

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

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**FORM 10-Q**

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

For the quarterly period ended April 3, 2021

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

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**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.)

**200 Sandpointe Avenue, Suite 700, Santa Ana, California**

(Address of principal executive offices)

**92707-5759**

(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 April 27, 2021, the registrant had 11,849,597 shares of common stock outstanding.

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## DUCOMMUN INCORPORATED AND SUBSIDIARIES

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <a href="#">Financial Statements (unaudited)</a>	<a href="#">3</a>
<a href="#">Condensed Consolidated Balance Sheets as of April 3, 2021 and December 31, 2020</a>	<a href="#">3</a>
<a href="#">Condensed Consolidated Statements of Income for the Three Months Ended April 3, 2021 and March 28, 2020</a>	<a href="#">4</a>
<a href="#">Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended April 3, 2021 and March 28, 2020</a>	<a href="#">5</a>
<a href="#">Condensed Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended April 3, 2021 and March 28, 2020</a>	<a href="#">6</a>
<a href="#">Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 3, 2021 and March 28, 2020</a>	<a href="#">7</a>
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	<a href="#">8</a>
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">19</a>
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">28</a>
Item 4. <a href="#">Controls and Procedures</a>	<a href="#">29</a>
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <a href="#">Legal Proceedings</a>	<a href="#">29</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">29</a>
Item 4. <a href="#">Mine Safety Disclosures</a>	<a href="#">29</a>
Item 6. <a href="#">Exhibits</a>	<a href="#">30</a>
<a href="#">Signatures</a>	<a href="#">33</a>

**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)

	April 3, 2021	December 31, 2020
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 16,972	\$ 56,466
Accounts receivable, net (allowance for credit losses of \$1,570 and \$1,552 at April 3, 2021 and December 31, 2020, respectively)	61,124	58,025
Contract assets	173,909	154,028
Inventories	138,287	129,223
Production cost of contracts	7,198	6,971
Other current assets	5,723	5,571
<b>Total Current Assets</b>	<b>403,213</b>	<b>410,284</b>
Property and equipment, net of accumulated depreciation of \$172,536 and \$169,742 at April 3, 2021 and December 31, 2020, respectively	109,180	109,990
Operating Lease Right-of-Use Assets	15,703	16,348
Goodwill	170,830	170,830
Intangibles, Net	121,506	124,744
Deferred Income Taxes	33	33
Other Assets	5,399	5,118
<b>Total Assets</b>	<b>\$ 825,864</b>	<b>\$ 837,347</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable	\$ 70,235	\$ 63,980
Contract liabilities	24,257	28,264
Accrued and other liabilities	28,433	40,526
Operating lease liabilities	3,118	3,132
Current portion of long-term debt	7,000	7,000
<b>Total Current Liabilities</b>	<b>133,043</b>	<b>142,902</b>
Long-Term Debt, Less Current Portion	304,344	311,922
Non-Current Operating Lease Liabilities	13,785	14,555
Deferred Income Taxes	17,598	16,992
Other Long-Term Liabilities	21,524	21,642
<b>Total Liabilities</b>	<b>490,294</b>	<b>508,013</b>
Commitments and Contingencies (Notes 6, 8)		
Shareholders' Equity		
Common stock - \$0.01 par value; 35,000,000 shares authorized; 11,849,597 and 11,728,212 shares issued and outstanding at April 3, 2021 and December 31, 2020, respectively	118	117
Additional paid-in capital	96,385	97,090
Retained earnings	248,422	241,727
Accumulated other comprehensive loss	(9,355)	(9,600)
<b>Total Shareholders' Equity</b>	<b>335,570</b>	<b>329,334</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 825,864</b>	<b>\$ 837,347</b>

