Wisconsin	Electronic Systems	77,000	Owned
Orange, California	Structural Systems	76,000	Owned
Adelanto, California	Structural Systems	74,000	Owned
Huntsville, Arkansas	Electronic Systems	69,000	2020
Carson, California	Structural Systems	77,000	2019
Joplin, Missouri	Electronic Systems	55,000	2021
Tulsa, Oklahoma	Electronic Systems	55,000	Owned
Berryville, Arkansas	Electronic Systems	52,000	Owned

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

ITEM 3. LEGAL PROCEEDINGS

See Note 16 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K for a description of our legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Our common stock is listed on the New York Stock Exchange under the symbol DCO. As of December 31, 2016, we had 194 holders of record of our common stock. We have not paid any dividends since the first quarter of 2011 and we do not expect to pay dividends for the foreseeable future. See "Available Liquidity" in Part II, Item 7, Management's Discussion and Analysis—Liquidity and Capital Resources—Available Liquidity, of this Annual Report on Form 10-K for further discussion on dividend restrictions under our Credit Facility. The following table sets forth the high and low closing prices per share of our common stock as reported on the New York Stock Exchange for the fiscal periods indicated:

	Years Ended December 31,			
	2016		2015	
	High	Low	High	Low
First Quarter	$16.98	$12.89	$27.00	$24.09
Second Quarter	$20.69	$14.32	$33.22	$23.07
Third Quarter	$24.41	$19.02	$26.12	$19.14
Fourth Quarter	$29.46	$18.80	$23.28	$14.96

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

Issuer Purchases of Equity Securities

In 2011, we terminated our stock repurchase program.

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Performance Graph

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

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ITEM 6. SELECTED FINANCIAL DATA

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

	(In thousands, except per share amounts)				
	Years Ended December 31,				
	2016(a)	2015(b)(c)	2014	2013(d)	2012
Net Revenues	$550,642	$666,011	$742,045	$736,650	$747,037
Gross Profit as a Percentage of Net Revenues	19.3 %	15.1 %	18.9 %	16.9 %	19.3 %
Income (Loss) Before Taxes	38,113	(106,590)	26,240	9,385	24,124
Income Tax Expense (Benefit)	12,852	(31,711)	6,373	(1,993)	6,501
Net Income (Loss)	$25,261	$(74,879)	$19,867	$11,378	$17,623
Per Common Share					
Basic earnings (loss) per share	$2.27	$(6.78)	$1.82	$1.06	$1.67
Diluted earnings (loss) per share	$2.24	$(6.78)	$1.79	$1.05	$1.66
Working Capital	$139,635	$179,655	$217,670	$225,323	$219,774
Total Assets [e]	$515,429	$557,081	$747,599	$762,645	$777,275
Long-Term Debt, Including Current Portion [e]	$166,899	$240,687	$290,052	$332,702	$365,744
Total Shareholders' Equity	$212,103	$185,734	$256,570	$234,271	$215,217

(a) The results for 2016 included a gain on divestitures, net in our Electronic Systems operating segment of $17.6 million related to the divestitures of our Pittsburgh and Miltec operations.

(b) The results for 2015 included a goodwill impairment charge in our Structural Systems operating segment and an indefinite-lived trade name intangible asset impairment charge in our Electronic Systems operating segment of $57.2 million and $32.9 million, respectively, resulting from our annual impairment testing.

(c) The results for 2015 included a loss on extinguishment of debt of $14.7 million related to the retirement of the $200.0 million senior unsecured notes and existing credit facility.

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

(e) Total assets and long-term debt for the years 2014 - 2012 have not been recasted for the impact of the adoption of Accounting Standards Update 2015-03, as amended by Accounting Standards Update 2015-15, which required the reclassification of certain debt issuance costs from an asset to a liability. See Note 1 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K for further information.

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Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Ducommun Incorporated (“Ducommun,” “the Company,” “we,” “us” or “our”) is a leading global provider of engineering and manufacturing services for high-performance products and high-cost-of failure applications used primarily in the aerospace, defense, industrial, natural resources, medical and other industries. We differentiate ourselves as a full-service solution-based provider, offering a wide range of value-added products and services in our primary businesses of electronics, structures and integrated solutions. We operate through two primary business segments: Electronic Systems and Structural Systems, each of which is a reportable segment.

Recap of the year ended December 31, 2016:

- Net revenues were $550.6 million
- Net income was $25.3 million, or $2.24 per diluted share, which includes a pre-tax net gain on divestitures of $17.6 million
- Adjusted EBITDA was $54.8 million
- Cash flow from operations increased to $43.3 million
- Backlog increased to $600.3 million
- Net voluntary principal prepayments on our term loan totaled $75.0 million

Non-GAAP Financial Measures

Adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) was $54.8 million and $49.5 million for years ended December 31, 2016 and December 31, 2015, respectively.

