

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

FORM 10-Q

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

For the quarterly period ended September 28, 2024

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 001-08174

DUCOMMUN INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-0693330

(I.R.S. Employer
Identification No.)

600 Anton Boulevard, Suite 1100, Costa Mesa, California

(Address of principal executive offices)

92626-7100

(Zip code)

Registrant's telephone number, including area code: (657) 335-3665

N/A

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value per share	DCO	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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). Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 29, 2024, the registrant had 14,779,300 shares of common stock outstanding.

DUCOMMUN INCORPORATED AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This Quarterly Report on Form 10-Q (“Form 10-Q”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be preceded by, followed by or include words such as “could,” “may,” “believe,” “expect,” “anticipate,” “plan,” “estimate,” “expect,” “would,” or similar expressions. These statements are based on the beliefs and assumptions of our management at the time such statements are made. 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-Q regarding: future sales, earnings, cash flow, revenue recognition, uses of cash and other measures of financial performance, projections or expectations for future operations, including costs to complete contracts, goodwill impairment evaluations, useful life of intangible assets, unrecognized tax benefits and effective tax rate, environmental remediation costs, insurance recoveries, industry trends and expectations, including ramp up times for build rates, our plans with respect to restructuring activities, capital expenditures, 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-Q that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the “Risk Factors” contained within Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023 (“Form 10-K”).

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, some 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 our Form 10-K and the following:

- our level of indebtedness;
- our ability to service our indebtedness;
- the covenants in our credit facilities impose restrictions that may limit our operating and financial flexibility;
- 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 our stock price;
- our amount of debt may require us to raise additional capital to fund acquisitions;
- our end use markets are cyclical and we depend upon a select base of industries and customers;
- a significant portion of our business depends on the U.S. Government defense spending;
- exports of certain of our products and our production facility in Guaymas, Mexico are subject to various export control regulations and authorizations for proposed sales to certain foreign customers;
- contracts with some of our customers give them 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;
- further consolidation in the aerospace industry;
- our ability to execute our growth strategy, which includes evaluating select acquisitions;
- we may not be successful in achieving expected operating efficiencies and sustaining or improving operating expense reductions, and may experience business disruptions associated with restructuring, performance center consolidations, realignment, cost reduction, and other strategic initiatives;
- enhanced design, product development, manufacturing, supply chain project management and other skills will be required as we move up the value chain to become a more value added supplier, and we are dependent upon our ability to attract and retain key personnel;
- risks associated with operating and conducting our business outside the United States;
- customer pricing pressures could reduce the demand and/or price for our products and services;

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- our products and processes are subject to risk of obsolescence as a result of changes in technology and evolving industrial and regulatory standards;
- we may not have the ability to renew facilities leases on terms favorable to us and relocation of operations presents risks due to business interruptions;
- we are subject to a number of procurement laws with which we must comply;
- our operations are subject to numerous extensive, complex, costly and evolving laws, regulations and restrictions, including the Defense Contract Audit Agency and cybersecurity requirements;
- possible goodwill and other asset impairments;
- the risk of environmental liabilities and our environmental, social and governance, and sustainability responsibilities;
- we may be subject to litigation, other legal proceedings and indemnity claims;
- our ability to implement changes in estimates when bidding on fixed-price contracts;
- unanticipated changes in our tax provision or exposure to additional income tax liabilities;
- our ability to accurately report our financial results or prevent fraud if our internal control over financial reporting is not effective;
- labor disruptions and the ability of our suppliers to meet the quality and delivery expectations of our customers;
- cybersecurity attacks;
- assertions by third parties of violations of intellectual property rights; and
- damage or destruction of our facilities caused by natural disasters.

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-Q. 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-Q, except as required by law.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****Ducommun Incorporated and Subsidiaries****Condensed Consolidated Balance Sheets**

(Unaudited)

(Dollars in thousands, except share and per share data)

	September 28, 2024	December 31, 2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 37,266	\$ 42,863
Accounts receivable, net of allowance for credit losses of \$2,681 and \$2,006 at September 28, 2024 and December 31, 2023, respectively	107,730	104,692
Contract assets	221,434	177,686
Inventories	185,773	199,201
Production cost of contracts	5,650	7,778
Other current assets	12,507	17,349
Total Current Assets	570,360	549,569
Property and Equipment, Net of Accumulated Depreciation of \$191,685 and \$181,412 at September 28, 2024 and December 31, 2023, respectively	109,652	111,379
Operating Lease Right-of-Use Assets	30,613	29,513
Goodwill	244,600	244,600
Intangibles, Net	153,779	166,343
Deferred Income Taxes	5,107	641
Other Assets	15,806	18,874
Total Assets	\$ 1,129,917	\$ 1,120,919
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 75,430	\$ 72,265
Contract liabilities	36,875	53,492
Accrued and other liabilities	46,126	42,260
Operating lease liabilities	8,328	7,873
Current portion of long-term debt	10,938	7,813
Total Current Liabilities	177,697	183,703
Long-Term Debt, Less Current Portion	245,988	256,961
Non-Current Operating Lease Liabilities	23,361	22,947
Deferred Income Taxes	496	4,766
Other Long-Term Liabilities	16,803	16,448
Total Liabilities	464,345	484,825
Commitments and Contingencies (Notes 10, 12)		
Shareholders' Equity		
Common Stock - \$0.01 par value; 35,000,000 shares authorized; 14,776,627 and 14,600,766 shares issued and outstanding at September 28, 2024 and December 31, 2023, respectively	148	146
Additional Paid-In Capital	213,471	206,197
Retained Earnings	446,701	421,980
Accumulated Other Comprehensive Income	5,252	7,771
Total Shareholders' Equity	665,572	636,094
Total Liabilities and Shareholders' Equity	\$ 1,129,917	\$ 1,120,919

See accompanying notes to Condensed Consolidated Financial Statements.

Ducommun Incorporated and Subsidiaries
Condensed Consolidated Statements of Income
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Net Revenues	\$ 201,412	\$ 196,250	\$ 589,259	\$ 564,761
Cost of Sales	148,736	151,648	438,401	443,270
Gross Profit	52,676	44,602	150,858	121,491
Selling, General and Administrative Expenses	35,486	32,182	104,498	88,755
Restructuring Charges	1,924	3,811	4,548	12,750
Operating Income	15,266	8,609	41,812	19,986
Interest Expense	(3,829)	(5,370)	(11,687)	(15,324)
Other Income	—	—	—	7,945
Income Before Taxes	11,437	3,239	30,125	12,607
Income Tax Expense	1,289	26	5,404	1,789
Net Income	<u>\$ 10,148</u>	<u>\$ 3,213</u>	<u>\$ 24,721</u>	<u>\$ 10,818</u>
Earnings Per Share				
Basic earnings per share	\$ 0.69	\$ 0.22	\$ 1.68	\$ 0.81
Diluted earnings per share	\$ 0.67	\$ 0.22	\$ 1.65	\$ 0.79
Weighted-Average Number of Common Shares Outstanding				
Basic	14,806	14,625	14,758	13,408
Diluted	15,039	14,814	14,981	13,661

See accompanying notes to Condensed Consolidated Financial Statements.

Ducommun Incorporated and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Net Income	\$ 10,148	\$ 3,213	\$ 24,721	\$ 10,818
Other Comprehensive (Loss) Income, Net of Tax:				
Amortization of actuarial losses and prior service costs, net of tax of \$14 and \$13 for the three months ended September 28, 2024 and September 30, 2023, respectively, and \$43 and \$40 for the nine months ended September 28, 2024 and September 30, 2023, respectively	43	42	129	125
Change in net unrealized gains on cash flow hedges, net of tax (benefit) expense of \$(1,543) and \$1,413 for the three months ended September 28, 2024 and September 30, 2023, respectively, and \$(806) and \$1,719 for the nine months ended September 28, 2024 and September 30, 2023, respectively	(5,060)	4,537	(2,648)	5,523
Other Comprehensive (Loss) Income, Net of Tax	(5,017)	4,579	(2,519)	5,648
Comprehensive Income	<u>\$ 5,131</u>	<u>\$ 7,792</u>	<u>\$ 22,202</u>	<u>\$ 16,466</u>

See accompanying notes to Condensed Consolidated Financial Statements.

Ducommun Incorporated and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
(Dollars in thousands)

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2022	12,106,285	\$ 121	\$ 112,042	\$ 406,052	\$ 7,745	\$ 525,960
Net income	—	—	—	7,605	—	7,605
Other comprehensive income, net of tax	—	—	—	—	1,069	1,069
Issuance of common stock in public offering, net of issuance costs	2,300,000	23	85,084	—	—	85,107
Employee stock purchase plan	26,833	—	1,307	—	—	1,307
Stock options exercised	27,332	—	807	—	—	807
Stock awards vested	228,063	3	(3)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(118,924)	(1)	(6,621)	—	—	(6,622)
Stock-based compensation	—	—	6,910	—	—	6,910
Balance at July 1, 2023	14,569,589	146	199,526	413,657	8,814	622,143
Net income	—	—	—	3,213	—	3,213
Other comprehensive income, net of tax	—	—	—	—	4,579	4,579
Employee stock purchase plan	25,378	—	1,314	—	—	1,314
Stock awards vested	2,360	—	—	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(948)	—	(53)	—	—	(53)
Stock-based compensation	—	—	4,206	—	—	4,206
Balance at September 30, 2023	14,596,379	\$ 146	\$ 204,993	\$ 416,870	\$ 13,393	\$ 635,402
Balance at December 31, 2023	14,600,766	\$ 146	\$ 206,197	\$ 421,980	\$ 7,771	\$ 636,094
Net income	—	—	—	14,573	—	14,573
Other comprehensive income, net of tax	—	—	—	—	2,498	2,498
Employee stock purchase plan	28,773	—	1,190	—	—	1,190
Stock options exercised	11,947	—	415	—	—	415
Stock awards vested	210,159	2	(2)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(104,724)	(1)	(5,288)	—	—	(5,289)
Stock-based compensation	—	—	6,418	—	—	6,418
Balance at June 29, 2024	14,746,921	147	208,930	436,553	10,269	655,899
Net income	—	—	—	10,148	—	10,148
Other comprehensive income, net of tax	—	—	—	—	(5,017)	(5,017)
Employee stock purchase plan	26,447	—	1,132	—	—	1,132
Stock options exercised	8,933	—	358	—	—	358
Stock awards vested	2,205	1	(1)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(7,879)	—	(508)	—	—	(508)
Stock-based compensation	—	—	3,560	—	—	3,560
Balance at September 28, 2024	14,776,627	\$ 148	\$ 213,471	\$ 446,701	\$ 5,252	\$ 665,572

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 28, 2024	September 30, 2023
Cash Flows from Operating Activities		
Net Income	\$ 24,721	\$ 10,818
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and amortization	25,129	24,421
Non-cash operating lease cost	6,329	5,982
Inventory write down and property and equipment impairment due to restructuring	—	819
Stock-based compensation expense	12,753	13,769
Deferred income taxes	(7,972)	(5,088)
Provision for credit losses	675	723
Recognition of insurance recoveries	—	(3,886)
Other	190	180
Changes in Assets and Liabilities:		
Accounts receivable	(3,713)	2,833
Contract assets	(43,748)	139
Inventories	13,428	(31,967)
Production cost of contracts	1,902	(861)
Other assets	4,129	(289)
Accounts payable	3,298	(12,381)
Contract liabilities	(16,617)	4,409
Operating lease liabilities	(6,300)	(5,740)
Accrued and other liabilities	1,552	690
Net Cash Provided by Operating Activities	15,756	4,571
Cash Flows from Investing Activities		
Purchases of property and equipment	(10,280)	(16,032)
Proceeds from sale of assets	—	404
Payments for acquisition of BLR Aerospace L.L.C., net of cash acquired	—	(114,378)
Net Cash Used in Investing Activities	(10,280)	(130,006)
Cash Flows from Financing Activities		
Borrowings from senior secured revolving credit facility	20,000	152,500
Repayments of senior secured revolving credit facility	(25,000)	(123,700)
Repayments of term loan	(3,125)	(4,688)
Repayments of other debt	(246)	(250)
Proceeds from issuance of common stock in public offering, net of issuance costs	—	85,107
Net cash paid upon issuance of common stock under stock plans	(2,702)	(2,585)
Net Cash (Used in) Provided by Financing Activities	(11,073)	106,384
Net Decrease in Cash and Cash Equivalents	(5,597)	(19,051)
Cash and Cash Equivalents at Beginning of Period	42,863	46,246
Cash and Cash Equivalents at End of Period	\$ 37,266	\$ 27,195

See accompanying notes to Condensed Consolidated Financial Statements.

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

Note 1. Summary of Significant Accounting Policies

Description of Business

We are a leading global provider of innovative, value-added proprietary products and manufacturing solutions 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”). Our operations are organized into two primary businesses: the Electronic Systems segment (“Electronic Systems”) and the Structural Systems segment (“Structural Systems”), each of which is a reportable operating segment. 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. 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. Both reportable operating segments follow the same accounting principles.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries (“Ducommun,” the “Company,” “we,” “us” or “our”), after eliminating intercompany balances and transactions. The December 31, 2023 condensed consolidated balance sheet data was derived from audited financial statements, but does not contain all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”).

Our significant accounting policies were described in Part IV, Item 15(a)(1), “Note 1. Summary of Significant Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2023 (“2023 Form 10-K”). The financial information included in this Quarterly Report on Form 10-Q (“Form 10-Q”) should be read in conjunction with the 2023 Form 10-K.

In the opinion of management, all adjustments, including recurring accruals, have been made that are necessary to fairly state our condensed consolidated financial position, statements of income, comprehensive income, changes in shareholders’ equity, and cash flows in accordance with GAAP for the periods covered by this Form 10-Q. The results of operations for the three and nine months ended September 28, 2024 are not necessarily indicative of the results to be expected for the full year ending December 31, 2024.