*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	
	April 3, 2021	March 28, 2020
Net Revenues	\$ 157,151	\$ 173,475
Cost of Sales	124,051	136,671
Gross Profit	33,100	36,804
Selling, General and Administrative Expenses	22,490	23,178
Operating Income	10,610	13,626
Interest Expense	(2,806)	(4,246)
Income Before Taxes	7,804	9,380
Income Tax Expense	1,109	1,450
Net Income	<u>\$ 6,695</u>	<u>\$ 7,930</u>
Earnings Per Share		
Basic earnings per share	\$ 0.57	\$ 0.68
Diluted earnings per share	\$ 0.55	\$ 0.67
Weighted-Average Number of Common Shares Outstanding		
Basic	11,791	11,610
Diluted	12,250	11,855

*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	
	April 3, 2021	March 28, 2020
Net Income	\$ 6,695	\$ 7,930
Other Comprehensive Income, Net of Tax:		
Amortization of actuarial loss and prior service costs, net of tax of \$76 and \$59 for the three months ended April 3, 2021 and March 28, 2020, respectively	245	190
Change in unrealized gains and losses on cash flow hedges, net of tax of zero and \$26 for the three months ended April 3, 2021 and March 28, 2020, respectively	—	86
Other Comprehensive Income, Net of Tax	245	276
Comprehensive Income	<u>\$ 6,940</u>	<u>\$ 8,206</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 Loss	Total Shareholders' Equity
<b>Balance at December 31, 2019</b>	<b>11,572,668</b>	<b>\$ 116</b>	<b>\$ 88,399</b>	<b>\$ 212,553</b>	<b>\$ (8,268)</b>	<b>\$ 292,800</b>
Net income	—	—	—	7,930	—	7,930
Other comprehensive loss, net of tax	—	—	—	—	276	276
Employee stock purchase plan	27,104	—	1,112	—	—	1,112
Stock options exercised	1,569	—	39	—	—	39
Stock awards vested	86,523	1	(1)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(39,247)	(1)	(2,008)	—	—	(2,009)
Stock-based compensation	—	—	2,279	—	—	2,279
<b>Balance at March 28, 2020</b>	<b>11,648,617</b>	<b>\$ 116</b>	<b>\$ 89,820</b>	<b>\$ 220,483</b>	<b>\$ (7,992)</b>	<b>\$ 302,427</b>
<b>Balance at December 31, 2020</b>	<b>11,728,212</b>	<b>\$ 117</b>	<b>\$ 97,090</b>	<b>\$ 241,727</b>	<b>\$ (9,600)</b>	<b>\$ 329,334</b>
Net income	—	—	—	6,695	—	6,695
Other comprehensive loss, net of tax	—	—	—	—	245	245
Employee stock purchase plan	31,580	—	1,558	—	—	1,558
Stock options exercised	17,872	—	610	—	—	610
Stock awards vested	178,827	2	(2)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(106,894)	(1)	(6,004)	—	—	(6,005)
Stock-based compensation	—	—	3,133	—	—	3,133
<b>Balance at April 3, 2021</b>	<b>11,849,597</b>	<b>\$ 118</b>	<b>\$ 96,385</b>	<b>\$ 248,422</b>	<b>\$ (9,355)</b>	<b>\$ 335,570</b>

*See accompanying notes to Condensed Consolidated Financial Statements.*

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

	Three Months Ended	
	April 3, 2021	March 28, 2020
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 6,695	\$ 7,930
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and amortization	6,922	7,336
Non-cash operating lease cost	736	811
Stock-based compensation expense	3,133	2,279
Deferred income taxes	606	1,495
Provision for credit losses	18	97
Other	122	194
Changes in Assets and Liabilities:		
Accounts receivable	(3,117)	(14,591)
Contract assets	(19,881)	(10,543)
Inventories	(9,064)	(7,269)
Production cost of contracts	(488)	973
Other assets	(369)	871
Accounts payable	8,192	(4,711)
Contract liabilities	(4,007)	13,361
Operating lease liabilities	(784)	(700)
Accrued and other liabilities	(12,069)	(9,567)
<b>Net Cash Used in Operating Activities</b>	<b>(23,355)</b>	<b>(12,034)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(4,542)	(3,867)
Post closing cash received from the acquisition of Nobles Worldwide, Inc., net	—	190
<b>Net Cash Used in Investing Activities</b>	<b>(4,542)</b>	<b>(3,677)</b>
<b>Cash Flows from Financing Activities</b>		
Borrowings from senior secured revolving credit facility	20,000	65,900
Repayments of senior secured revolving credit facility	(25,000)	(15,900)
Repayments of term loans	(2,676)	(7,362)
Repayments of other debt	(84)	(54)
Net cash paid upon issuance of common stock under stock plans	(3,837)	(858)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(11,597)</b>	<b>41,726</b>
Net (Decrease) Increase in Cash and Cash Equivalents	(39,494)	26,015
Cash and Cash Equivalents at Beginning of Period	56,466	39,584
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 16,972</b>	<b>\$ 65,599</b>