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

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

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

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

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

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

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

- Are widely used by investors to measure a company's operating performance without regard to items excluded from the calculation of such terms, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired, among other factors;
- Help investors to evaluate and compare the results of our operations from period to period by removing the effect of our capital structure from our operating performance; and
- Are used by our management team for various other purposes in presentations to our Board of Directors as a basis for strategic planning and forecasting.

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

- Interest expense may be useful to investors for determining current cash flow;
- Income tax expense may be useful to investors because it represents the taxes which may be payable for the period and the change in deferred taxes during the period, and may reduce cash flow available for use in our business;
- Depreciation may be useful to investors because it generally represents the wear and tear on our property and equipment used in our operations;
- Amortization expense may be useful to investors because it represents the estimated attrition of our acquired customer base and the diminishing value of product rights;
- Stock-based compensation may be useful to our investors for determining current cash flow;
- Net gain on divestitures may be useful to our investors in evaluating our on-going operating performance;
- Loss on extinguishment of debt may be useful to our investors for determining current cash flow;
- Asset impairments (including Goodwill and intangible assets) may be useful to our investors because it generally represents a decline in value in our assets used in our operations; and
- Restructuring charges may be useful to our investors in evaluating our core operating performance.

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

	(In thousands) Years Ended December 31,		
	2016	2015	2014
Net income (loss)	$25,261	$(74,879)	$19,867
Interest expense	8,274	18,709	28,077
Income tax expense (benefit)	12,852	(31,711)	6,373
Depreciation	13,326	15,707	15,277
Amortization	9,534	11,139	13,747
Stock-based compensation expense	3,007	3,495	3,725
Gain on divestitures, net [1]	(17,604)	—	—
Loss on extinguishment of debt	—	14,720	—
Goodwill impairment [2]	—	57,243	—
Intangible asset impairment [3]	—	32,937	—
Restructuring charges	182	2,125	—
Adjusted EBITDA	$54,832	$49,485	$87,066
% of net revenues	10.0 %	7.4 %	11.7 %

(1) 2016 included gain on divestitures, net in our Electronic Systems operating segment related to the divestitures of our Pittsburgh and Miltec operations.
(2) 2015 included goodwill impairment related to our Structural Systems operating segment.
(3) 2015 included intangible asset impairment related to our Electronic Systems operating segment.

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RESULTS OF OPERATIONS

2016 Compared to 2015

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

	(in thousands, except per share data) Years Ended December 31,							
	2016		% of Net Revenues		2015		% of Net Revenues	
Net Revenues	$550,642		100.0	%	$666,011		100.0	%
Cost of Sales	444,449		80.7	%	565,219		84.9	%
Gross Profit	106,193		19.3	%	100,792		15.1	%
Selling, General and Administrative Expenses	77,625		14.1	%	85,921		12.9	%
Goodwill Impairment	—		—	%	57,243		8.6	%
Intangible Asset Impairment	—		—	%	32,937		4.9	%
Operating Income (Loss)	28,568		5.2	%	(75,309	)	(11.3	)%
Interest Expense	(8,274	)	(1.5	)%	(18,709	)	(2.8	)%
Gain on Divestitures, Net	17,604		3.2	%	—		—	%
Loss on Extinguishment of Debt	—		—	%	(14,720	)	(2.2	)%
Other Income, Net	215		—	%	2,148		0.3	%
Income (Loss) Before Taxes	38,113		6.9	%	(106,590	)	(16.0	)%
Income Tax Expense (Benefit)	12,852		nm		(31,711	)	nm	
Net Income (Loss)	$25,261		4.6	%	$(74,879	)	(11.2	)%
Effective Tax Rate (Benefit)	33.7	%	nm		(29.7	)%	nm	
Diluted Earnings (Loss) Per Share	$2.24		nm		$(6.78	)	nm	

nm = not meaningful

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Net Revenues by End-Use Market and Operating Segment

Net revenues by end-use market and operating segment during 2016 and 2015, respectively, were as follows:

	Change	(In thousands) Years Ended December 31, 2016	2015	% of Net Sales 2016	2015
Consolidated Ducommun					
Military and space					
Defense technologies	$(37,342)	$ 175,195	$ 212,537	31.8 %	31.9 %
Defense structures	(21,716)	53,378	75,094	9.7 %	11.3 %
Commercial aerospace	14,221	263,522	249,301	47.9 %	37.4 %
Industrial	(70,532)	58,547	129,079	10.6 %	19.4 %
Total	$(115,369)	$ 550,642	$ 666,011	100.0%	100.0%
Structural Systems					
Military and space (defense structures)	$(21,716)	$ 53,378	$ 75,094	21.7 %	27.5 %
Commercial aerospace	(5,138)	193,087	198,225	78.3 %	72.5 %
Total	$(26,854)	$ 246,465	$ 273,319	100.0%	100.0%
Electronic Systems					
Military and space (defense technologies)	$(37,342)	$ 175,195	$ 212,537	57.6 %	54.1 %
Commercial aerospace	19,359	70,435	51,076	23.2 %	13.0 %
Industrial	(70,532)	58,547	129,079	19.2 %	32.9 %
Total	$(88,515)	$ 304,177	$ 392,692	100.0%	100.0%