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

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

Use of Estimates

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

New Board of Directors

Subsequent to our quarter ended September 28, 2024, effective as of November 5, 2024, we appointed two new independent directors, Daniel G. Korte and Daniel L. Boehle, to the Board.

Unsolicited Non-Binding Indication of Interest

On April 8, 2024, our Board of Directors (“BOD”) confirmed receipt of the first unsolicited non-binding indication of interest dated April 1, 2024 (“First IOI”) from Albion River LLC (“Albion”), a private direct investment firm. Albion expressed interest in acquiring all the outstanding shares of Ducommun for \$60.00 per share in cash. On April 16, 2024, we issued a press release

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responding to the First IOI that the BOD had unanimously determined it was not in the best interests of Ducommun and Ducommun shareholders to pursue further discussions regarding the proposal.

On July 15, 2024, our BOD received an unsolicited revised non-binding indication of interest from Albion (“Second IOI”), to acquire all outstanding shares of Ducommun for \$65.00 per share in cash. On July 25, 2024, we issued a press release responding to the Second IOI that the BOD had unanimously determined it was not in the best interests of Ducommun and Ducommun shareholders to pursue further discussions regarding the revised proposal.

Supplemental Cash Flow Information

	(Dollars in thousands) Nine Months Ended	
	September 28, 2024	September 30, 2023
Interest paid, net	\$ 9,452	\$ 14,528
Taxes paid, net	\$ 8,194	\$ 10,322
Non-cash activities:		
Purchases of property and equipment not paid	\$ 674	\$ 958

Earnings Per Share

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

The net income and weighted-average common shares outstanding used to compute earnings per share were as follows:

	(Dollars in thousands, except per share data) Three Months Ended		(Dollars in thousands, except per share data) Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Net income	\$ 10,148	\$ 3,213	\$ 24,721	\$ 10,818
Weighted-average number of common shares outstanding				
Basic weighted-average common shares outstanding	14,806	14,625	14,758	13,408
Dilutive potential common shares	233	189	223	253
Diluted weighted-average common shares outstanding	15,039	14,814	14,981	13,661
Earnings per share				
Basic	\$ 0.69	\$ 0.22	\$ 1.68	\$ 0.81
Diluted	\$ 0.67	\$ 0.22	\$ 1.65	\$ 0.79

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

	(In thousands) Three Months Ended		(In thousands) Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Stock options and stock units	2	82	50	45

Fair Value

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

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We have money market funds which are included as cash and cash equivalents. We also have forward interest rate swap agreements and the fair value of the forward interest rate swap agreements was determined using pricing models that use observable market inputs as of the balance sheet date, a Level 2 measurement.

There were no transfers between Level 1, Level 2, or Level 3 financial instruments in the three months ended September 28, 2024.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid instruments purchased with original maturities of three months or less. These assets are valued at cost, which approximates fair value, and we classify as Level 1. See Fair Value above.

Derivative Instruments

We recognize derivative instruments on our condensed consolidated balance sheets at their fair value. On the date that we enter into a derivative contract, we designate the derivative instrument as a fair value hedge, a cash flow hedge, or a derivative instrument that will not be accounted for using hedge accounting methods. In November 2021, we entered into forward interest rate swap agreements with an aggregate notional amount of \$150.0 million, all with an effective date of January 1, 2024 (“Forward Interest Rate Swaps”), to manage our exposure to interest rate movements on a portion of our debt. At the time we entered into the Forward Interest Rate Swaps, there was a high probability of forecasted interest payments on our debts occurring and the swaps were highly effective in offsetting those interest payments; therefore, we elected to apply cash flow hedge accounting. In July 2022, as a result of refinancing all our existing debt, which allowed borrowing based on a Secured Overnight Financing Rate (“SOFR”), we were required to complete an amendment of the Forward Interest Rate Swaps from One Month London Interbank Offered Rate (“LIBOR”) to One Month Term SOFR (“Amended Forward Interest Rate Swaps”), which occurred on the same day. After the transition of the Forward Interest Rate Swaps and debt to SOFR was completed, we determined the hedging relationships were still highly effective as of the amendment date. See Note 4 and Note 8. As of September 28, 2024, all of our derivative instruments were designated as cash flow hedges.

We record changes in the fair value of a derivative instrument that is highly effective and that is designated and qualifies as a cash flow hedge in other comprehensive income (loss), net of tax until our earnings are affected by the variability of cash flows of the underlying hedged item. We report changes in the fair values of derivative instruments that are not designated or do not qualify for hedge accounting in current period earnings. We classify cash flows from derivative instruments in the condensed consolidated statements of cash flows in the same category as the item being hedged or on a basis consistent with the nature of the instrument. Prior to the Amended Forward Interest Rate Swaps being effective on January 1, 2024, we only recorded the changes in fair value of the derivative instruments that were highly effective and that were designated and qualified as cash flow hedges prior to the effective date. See Note 4.

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

Inventories

Inventories are stated at the lower of cost or net realizable value with cost being determined using a moving average cost basis for raw materials and actual cost for work-in-process and finished goods. The majority of our inventory is charged to cost of sales as raw materials are placed into production. Inventoried costs include raw materials, outside processing, direct labor and allocated overhead, adjusted for any abnormal amounts of idle performance center expense, freight, handling costs, and wasted materials (spoilage) incurred. We assess the inventory carrying value and reduce it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management’s best estimates given information currently available. The majority of our revenues are recognized over time, however, for revenue contracts where revenue is recognized using the point in time method, inventory is not reduced until it is shipped or transfer of control to the customer has occurred. Our ending inventory consists of raw materials, work-in-process, and finished goods.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income, as reflected on the condensed consolidated balance sheets under the equity section, was comprised of cumulative pension and retirement liability adjustments, net of tax, and change in net unrealized gains and losses on cash flow hedges, net of tax.

Revenue Recognition

Our customers typically engage us to manufacture products based on designs and specifications provided by the end-use customer. This requires the building of tooling and manufacturing first article inspection products (prototypes) before volume manufacturing. Contracts with our customers generally include a termination for convenience clause.

We have a significant number of contracts that are started and completed within the same year, as well as contracts derived from long-term agreements and programs that can span several years. We recognize revenue under ASC 606, “Revenue from Contracts with Customers” (“ASC 606”), which utilizes a five-step model.

The definition of a contract for us is typically defined as a customer purchase order as this is when we achieve an enforceable right to payment. The majority of our contracts are firm fixed-price contracts. The deliverables within a customer purchase order are analyzed to determine the number of performance obligations. In addition, at times, in order to achieve economies of scale and based on our customer’s forecasted demand, we may build in advance of receiving a purchase order from our customer. When that occurs, we would not recognize revenue until we have received the customer purchase order.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, control is transferred and the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services are highly interrelated or met the series guidance. For contracts with multiple performance obligations, we allocate the contract transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate the standalone selling price is the expected cost plus a margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service.

We manufacture most products to customer specifications, and the product cannot be easily modified for another customer. As such, these products are deemed to have no alternative use once the manufacturing process begins. In the event the customer invokes a termination for convenience clause, we would be entitled to costs incurred to date plus a reasonable profit. Contract costs typically include labor, materials, overhead, and when applicable, subcontractor costs. For most of our products, we are building assets with no alternative use and have enforceable right to payment, and thus, we recognize revenue using the over time method.

The majority of our performance obligations are satisfied over time as work progresses. Typically, revenue is recognized over time using an input measure (i.e., costs incurred to date relative to total estimated costs at completion, also known as cost-to-cost plus reasonable profit) to measure progress. Our typical revenue contract is a firm fixed price contract, and the cost of raw materials could make up a significant amount of the total costs incurred. As such, we believe using the total costs incurred input method would be the most appropriate method. While the cost of raw materials could make up a significant amount of the total costs incurred, there is a direct relationship between our inputs and the transfer of control of goods or services to the customer.

Contract estimates, known as estimates at completion, are based on various assumptions to project the outcome of future events that can span multiple months or years. These assumptions include among others, labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; overhead cost rates; and the performance of subcontractors. As a significant change in one or more of these estimates could affect the progress completed (and related profitability) on our contracts, we review and update our contract-related estimates on a regular basis. We recognize such adjustments under the cumulative catch-up method. Under this method, the impact of the adjustment is recognized in the period the adjustment is identified. In any given reporting period, we have a large number of active contracts, which we have defined as a customer purchase order, and changes in estimates may occur on a significant number of these contracts. Given the significant number of contracts that we may have at any given point in time, the varied nature of products produced under such contracts, and the different assumptions, facts and circumstances associated with each individual contract, and the fact that such changes at the contract level are typically not material, we disclose cumulative catch-up adjustments on a net basis.

Net cumulative favorable and unfavorable catch-up adjustments to contracts had the following impact on our operating results:

	(Dollars in thousands)		(Dollars in thousands)	
	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Total net revenues	\$ (1,054)	\$ (549)	\$ (2,602)	\$ (7,989)
Operating income	\$ (1,054)	\$ (549)	\$ (2,602)	\$ (7,989)

Payments under long-term contracts may be received before or after revenue is recognized. When revenue is recognized before we bill our customer, a contract asset is created for the work performed but not yet billed. Similarly, when we receive payment

before we ship our products to our customer and have met the shipping terms, a contract liability is created for the advance or progress payment. When a contract liability and a contract asset exist on the same contract, we report it on a net basis.

We record provisions for the total anticipated losses on contracts, considering total estimated costs to complete the contract compared to total anticipated revenues, in the period in which such losses are identified. The provisions for estimated losses on contracts require us to make certain estimates and assumptions, including those with respect to the future revenue under a contract and the future cost to complete the contract. Our estimate of the future cost to complete a contract may include assumptions as to changes in manufacturing efficiency, operating and material costs, and our ability to resolve claims and assertions with our customers. If any of these or other assumptions and estimates do not materialize in the future, we may be required to adjust the provisions for estimated losses on contracts. The provision for estimated losses on contracts is included as part of contract liabilities on the condensed consolidated balance sheets. As of September 28, 2024 and December 31, 2023, provision for estimated losses on contracts were \$3.7 million and \$5.4 million, respectively. It is reasonably possible we may incur additional losses in the future.

Production cost of contracts includes non-recurring production costs, such as design and engineering costs, and tooling and other special-purpose machinery necessary to build parts as specified in a contract. Production costs of contracts are recorded to cost of sales using the over time revenue recognition model. We review the value of the production cost of contracts on a quarterly basis to ensure when added to the estimated cost to complete, the value is not greater than the estimated realizable value of the related contracts. As of September 28, 2024 and December 31, 2023, production cost of contracts were \$5.7 million and \$7.8 million, respectively.

Contract Assets and Contract Liabilities

Contract assets consist of our right to payment for work performed but not yet billed. Contract assets are transferred to accounts receivable when we bill our customers. We bill our customers when we ship the products and meet the shipping terms within the revenue contract. Contract liabilities consist of advance or progress payments received from our customers prior to the time transfer of control occurs plus the estimated losses on contracts. When a contract liability and a contract asset exist on the same contract, we report it on a net basis.

Contract assets and contract liabilities from revenue contracts with customers are as follows:

	(Dollars in thousands)	
	September 28, 2024	December 31, 2023
Contract assets	\$ 221,434	\$ 177,686
Contract liabilities	\$ 36,875	\$ 53,492

The increase in our contract assets as of September 28, 2024 compared to December 31, 2023 was primarily due to a net increase of products in work in process in the current period.

The decrease in our contract liabilities as of September 28, 2024 compared to December 31, 2023 was primarily due to a net decrease of advance or progress payments received from our customers in the current period. We recognized \$30.6 million of the contract liabilities as of December 31, 2023 as revenues during the nine months ended September 28, 2024.

Performance obligations are defined as customer placed purchase orders (“POs”) with firm fixed price and firm delivery dates. Our remaining performance obligations as of September 28, 2024 totaled \$957.0 million. Of the remaining performance obligations as of September 28, 2024, we anticipate recognizing an estimated 65% of our remaining performance obligations as revenue during the next 12 months with the remaining performance obligations being recognized in the remainder of 2025 and beyond.

Revenue by Category

In addition to the revenue categories disclosed above, the following table reflects our revenue disaggregated by major end-use market:

	(Dollars in thousands)		(Dollars in thousands)	
	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Consolidated Ducommun				
Military and space	\$ 111,402	\$ 104,806	\$ 310,869	\$ 299,846
Commercial aerospace	84,626	81,791	251,186	230,375
Industrial	5,384	9,653	27,204	34,540
Total	<u>\$ 201,412</u>	<u>\$ 196,250</u>	<u>\$ 589,259</u>	<u>\$ 564,761</u>
Electronic Systems				
Military and space	\$ 85,433	\$ 75,580	\$ 227,925	\$ 220,679
Commercial aerospace	24,595	25,474	69,262	68,238
Industrial	5,384	9,653	27,204	34,540
Total	<u>\$ 115,412</u>	<u>\$ 110,707</u>	<u>\$ 324,391</u>	<u>\$ 323,457</u>
Structural Systems				
Military and space	\$ 25,969	\$ 29,226	\$ 82,944	\$ 79,167
Commercial aerospace	60,031	56,317	181,924	162,137
Total	<u>\$ 86,000</u>	<u>\$ 85,543</u>	<u>\$ 264,868</u>	<u>\$ 241,304</u>

Recent Accounting Pronouncements

Recently Issued Accounting Standards

In March 2024, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2024-02, “Codification Improvements - Amendments to Remove References to the Concepts Statements” (“ASU 2024-02”), which removed references to various FASB Concepts Statements and updates technical corrections such as conforming amendments, clarification to guidance, simplifications to wording or the structure of guidance, and other minor improvements. The new guidance is effective for fiscal years beginning after December 15, 2024, which is our annual period beginning January 1, 2025. Early adoption is permitted. We are evaluating the impact of this standard.