*See accompanying notes to Condensed Consolidated Financial Statements.*

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

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

We are a leading global provider of engineering and manufacturing services for high-performance products and high-cost-of failure applications used primarily in the aerospace and defense (“A&D”), industrial, 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. All reportable operating segments follow the same accounting principles.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries (“Ducommun,” the “Company,” “we,” “us” or “our”), after eliminating intercompany balances and transactions. The December 31, 2020 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, 2020. The financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2020.

In the opinion of management, all adjustments, consisting of recurring accruals, have been made that are necessary to fairly state our condensed consolidated financial position, statements of income, comprehensive income, changes in shareholders’ equity, and cash flows in accordance with GAAP for the periods covered by this Quarterly Report on Form 10-Q. The results of operations for the three months ended April 3, 2021 are not necessarily indicative of the results to be expected for the full year ending December 31, 2021.

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.

Supplemental Cash Flow Information

	(Dollars in thousands)	
	Three Months Ended	
	April 3, 2021	March 28, 2020
Interest paid	\$ 2,544	\$ 3,523
Taxes (refunded) paid, net	\$ (30)	\$ 33
Non-cash activities:		
Purchases of property and equipment not paid	\$ 540	\$ 464



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	
	April 3, 2021	March 28, 2020
Net income	\$ 6,695	\$ 7,930
Weighted-average number of common shares outstanding		
Basic weighted-average common shares outstanding	11,791	11,610
Dilutive potential common shares	459	245
Diluted weighted-average common shares outstanding	12,250	11,855
Earnings per share		
Basic	\$ 0.57	\$ 0.68
Diluted	\$ 0.55	\$ 0.67

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	
	April 3, 2021	March 28, 2020
Stock options and stock units	3	253

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.

We have money market funds and they are included as cash and cash equivalents. We also had interest rate cap hedge agreements for which the fair value of the interest rate cap hedge agreements was determined using pricing models that use observable market inputs as of the balance sheet date, a Level 2 measurement, however, those agreements expired during our second quarter of 2020.

There were no transfers between Level 1, Level 2, or Level 3 financial instruments in the three months ended April 3, 2021.

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, which 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. As of April 3, 2021, we had no derivative instruments as our cash flow hedges matured in the second quarter of 2020.

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 and the related revenue is recognized. 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 Loss

Accumulated other comprehensive loss, 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 Accounting Standards Codification 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. 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 meet 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 to satisfy another customer's order. 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 determine 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 are based on various assumptions to project the outcome of future events that can span multiple months or years. These assumptions include labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; 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. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate.

The impact of adjustments in contract estimates on our operating earnings can be reflected in either operating costs and expenses or revenue.

Net cumulative catch up adjustments on gross profit recorded were not material for both the three months ended April 3, 2021 and March 28, 2020.

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, a contract liability is created for the advance or progress payment.

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 April 3, 2021 and December 31, 2020, provision for estimated losses on contracts were \$2.0 million and \$2.3 million, respectively.

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 April 3, 2021 and December 31, 2020, production cost of contracts were \$7.2 million and \$7.0 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.

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

	(Dollars in thousands)	
	April 3, 2021	December 31, 2020
Contract assets	\$ 173,909	\$ 154,028
Contract liabilities	\$ 24,257	\$ 28,264

The increase in our contract assets as of April 3, 2021 compared to December 31, 2020 was primarily due to a net increase of products in work in process and finished goods in the current period.