Net revenues for 2016 were $550.6 million compared to $666.0 million for 2015. The year-over-year decrease was primarily due to the following:

- $70.5 million lower revenues in our industrial end-use markets mainly due to the divestiture of our Pittsburgh operation in January 2016 and closure of our Houston operation in December 2015;
- $59.1 million lower revenues in our military and space end-use markets mainly due to the divestiture of our Miltec operations in March 2016, as well as program delays and budget changes, which impacted our fixed-wing and helicopter platforms and pushed out scheduled deliveries of these products to customers; partially offset by
- $14.2 million higher revenues in our commercial aerospace end-use markets mainly due to added content with existing customers.

Net Revenues by Major Customers

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

	Years Ended December 31, 2016	2015
Boeing Company	17.3%	16.0%
Raytheon Company	8.4 %	8.7 %
Spirit AeroSystems Holdings, Inc.	8.2 %	7.4 %
United Technologies Corporation	6.0 %	6.1 %
Top ten customers [(1)]	58.6%	55.7%

(1) Includes the Boeing Company (“Boeing”), Raytheon Company (“Raytheon”), Spirit AeroSystems Holdings, Inc. (“Spirit”), and United Technologies Corporation (“United Technologies”).

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

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Gross Profit

Gross profit consists of net revenues less cost of sales. Cost of sales includes the cost of production of finished products and other expenses related to inventory management, manufacturing quality, and order fulfillment. Gross profit margin increased to 19.3% in 2016 compared to 15.1% in 2015 primarily due to the following:

- 2015 included a forward loss reserve charge related to a regional jet program of $12.2 million; and
- Total material costs as a percentage of revenues decreased 1.8% compared to the prior year as a result of our on-going supply chain initiatives and improved operating performance.

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

SG&A expenses decreased $8.3 million in 2016 compared to 2015 primarily due to the decrease of $9.4 million related to the divestitures of our Pittsburgh and Miltec operations and closures of facilities.

Interest Expense

Interest expense decreased in 2016 compared to 2015 primarily due to a lower outstanding debt balance as a result of net voluntary principal prepayments on our new credit facilities and a lower average interest rate as a result of completing the refinancing of our debt in July 2015. See Note 9 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K for further information on our long-term debt.

Income Tax Expense (Benefit)

We recorded income tax expense of $12.9 million (an effective tax rate of 33.7%) in 2016, compared to an income tax benefit of $31.7 million (an effective tax benefit rate of 29.7%) in 2015. The increase in the effective tax rate for 2016 compared to 2015 was primarily due to pre-tax income in 2016, which included a gain on divestitures, net of our Pittsburgh and Miltec operations of $17.6 million compared to a pre-tax loss in the prior year. The $17.6 million gain on divestitures, net resulted in an increase in our state tax liability in 2016. The increase was partially offset by the U.S. Federal research and development tax credit that was permanently extended in 2015 and the deduction for Qualified Domestic Production Activities.

Our unrecognized tax benefits were $3.0 million in both 2016 and 2015. We record interest and penalty charge, if any, related to uncertain tax positions as a component of tax expense and unrecognized tax benefits. The amounts accrued for interest and penalty charge as of December 31, 2016 and 2015 were not significant. If recognized, $2.0 million would affect the effective tax rate. We do not reasonably expect significant increases or decreases to our unrecognized tax benefits in the next twelve months.

We file U.S. Federal and state income tax returns. Federal income tax returns after 2012, California franchise (income) tax returns after 2011 and other state income tax returns after 2011 are subject to examination. We are no longer subject to examination prior to those periods, although carryforwards generated prior to those periods may still be adjusted upon examination by the Internal Revenue Service (“IRS”) or state taxing authority if they either have been or will be used in a subsequent period. During 2016, the IRS commenced an audit of our 2014 and 2015 tax years. Although the outcome of tax examinations cannot be predicted with certainty, we believe we have adequately accrued for tax deficiencies or reductions in tax benefits, if any, that could result from the examination and all open audit years.

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

Net income and income per diluted share for 2016 were $25.3 million, or $2.24 per diluted share, compared to a net loss and loss per share for 2015 were $(74.9) million, or $(6.78). The increase in net income in 2016 compared to 2015 was primarily due to the following:

- Prior year included a non-cash pre-tax goodwill impairment charge of $57.2 million;
- Prior year included a non-cash pre-tax charge related to the impairment of an indefinite-lived trade name of $32.9 million;
- Prior year included a loss on extinguishment of debt of $14.7 million related to completing a new credit facility to replace the existing credit facilities along with the redemption of the $200.0 million senior unsecured notes;
- Prior year included a forward loss reserve charge related to a regional jet program of $12.2 million;
- A pre-tax gain on divestitures, net of our Pittsburgh and Miltec operations of $17.6 million;
- Lower interest expense of $10.4 million;

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- Lower SG&A expenses related to the divestitures of our Pittsburgh and Miltec operations and closures of facilities in aggregate totaling $9.4 million; and
- Improved operating performance; partially offset by
- Higher income tax expense of $44.6 million.