In December 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures” (“ASU 2023-09”), which provides more transparency about tax information primarily related to the rate reconciliation and the income taxes paid. The new guidance is effective for fiscal years beginning after December 15, 2024, which will be our annual period beginning January 1, 2025. Early adoption is permitted. We are evaluating the impact of this standard.

In November 2023, the FASB issued ASU 2023-07, “Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures” (“ASU 2023-07”), which expands reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The new guidance is effective for fiscal years beginning after December 15, 2023, which is our annual period beginning January 1, 2024, and interim periods within fiscal years beginning after December 15, 2024, which will be our interim period beginning January 1, 2025. Early adoption is permitted. We will be implementing the requirements of this standard in our Annual Report on Form 10-K for 2024.

In October 2023, the FASB issued ASU 2023-06, “Disclosure Improvements: Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative” (“ASU 2023-06”), which incorporates updates to the Accounting Standards Codification to align certain SEC disclosure requirements. The amendments impact a variety of topics but are relatively narrow in nature. For entities required to comply with the SEC’s existing disclosure requirements, the effective date for each amendment will be the effective date of the removal of the disclosure requirement from SEC Regulation S-X or SEC Regulation S-K, with early adoption prohibited. The amendments should be applied prospectively. We are evaluating the impact of this standard.

Note 2. Business Combinations

BLR Aerospace, L.L.C. Acquisition

In April 2023, we acquired 100.0% of the outstanding equity interests of BLR Aerospace, L.L.C. (“BLR”), a privately-held leading provider of aerodynamic systems that enhance the productivity, performance, and safety of rotary and fixed-wing aircraft on commercial and military platforms. BLR is located in Everett, Washington. The acquisition of BLR added to our strategy to diversify and offer more customized, value-driven engineered products with aftermarket opportunities.

The initial purchase price for BLR was \$115.0 million, net of cash acquired, all payable in cash, subject to adjustments for working capital. We paid a gross aggregate of \$117.0 million in cash upon the closing of the transaction. Subsequent to the closing of the transaction, during the three months ended September 30, 2023, the working capital was finalized, resulting in an immaterial adjustment for a final purchase price of \$114.4 million, net of cash acquired. We allocated the gross purchase price of \$117.0 million to the assets acquired and liabilities assumed at their estimated fair values. The excess of the purchase price over the aggregate fair values of the net assets was recorded as goodwill.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

	Estimated Fair Value
Cash	\$ 2,656
Accounts receivable	4,149
Inventories	12,011
Other current assets	891
Property and equipment	2,632
Operating lease right-of-use assets	874
Intangible assets	55,500
Goodwill	41,193
Total assets acquired	119,906
Current liabilities	(2,145)
Other non-current liabilities	(727)
Total liabilities assumed	(2,872)
Total purchase price allocation	\$ 117,034

	Useful Life (In years)	Estimated Fair Value (In thousands)
Intangible assets:		
Technology	23	\$ 35,600
Customer relationships	10-22	15,000
Trade name	18	4,900
		\$ 55,500

The intangible assets acquired of \$55.5 million were determined based on the estimated fair values using valuation techniques consistent with the income approach to measure fair value, which represented Level 3 fair value measurements. The useful lives were estimated based on the underlying agreements or the future economic benefit expected to be received from the assets. The values for technology and trade name were assessed using the relief from royalty methodology, while the value for customer relationships was estimated based on a multi-period excess earnings approach. Inputs to the income approach models and other aspects of the allocation of the purchase price require judgment. The more significant inputs used in the technology intangible asset valuation included (i) future revenues, (ii) the technology decay rate, (iii) the royalty rate, and (iv) the discount rate. The more significant inputs used in the customer relationships intangible asset valuation included (i) future revenues, (ii) the projected earnings before interest, taxes, and amortization (“EBITA”) margins, (iii) the customer attrition rates, and (iv) the discount rate.

The goodwill of \$41.2 million arising from the acquisition is attributable to the benefits we expect to derive from expected synergies from the transaction, including complementary products that will enhance our overall product portfolio, opportunities within new markets, and an acquired assembled workforce. All the goodwill was assigned to the Structural Systems segment.

The BLR acquisition, for tax purposes, is deemed an asset acquisition and thus, the goodwill recognized is deductible for income tax purposes.

Acquisition related transaction costs were not included as components of consideration transferred but have been expensed as incurred. Total acquisition-related transaction costs incurred by us were zero for each of the three months ended September 28, 2024 and September 30, 2023, and zero and \$1.3 million during the nine months ended September 28, 2024 and September 30, 2023, respectively, and charged to selling, general and administrative expenses.

BLR's results of operations have been included in our condensed consolidated statements of income since the date of acquisition as part of the Structural Systems segment, and its revenues were less than three percent of total company revenues since the date of acquisition. Pro forma results of operations of the BLR acquisition have not been presented as the effect of the BLR acquisition was not material to our financial results.

Note 3. Restructuring Activities

Summary of 2022 Restructuring Plan

In April 2022, management approved and commenced a restructuring plan that is intended to better position us for stronger performance. The restructuring plan will mainly reduce headcount and consolidate facilities. As a result of this restructuring plan, we analyzed the need to write-down inventory and impair long-lived assets, including operating lease right-of-use assets. During the three and nine months ended September 28, 2024, we recorded total charges of \$1.9 million and \$5.4 million (\$0.9 million of which was recorded as cost of sales), respectively. Cumulative through the nine months ended September 28, 2024, we recorded aggregate total charges of \$26.9 million (\$1.7 million of which was recorded as cost of sales). As of September 28, 2024, we estimate the remaining amount of charges related to this initiative will be \$2.0 million to \$3.0 million in total pre-tax restructuring charges through early 2025 for facility consolidation related expenses.

In the Electronics Systems segment, we recorded charges of \$0.1 million during the three months ended September 28, 2024 for severance and benefits that were classified as restructuring charges. We recorded charges of \$0.4 million and \$0.2 million during the nine months ended September 28, 2024, for severance and benefits that were classified as restructuring charges and other restructuring charges, respectively. Cumulative through the nine months ended September 28, 2024, we recorded total charges for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, charges for inventory write down that was classified as cost of sales, and other restructuring of \$10.0 million, \$0.3 million, \$0.3 million, and \$0.2 million, respectively.

In the Structural Systems segment, we recorded \$0.7 million and \$1.1 million during the three months ended September 28, 2024 for severance and benefits that were classified as restructuring charges and other restructuring charges, respectively. We recorded charges of \$1.7 million and \$2.3 million during the nine months ended September 28, 2024, for severance and benefits that were classified as restructuring charges and other restructuring charges, respectively. Cumulative through the nine months ended September 28, 2024, we recorded total charges for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment/impairment of property and equipment that was classified as restructuring charges, charges for inventory write down that was classified as cost of sales, and other restructuring of \$7.6 million, \$2.0 million, \$1.4 million, and \$5.1 million, respectively.

Our restructuring activities during the nine months ended September 28, 2024 were as follows (in thousands):

	December 31, 2023	Nine Months Ended September 28, 2024				September 28, 2024
	Balance	Charges	Cash Payments	Non-Cash Payments	Change in Estimates	Balance
Severance and benefits	\$ 5,389	\$ 2,116	\$ (4,079)	\$ —	\$ —	\$ 3,426
Inventory write down	—	857	—	(857)	—	—
Other	—	2,432	(2,432)	—	—	—
Ending balance	\$ 5,389	\$ 5,405	\$ (6,511)	\$ (857)	\$ —	\$ 3,426

The restructuring activities accrual for severance and benefits of \$3.4 million as of September 28, 2024 was included as part of accrued and other liabilities and is expected to be paid out through early 2025.

Note 4. Derivative Financial Instruments

Cash Flow Hedges

Our cash flow hedges consists of forward interest rate swaps to manage our exposure to interest rate movements on a portion of our debt through January 1, 2031. Our forward interest rate swaps hedge forecasted transactions through January 1, 2031.

The notional amounts of derivative instruments are as follows:

	(Dollars in thousands)	
	September 28, 2024	December 31, 2023
Derivative instruments designated as hedging instruments:		
Interest rate contracts	\$ 150,000	\$ 150,000

The following table summarizes the fair value and presentation on the condensed consolidated balance sheets for derivative instruments:

	Balance Sheet Location	(Dollars in thousands)	
		September 28, 2024	December 31, 2023
Derivative instruments designated as hedging instruments:			
Interest rate contracts	Other assets, current	\$ 3,143	\$ 4,046
	Other assets	9,419	11,595

Accumulated other comprehensive income activities during the nine months ended September 28, 2024 were as follows (in thousands):

	December 31, 2023	Nine Months Ended September 28, 2024		September 28, 2024
	Balance	Changes in Fair Value Recognized	Change in Estimates	Balance
Cash flow hedges, before tax totals	\$ 15,641	\$ 594	\$ (4,048)	\$ 12,187

Unrealized (losses) gains associated with our hedging transactions recognized in other comprehensive income are presented in the following table:

	(Dollars in thousands) Three Months Ended		(Dollars in thousands) Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Recognized in other comprehensive income, net of tax:				
Interest rate contracts	\$ (5,060)	\$ 4,537	\$ (2,648)	\$ 5,523

We reclassified gains associated with our cash flow hedges from accumulated other comprehensive income to the condensed income statements when the Forward Interest Rate Swaps became effective as of January 1, 2024 and are presented in the following table:

	(Dollars in thousands) Three Months Ended		(Dollars in thousands) Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Interest rate contracts:				
Interest expense	\$ 1,350	\$ —	\$ 4,048	\$ —

The pre-tax deferred gains recorded in other comprehensive income that will mature in the next 12 months total \$2.9 million.

Note 5. Inventories

Inventories consisted of the following:

	(Dollars in thousands)	
	September 28, 2024	December 31, 2023
Raw materials and supplies	\$ 153,769	\$ 174,624
Work in process	28,193	22,060
Finished goods	3,811	2,517
Total	<u>\$ 185,773</u>	<u>\$ 199,201</u>

Note 6. Goodwill

We perform our annual goodwill impairment test as of the first day of the fourth quarter. If certain factors occur, including significant underperformance of our business relative to expected operating results, significant adverse economic and industry trends, a significant decline in our market capitalization for an extended period of time relative to net book value, a decision to divest individual businesses within a reporting unit, or a decision to group individual businesses differently, we may be required to perform an interim impairment test prior to the fourth quarter.

We may use either a qualitative or quantitative approach when testing a reporting unit's goodwill for impairment. The qualitative approach for potential impairment analysis to determine whether it is more likely than not that the fair value of a reporting unit was less than its carrying amount.

The quantitative approach for potential impairment analysis is performed by comparing the fair value of a reporting unit to its carrying value, including goodwill. Fair value is estimated by management using a combination of the income approach (which is based on a discounted cash flow model) and market approach. Management's cash flow projections include significant judgments and assumptions, including the amount and timing of expected cash flows, long-term growth rates, and discount rates. The cash flows used in the discounted cash flow model are based on our best estimate of future revenues, gross margins, and adjusted after-tax earnings. If any of these assumptions are incorrect, it will impact the estimated fair value of a reporting unit. The market approach also requires management judgment in selecting comparable business acquisitions and the transaction values observed and its related control premiums.

No material adverse factors/changes have occurred since the fourth quarter of 2023 that would require us to perform another qualitative or quantitative assessment. As such, for the third quarter of 2024, it was also not more likely than not that the fair values of the reporting units were less than their carrying amounts and thus, the respective goodwill amounts were not deemed to be impaired.

In April 2023, we completed the acquisition of BLR. The excess of the purchase price over the aggregate fair values of the net assets was recorded as goodwill. See Note 2 for further information.

The carrying amounts of our goodwill were as follows:

	(Dollars in thousands)		
	Electronic Systems	Structural Systems	Consolidated Ducommun
Gross goodwill	\$ 199,157	\$ 127,165	\$ 326,322
Accumulated goodwill impairment	(81,722)	—	(81,722)
Balance at December 31, 2023	<u>\$ 117,435</u>	<u>\$ 127,165</u>	<u>\$ 244,600</u>
Balance at September 28, 2024	<u>\$ 117,435</u>	<u>\$ 127,165</u>	<u>\$ 244,600</u>

Note 7. Accrued and Other Liabilities

The components of accrued and other liabilities were as follows:

	(Dollars in thousands)	
	September 28, 2024	December 31, 2023
Accrued compensation	\$ 33,035	\$ 35,574
Accrued income tax and sales tax	3,164	177
Other	9,927	6,509
Total	<u>\$ 46,126</u>	<u>\$ 42,260</u>

Note 8. Long-Term Debt

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

	(Dollars in thousands)	
	September 28, 2024	December 31, 2023
Term loan	\$ 239,063	\$ 242,188
Revolving credit facility	18,800	23,800
Total debt	257,863	265,988
Less current portion	(10,938)	(7,813)
Total long-term debt, less current portion	246,925	258,175
Less debt issuance costs - term loan	(937)	(1,214)
Total long-term debt, net of debt issuance costs - term loan	<u>\$ 245,988</u>	<u>\$ 256,961</u>
Debt issuance costs - revolving credit facility ⁽¹⁾	<u>\$ 1,384</u>	<u>\$ 1,761</u>
Weighted-average interest rate	7.35 %	7.53 %

(1) Included as part of other assets.

In July 2022, we completed a refinancing of all our existing debt by entering into a new term loan (“2022 Term Loan”) and a new revolving credit facility (“2022 Revolving Credit Facility”). The 2022 Term Loan is a \$250.0 million senior secured loan that matures on July 14, 2027. The 2022 Revolving Credit Facility is a \$200.0 million senior secured revolving credit facility that matures on July 14, 2027. The 2022 Term Loan and 2022 Revolving Credit Facility, collectively, represent our credit facilities (“2022 Credit Facilities”).