The decrease in our contract liabilities as of April 3, 2021 compared to December 31, 2020 was primarily due to a net decrease of advance or progress payments received from our customers in the current period. We recognized \$7.2 million of the contract liabilities as of December 31, 2020 as revenues during the three months ended April 3, 2021.

Performance obligations are defined as customer placed purchase orders (“POs”) with firm fixed price and firm delivery dates. Our remaining performance obligations as of April 3, 2021 totaled \$690.3 million. We anticipate recognizing an estimated 70% of our remaining performance obligations as revenue during the next 12 months with the remaining performance obligations being recognized in the remainder of 2022 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) Three Months Ended	
	April 3 2021	March 28, 2020
<b><u>Consolidated Ducommun</u></b>		
Military and space	\$ 114,127	\$ 101,899
Commercial aerospace	35,377	60,582
Industrial	7,647	10,994
Total	<u>\$ 157,151</u>	<u>\$ 173,475</u>
<b><u>Electronic Systems</u></b>		
Military and space	\$ 81,733	\$ 74,317
Commercial aerospace	9,724	12,809
Industrial	7,647	10,994
Total	<u>\$ 99,104</u>	<u>\$ 98,120</u>
<b><u>Structural Systems</u></b>		
Military and space	\$ 32,394	\$ 27,582
Commercial aerospace	25,653	47,773
Total	<u>\$ 58,047</u>	<u>\$ 75,355</u>

Recent Accounting Pronouncements*New Accounting Guidance Adopted in 2021*

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements" ("ASU 2020-10"), which affect a wide variety of Topics in the Accounting Standards Codification ("Codification"). ASU 2020-10, among other things, contains amendments that improve the consistency of the Codification by including all disclosure guidance in the appropriate Disclosure Section (Section 50). Many of the amendments arose as the FASB provided an option to give certain information either on the face of the financial statements or in the notes to financial statements and that option only was included in the Other Presentation Matters Section (Section 45) of the Codification. Those amendments are not expected to change current practice. The new guidance is effective for fiscal years beginning after December 15, 2020, which was our interim period beginning January 1, 2021. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), which removes certain exceptions and provides guidance on various areas of tax accounting. The new guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, which was our interim period beginning January 1, 2021. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14"), which will remove disclosures that no longer are considered cost-beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The new guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, which was our interim period beginning January 1, 2021. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

*Recently Issued Accounting Standards*

In August 2020, the FASB issued ASU 2020-06, "Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) - Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" ("ASU 2020-06"), which simplifies reporting or provides clarification on various topics, including clarification that an entity should use the weighted-average share count from each quarter when calculating the year-to-date weighted-average share count. The new guidance is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2022. Early adoption is

permitted. We are evaluating the impact of this standard.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”), which provides optional guidance for a limited time for contracts that reference London Interbank Offered Rate (“LIBOR”), to ease the potential burden in accounting for, or recognizing the effects, of reference rate reform on financial reporting as a result of the cessation of LIBOR. The new guidance is effective at any time after March 12, 2020 but no later than December 31, 2022. We are evaluating the impact of this standard.

## Note 2. Inventories

Inventories consisted of the following:

	(Dollars in thousands)	
	April 3, 2021	December 31, 2020
Raw materials and supplies	\$ 121,756	\$ 107,983
Work in process	12,502	15,895
Finished goods	4,029	5,345
Total	\$ 138,287	\$ 129,223

## Note 3. Goodwill

We perform our annual goodwill impairment test as of the first day of the fourth quarter. If certain factors occur, including significant under performance of our business relative to expected operating results, significant adverse economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, a decision to divest individual businesses within a reporting unit, or a decision to group individual businesses differently, 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 is performed 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 significant management judgment in selecting comparable business acquisitions and the transaction values observed and its related control premiums.