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Business Segment Performance

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

	% Change	(In thousands) Years Ended December 31, 2016	2015	% of Net Sales 2016	% of Net Sales 2015
Net Revenues					
Structural Systems	(9.8)%	$ 246,465	$ 273,319	44.8 %	41.0 %
Electronic Systems	(22.5)%	304,177	392,692	55.2 %	59.0 %
Total Net Revenues	(17.3)%	$ 550,642	$ 666,011	100.0 %	100.0 %
Segment Operating Income (Loss)					
Structural Systems		$ 16,497	$ (53,010)	6.7 %	(19.4)%
Electronic Systems		28,983	(4,472)	9.5 %	(1.1)%
		45,480	(57,482)		
Corporate General and Administrative Expenses [1]		(16,912)	(17,827)	(3.1)%	(2.7)%
Total Operating Income (Loss)		$ 28,568	$ (75,309)	5.2 %	(11.3)%
Adjusted EBITDA					
Structural Systems					
Operating Income (Loss) [2][3]		$ 16,497	$ (53,010)		
Other Income [4]		141	1,510		
Depreciation and Amortization		8,688	9,417		
Goodwill Impairment		—	57,243		
Restructuring Charges		—	1,294		
		25,326	16,454	10.3 %	6.0 %
Electronic Systems					
Operating Income (Loss) [3][5]		28,983	(4,472)		
Other Income		—	712		
Depreciation and Amortization		14,087	17,267		
Intangible Asset Impairment		—	32,937		
Restructuring Charges		182	831		
		43,252	47,275	14.2 %	12.0 %
Corporate General and Administrative Expenses [1]					
Operating Loss		(16,912)	(17,827)		
Other Expense (Income)		74	(74)		
Depreciation and Amortization		85	162		
Stock-Based Compensation Expense		3,007	3,495		
		(13,746)	(14,244)		
Adjusted EBITDA		$ 54,832	$ 49,485	10.0 %	7.4 %
Capital Expenditures					
Structural Systems		$ 15,661	$ 11,559		
Electronic Systems		3,032	4,419		
Corporate Administration		—	10		
Total Capital Expenditures		$ 18,693	$ 15,988		

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

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(2) Goodwill impairment related to Structural Systems operating segment.
(3) 2015 includes restructuring charges for severance and benefits and loss on early exit from leases of $0.8 million and $1.3 million recorded in the Electronic Systems and Structural Systems operating segments, respectively.
(4) Insurance recoveries related to property and equipment included as other income.
(5) Intangible asset impairment related to Electronic Systems operating segment.

Structural Systems

Structural Systems’ net revenues in 2016 compared to 2015 decreased $26.9 million primarily due to the following:

- $21.7 million decrease in military and space revenues mainly due to program delays and budget changes which impacted scheduled deliveries on our fixed-wing and helicopter platforms; and
- $5.1 million decrease in commercial aerospace revenues mainly due to the wind down of a regional jet program and continued softness in the commercial helicopter end-use market.

The Structural Systems operating income in 2016 compared to 2015 increased primarily due to higher operating margins in 2016 and the prior year included a $57.2 million non-cash goodwill impairment charge and forward loss reserve charge related to a regional jet program of $12.2 million.

Electronic Systems

Electronic Systems’ net revenues in 2016 decreased primarily due to the following:

- $70.5 million decrease in our industrial revenues mainly due to the divestiture of our Pittsburgh operation in January 2016 and closure of our Houston operation in December 2015; and
- $37.3 million decrease in our military and space revenue mainly due to the divestiture of our Miltec operation in March 2016 and program delays and budget changes, which impacted scheduled deliveries on our fixed-wing and helicopter platforms; partially offset by
- $19.4 million increase in our commercial aerospace revenue mainly due to added content with existing customers.

Electronic Systems segment operating income in 2016 compared to 2015 increased primarily due to the prior year included a $32.9 million non-cash impairment charge of an indefinite-lived trade name intangible asset and higher operating margins in 2016.

Corporate General and Administrative (“CG&A”) Expenses

CG&A expenses in 2016 compared to 2015 decreased primarily due to lower professional services fees of $1.3 million and lower compensation and benefits of $1.1 million, partially offset by one-time retirement charges of $0.9 million.

Backlog

Backlog is subject to delivery delays and program cancellations, which are beyond our control. Backlog is affected by timing differences in the placement of customer orders and tends to be concentrated in several programs to a greater extent than our net sales. Backlog in Industrial end-use markets tends to be of a shorter duration and is generally fulfilled within a 3-month period. As a result of these factors, trends in our overall level of backlog may not be indicative of trends in our future net sales.