The 2022 Term Loan bears interest, at our option, at a rate equal to either (i) Term Secured Overnight Financing Rate (“Term SOFR”) plus an applicable margin ranging from 1.375% to 2.375% per year or (ii) Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] Term SOFR plus 1.00%, and if the Base Rate is less than zero percent, it will be deemed zero percent) plus an applicable margin ranging from 0.375% to 1.375% per year, in each case based upon the consolidated total net adjusted leverage ratio. Interest payments are typically paid either on a monthly or quarterly basis, depending on the interest rate selected, on the last business day each month or quarter. In addition, the 2022 Term Loan requires quarterly amortization payments of 0.625% during year one and year two, 1.250% during year three and year four, and 1.875% during year five of the original outstanding principal balance of the 2022 Term Loan amount, on the last business day each quarter. The required quarterly amortization payments began in the fourth quarter of 2022.

The 2022 Revolving Credit Facility bears interest, at our option, at a rate equal to either (i) Term SOFR plus an applicable margin ranging from 1.375% to 2.375% per year or (ii) Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] Term SOFR plus 1.00%, and if the Base Rate is less than zero percent, it will be deemed zero percent) plus an applicable margin ranging from 0.375% to 1.375% per year, in each case based upon the consolidated total net adjusted leverage ratio. Interest payments are typically paid on a monthly or quarterly basis, depending on the interest rate selected, on the last business day each month or quarter. The undrawn portion of the commitment of the 2022 Revolving Credit Facility is subject to a commitment fee ranging from 0.175% to 0.275%, based upon the consolidated total net adjusted leverage ratio, typically paid on a quarterly basis, on the last business day each quarter. However, the 2022 Revolving Credit Facility does not require any principal installment payments.

In conjunction with the closing of the 2022 Credit Facilities, we utilized the entire \$250.0 million of proceeds from the 2022 Term Loan plus our existing cash on hand to pay off our entire debt balance outstanding of \$254.2 million under our prior credit facilities.

For the three months ended September 28, 2024 and September 30, 2023, we made the required quarterly amortization payments on the 2022 Term Loan of zero and \$1.6 million, respectively. The required quarterly amortization payment due on September 30, 2024 is in the fiscal fourth quarter of 2024. For the nine months ended September 28, 2024 and September 30, 2023, we made the required amortization payments on the 2022 Term Loan totaling \$3.1 million and \$4.7 million, respectively.

As of September 28, 2024, we had \$181.0 million of unused borrowing capacity under the 2022 Revolving Credit Facility, after deducting \$0.2 million for standby letters of credit.

As of September 28, 2024, we were in compliance with all covenants required under the 2022 Credit Facilities.

The 2022 Term Loan was considered a modification of debt for some lenders and an extinguishment of debt for other lenders, and thus, a loss of \$0.2 million was recorded related to the extinguishment. In addition, the new fees incurred of \$0.8 million were capitalized and will be amortized over the life of the 2022 Term Loan. Further, the remaining debt issuance costs related to the prior term loans of \$1.0 million as of the modification date will be amortized over the life of the 2022 Term Loan, using the effective interest method.

The 2022 Revolving Credit Facility that replaced the prior revolving credit facility was considered a modification of debt except for the portion related to the creditor that is no longer a part of the 2022 Revolving Credit Facility and, in which case, it was considered an extinguishment of debt. As a result, we expensed the portion of the unamortized debt issuance costs related to the prior revolving credit facility that was considered an extinguishment of debt of \$0.1 million. In addition, the new fees incurred of \$1.7 million as part of the 2022 Revolving Credit Facility were capitalized and will be amortized over the life of the 2022 Revolving Credit Facility. Further, the remaining debt issuance costs related to the prior revolving credit facility of \$0.8 million as of the modification date will also be amortized over the life of the 2022 Revolving Credit Facility.

The 2022 Credit Facilities were entered into by us (“Parent Company”) and guaranteed by all of our domestic subsidiaries, other than two subsidiaries that were considered minor (“Subsidiary Guarantors”). The Subsidiary Guarantors jointly and severally guarantee the 2022 Credit Facilities. The Parent Company has no independent assets or operations, and therefore, no consolidating financial information for the Parent Company and its subsidiaries is presented.

In April 2023, we completed the acquisition of BLR. The initial purchase price for BLR was \$115.0 million, net of cash acquired, all payable in cash. We paid a gross aggregate of \$117.0 million in cash upon the closing of the transaction. We utilized the 2022 Revolving Credit Facility to complete the acquisition. See Note 2 for further information.

In May 2023, we completed a public offering of our common stock resulting in net proceeds of \$85.1 million. We utilized the net proceeds plus cash on hand to pay down \$85.2 million on the 2022 Revolving Credit Facility. See Note 9 for further information.

In November 2021, we entered into derivative contracts, U.S. dollar-one month LIBOR forward interest rate swaps designated as cash flow hedges, all with an effective date of January 1, 2024, for an aggregate total notional amount of \$150.0 million, weighted average fixed rate of 1.8%, and all terminating on January 1, 2031 (“Forward Interest Rate Swaps”). The Forward Interest Rate Swaps mature on a monthly basis, with fixed amount payer payment dates on the first day of each calendar month, commencing on February 1, 2024 through January 1, 2031. The Forward Interest Rate Swaps were deemed to be highly effective upon entering into the derivative contracts, and thus, hedge accounting treatment was utilized. Since the Amended Forward Interest Rate Swaps (as defined below) were not effective until January 1, 2024, we only recorded the changes in fair value of the derivative instruments that were highly effective and that were designated and qualified as cash flow hedges in other comprehensive income through December 31, 2023. See Note 1 and Note 4 for further information.

In July 2022, as a result of completing a refinancing of our existing debt, we were required to complete an amendment of the Forward Interest Rate Swaps (“Amended Forward Interest Rate Swaps”). The Forward Interest Rate Swaps were based on U.S. dollar-one month LIBOR and were amended to be based on one month Term SOFR as borrowings using LIBOR were no longer available under the 2022 Credit Facilities. Since this was an amendment of just the reference rate as a result of the cessation of LIBOR, utilizing the guidance under ASU 2020-04, we determined the Amended Forward Interest Rate Swaps as of the amendment date to continue to be highly effective. The Amended Forward Interest Rate Swaps weighted average fixed rate is 1.7%, as a result of the difference between U.S. dollar-one month LIBOR and one month Term SOFR.

Note 9. Shareholders’ Equity

In May 2023, we completed a public offering of 2.3 million shares of our common stock at \$40.00 per share, for gross proceeds of \$92.0 million. The common stock offering was made under our effective shelf registration statement. We incurred aggregate total out of pocket stock offering related fees of \$6.9 million, resulting in net proceeds of \$85.1 million. As such, we recorded an increase to common stock at par value of less than \$0.1 million with the remaining amount as an increase to additional paid-in capital of \$85.1 million. The net proceeds of the public stock offering along with cash on hand were used to pay down \$85.2 million on the 2022 Revolving Credit Facility that was drawn on and utilized to complete the acquisition of BLR. See Note 2 and Note 8 for further information.

Note 10. Indemnifications

We have made guarantees and indemnities under which we may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions, including revenue transactions in the ordinary course of business. Additionally, we indemnify our directors and officers to the maximum extent permitted under the laws of the State of Delaware and have a directors and officers insurance policy that may reduce our exposure in certain circumstances and may enable us to recover a portion of future amounts that may be payable, if any. Moreover, in connection with certain performance center leases, we have indemnified our lessors for certain claims arising from the performance center or the lease.

The duration of the guarantees and indemnities varies and, in many cases, is indefinite but subject to applicable statutes of limitations. The majority of guarantees and indemnities do not provide any limitations on the maximum potential future payments we could be obligated to make. Historically, payments related to these guarantees and indemnities have been immaterial. We estimate the fair value of our indemnification obligations as insignificant based on this history and insurance coverage and have, therefore, not recorded any liability for these guarantees and indemnities in the accompanying condensed consolidated balance sheets.

Note 11. Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. Federal statutory rate, primarily due to research and development (“R&D”) tax credits. Our effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as expected utilization of R&D tax credits, valuation allowances against deferred tax assets, recognition or derecognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where we conduct business. Also, excess tax benefits and tax detriments related to our equity compensation recognized in the condensed consolidated income statement could result in fluctuations in our effective tax rate period-over-period depending on the volatility of our stock price, number of restricted or performance stock units that vests, and stock options exercised during the period. We recognize deferred tax assets and liabilities, using enacted tax rates, for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating loss and tax credit carryovers.

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

We recorded income tax expense of \$1.3 million for the three months ended September 28, 2024 compared to less than \$0.1 million for the three months ended September 30, 2023. The increase in income tax expense for the third quarter of 2024 compared to the third quarter of 2023 was primarily due to higher pre-tax income and higher income tax expense related to non-deductible book compensation expenses in the third quarter of 2024 compared to the third quarter of 2023. The increase in income tax expense was partially offset by higher income tax benefits related to the U.S. Federal research and development credit recognized in the third quarter of 2024 compared to the third quarter of 2023.

We recorded income tax expense of \$5.4 million for the nine months ended September 28, 2024 compared to \$1.8 million for the nine months ended September 30, 2023. The increase in income tax expense for the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 was primarily due to higher pre-tax income and higher income tax expense related to non-deductible book compensation expenses in the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023. The increase in income tax expense was partially offset by higher income tax benefits related to the U.S. Federal research and development credit recognized in the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023.

Our total amount of unrecognized tax benefits was \$5.1 million and \$4.5 million as of September 28, 2024 and December 31, 2023, respectively. If recognized, \$3.3 million would affect the effective tax rate. We record interest and penalty charges, if any, related to uncertain tax positions as a component of tax expense and unrecognized tax benefits. The amounts accrued for interest and penalty charges as of September 28, 2024 and December 31, 2023 were not significant. As a result of statute of limitations set to expire in the fourth quarter of 2024, we expect decreases to our unrecognized tax benefits of approximately \$1.0 million in the next twelve months.

We file U.S. Federal and state income tax returns. We are subject to examination by the Internal Revenue Service (“IRS”) for tax years after 2019 and by state taxing authorities for tax years after 2018. While we are no longer subject to examination prior to those periods, carryforwards generated prior to those periods may still be adjusted upon examination by the IRS or state taxing authorities if they either have been or will be used in a subsequent period. 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.

Note 12. Commitments and Contingencies

California's Wage and Hour Laws Complaint

In December 2020, a representative action under California's Private Attorneys General Act was filed against us in the Superior Court for the State of California, County of San Bernardino. We received service of process of this complaint in January 2021. The complaint alleged violations of California's wage and hour laws relating to our current and former employees and sought attorney's fees and penalties. We vigorously refuted and defended against these claims and reached a tentative settlement of \$0.8 million during the fourth quarter 2021, which was subject to court approval. Thus, we recorded accrued liabilities of \$0.8 million as of December 31, 2021. During the second quarter of 2022, additional factual information was identified resulting in an increase in the amount of the tentative settlement to \$0.9 million. Therefore, we recorded an additional accrued liabilities of \$0.1 million for a total accrued liabilities amount of \$0.9 million as of the end of the second quarter of 2022 which remained unchanged as of December 31, 2022 as we were awaiting final court approval of this settlement. Subsequent to final court approval and paying of the \$0.9 million in January 2023, during the third quarter of 2023 and upon plaintiff's motion, the court re-opened the settlement agreement to determine whether the class list captured all affected employees. We are appealing this decision and intend to defend our position vigorously. Any amount of additional liability is still undetermined pending the appeal and as such, there is no amount of loss that is probable and reasonably estimable at this time. Thus, no additional accrual was recorded during the three and nine months ended September 28, 2024.

Groundwater

Structural Systems has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at our facilities located in El Mirage and Monrovia, California. Based on currently available information, we have established an accrual for its estimated liability for such investigation and corrective action of \$1.5 million at both September 28, 2024 and December 31, 2023, which is reflected in other long-term liabilities on our condensed consolidated balance sheets.

Waste Disposal

Structural Systems also faces liability as a potentially responsible party for hazardous waste disposed at landfills located in Casmalia and West Covina, California. Structural Systems and other companies and government entities have entered into consent decrees with respect to these landfills with the United States Environmental Protection Agency and/or California environmental agencies under which certain investigation, remediation and maintenance activities are being performed. Based on currently available information, we preliminarily estimate that the range of our future liabilities in connection with the landfill located in West Covina, California is between \$0.4 million and \$3.1 million. We have established an accrual for the estimated liability in connection with the West Covina landfill of \$0.4 million as of both September 28, 2024 and December 31, 2023, which is reflected in other long-term liabilities on our condensed consolidated balance sheets. We anticipate an updated estimate will be available over the next 12 to 24 months however, and will update our accrual for the estimated liability at that time, if needed. Our ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities related to a final remedy, and the allocation of liability among potentially responsible parties.

Guaymas Performance Center Fire

In June 2020, a fire severely damaged our performance center in Guaymas, Mexico, which is part of our Structural Systems segment. There were no injuries; however, property and equipment, inventories, and tooling in this leased facility were damaged. Our Guaymas performance center, comprised of two buildings with an aggregate total of 62,000 square feet, was severely damaged. The loss of production from the Guaymas performance center was absorbed by our other existing performance centers; however, we have reestablished our operations and are in the process of certification with various customers and ramping up our manufacturing capabilities in a different leased facility with 117,000 square feet in Guaymas. A neighboring, non-related manufacturing facility also suffered fire damage during the same time as the fire that severely damaged our Guaymas performance center, and in November 2023, the occupant of the neighboring facility filed suit against us in U.S. District Court for the Central District of California seeking unspecified amounts for damages relating to the fire. In addition, subsequent to the quarter end, we received a subrogation demand from our landlord's insurer, which we are currently evaluating. We intend to defend these matters vigorously and believe we have substantial defenses in relation to these claims. As responsibility for the fire is still undetermined, there is no amount of loss that is probable and reasonably estimable at this time. If we are ultimately deemed to be responsible or partly responsible, it is possible we could incur a loss in excess of our insurance coverage limits, which could be material to our cash flow, liquidity, or financial results.