For our most recent annual goodwill impairment test of our Electronic Systems reporting unit as of the first day of the fourth quarter of 2020, we used a qualitative assessment and determined it was not more likely than not that the fair value of the reporting unit was less than its carrying amount. For our most recent annual goodwill impairment test of our Structural Systems reporting unit as of the first day of the fourth quarter of 2020, we performed a step one goodwill impairment test where the fair value of our Structural Systems reporting unit exceeded its carrying value by 69% and thus, goodwill was not deemed to be impaired. While our business continues to be negatively impacted during the three months ended April 3, 2021 as a result of the COVID-19 pandemic, no material adverse factors/changes have occurred since the fourth quarter of 2020 that would require us to perform another qualitative assessment. As such, for the first quarter of 2021, 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.

The carrying amounts of our goodwill were as follows:

	(Dollars in thousands)		
	Electronic Systems	Structural Systems	Consolidated Ducommun
Gross goodwill	\$ 199,157	\$ 53,395	\$ 252,552
Accumulated goodwill impairment	(81,722)	—	(81,722)
Balance at December 31, 2020	\$ 117,435	\$ 53,395	\$ 170,830
Balance at April 3, 2021	\$ 117,435	\$ 53,395	\$ 170,830

#### Note 4. Accrued and Other Liabilities

The components of accrued and other liabilities were as follows:

	(Dollars in thousands)	
	April 3, 2021	December 31, 2020
Accrued compensation	\$ 15,386	\$ 28,432
Accrued income tax and sales tax	558	80
Other	12,489	12,014
Total	<u>\$ 28,433</u>	<u>\$ 40,526</u>

#### Note 5. Long-Term Debt

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

	(Dollars in thousands)	
	April 3, 2021	December 31, 2020
Term loans	\$ 292,962	\$ 295,638
Revolving credit facility	20,000	25,000
Total debt	<u>312,962</u>	<u>320,638</u>
Less current portion	<u>7,000</u>	<u>7,000</u>
Total long-term debt, less current portion	<u>305,962</u>	<u>313,638</u>
Less debt issuance costs - term loans	<u>1,618</u>	<u>1,716</u>
Total long-term debt, net of debt issuance costs - term loans	<u>\$ 304,344</u>	<u>\$ 311,922</u>
Debt issuance costs - revolving credit facility <sup>(1)</sup>	<u>\$ 1,421</u>	<u>\$ 1,515</u>
Weighted-average interest rate	3.16 %	3.59 %

(1) Included as part of other assets.

In December 2019, we completed the refinancing of a portion of our existing debt by entering into a new revolving credit facility (“2019 Revolving Credit Facility”) to replace the then existing revolving credit facility that was entered into in November 2018 (“2018 Revolving Credit Facility”) and entered into a new term loan (“2019 Term Loan”). The 2019 Revolving Credit Facility is a \$100.0 million senior secured revolving credit facility that matures on December 20, 2024 replacing the \$100.0 million 2018 Revolving Credit Facility that would have matured on November 21, 2023. The 2019 Term Loan is a \$140.0 million senior secured term loan that matures on December 20, 2024. We also have an existing \$240.0 million senior secured term loan that was entered into in November 2018 that matures on November 21, 2025 (“2018 Term Loan”). The original amounts available under the 2019 Revolving Credit Facility, 2019 Term Loan, and 2018 Term Loan (collectively, the “Credit Facilities”) in aggregate, totaled \$480.0 million.

The 2019 Term Loan bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as the London Interbank Offered Rate [“LIBOR”]) plus an applicable margin ranging from 1.50% to 2.50% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.50% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly. In addition, the 2019 Term Loan requires installment payments of 1.25% of the original outstanding principal balance of the 2019 Term Loan amount on a quarterly basis, on the last day of the calendar quarter. For the three months ended April 3, 2021, we made the required quarterly payment of \$1.8 million.

The 2019 Revolving Credit Facility bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR) plus an applicable margin ranging from 1.50% to 2.50% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.50% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly. The undrawn portion of the commitment of the 2019 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. However, the 2019 Revolving Credit Facility does not require any principal installment payments.