Backlog was $600.3 million at December 31, 2016, compared to $574.4 million at December 31, 2015, as shown in more detail below. The increase in backlog was primarily in the defense technologies end-use markets and commercial aerospace end-use markets, partially offset by a decrease in Industrial end-use markets. $480.2 million of total backlog is expected to be delivered during 2017. The following table summarizes our backlog for 2016 and 2015:

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		(In thousands)	
		December 31,	
	Change	2016	2015
Consolidated Ducommun [(1)]			
Military and space			
Defense technologies	$29,482	$198,043	$168,561
Defense structures	608	59,379	58,771
Commercial aerospace	20,013	317,797	297,784
Industrial	(24,199)	25,036	49,235
Total	$25,904	$600,255	$574,351
Structural Systems			
Military and space (defense structures)	$608	$59,379	$58,771
Commercial aerospace	25,394	278,020	252,626
Total	$26,002	$337,399	$311,397
Electronic Systems [(1)]			
Military and space (defense technologies)	$29,482	$198,043	$168,561
Commercial aerospace	(5,381)	39,777	45,158
Industrial	(24,199)	25,036	49,235
Total	$(98)	$262,856	$262,954

(1) 2015 backlog included an aggregate total of $16.1 million related to our Pittsburgh, Pennsylvania operation that was sold in January 2016 and our Miltec operation that was sold in March 2016.

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2015 Compared to 2014

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

	(in thousands, except per share data) Years Ended December 31,			
	2015	% of Net Sales 2015	2014	% of Net Sales 2014
Net Revenues	$666,011	100.0 %	$742,045	100.0 %
Cost of Sales	565,219	84.9 %	601,713	81.1 %
Gross Profit	100,792	15.1 %	140,332	18.9 %
Selling, General and Administrative Expenses	85,921	12.9 %	88,565	11.9 %
Goodwill Impairment	57,243	8.6 %	—	— %
Intangible Asset Impairment	32,937	4.9 %	—	— %
Operating (Loss) Income	(75,309)	(11.3)%	51,767	7.0 %
Interest Expense	(18,709)	(2.8)%	(28,077)	(3.8)%
Loss on Extinguishment of Debt	(14,720)	(2.2)%	—	— %
Other Income	$2,148	0.3 %	$2,550	0.3 %
(Loss) Income Before Taxes	(106,590)	(16.0)%	26,240	3.5 %
Income Tax (Benefit) Expense	(31,711)	nm	6,373	nm
Net (Loss) Income	$(74,879)	(11.2)%	$19,867	2.7 %
Effective (Benefit) Tax Rate	(29.7)%	nm	24.3 %	nm
Diluted (Loss) Earnings Per Share	$(6.78)	nm	$1.79	nm

nm = not meaningful

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Net Revenues by End-Use Market and Operating Segment

Net revenues by end-use market and operating segment during 2015 and 2014, respectively, were as follows:

		(In thousands) Years Ended December 31,		% of Net Sales	
	Change	2015	2014	2015	2014
Consolidated Ducommun					
Military and space					
Defense technologies	$(29,046)	$ 212,537	$ 241,583	31.9 %	32.6 %
Defense structures	(49,204)	75,094	124,298	11.3 %	16.7 %
Commercial aerospace	7,158	249,301	242,143	37.4 %	32.6 %
Industrial	(4,942)	129,079	134,021	19.4 %	18.1 %
Total	$(76,034)	$ 666,011	$ 742,045	100.0%	100.0%
Structural Systems					
Military and space (defense structures)	$(49,204)	$ 75,094	$ 124,298	27.5 %	38.8 %
Commercial aerospace	2,567	198,225	195,658	72.5 %	61.2 %
Total	$(46,637)	$ 273,319	$ 319,956	100.0%	100.0%
Electronic Systems					
Military and space (defense technologies)	$(29,046)	$ 212,537	$ 241,583	54.1 %	57.2 %
Commercial aerospace	4,591	51,076	46,485	13.0 %	11.0 %
Industrial	(4,942)	129,079	134,021	32.9 %	31.8 %
Total	$(29,397)	$ 392,692	$ 422,089	100.0%	100.0%

Net revenues for 2015 were $666.0 million compared to $742.0 million for 2014. The year-over-year decrease was due to the following:

- 21.4% lower revenues in our military and space end-use markets mainly due to a decrease in U.S. government defense spending and shifting spending priorities, which impacted our fixed-wing and helicopter platforms and pushed out scheduled deliveries of these products to customers; and
- 3.7% lower revenues from Industrial end-use markets; partially offset by
- 3.0% increase in revenues in commercial aerospace end-use markets.

Net Revenues by Major Customers

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

	Years Ended December 31,	
	2015	2014
Boeing Company	16.0%	19.4%
Raytheon Company	8.7 %	9.4 %
Spirit AeroSystems Holdings, Inc.	7.4 %	6.4 %
United Technologies Corporation	6.1 %	5.5 %
Top ten customers [1]	55.7%	59.2%

(1) Includes the Boeing Company (“Boeing”), Raytheon Company (“Raytheon”), Spirit AeroSystems Holdings, Inc. (“Spirit”), and United Technologies Corporation (“United Technologies”).