Our insurance covers damage, up to a capped amount, to the facility, equipment, unfinished inventory, and other assets at replacement cost, finished goods inventory at selling price, as well as business interruption, third party property damage, and recovery related expenses caused by the fire, less our per claim deductible. The anticipated insurance recoveries related to

losses and incremental costs incurred are recognized when receipt is probable. The anticipated insurance recoveries in excess of net book value of the damaged operating assets and business interruption are not recorded until all contingencies related to our claim have been resolved.

The insurance claim for damages to our operating assets and business interruption was deemed final and closed by our insurance company during the three months ended July 1, 2023. Thus, the final \$3.8 million of insurance recoveries were also received and recorded as other income during the three months ended July 1, 2023. In addition, the gain contingencies associated with the remaining general insurance recoveries that were received in 2020 of \$3.9 million, but for which recognition was deferred until all the gain contingencies were resolved, were deemed resolved, and thus, recorded as other income during the three months ended July 1, 2023. Cumulatively, as of July 1, 2023, we received insurance recoveries in aggregate total of \$23.7 million, with \$7.5 million for business interruption and \$16.2 million for damages to property and equipment, inventories, and tooling. Further, all insurance recovery amounts received related to this claim have been recognized up to the amount of net book value loss and presented within the same financial statement line item in the condensed consolidated statements of income resulting in no net impact, with the remaining amounts recognized as other income in our condensed consolidated statements of income when the contingencies were deemed resolved.

Other Structural Systems Performance Center Fire

In April 2023, a fire damaged a relatively small portion of one of our performance centers in our Structural Systems reporting segment. There were no injuries; however, subsequent to the fire, we determined that some property and equipment in this company-owned facility were damaged. Our insurance covers damage, up to a capped amount, to the property and equipment at replacement cost, as well as business interruption and recovery related expenses caused by the fire, less our per claim deductible. There was a loss of production in this damaged portion of the performance center for a short period of time, but the incident did not otherwise result in significant disruption to customer delivery schedules. Production in this damaged portion resumed later that same quarter. As such, during the three months ended July 1, 2023, we wrote off property and equipment with an aggregate total net book value of \$0.2 million. Also during the three months ended July 1, 2023, we received insurance recoveries of \$0.3 million (which was net of our deductible of \$0.1 million) and thus, such insurance recoveries were also presented within the same financial statement line item in the condensed consolidated statements of income resulting in no net impact. The amount of the insurance recoveries received in excess of the loss on operating assets was deemed a contingent gain, and since the gain contingencies were deemed resolved, the \$0.1 million was also recorded as other income during the three months ended July 1, 2023. Finally, during the three months ended December 31, 2023, the insurance claim was deemed final and closed by our insurance company and we received a final payment of \$0.3 million, which was recorded as other income.

In the normal course of business, Ducommun and its subsidiaries are defendants in certain other litigation, claims and inquiries, including matters relating to environmental laws. In addition, Ducommun makes various commitments and incurs contingent liabilities in the ordinary course of business. While it is not feasible to predict the outcome of these matters, Ducommun does not presently expect that any sum it may be required to pay in connection with these matters would have a material adverse effect on its condensed consolidated financial position, results of operations or cash flows.

Note 13. Business Segment Information

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

Financial information by reportable operating segment was as follows:

	(Dollars in thousands) Three Months Ended		(Dollars in thousands) Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Net Revenues				
Electronic Systems	\$ 115,412	\$ 110,707	\$ 324,391	\$ 323,457
Structural Systems	86,000	85,543	264,868	241,304
Total Net Revenues	<u>\$ 201,412</u>	<u>\$ 196,250</u>	<u>\$ 589,259</u>	<u>\$ 564,761</u>
Segment Operating Income ⁽¹⁾				
Electronic Systems	\$ 18,910	\$ 12,710	\$ 54,685	\$ 32,249
Structural Systems	8,289	6,743	21,716	16,873
	27,199	19,453	76,401	49,122
Corporate General and Administrative Expenses ⁽²⁾	(11,933)	(10,844)	(34,589)	(29,136)
Total Operating Income	<u>\$ 15,266</u>	<u>\$ 8,609</u>	<u>\$ 41,812</u>	<u>\$ 19,986</u>
Depreciation and Amortization Expenses				
Electronic Systems	\$ 3,575	\$ 3,567	\$ 10,869	\$ 10,626
Structural Systems	4,849	4,852	14,058	13,619
Corporate Administration	107	59	202	176
Total Depreciation and Amortization Expenses	<u>\$ 8,531</u>	<u>\$ 8,478</u>	<u>\$ 25,129</u>	<u>\$ 24,421</u>
Capital Expenditures				
Electronic Systems	\$ 1,011	\$ 978	\$ 2,950	\$ 4,752
Structural Systems	1,295	3,802	4,172	11,043
Corporate Administration	—	—	3,024	—
Total Capital Expenditures	<u>\$ 2,306</u>	<u>\$ 4,780</u>	<u>\$ 10,146</u>	<u>\$ 15,795</u>

(1) The results for the three months and nine months ended September 28, 2024 include BLR's results of operations, which have been included in our condensed consolidated statements of income since the date of acquisition as part of the Structural Systems segment. See Note 2.

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

Segment assets include assets directly identifiable to or allocated to each segment. Our segment assets are as follows:

	(Dollars in thousands)	
	September 28, 2024	December 31, 2023
Total Assets		
Electronic Systems	\$ 516,562	\$ 505,371
Structural Systems ⁽¹⁾	549,065	552,641
Corporate Administration ⁽²⁾	64,290	62,907
Total Assets	<u>\$ 1,129,917</u>	<u>\$ 1,120,919</u>
Goodwill and Intangibles		
Electronic Systems	\$ 166,247	\$ 173,214
Structural Systems ⁽¹⁾	232,132	237,729
Total Goodwill and Intangibles	<u>\$ 398,379</u>	<u>\$ 410,943</u>

- (1) In April 2023, we acquired 100.0% of the outstanding equity interests of BLR for an initial purchase price of \$115.0 million, net of cash acquired. We allocated the gross purchase price of \$117.0 million to the assets acquired and liabilities assumed at their estimated fair values. The excess of the purchase price over the aggregate fair values of the net assets was recorded as goodwill. See Note 2.
- (2) Includes assets not specifically identified to or allocated to either the Electronic Systems or Structural Systems operating segments, including cash and cash equivalents.

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

Overview

Ducommun Incorporated (“Ducommun,” “the Company,” “we,” “us” or “our”) is a leading global provider of engineering and manufacturing services for high-performance products and high-cost-of failure applications used primarily in the aerospace and defense (“A&D”), industrial, medical and other industries (collectively, “Industrial”). 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.

In its 2023 Annual Report on Form 10-K, The Boeing Company (“Boeing”) indicated that in 2023, global air traffic largely recovered to 2019 levels with domestic travel continuing to be the most robust and international travel has mostly recovered. For 2024, while both major large aircraft manufacturers, Boeing and Airbus SE, have announced either similar or increases in build rates compared to 2023, the ramp up to date has been slower than initially expected and below pre-pandemic levels. In addition, Boeing, one of our largest customers, was notified by the Federal Aviation Administration (“FAA”) in early January 2024 that the FAA had initiated an investigation into Boeing’s quality control system. This notification was followed by the FAA announcing actions to increase its oversight of Boeing as well as not approving production rate increases or additional production lines for the 737 MAX until it is satisfied that Boeing is in full compliance with required quality control procedures. In July 2024, Boeing also pleaded guilty to conspiracy fraud charges, which may result in additional external oversight on its manufacturing and quality control process. Further, in September 2024, the International Association of Machinists and Aerospace Workers District 751 voted to initiate a labor strike affecting more than 30,000 Boeing manufacturing employees primarily located in Washington state, and the manufacturing employees, after rejecting the contract offer in October, voted to approve the revised contract offer in November 2024. Since Boeing is one of our largest customers, if Boeing is unable to meet the full compliance of the FAA’s required quality control procedures, and/or recover from the impact of the labor strike in the near term, it could have a material adverse impact on our business, results of operations and financial condition.

Third quarter 2024 recap:

- Net revenues of \$201.4 million
- Net income of \$10.1 million, or 5.0% of net revenues, or \$0.67 per diluted share
- Adjusted EBITDA of \$31.9 million, or 15.8% of net revenues

Results of Operations
Third Quarter of 2024 Compared to Third Quarter of 2023

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

	(Dollars in thousands, except per share data) Three Months Ended				(Dollars in thousands, except per share data) Nine Months Ended			
	September 28, 2024	% of Net Revenues	September 30, 2023	% of Net Revenues	September 28, 2024	% of Net Revenues	September 30, 2023	% of Net Revenues
Net Revenues	\$ 201,412	100.0 %	\$ 196,250	100.0 %	\$ 589,259	100.0 %	\$ 564,761	100.0 %
Cost of Sales	148,736	73.8 %	151,648	77.3 %	438,401	74.4 %	443,270	78.5 %
Gross Profit	52,676	26.2 %	44,602	22.7 %	150,858	25.6 %	121,491	21.5 %
Selling, General and Administrative Expenses	35,486	17.6 %	32,182	16.4 %	104,498	17.7 %	88,755	15.7 %
Restructuring Charges	1,924	1.0 %	3,811	1.9 %	4,548	0.8 %	12,750	2.3 %
Operating Income	15,266	7.6 %	8,609	4.4 %	41,812	7.1 %	19,986	3.5 %
Interest Expense	(3,829)	(1.9)%	(5,370)	(2.7)%	(11,687)	(2.0)%	(15,324)	(2.7)%
Other Income	—	— %	—	— %	—	— %	7,945	1.4 %
Income Before Taxes	11,437	5.7 %	3,239	1.7 %	30,125	5.1 %	12,607	2.2 %
Income Tax Expense	1,289	nm	26	nm	5,404	nm	1,789	nm
Net Income	\$ 10,148	5.0 %	\$ 3,213	1.6 %	\$ 24,721	4.2 %	\$ 10,818	1.9 %
Effective Tax Rate	11.3 %	nm	0.8 %	nm	17.9 %	nm	14.2 %	nm
Diluted Earnings Per Share	\$ 0.67	nm	\$ 0.22	nm	\$ 1.65	nm	\$ 0.79	nm

nm = not meaningful

Net Revenues by End-Use Market and Operating Segment

Net revenues by end-use market and operating segment during the fiscal three and nine months ended September 28, 2024 and September 30, 2023, respectively, were as follows:

	Three Months Ended					Nine Months Ended				
	Change	(Dollars in thousands)		% of Net Revenues		Change	(Dollars in thousands)		% of Net Revenues	
		September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023		September 28, 2024	September 30, 2023		
Consolidated Ducommun										
Military and space	\$ 6,596	\$ 111,402	\$ 104,806	55.3 %	53.4 %	\$ 11,023	\$ 310,869	\$ 299,846	52.8 %	53.1 %
Commercial aerospace	2,835	84,626	81,791	42.0 %	41.7 %	20,811	251,186	230,375	42.6 %	40.8 %
Industrial	(4,269)	5,384	9,653	2.7 %	4.9 %	(7,336)	27,204	34,540	4.6 %	6.1 %
Total	\$ 5,162	\$ 201,412	\$ 196,250	100.0 %	100.0 %	\$ 24,498	\$ 589,259	\$ 564,761	100.0 %	100.0 %
Electronic Systems										
Military and space	\$ 9,853	\$ 85,433	\$ 75,580	74.0 %	68.3 %	\$ 7,246	\$ 227,925	\$ 220,679	70.3 %	68.2 %
Commercial aerospace	(879)	24,595	25,474	21.3 %	23.0 %	1,024	69,262	68,238	21.3 %	21.1 %
Industrial	(4,269)	5,384	9,653	4.7 %	8.7 %	(7,336)	27,204	34,540	8.4 %	10.7 %
Total	\$ 4,705	\$ 115,412	\$ 110,707	100.0 %	100.0 %	\$ 934	\$ 324,391	\$ 323,457	100.0 %	100.0 %
Structural Systems										
Military and space	\$ (3,257)	\$ 25,969	\$ 29,226	30.2 %	34.2 %	\$ 3,777	\$ 82,944	\$ 79,167	31.3 %	32.8 %
Commercial aerospace	3,714	60,031	56,317	69.8 %	65.8 %	19,787	181,924	162,137	68.7 %	67.2 %
Total	\$ 457	\$ 86,000	\$ 85,543	100.0 %	100.0 %	\$ 23,564	\$ 264,868	\$ 241,304	100.0 %	100.0 %

Net revenues for the three months ended September 28, 2024 were \$201.4 million, compared to \$196.3 million for the three months ended September 30, 2023. The year-over-year increase in our key end-use markets were primarily due to the following:

- \$6.6 million higher revenues in our military and space end-use markets due to higher rates on selected radar, electronic warfare, and other military and space platforms, partially offset by lower rates on rotary-wing and fixed-wing aircraft platforms; and
- \$2.8 million higher revenues in our commercial aerospace end-use markets due to growth in Airbus and selected business aircraft platforms, partially offset by lower revenues from the Boeing 737 MAX and in-flight entertainment.

In addition, revenues for our industrial end-use markets for the three months ended September 28, 2024 decreased \$4.3 million compared to the three months ended September 30, 2023 mainly due to our selectively pruning non-core business.