The 2018 Term Loan bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR plus an applicable margin ranging from 3.75% to 4.00% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from

3.75% to 4.00% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly. In addition, the 2018 Term Loan required installment payments of 0.25% of the outstanding principal balance of the 2018 Term Loan amount on a quarterly basis.

Further, under the Credit Facilities, if we exceed the annual excess cash flow threshold, we are required to make an annual additional principal payment based on the consolidated adjusted leverage ratio. The annual mandatory excess cash flow payment is based on (i) 50% of the excess cash flow amount if the adjusted leverage ratio is greater than 3.25 to 1.0, (ii) 25% of the excess cash flow amount if the adjusted leverage ratio is less than or equal to 3.25 to 1.0 but greater than 2.50 to 1.0, and (iii) zero percent of the excess cash flow amount if the consolidated adjusted leverage ratio is less than or equal to 2.50 to 1.0. During the three months ended April 3, 2021, we made the required 2020 annual excess cash flow payment of \$0.9 million. As of April 3, 2021, we were in compliance with all covenants required under the Credit Facilities.

During the three months ended April 3, 2021, we made net voluntary prepayments of \$5.0 million on the 2019 Revolving Credit Facility.

In conjunction with entering into the 2019 Revolving Credit Facility and the 2019 Term Loan, we drew down the entire \$140.0 million on the 2019 Term Loan and used those proceeds to pay off and close the 2018 Revolving Credit Facility of \$58.5 million, paid down a portion of the 2018 Term Loan of \$56.0 million, paid the accrued interest associated with the amounts being paid down on the 2018 Revolving Credit Facility and 2018 Term Loan, paid the fees related to this transaction, and the remainder available for general corporate purposes. The \$56.0 million pay down on the 2018 Term Loan paid all the required quarterly installment payments on the 2018 Term Loan until maturity.

The 2019 Term Loan and 2018 Term Loan were considered a modification of debt and thus, no gain or loss was recorded. Instead, the new fees paid to the lenders of \$0.6 million were capitalized and are being amortized over the life of the 2019 Term Loan. The remaining debt issuance costs related to the 2018 Term Loan of \$1.5 million as of the modification date will continue to be amortized over its remaining life.

The 2019 Revolving Credit Facility that replaced the 2018 Revolving Credit Facility was considered an extinguishment of debt except for the portion related to the creditors that were part of both the 2019 Revolving Credit Facility and the 2018 Revolving Credit Facility and in which case, it was considered a modification of debt. As a result, we expensed the portion of the unamortized debt issuance costs related to the 2018 Revolving Credit Facility that was considered an extinguishment of debt of \$0.5 million. In addition, the new fees paid to the lenders of \$0.5 million as part of the 2019 Revolving Credit Facility were capitalized and are being amortized over its remaining life. Further, the remaining debt issuance costs related to the 2018 Revolving Credit Facility of \$1.1 million as of the modification date will also be amortized over its remaining life.

As of April 3, 2021, we had \$79.8 million of unused borrowing capacity under the 2019 Revolving Credit Facility, after deducting \$0.2 million for standby letters of credit.

The 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 Credit Facilities. The Parent Company has no independent assets or operations and therefore, no consolidating financial information for the Parent Company and its subsidiaries are presented.

In October 2015, we entered into interest rate cap hedges designated as cash flow hedges with a portion of these interest rate cap hedges maturing on a quarterly basis, and a final quarterly maturity date of June 2020, in aggregate, totaling \$135.0 million of our debt. We paid a total of \$1.0 million in connection with entering into the interest rate cap hedges. The interest rate cap hedges matured during our second quarter of 2020 and as such, all remaining amounts related to the interest rate cap hedges were fully amortized and unrealized gains and losses recorded in accumulated other comprehensive income were also realized at that time.