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

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Gross Profit

Gross profit consists of net revenues less cost of sales. Cost of sales includes the cost of production of finished products and other expenses related to inventory management, manufacturing quality, and order fulfillment. Gross profit margin decreased to 15.1% in 2015 compared to 18.9% in 2014 primarily due to higher cost of sales relative to net revenues primarily the result of a $14.0 million attributable to lower manufacturing volume and $10.6 million of higher forward loss reserves related to a regional jet program. Another factor contributing to the reduction in gross profit include $7.8 million due to unfavorable product mix. The difference in the results was also impacted by a 2014 nonrecurring reversal of $3.4 million forward loss reserve related to a customer settlement.

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

SG&A expenses decreased in 2015 primarily due to lower accrued compensation and benefit costs of $2.9 million and lower discretionary expenses as a result of the cost savings initiatives we have implemented, partially offset by higher professional service fees of $1.9 million and restructuring charges related to severance and benefits and early termination of leases of $2.1 million.

Goodwill Impairment

In 2015, the non-cash charge from the impairment of the entire goodwill in the Structural Systems reporting unit was the result of the annual impairment test during the fourth quarter of 2015 that indicated the carrying value exceeded the fair value. The decrease in fair value was due to the lowered revenues outlook in our military and space end-use markets caused by the decrease in U.S. government defense spending. Therefore, requiring us to perform Step Two of the goodwill impairment test. Based on the Step Two test, we impaired the entire goodwill for the Structural Systems reporting unit of $57.2 million. No such impairment was required in 2014.

Intangible Asset Impairment

In 2015, the non-cash charge from the impairment of a trade name intangible asset in Electronic Systems was due to divesting businesses in Electronic Systems and discontinued use of the indefinite-lived trade name intangible asset going forward of $32.9 million. No such impairment was required in 2014. See Note 1 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K

Interest Expense

Interest expense decreased in 2015 compared to 2014 primarily due to lower outstanding debt balance and lower interest rate on our outstanding debt as a result of completing the refinancing of our debt in July 2015. See Note 9 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K for further information on our long-term debt.

Loss on Extinguishment of Debt and Other Income

Loss on extinguishment of debt for 2015 was made up of the call premium to retire the existing $200.0 million senior unsecured notes in July 2015 of $9.8 million, the write off of the unamortized debt issuance costs associated with the existing $200.0 million senior unsecured notes of $2.1 million, the write off of the unamortized debt issuance costs associated with the existing senior secured term loan and existing senior secured revolving credit facility of $2.8 million when the existing senior secured term loan was paid off with both debt instruments being replaced with the Credit Facilities. See Note 9 to our consolidated financial statements included in Part IV, Item 15(a) of this Annual Report on Form 10-K for further information on our long-term debt.

Other income decreased in 2015 compared to 2014 primarily due to lower insurance recoveries related to property and equipment of $1.1 million.

Income Tax (Benefit) Expense

We recorded income tax benefit of $31.7 million (an effective tax benefit rate of 29.7%) in 2015, compared to an income tax expense of $6.4 million (an effective tax rate of 24.3%) in 2014. The change in effective tax rate in 2015 compared to 2014 was primarily due to the pre-tax loss in 2015, which can be carried back to reduce income taxes paid in 2014 and 2013 or carried forward. This was partially offset by the tax impact of the goodwill impairment of $8.7 million and a reduction in Internal Revenue Code (“IRC”) Section 199 deduction for qualified domestic production activities of $1.1 million.

Our effective tax benefit rate of 29.7% for 2015 includes a research and development (“R&D”) benefit of $2.6 million in 2015 compared to a benefit of $2.4 million in 2014. The benefit recorded in 2015 was due to the President of the

United States

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signing into law on December 18, 2015, the Protecting Americans from Tax Hikes Act (“PATH”), which permanently extends the research and development credit.

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

Net loss and loss per share for 2015 were $(74.9) million, or $(6.78) per share, compared to $19.9 million, or $1.79 per diluted share, for 2014. The net loss in 2015 was primarily the result of a $57.2 non-cash pre-tax goodwill impairment charge in the Structural Systems segment and a $39.5 million of lower gross profit mainly due to lower revenues. Other factors contributing to the reduction in net income from the prior year include a $32.9 million non-cash pre-tax charge related to the impairment of the indefinite-lived trade name in the Electronic Systems segment and a $14.7 million loss on extinguishment of debt. These items were partially offset by lower 2015 income tax expense of $38.1 million and lower interest expense of $9.4 million.