Net revenues for the nine months ended September 28, 2024 were \$589.3 million, compared to \$564.8 million for the nine months ended September 30, 2023. The year-over-year increase in our key end-use markets were primarily due to the following:

- \$20.8 million higher revenues in our commercial aerospace end-use markets due to growth in Airbus, customer required buffer stock build for the Monrovia performance center closure, higher rates on rotary-wing platforms, and growth in selected business aircraft platforms, partially offset by lower revenues from in-flight entertainment and other commercial aerospace platforms; and
- \$11.0 million higher revenues in our military and space end-use markets due to higher rates on selected radar, electronic warfare, naval and submarine, and other military and space platforms, partially offset by lower rates on fixed-wing aircraft platforms.

In addition, revenues for our industrial end-use markets for the nine months ended September 28, 2024 decreased \$7.3 million compared to the nine months ended September 30, 2023 mainly due to our selectively pruning non-core business.

Net Revenues by Major Customers

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

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Boeing Company	5.1 %	8.8 %	8.0 %	8.2 %
Lockheed Martin Corporation	5.1 %	3.7 %	5.2 %	4.1 %
Northrop Grumman Corporation	8.8 %	4.3 %	6.3 %	5.3 %
RTX Corporation	20.6 %	16.4 %	17.3 %	15.7 %
Spirit AeroSystems Holdings, Inc.	5.7 %	5.9 %	6.1 %	6.2 %
Viasat, Inc.	2.8 %	5.8 %	3.3 %	5.4 %
Total top ten customers ⁽¹⁾	64.0 %	58.0 %	58.9 %	57.5 %

(1) Includes The Boeing Company (“Boeing”), Lockheed Martin Corporation (“Lockheed”), Northrop Grumman Corporation (“Northrop”), RTX Corporation (“RTX”), Spirit AeroSystems Holdings, Inc. (“Spirit”), and Viasat, Inc. (“Viasat”) for the three and nine months ended September 28, 2024 and September 30, 2023.

Boeing, Lockheed, Northrop, RTX, Spirit, and Viasat represented the following percentages of total accounts receivable:

	September 28, 2024	December 31, 2023
Boeing	12.9 %	7.5 %
Lockheed	3.5 %	1.3 %
Northrop	2.9 %	2.5 %
RTX	12.8 %	16.4 %
Spirit	3.3 %	4.2 %
Viasat	4.7 %	8.3 %

The net revenues and accounts receivable from Boeing, Lockheed, Northrop, RTX, Spirit, and Viasat are diversified over a number of commercial, military and space programs and were generated by both operating segments.

Gross Profit

Gross profit consists of net revenues less cost of sales. Cost of sales includes the cost of production of finished products and other expenses related to inventory management, manufacturing quality, and order fulfillment. Gross profit as a percentage of net revenues increased year-over-year with the three months ended September 28, 2024 of 26.2%, compared to the three months ended September 30, 2023 of 22.7% primarily due to favorable product mix and higher manufacturing volume, partially offset by higher other manufacturing costs.

Gross profit as a percentage of net revenues increased year-over-year with the nine months ended September 28, 2024 of 25.6%, compared to the nine months ended September 30, 2023 of 21.5% primarily due to higher manufacturing volume and favorable product mix, partially offset by higher other manufacturing costs.

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

SG&A expenses increased \$3.3 million year-over-year in the three months ended September 28, 2024 compared to the three months ended September 30, 2023 primarily due to higher various other SG&A expenses of \$1.5 million, higher professional services fees of \$1.3 million, of which \$1.0 million was related to the unsolicited non-binding offer to acquire all common stock outstanding of Ducommun Incorporated, and higher compensation and benefits expense of \$0.6 million.

SG&A expenses increased \$15.7 million year-over-year in the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 primarily due to BLR SG&A expenses of \$6.8 million which did not exist until the acquisition of BLR was completed at the end of April 2023, higher compensation and benefits expense of \$3.8 million, and higher professional services fees of \$3.5 million, of which \$2.4 million was related to the unsolicited non-binding offer to acquire all common stock outstanding of Ducommun Incorporated.

Restructuring Charges

Restructuring charges decreased \$2.1 million and \$7.5 million (including \$0.9 million recorded as cost of sales in the nine months ended September 28, 2024) year-over-year in the three and nine months ended September 28, 2024, compared to the three and nine months ended September 30, 2023 (including \$0.2 million recorded as cost of sales in each period), respectively, primarily due to the winding down of the previously disclosed restructuring plan that was approved and commenced in April 2022. See Note 3 for further information.

Interest Expense

Interest expense decreased \$1.5 million and \$3.6 million year-over-year in the three and nine months ended September 28, 2024, compared to the three and nine months ended September 30, 2023, respectively, primarily due to the interest rate swaps that became effective as of January 1, 2024, along with a lower debt balance.

Income Tax Expense

We recorded income tax expense of \$1.3 million for the three months ended September 28, 2024 compared to less than \$0.1 million for the three months ended September 30, 2023. The increase in income tax expense for the third quarter of 2024 compared to the third quarter of 2023 was primarily due to higher pre-tax income and higher income tax expense related to non-deductible book compensation expenses in the third quarter of 2024 compared to the third quarter of 2023. The increase in income tax expense was partially offset by higher income tax benefits related to the U.S. Federal research and development credit recognized in the third quarter of 2024 compared to the third quarter of 2023.

We recorded income tax expense of \$5.4 million for the nine months ended September 28, 2024 compared to \$1.8 million for the nine months ended September 30, 2023. The increase in income tax expense for the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 was primarily due to higher pre-tax income and higher income tax expense related to non-deductible book compensation expenses in the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023. The increase in income tax expense was partially offset by higher income tax benefits related to the U.S. Federal research and development credit recognized in the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023.

Our total amount of unrecognized tax benefits was \$5.1 million and \$4.5 million as of September 28, 2024 and December 31, 2023, respectively. If recognized, \$3.3 million would affect the effective tax rate. We record interest and penalty charges, if any, related to uncertain tax positions as a component of tax expense and unrecognized tax benefits. The amounts accrued for interest and penalty charges as of September 28, 2024 and December 31, 2023 were not significant. As a result of statute of limitations set to expire in the fourth quarter of 2024, we expect decreases to our unrecognized tax benefits of approximately \$1.0 million in the next twelve months.

We file U.S. Federal and state income tax returns. We are subject to examination by the Internal Revenue Service ("IRS") for tax years after 2019 and by state taxing authorities for tax years after 2018. While we are no longer subject to examination prior to those periods, carryforwards generated prior to those periods may still be adjusted upon examination by the IRS or state taxing authorities if they either have been or will be used in a subsequent period. 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 and Earnings per Share

Net income and earnings per share for the three months ended September 28, 2024 were \$10.1 million, or 5.0% of revenues, or \$0.67 per diluted share, compared to \$3.2 million, or 1.6% of revenues, or \$0.22 per diluted share, for the three months ended September 30, 2023. The increase in net income for the three months ended September 28, 2024 compared to the three months ended September 30, 2023 was primarily due to higher gross profit of \$8.1 million and lower restructuring charges of \$2.1 million (including \$0.2 million recorded as cost of sales in the prior year period), partially offset by higher SG&A expenses of \$3.3 million. A portion of the higher SG&A expenses were due to the unsolicited non-binding offer to acquire all common stock outstanding of Ducommun Incorporated.

Net income and earnings per share for the nine months ended September 28, 2024 were \$24.7 million, or 4.2% of revenues, or \$1.65 per diluted share, compared to \$10.8 million, or 1.9% of revenues, or \$0.79 per diluted share, for the nine months ended September 30, 2023. The increase in net income for the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 was primarily due to higher gross profit of \$29.4 million and lower restructuring charges of \$7.5 million (including \$0.9 million and \$0.2 million recorded as cost of sales in each period, respectively), partially offset by higher SG&A expenses of \$15.7 million and lower other income of \$7.9 million. A portion of the higher SG&A expenses were due to BLR SG&A expenses of \$6.8 million which did not exist until the end of April 2023.

Business Segment Performance

We report our financial performance based upon the two reportable operating segments: Electronic Systems and Structural Systems. The results of operations differ between our reportable operating segments due to differences in competitors, customers, extent of proprietary deliverables and performance. The following table summarizes our business segment performance for the three and nine months ended September 28, 2024 and September 30, 2023:

	Three Months Ended					Nine Months Ended				
	% Change	(Dollars in thousands)		% of Net Revenues		% Change	(Dollars in thousands)		% of Net Revenues	
		September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023		September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Net Revenues										
Electronic Systems	4.2 %	\$ 115,412	\$ 110,707	57.3 %	56.4 %	0.3 %	\$ 324,391	\$ 323,457	55.1 %	57.3 %
Structural Systems	0.5 %	86,000	85,543	42.7 %	43.6 %	9.8 %	264,868	241,304	44.9 %	42.7 %
Total Net Revenues	2.6 %	<u>\$ 201,412</u>	<u>\$ 196,250</u>	<u>100.0 %</u>	<u>100.0 %</u>	4.3 %	<u>\$ 589,259</u>	<u>\$ 564,761</u>	<u>100.0 %</u>	<u>100.0 %</u>
Segment Operating Income										
Electronic Systems		\$ 18,910	\$ 12,710	16.4 %	11.5 %		\$ 54,685	\$ 32,249	16.9 %	10.0 %
Structural Systems		8,289	6,743	9.6 %	7.9 %		21,716	16,873	8.2 %	7.0 %
		27,199	19,453				76,401	49,122		
Corporate General and Administrative Expenses ⁽¹⁾		(11,933)	(10,844)	(5.9)%	(5.5)%		(34,589)	(29,136)	(5.9)%	(5.2)%
Total Operating Income		<u>\$ 15,266</u>	<u>\$ 8,609</u>	7.6 %	4.4 %		<u>\$ 41,812</u>	<u>\$ 19,986</u>	7.1 %	3.5 %
Adjusted EBITDA										
Electronic Systems										
Operating Income		\$ 18,910	\$ 12,710				\$ 54,685	\$ 32,249		
Other Income		—	—				—	222		
Depreciation and Amortization		3,575	3,567				10,869	10,626		
Stock-Based Compensation Expense ⁽²⁾		70	124				241	348		
Restructuring Charges		91	1,794				562	5,739		
		22,646	18,195	19.6 %	16.4 %		66,357	49,184	20.5 %	15.2 %
Structural Systems										
Operating Income		8,289	6,743				21,716	16,873		
Depreciation and Amortization		4,849	4,852				14,058	13,619		
Stock-Based Compensation Expense ⁽³⁾		105	97				261	280		
Restructuring Charges		1,833	2,205				4,843	7,113		
Guaymas Fire Related Expenses		—	548				—	3,896		
Other Fire Related Expenses		—	—				—	477		
Inventory Purchase Accounting Adjustments		663	2,041				1,745	2,807		
		15,739	16,486	18.3 %	19.3 %		42,623	45,065	16.1 %	18.7 %
Corporate General and Administrative Expenses ⁽¹⁾										
Operating Loss		(11,933)	(10,844)				(34,589)	(29,136)		
Depreciation and Amortization		107	59				202	176		
Stock-Based Compensation Expense ⁽⁴⁾		4,292	5,431				12,251	13,141		
Restructuring Charges		—	—				—	86		
Professional Fees Related to Unsolicited Non-Binding Acquisition Offer		1,033	—				2,407	—		
		(6,501)	(5,354)				(19,729)	(15,733)		
Adjusted EBITDA		<u>\$ 31,884</u>	<u>\$ 29,327</u>	15.8 %	14.9 %		<u>\$ 89,251</u>	<u>\$ 78,516</u>	15.1 %	13.9 %
Capital Expenditures										
Electronic Systems		\$ 1,011	\$ 978				\$ 2,950	\$ 4,752		
Structural Systems		1,295	3,802				4,172	11,043		
Corporate Administration		—	—				3,024	—		
Total Capital Expenditures		<u>\$ 2,306</u>	<u>\$ 4,780</u>				<u>\$ 10,146</u>	<u>\$ 15,795</u>		

- (1) Includes costs not allocated to either the Electronic Systems or Structural Systems operating segments.
- (2) The three and nine months ended September 28, 2024 each included \$0.1 million of stock-based compensation expense recorded as cost of sales. The three and nine months ended September 30, 2023 included less than \$0.1 million and \$0.1 million, respectively, of stock-based compensation expense recorded as cost of sales.
- (3) The three and nine months ended September 28, 2024 included \$0.1 million and \$0.2 million, respectively, of stock-based compensation expense recorded as cost of sales. The three and nine months ended September 30, 2023 included \$0.1 million and \$0.2 million, respectively, of stock-based compensation expense recorded as cost of sales.
- (4) The three and nine months ended September 28, 2024 included \$0.9 million and \$2.8 million, respectively, of stock-based compensation expense for awards with both performance and market conditions that will be settled in cash. The three and nine months ended September 30, 2023 included \$1.4 million and \$2.7 million, respectively, of stock-based compensation expense for awards with both performance and market conditions that will be settled in cash.

Electronic Systems

Electronic Systems net revenues in the three months ended September 28, 2024 compared to the three months ended September 30, 2023 increased \$4.7 million primarily due to the following in our key end-use markets:

- \$9.9 million higher revenues in our military and space end-use markets due to higher rates on select radar, electronic warfare, and other military and space platforms, partially offset by lower rates on fixed-wing aircraft platforms; partially offset by
- \$0.9 million lower revenues in our commercial aerospace end-use markets due to lower in-flight entertainment revenues and lower rates on other commercial aerospace platforms, partially offset by higher rates on regional and business aircraft and selected single-aisle and twin-aisle aircraft platforms.

In addition, revenues for our industrial end-use markets for the three months ended September 28, 2024 decreased \$4.3 million compared to the three months ended September 30, 2023 mainly due to our selectively pruning non-core business.

Electronic Systems net revenues in the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 increased \$0.9 million primarily due to the following in our key end-use markets:

- \$7.2 million higher revenues in our military and space end-use markets due to higher rates on select radar, electronic warfare, naval and submarine, and other military and space platforms, partially offset by lower rates on fixed-wing aircraft platforms; and
- \$1.0 million higher revenues in our commercial aerospace end-use markets due to higher rates on selected single-aisle and twin-aisle aircraft and growth in regional and business aircraft platforms, partially offset by lower revenues from in-flight entertainment.