#### **Note 6. Indemnifications**

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

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

## **Note 7. 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 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 \$1.1 million for the three months ended April 3, 2021 compared to \$1.5 million for the three months ended March 28, 2020. The decrease in income tax expense for the first quarter of 2021 compared to the first quarter of 2020 was primarily due to lower pre-tax income for the first quarter of 2021 compared to the first quarter of 2020 and higher discrete tax benefits recognized in the first quarter of 2021 for net tax windfalls related to stock-based compensation.

We evaluated the amendments in ASU 2019-12 for the three months ended April 3, 2021 and determined they do not have an impact on our income taxes.

On March 11, 2021, the U.S. enacted the American Rescue Plan Act of 2021 (“Rescue Plan”) aimed at mitigating the continuing effects of the COVID-19 pandemic. We considered the provisions of the Rescue Plan and determined they do not have a material impact on our income taxes.

Our total amount of unrecognized tax benefits was \$4.1 million as of both April 3, 2021 and December 31, 2020. If recognized, \$2.4 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 April 3, 2021 and December 31, 2020 were not significant. We do not expect the total amount of unrecognized tax benefits to increase or decrease by a material amount 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 2016 and by state taxing authorities for tax years after 2015. 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 authority 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 8. Commitments and Contingencies**

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 on January 28, 2021. The complaint alleges violations of California’s wage and hour laws relating to our current and former employees and seeks attorney’s fees and penalties. We believe these claims are baseless, are without merit and intend to vigorously defend against them. We do not currently have enough information to make a reasonable estimate as to the likelihood or amount of loss, or a range of reasonably possible losses as a result of this claim, so there has been no related accrual for estimated liability recorded as of April 3, 2021.

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 April 3, 2021 and December 31, 2020, which is reflected in other long-term liabilities on our condensed consolidated balance sheets.

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 at April 3, 2021, which is reflected in other long-term liabilities on our condensed consolidated balance sheets. 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, and the allocation of liability among potentially responsible parties.

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 is comprised of two buildings with an aggregate total of 62,000 square feet. The loss of production from the Guaymas performance center is being absorbed by our other existing performance centers. A neighboring, non-related manufacturing facility, also suffered fire damage during the same time as the fire that severely damaged our Guaymas performance center. The cause of the fire is still undetermined and as such, there is no amount of loss that is probable and reasonably estimable at this time.

Our insurance covers damage 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 will not be recorded until all contingencies related to our claim have been resolved. During the year ended December 31, 2020, \$0.8 million of revenue and \$0.5 million of related cost of sales were reversed for revenue previously recognized using the over time method as the revenue recognition process for these items were deemed to be interrupted as a result of these inventory items being damaged. Also during the year ended December 31, 2020, we wrote off property and equipment and tooling with an aggregate total net book value of \$7.1 million and inventory on hand of \$3.4 million that were damaged by the fire. The related anticipated insurance recoveries were also presented within the same financial statement line item in the condensed consolidated statements of income resulting in no net impact, with the anticipated insurance recoveries receivable included as part of other current assets on the condensed consolidated balance sheets. As of April 3, 2021, \$13.5 million of general insurance recoveries have been received to date. The timing of and the remaining amounts of insurance recoveries, including for business interruption, are not known at this time.

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 9. 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	
	April 3, 2021	March 28, 2020
<b>Net Revenues</b>		
Electronic Systems	\$ 99,104	\$ 98,120
Structural Systems	58,047	75,355
Total Net Revenues	<u>\$ 157,151</u>	<u>\$ 173,475</u>
<b>Segment Operating Income</b>		
Electronic Systems	\$ 12,491	\$ 15,122
Structural Systems	5,128	5,390
	17,619	20,512
Corporate General and Administrative Expenses <sup>(1)</sup>	(7,009)	(6,886)
Operating Income	<u>\$ 10,610</u>	<u>\$ 13,626</u>
<b>Depreciation and Amortization Expenses</b>		
Electronic Systems	\$ 3,423	\$ 3,575
Structural Systems	3,440	3,689
Corporate Administration	59	72
Total Depreciation and Amortization Expenses	<u>\$ 6,922</u>	<u>\$ 7,336</u>
<b>Capital Expenditures</b>		
Electronic Systems	\$ 624	\$ 815
Structural Systems	1,989	2,137
Corporate Administration	—	—
Total Capital Expenditures	<u>\$ 2,613</u>	<u>\$ 2,952</u>