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Business Segment Performance

We report our financial performance based upon the two reportable operating segments; Structural Systems and Electronic Systems. The results of operations differ between our reportable operating segments due to differences in competitors, customers, extent of proprietary deliverables and performance. The following table summarizes our business segment performance for 2015 and 2014:

	% Change	(In thousands) Years Ended December 31, 2015	2014	% of Net Sales 2015	% of Net Sales 2014
Net Revenues					
Structural Systems	(14.6)%	$ 273,319	$ 319,956	41.0 %	43.1 %
Electronic Systems	(7.0)%	392,692	422,089	59.0 %	56.9 %
Total Net Revenues	(10.2)%	$ 666,011	$ 742,045	100.0 %	100.0 %
Segment Operating (Loss) Income					
Structural Systems		$ (53,010)	$ 34,949	(19.4)%	10.9 %
Electronic Systems		(4,472)	34,599	(1.1)%	8.2 %
		(57,482)	69,548		
Corporate General and Administrative Expenses (1)		(17,827)	(17,781)	(2.7)%	(2.4)%
Total Operating (Loss) Income		$ (75,309)	$ 51,767	(11.3)%	7.0 %
Adjusted EBITDA					
Structural Systems					
Operating (Loss) Income (2)(3)		$ (53,010)	$ 34,949		
Other Income (4)		1,510	2,550		
Depreciation and Amortization		9,417	10,959		
Goodwill Impairment		57,243	—		
Restructuring Charges		1,294	—		
		16,454	48,458	6.0 %	15.1 %
Electronic Systems					
Operating (Loss) Income (3)(5)		(4,472)	34,599		
Other Income		712	—		
Depreciation and Amortization		17,267	17,928		
Intangible Asset Impairment		32,937	—		
Restructuring Charges		831	—		
		47,275	52,527	12.0 %	12.4 %
Corporate General and Administrative Expenses (1)					
Operating Loss		(17,827)	(17,781)		
Other Expense		(74)	—		
Depreciation and Amortization		162	137		
Stock-Based Compensation Expense		3,495	3,725		
		(14,244)	(13,919)		
Adjusted EBITDA		$ 49,485	$ 87,066	7.4 %	11.7 %
Capital Expenditures					
Structural Systems		$ 11,559	$ 12,742		
Electronic Systems		4,419	5,782		
Corporate Administration		10	30		
Total Capital Expenditures		$ 15,988	$ 18,554		

(1) Includes costs not allocated to either the Structural Systems or Electronic Systems operating segments.
(2) Goodwill impairment related to Structural Systems operating segment.

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(3) Includes restructuring charges for severance and benefits and loss on early exit from leases of $0.8 million and $1.3 million recorded in the Electronic Systems and Structural Systems operating segments, respectively.
(4) Insurance recoveries related to property and equipment included as other income.
(5) Intangible asset impairment related to Electronic Systems operating segment.

Structural Systems

Structural Systems' net revenues in 2015 decreased 14.6% compared to 2014 primarily due to a 39.6% decrease in military and space revenues mainly due to the decrease in U.S. government defense spending and shifting spending priorities which impacted scheduled deliveries on our fixed-wing and helicopter platforms, partially offset by a 1.3% increase in commercial aerospace revenues.

Structural Systems' operating income decreased in 2015 compared to 2014 primarily as a result of a $57.2 million non-cash goodwill impairment charge and higher forward loss reserves related to a regional jet program of $10.6 million. Other factors contributing to the reduction in operating income from the prior year include a $8.0 million due to lower manufacturing volume and a $7.3 million due to unfavorable product mix. The difference in the results was also impacted by a 2014 nonrecurring reversal of a $3.4 million forward loss reserve related to a customer settlement. An additional factor contributing to the reduction in operating income from the prior year include $1.3 million of higher costs associated with moving into a new facility.

Adjusted EBITDA was $16.5 million or 6.0% of revenues for 2015, compared to $48.5 million or 15.1% of revenues for 2014.

Electronic Systems

Electronic Systems' net revenues in 2015 decreased 7.0% compared to 2014 primarily due to a 12.0% decrease in military and space revenues mainly due to the decrease in U.S. government defense spending and shifting spending priorities which impacted scheduled deliveries on our fixed-wing and helicopter platforms and a 3.7% decrease in Industrial markets revenues, partially offset by a 9.9% increase in commercial aerospace revenues.

Electronic Systems' segment operating income decreased in 2015 compared to 2014 primarily due to a non-cash charge of $32.9 million from the impairment of an indefinite-lived trade name intangible asset and $6.0 million from lower manufacturing volume.

Adjusted EBITDA was $47.3 million or 12.0% of revenues for 2015, compared to $52.5 million or 12.4% of revenues for 2014.

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

CG&A expenses were essentially flat in 2015 compared to 2014 primarily due to $1.0 million of higher professional service fees, partially offset by $0.7 million of lower accrued compensation and benefit costs and lower discretionary expenses as a result of the cost savings initiatives we have implemented.