In addition, revenues for our industrial end-use markets for the nine months ended September 28, 2024 decreased \$7.3 million compared to the nine months ended September 30, 2023 mainly due to our selectively pruning non-core business.

Electronic Systems segment operating income in the three months ended September 28, 2024 compared to the three months ended September 30, 2023 increased \$6.2 million primarily due to favorable product mix, higher manufacturing volume, and lower restructuring charges, partially offset by higher other manufacturing costs.

Electronic Systems segment operating income in the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 increased \$22.4 million primarily due to favorable product mix, higher manufacturing volume, and lower restructuring charges, partially offset by higher other manufacturing costs.

Structural Systems

Structural Systems net revenues in the three months ended September 28, 2024 compared to the three months ended September 30, 2023 increased \$0.5 million primarily due to the following:

- \$3.7 million higher revenues in our commercial aerospace end-use markets due to growth in Airbus and selected business jet platforms; partially offset by
- \$3.3 million lower revenues in our military and space end-use markets due to lower rates on rotary-wing aircraft and other military and space platforms, partially offset by higher rates on fixed-wing aircraft platforms.

Structural Systems net revenues in the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 increased \$23.6 million primarily due to the following:

- \$19.8 million higher revenues in our commercial aerospace end-use markets due to higher growth in Airbus, customer required buffer stock build for the Monrovia performance center closure, rotary-wing aircraft, and growth in selected business jet

platforms, partially offset by lower rates on other commercial aerospace platforms; and

- \$3.8 million higher revenues in our military and space end-use markets due to higher rates on fixed-wing aircraft platforms, partially offset by lower rates on select missile platforms.

The Structural Systems segment operating income in the three months ended September 28, 2024 compared to the three months ended September 30, 2023 increased \$1.5 million primarily due to favorable product mix and lower inventory purchase accounting adjustments.

The Structural Systems segment operating income in the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 increased \$4.8 million primarily due to higher manufacturing volume, favorable product mix, lower Guaymas fire related expenses, and lower restructuring charges, partially offset by higher costs associated with the wind down of our Monrovia performance center.

In April 2023, we acquired 100.0% of BLR Aerospace L.L.C. (“BLR”). The initial purchase price for BLR was \$115.0 million, net of cash acquired, all payable in cash. We paid a gross aggregate of \$117.0 million in cash upon the closing of the transaction. BLR’s results of operations have been included in our condensed consolidated statements of income since the date of acquisition and is a part of the Structural Systems segment. See Note 2 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In June 2020, a fire severely damaged our performance center in Guaymas, Mexico. We have insurance coverage and up to a capped amount, expect these items will be covered, less our deductible. The full financial impact cannot be estimated at this time as we are currently working with our insurance carriers to determine the cause of the fire. The loss of production from the Guaymas performance center was absorbed by our other existing performance centers; however, we have reestablished and are in the process of certification with various customers and ramping up our manufacturing capabilities in a different leased facility in Guaymas. A neighboring, non-related manufacturing facility also suffered fire damage during the same time as the fire that severely damaged our Guaymas performance center. In addition, subsequent to the quarter end, we received a subrogation demand from our landlord’s insurer, which we are currently evaluating. As responsibility for the fire is still undetermined, there is no amount of loss that is probable and reasonably estimable at this time. If we are ultimately deemed to be responsible or partly responsible, it is possible we could incur a loss in excess of our insurance coverage limits, which could be material to our cash flow, liquidity, or financial results. See Note 12 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

In April 2023, a fire damaged a relatively small portion of one of our performance centers in our Structural Systems reporting segment. Our insurance covers damage, up to a capped amount, to the property and equipment at replacement cost, as well as business interruption and recovery related expenses caused by the fire, less our per claim deductible. There was a loss of production in this damaged portion of the performance center for a short period of time, but the incident did not otherwise result in significant disruption to customer delivery schedules. Production in this damaged portion resumed during the three months ended July 1, 2023. See Note 12 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

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

CG&A expenses increased \$1.1 million for the three months ended September 28, 2024 compared to the three months ended September 30, 2023 primarily due to higher professional services fees of \$1.2 million, of which \$1.0 million was related to the unsolicited non-binding offer to acquire all common stock outstanding of Ducommun Incorporated.

CG&A expenses increased \$5.5 million for the nine months ended September 28, 2024 compared to the nine months ended September 30, 2023 primarily due to higher professional services fees of \$3.3 million, of which \$2.4 million was related to the unsolicited non-binding offer to acquire all common stock outstanding of Ducommun Incorporated, and higher compensation and benefits expense of \$0.8 million.

Non-GAAP Financial Measures

Adjusted earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, restructuring charges, professional fees related to unsolicited non-binding acquisition offer, Guaymas fire related expenses, insurance recoveries related to loss on operating assets, and inventory purchase accounting adjustments (“Adjusted EBITDA”) were \$31.9 million and \$29.3 million for the three months ended September 28, 2024 and September 30, 2023, 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 that clarifies and enhances the understanding of the factors and trends affecting our past performance and future prospects. We define this measure, explain how it is calculated and provide a reconciliation of this measure to the most comparable GAAP measure in the table below. Adjusted EBITDA and the related financial ratios, as presented in this Quarterly Report on Form 10-Q (“Form 10-Q”), are supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. They are not a measurement of our financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP, or as an alternative to net cash provided by operating activities as measures of our liquidity. The presentation of these measures should not be interpreted to mean that our future results will be unaffected by unusual or nonrecurring items.

We use Adjusted EBITDA as a non-GAAP operating performance measure internally as a complementary financial measure 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 a substitute for analysis of our results as reported under GAAP. Some of these limitations include:

- It does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- It does not reflect changes in, or cash requirements for, our working capital needs;
- It does 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;
- It is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- It does not reflect the impact on earnings of charges resulting from matters unrelated to our ongoing operations; and
- Other companies in our industry may calculate Adjusted EBITDA differently from us, limiting its usefulness as a comparative measure.

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

Even with the limitations above, we believe that Adjusted EBITDA is useful to an investor in evaluating our results of operations as this measure:

- Is 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;
- Helps 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
- Is 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;
- Restructuring charges may be useful to our investors in evaluating our core operating performance;
- Professional fees related to unsolicited non-binding acquisition offer may be useful to our investors in evaluating our core operating performance;
- Guaymas fire related expenses may be useful to our investors in evaluating our core operating performance;
- Other fire related expenses may be useful to our investors in evaluating our core operating performance;
- Insurance recoveries related to loss on operating assets (property and equipment, inventories, and other assets) may be useful to our investors in evaluating our core operating performance;
- Insurance recoveries related to business interruption may be useful to our investors in evaluating our core operating performance; and
- Purchase accounting inventory step-ups may be useful to our investors as they do not necessarily reflect the current or on-going cash charges related to our core operating performance.

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

	(Dollars in thousands)		(Dollars in thousands)	
	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Net income	\$ 10,148	\$ 3,213	\$ 24,721	\$ 10,818
Interest expense	3,829	5,370	11,687	15,324
Income tax expense	1,289	26	5,404	1,789
Depreciation	4,285	4,020	12,339	11,692
Amortization	4,246	4,458	12,790	12,729
Stock-based compensation expense ⁽¹⁾	4,467	5,652	12,753	13,769
Restructuring charges ⁽²⁾	1,924	3,999	5,405	12,938
Professional fees related to unsolicited non-binding acquisition offer	1,033	—	2,407	—
Guaymas fire related expenses	—	548	—	3,896
Other fire related expenses	—	—	—	477
Insurance recoveries related to loss on operating assets	—	—	—	(5,563)
Insurance recoveries related to business interruption	—	—	—	(2,160)
Inventory purchase accounting adjustments	663	2,041	1,745	2,807
Adjusted EBITDA	\$ 31,884	\$ 29,327	\$ 89,251	\$ 78,516
Net income as a % of net revenues	5.0 %	1.6 %	4.2 %	1.9 %
Adjusted EBITDA as a % of net revenues	15.8 %	14.9 %	15.1 %	13.9 %

(1) The three and nine months ended September 28, 2024 included \$0.9 million and \$2.8 million, respectively, of stock-based compensation expense for awards with both performance and market conditions that will be settled in cash. The three and nine months ended September 30, 2023 included \$1.4 million and \$2.7 million, respectively, of stock-based compensation expense for awards with both performance and market conditions that will be settled in cash. The three and nine months ended September 28, 2024 included \$0.1 million and \$0.3 million, respectively, of stock-based compensation expense recorded as cost of sales. The three and nine months ended September 30, 2023 included \$0.1 million and \$0.3 million, respectively, of stock-based compensation expense recorded as cost of sales.

(2) The three and nine months ended September 28, 2024 included zero and \$0.9 million, respectively, of restructuring charges that were recorded as cost of sales. The three and nine months ended September 30, 2023 each included \$0.2 million of restructuring charges that were recorded as cost of sales.

Backlog

We define backlog as customer placed purchase orders (“POs”) and long-term agreements (“LTAs”) with firm fixed price and expected delivery dates of 24 months or less. The majority of the LTAs do not meet the definition of a contract under ASC 606, and thus, the backlog amount disclosed below is greater than the remaining performance obligations amount disclosed in Note 1 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q. Backlog is subject to delivery delays or program cancellations, which are beyond our control. Backlog is affected by timing differences in the placement of customer orders and tends to be concentrated in several programs to a greater extent than our net revenues. Backlog in industrial markets tends to be of a shorter duration and is generally fulfilled within a three month period. As a result of these factors, trends in our overall level of backlog may not be indicative of trends in our future net revenues.

The increase in backlog was primarily in the military and space end-use markets, partially offset by a decrease in industrial end-use markets. \$690.0 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of September 28, 2024 and December 31, 2023:

	Change	(Dollars in thousands)	
		September 28, 2024	December 31, 2023
Consolidated Ducommun			
Military and space	\$ 64,499	\$ 591,642	\$ 527,143
Commercial aerospace	1,249	430,743	429,494
Industrial	(15,403)	21,528	36,931
Total	<u>\$ 50,345</u>	<u>\$ 1,043,913</u>	<u>\$ 993,568</u>
Electronic Systems			
Military and space	\$ 62,089	\$ 459,770	\$ 397,681
Commercial aerospace	(7,589)	80,405	87,994
Industrial	(15,403)	21,528	36,931
Total	<u>\$ 39,097</u>	<u>\$ 561,703</u>	<u>\$ 522,606</u>
Structural Systems			
Military and space	\$ 2,410	\$ 131,872	\$ 129,462
Commercial aerospace	8,838	350,338	341,500
Total	<u>\$ 11,248</u>	<u>\$ 482,210</u>	<u>\$ 470,962</u>

Liquidity and Capital Resources

Available Liquidity

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

	(Dollars in millions)	
	September 28, 2024	December 31, 2023
Total debt, including long-term portion	\$ 257.9	\$ 266.0
Weighted-average interest rate on debt	7.35 %	7.53 %
Term Loan interest rate	7.12 %	6.93 %
Cash and cash equivalents	\$ 37.3	\$ 42.9
Unused Revolving Credit Facility	\$ 181.0	\$ 176.0

In July 2022, we completed a refinancing of all our existing debt by entering into a new term loan (“2022 Term Loan”) and a new revolving credit facility (“2022 Revolving Credit Facility”). The 2022 Term Loan is a \$250.0 million senior secured loan that matures on July 14, 2027. The 2022 Revolving Credit Facility is a \$200.0 million senior secured revolving credit facility that matures on July 14, 2027. The 2022 Term Loan and 2022 Revolving Credit Facility, collectively, represent our new credit facilities (“2022 Credit Facilities”). In conjunction with the closing of the 2022 Credit Facilities, we utilized the entire \$250.0 million of proceeds from the 2022 Term Loan plus our existing cash on hand to pay off our entire debt balance outstanding of \$254.2 million under our prior credit facilities. At the same leverage ratio, the interest rate spread in the 2022 Credit Facilities is lower than the interest rate spread under our prior credit facilities. Interest payments are typically paid either on a monthly or quarterly basis, depending on the interest rate selected, on the last business day each month or quarter. In addition, the 2022 Term Loan requires quarterly amortization payments of 0.625% during year one and year two, 1.250% during year three and year four, and 1.875% during year five of the original outstanding principal balance of the 2022 Term Loan amount, on the last business day each quarter. Further, the undrawn portion of the commitment of the 2022 Revolving Credit Facility is subject to a commitment fee ranging from 0.175% to 0.275%, based upon the consolidated total net adjusted leverage ratio, typically paid on a quarterly basis, on the last business day each quarter. However, the 2022 Revolving Credit Facility does not require any principal installment payments. As of September 28, 2024, we were in compliance with all covenants required under the 2022 Credit Facilities. See Note 8 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

For each of the three months ended September 28, 2024 and September 30, 2023, we made the required quarterly amortization payments on the 2022 Term Loan of zero and \$1.6 million, respectively. The required quarterly amortization payment due on September 30, 2024 is in the fiscal fourth quarter of 2024. For the nine months ended September 28, 2024 and September 30, 2023, we made the required amortization payments on the 2022 Term Loan of \$3.1 million and \$4.7 million, respectively. We made no voluntary prepayments on our term loans during each of the three and nine months ended September 28, 2024 and September 30, 2023.

In April 2022, management approved and commenced a restructuring plan that will position us for stronger performance. The restructuring plan will mainly reduce headcount and consolidate facilities. As a result of this restructuring plan, we analyzed the need to write-down inventory and impair long-lived assets, including operating lease right-of-use assets. As of September 28, 2024, we estimate the remaining amount of charges related to this initiative will be \$2.0 million to \$3.0 million in total pre-tax restructuring charges through early 2025 for facility consolidation related expenses. The restructuring accrual for severance and benefits of \$3.4 million as of September 28, 2024 are expected to be paid out through early 2025. On an annualized basis, we anticipate these restructuring actions will result in total cost savings of \$11.0 million to \$13.0 million. See Note 3 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In November 2021, we entered into derivative contracts, U.S. dollar-one month LIBOR forward interest rate swaps designated as cash flow hedges, all with an effective date of January 1, 2024, for an aggregate total notional amount of \$150.0 million, weighted average fixed rate of 1.8%, and all terminating on January 1, 2031 (“Forward Interest Rate Swaps”). The Forward Interest Rate Swaps mature on a monthly basis, with fixed amount payer payment dates on the first day of each calendar month, commencing on February 1, 2024 through January 1, 2031. See Note 1, Note 4, and Note 8 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In July 2022, as a result of completing a refinancing of our existing debt, we were required to complete an amendment of the Forward Interest Rate Swaps (“Amended Forward Interest Rate Swaps”). The Forward Interest Rate Swaps were based on U.S. dollar-one month LIBOR and were amended to be based on one month Term SOFR as borrowings using LIBOR are no longer available under the 2022 Credit Facilities. The Amended Forward Interest Rate Swaps weighted average fixed rate is 1.7%, as a result of the difference between U.S. dollar-one month LIBOR and one month Term SOFR. See Note 1, Note 4, and Note 8 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In April 2023, we completed the acquisition of BLR. The initial purchase price for BLR was \$115.0 million, net of cash acquired, all payable in cash. We paid a gross aggregate of \$117.0 million in cash upon the closing of the transaction. We utilized the 2022 Revolving Credit Facility to complete the acquisition. See Note 2 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In May 2023, we completed a public offering of our common stock resulting in net proceeds of \$85.1 million. The net proceeds of the public stock offering along with cash on hand were used to pay down \$85.2 million on the 2022 Revolving Credit Facility that was drawn on and utilized to complete the acquisition of BLR. See Note 2, Note 8, and Note 9 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

We expect to spend a total of \$15.0 million to \$18.0 million for capital expenditures in 2024 financed by cash generated from operations, principally to support new contract awards in Electronic Systems and Structural Systems. As part of our strategic plan to become a supplier of higher-level assemblies 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 monitor our asset base, including the market dynamics of the properties we own, and we may sell such properties and/or enter into sale-leaseback transactions. Such transactions would provide cash for various capital deployment options.

We continue to depend on operating cash flow and the availability of our 2022 Credit Facilities 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 from the date of issuance of these financial statements.

Cash Flow Summary

Net cash provided by operating activities for the nine months ended September 28, 2024 was \$15.8 million, compared to \$4.6 million for the nine months ended September 30, 2023. The higher net cash provided by operating activities during the first nine months of 2024 was mainly due to higher net income, lower inventories, and higher accounts payable, partially offset by higher contract assets, lower contract liabilities, and higher accounts receivable.

Net cash used in investing activities was \$10.3 million for the nine months ended September 28, 2024, compared to \$130.0 million in the nine months ended September 30, 2023. The lower net cash used in investing activities during the first nine months of 2024 compared to the prior year period was mainly due to no acquisitions in the first nine months of 2024 and lower purchases of property and equipment.

Net cash used in financing activities was \$11.1 million for the nine months ended September 28, 2024, compared to a net cash provided by financing activities of \$106.4 million for the nine months ended September 30, 2023. The higher net cash used in financing activities during the first nine months of 2024 was mainly due to the issuance of common stock in a public offering in the first nine months of 2023 that did not recur in 2024 and lower net borrowings in the first nine months of 2024.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist of operating and finance leases not recorded as a result of the practical expedients utilized, right of offset of industrial revenue bonds and associated failed sales-leasebacks on property and equipment, and indemnities, none of which we believe may have a material current or future effect on our financial condition, liquidity, capital resources, or results of operations.

Critical Accounting Policies

The preparation of our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States requires estimation and judgment that affect the reported amounts of net revenues, expenses, assets and liabilities. For a description of our critical accounting policies, please refer to “Critical Accounting Policies” in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2023 Annual Report on Form 10-K. There have been no material changes in any of our critical accounting policies during the three months ended September 28, 2024.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our main market risk exposure relates to changes in U.S. interest rates on our outstanding long-term debt. At September 28, 2024, we had total borrowings of \$257.9 million under our 2022 Credit Facilities.

The 2022 Term Loan bears interest, at our option, at a rate equal to either (i) Term Secured Overnight Financing Rate (“Term SOFR”) plus an applicable margin ranging from 1.375% to 2.375% per year or (ii) Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] Term SOFR plus 1.00%, and if the Base Rate is less than zero percent, it will be deemed zero percent) plus an applicable margin ranging from 0.375% to 1.375% per year, in each case based upon the consolidated total net adjusted leverage ratio.

The 2022 Revolving Credit Facility bears interest, at our option, at a rate equal to either (i) Term SOFR plus an applicable margin ranging from 1.375% to 2.375% per year or (ii) Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] Term SOFR plus 1.00%, and if the Base Rate is less than zero percent, it will be deemed zero percent) plus an applicable margin ranging from 0.375% to 1.375% per year, in each case based upon the consolidated total net adjusted leverage ratio.

A hypothetical 10% increase or decrease in the interest rate would have an immaterial impact on our financial condition and results of operations.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company’s chief executive officer (“CEO”) and chief financial officer (“CFO”) have conducted an evaluation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of September 28, 2024. The Company had previously reported a material weakness in internal control over financial reporting related to not designing and maintaining effective controls over the accuracy of contract terms and the reasonableness of gross margin assumptions used to recognize revenue. Specifically, the Company did not verify that amendments to purchase orders and gross margin percentage assumptions used in the Company’s revenue recognition analysis were properly reviewed at a sufficient level of precision, which was described in Item 9A in the Management’s Report on Internal Control Over Financial Reporting in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023. As a result of the material weakness in the Company’s internal control over financial reporting, which was not remediated as of September 28, 2024, the CEO and CFO concluded the Company’s disclosure controls and procedures were not effective as of September 28, 2024.

Remediation of Material Weakness

We have implemented remediation steps to address the material weakness described above to improve our internal control over verification of amendments to purchase orders and the gross margin percentage assumptions used to recognize revenue.

Actions taken:

- We have redesigned our existing controls to expand the selection criteria for contracts requiring an estimate at completion (“EAC”) analysis to support the gross margin percentage used for revenue recognition.
- We have increased the rigor and review of the EAC process, including standardization of the analysis and related documentation and verification of the contract value utilized to the underlying customer purchase order.
- We have implemented additional analytical procedures to ensure the accuracy of gross margin assumptions.

While significant progress has been made to enhance our internal control over financial reporting relating to the material weakness, additional time will be required to assess and ensure the sustainability of these processes and procedures. We anticipate completing the assessment and ensure sustainability of these processes and procedures either during 2024 or 2025; however, we cannot make any assurances that such actions will be completed during this timeframe. Until the remediation steps set forth above are fully implemented and concluded to be operating effectively, the material weakness described above will continue to exist.

Changes in Internal Control over Financial Reporting

Except as otherwise discussed above under “Remediation of Material Weakness,” there were no other changes in our internal control over financial reporting during the three months ended September 28, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 12 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for a description of our legal proceedings.

Item 1A. Risk Factors

See Part I, Item 1A of our Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2023 for a discussion of our risk factors. Other than the risk factor below, there have been no material changes during the three months ended September 28, 2024 to the risk factors disclosed in our Form 10-K for the year ended December 31, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

No. Description

3.1 Restated Certificate of Incorporation filed with the Delaware Secretary of State on May 29, 1990. Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 1990.

[3.2 Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on May 27, 1998. Incorporated by reference to Exhibit 3.2 to Form 10-K for the year ended December 31, 1998.](#)

[3.3 Amended and Restated Bylaws of Ducommun Incorporated, dated as of November 5, 2024. Incorporated by reference to Exhibit 3.1 to Form 8-K filed on November 7, 2024.](#)

[*10.1 Ducommun Incorporated Retirement Policy effective as of August 6, 2024.](#)

[31.1 Certification of Principal Executive Officer.](#)

[31.2 Certification of Principal Financial Officer.](#)

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

101.INS Inline XBRL Instance Document with Embedded Linkbase Documents - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Indicates an executive compensation plan or arrangement.

SIGNATURES

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

Date: November 7, 2024

DUCOMMUN INCORPORATED

(Registrant)
By: /s/ Stephen G. Oswald

Stephen G. Oswald
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2024

By: /s/ Suman B. Mookerji

Suman B. Mookerji
Senior Vice President, Chief Financial Officer
(Principal Financial and Principal Accounting Officer)

DUCOMMUN INCORPORATED
RETIREMENT POLICY

Ducommun Incorporated, a Delaware corporation (the “Company”) has adopted the Ducommun Incorporated Retirement Policy (the “Policy”) for the benefit of eligible employees of the Company and its subsidiaries, on the terms and conditions hereafter stated, effective as of the Effective Date.

1. Definitions.

- (a) “Annual Incentive Plan” means the Ducommun Incorporated Annual Incentive Plan in effect at the time of such Participant’s Retirement.
- (b) “Board” means the Board of Directors of the Company.
- (c) “Committee” means the Compensation Committee of the Board.
- (d) “Company Group” means the Company and its subsidiaries.
- (e) “Effective Date” means August 6, 2024.
- (f) “Eligible Employee” means each “executive officer” (as defined in Rule 3b-7 under the Securities Exchange Act of 1934, as amended) of the Company Group. Eligible Employees shall, in no event, include: (i) independent contractors, (ii) temporary employees and (iii) individuals treated other than as employees for federal income and employment tax purposes at the time such individual performs services.
- (g) “Equity Incentive Plans” means, collectively, (i) the Ducommun Incorporated 2013 Stock Incentive Plan, effective as of May 2, 2018 and (ii) the Ducommun Incorporated Amended and Restated 2020 Stock Incentive Plan, effective as of April 20, 2022; and (iii) the Ducommun Incorporated 2024 Stock Incentive Plan, effective as of April 24, 2024.
- (h) “NQDC Plan” means the Ducommun Incorporated Non Qualified Deferred Compensation Plan, effective as of November 26, 2019.
- (i) “Participant” means an Eligible Employee who is designated as a Participant by the Board or the Committee, subject to the requirements of Section 2. For purposes hereof, the Board or the Committee shall be permitted to designate groups of Eligible Employees by job title as Participants without the need to identify any individual Participant by name.
- (j) “Retirement” means the Participant’s voluntary resignation of employment with the Company Group upon the earlier of (i) the date the Participant reaches age 65 or (ii) the date the Participant reaches age 60, with at least five years of continuous service with the Company Group.
- (k) “Severance Arrangements” means any plans, policies, guidelines, arrangements, agreements, letters and/or other communication, whether formal or informal, written or oral sponsored or maintained by the Company Group and/or entered into by any representative of the Company Group that provides severance benefits to a Participant.

2. **Eligibility.** Except as otherwise provided herein, each Participant is eligible under the Policy if such Participant:
 - (a) remains in the employ of the Company Group through the date of Retirement; and
 - (b) fulfills the normal responsibilities of such Participant's position, including, but not limited to, meeting regular attendance, specific transitional activities, workload and other standards of the Company Group in effect from time to time.
3. **Applicability of the Policy.** In the event that a Participant's employment with the Company Group is terminated due to the Participant's Retirement, the Participant shall be eligible for the applicable Retirement treatment of any payments or benefits provided to such Participant in connection with such Participant's Retirement under the following arrangements of the Company Group:
 - (a) Annual Incentive Plan;
 - (b) Equity Incentive Plans;
 - (c) NQDC Plan; and
 - (d) Any other plans, programs, policies, agreements or arrangements of the Company Group, as determined by the Board or Committee, including any Severance Arrangements.
4. **Termination or Amendment of the Policy.** The Policy may be amended, terminated or discontinued in whole or in part, at any time and from time to time at the discretion of the Board or the Committee.
5. **Miscellaneous.**
 - (a) No Right to Continued Employment. Nothing contained in the Policy shall confer upon any Participant any right to continue in the employ of any member of the Company Group nor interfere in any way with the right of the Company to terminate his or her employment, with or without cause.
 - (b) Discretion of the Company Group, Board and Committee. Any decision made or action taken by, or inaction of, the Company Group, the Board or the Committee arising out of or in connection with the creation, amendment, construction, administration, interpretation and effect of the Policy that is within its authority hereunder or applicable law shall be within the absolute discretion of such entity and shall be conclusive and binding upon all Participants.
 - (c) No Duplication. In no event shall any Participant receive additional severance benefits pursuant to the Policy in addition to severance benefits provided for under any Severance Arrangement.
 - (d) Captions. Captions and headings are given to the sections and subsections of the Policy solely as a convenience to facilitate reference. Such captions and headings shall not be deemed in any way material or relevant to the construction or interpretation of the Policy or any provision thereof.
 - (e) Successors. The Policy shall inure to the benefit of and be binding upon the Company and its successors.

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

I, Stephen G. Oswald, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the “registrant”) on Form 10-Q for the period ended September 28, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f), and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2024

/s/ Stephen G. Oswald

Stephen G. Oswald

Chairman, President and Chief Executive Officer

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

I, Suman B. Mookerji, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the “registrant”) on Form 10-Q for the period ended September 28, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2024

/s/ Suman B. Mookerji

Suman B. Mookerji

Senior Vice President, Chief Financial Officer

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

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending September 28, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen G. Oswald, Chairman, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

By: /s/ Stephen G. Oswald

Stephen G. Oswald
Chairman, President and Chief Executive Officer
November 7, 2024

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending September 28, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Suman B. Mookerji, Senior Vice President, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

By: /s/ Suman B. Mookerji

Suman B. Mookerji
Senior Vice President, Chief Financial Officer
November 7, 2024

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