LIQUIDITY AND CAPITAL RESOURCES

Available Liquidity

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

	(In millions) December 31, 2016	2015
Total debt, including long-term portion	$170.0	$245.0
Weighted-average interest rate on debt	3.25 %	3.07 %
Term Loan interest rate	3.31 %	3.07 %
Cash and cash equivalents	$7.4	$5.5
Unused Revolving Credit Facility	$199.0	$198.5

In June 2015, we completed a new credit facility to replace the Existing Credit Facilities. The new credit facility consists of a $275.0 million senior secured term loan, which matures on June 26, 2020 ("Term Loan"), and a $200.0 million senior secured revolving credit facility ("Revolving Credit Facility"), which matures on June 26, 2020 (collectively, the "Credit Facilities"). The Credit Facilities bear interest, at our option, at a rate equal to either (i) the

Eurodollar Rate (defined as LIBOR) plus an

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applicable margin ranging from 1.50% to 2.75% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America's prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.75% per year, in each case based upon the consolidated total net adjusted leverage ratio. The undrawn portions of the commitments of the Credit Facilities are subject to a commitment fee ranging from 0.175% to 0.300%, based upon the consolidated total net adjusted leverage ratio.

Further, we are required to make mandatory prepayments of amounts outstanding under the Term Loan. The mandatory prepayments will be made quarterly, equal to 5.0% per year of the original aggregate principal amount during the first two years and increase to 7.5% per year during the third year, and increase to 10.0% per year during the fourth year and fifth years, with the remaining balance payable on June 26, 2020. The loans under the Revolving Credit Facility are due on June 26, 2020. As of December 31, 2016, we were in compliance with all covenants required under the Credit Facilities.

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

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

Further, we made voluntary principal prepayments of $75.0 million under the Term Loan during 2016.

In January 2016, we entered into an agreement, and completed the sale on the same date, to sell our operation located in Pittsburgh, Pennsylvania for a final sales price of $38.6 million in cash. We divested this facility as part of our overall strategy to streamline operations, which includes consolidating our footprint. Net assets sold were $24.0 million, net liabilities sold were $4.0 million, and direct transaction costs incurred were $0.3 million, resulting in a gain on divestiture of $18.3 million.

In February 2016, we entered into an agreement to sell our Miltec operation for a final sales price of $13.3 million, in cash. We divested this facility as part of our overall strategy to streamline operations, which includes consolidating our footprint. We completed the sale in March 2016. Net assets sold were $15.4 million, net of liabilities sold were $2.7 million, and direct transaction costs incurred were $1.3 million, resulting in a loss on divestiture of $0.7 million.

We expect to spend a total of $22.0 million to $26.0 million for capital expenditures in 2017 financed by cash generated from operations, which will be higher than 2016, principally to support the expansion of our Parsons, Kansas facility and new contract awards at Structural Systems and Electronic Systems. As part of our strategic plan to become a Tier 2 supplier and win new contract awards, additional up-front investment in tooling will be required for newer programs which have higher engineering content and higher levels of complexity in assemblies.

We believe the ongoing aerospace and defense subcontractor consolidation makes acquisitions an increasingly important component of our future growth. We will continue to make prudent acquisitions and capital expenditures for manufacturing equipment and facilities to support long-term contracts for commercial and military aircraft and defense programs.

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

Cash Flow Summary

2016 Compared to 2015

Net cash provided by operating activities during 2016 increased to $43.3 million compared to $23.7 million during 2015 primarily due to higher net income as a result of lower interest expense and higher gross margin percentage.
Net cash provided by investing activities in 2016 of $34.9 million primarily due to proceeds from the divestiture of the Pittsburgh and Miltec operations, partially offset by capital expenditures, principally to support new contract awards in both Structural Systems and Electronic Systems.
Net cash used in financing activities during 2016 was $76.2 million compared to $50.4 million during 2015 primarily due to net

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voluntary principal prepayments on our new credit facilities of $75.0 million primarily as a result of the proceeds received from divestiture of the Pittsburgh and Miltec operations during the current-year.

2015 Compared to 2014

Net cash generated by operating activities during 2015 decreased to $23.7 million compared to $53.4 million during 2014 primarily due to lower net income that was partially offset by improved working capital management.

Net cash used in investing activities during 2015 was $13.5 million compared to $15.5 million during 2014 primarily due to lower capital expenditures that was partially offset by lower insurance recoveries related to property and equipment.

Net cash used in financing activities during 2015 was $50.4 million compared to $41.2 million during 2014 primarily due to voluntary principal prepayments on our existing and new term loans of approximately $45.0 million, call premium paid to redeem the $200.0 million Existing Notes of approximately $9.8 million, that was partially offset by proceeds from the Term Loan net of redemption of the $200.0 million Existing Notes and repayment of the Revolving Credit Facility of approximately $65.0 million.

Contractual Obligations

A summary of our contractual obligations at December 31, 2016 was as follows (in thousands):

		Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt, including current portion	$170,003	$3	$ —	$170,000	$ —
Future interest on notes payable and long-term debt	28,700	5,525	10,744	12,431	—
Operating leases	15,969	4,270	6,237	4,356	1,106
Pension liability	18,649	1,608	3,445	3,655	9,941
Total[1]	$233,321				