(1) 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)	
	April 3, 2021	December 31, 2020
<b>Total Assets</b>		
Electronic Systems	\$ 469,323	\$ 448,606
Structural Systems	333,084	325,604
Corporate Administration <sup>(1)</sup>	23,457	63,137
Total Assets	<u>\$ 825,864</u>	<u>\$ 837,347</u>
<b>Goodwill and Intangibles</b>		
Electronic Systems	\$ 198,755	\$ 201,077
Structural Systems	93,581	94,497
Total Goodwill and Intangibles	<u>\$ 292,336</u>	<u>\$ 295,574</u>

(1) 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.

### COVID-19 Pandemic Impact on Our Business

The COVID-19 pandemic has had a significant impact on our overall business during the three months ended April 3, 2021. As a result of the COVID-19 pandemic, precautionary measures were instituted by governments and businesses to mitigate its spread, including the imposition of travel restrictions, quarantines, shelter in place directives, and shutting down of non-essential businesses.

The safety of our workforce is our top priority. We have implemented numerous well-being protocols related to health and welfare at all of our facilities. Safety protocols consistent with guidelines provided by state and local governments and the Centers for Disease Control and Prevention (“CDC”) have been put into practice, including social distancing, provision of personal protective equipment, enhanced cleaning, and flexible work arrangements wherever possible. We have also offered enhanced leave and benefits to our employees and provide frequent updates to ensure our workforce is kept apprised of evolving regulations and safety measures.

In March 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) which provides tax relief to individuals and businesses affected by the coronavirus pandemic. We have not requested or accepted any loans or payments that are available under the CARES Act, however, we have utilized the option to defer payment of the employer portion of payroll taxes (Social Security) that would otherwise be required to be made during the period beginning March 27, 2020 to December 31, 2020. One half of the deferred amount is required to be paid by December 31, 2021, with the remaining 50% to be paid by December 31, 2022. As of April 3, 2021, we have deferred \$6.1 million, which is included as part of accrued liabilities and other long-term liabilities on the condensed consolidated balance sheets.

The COVID-19 pandemic has and continues to contribute to a general slowdown in the global economy and specifically, the commercial aerospace end-use market. In 2020, both major large aircraft manufacturers, The Boeing Company and Airbus SE, announced lower build rates for the near and medium future. In its 2020 Annual Report on Form 10-K, Boeing indicated it expects it will take approximately three years for worldwide travel to return to 2019 levels and a few years beyond that for the industry to return to a long-term trend growth of five percent. While the full extent and impact of the COVID-19 pandemic cannot be reasonably estimated with certainty at this time, COVID-19 has had a significant impact on our business, the businesses of our customers and suppliers, as well as our results of operations and financial condition, and may have a material adverse impact on our business, results of operations and financial condition for the remainder of 2021 and beyond.

### First quarter 2021 recap:

- Revenues of \$157.2 million
- Net income of \$6.7 million, or \$0.55 per diluted share
- Adjusted EBITDA of \$21.1 million, or 13.5% of revenues

### Non-GAAP Financial Measures

Adjusted earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, and Guaymas fire related expenses (“Adjusted EBITDA”) was \$21.1 million and \$23.2 million for the three months ended April 3, 2021 and March 28, 2020, respectively.

When viewed with our financial results prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and accompanying reconciliations, we believe Adjusted EBITDA provides additional useful information to clarify and enhance the understanding of the factors and trends affecting our past performance and future prospects. We define 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.

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

However, in spite of the above limitations, we believe that Adjusted EBITDA is useful to an investor in evaluating our results of operations because 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; and
- Guaymas fire related expenses may be useful to our investors in evaluating 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) Three Months Ended	
	April 3, 2021	March 28, 2020
Net income	\$ 6,695	\$ 7,930
Interest expense	2,806	4,246
Income tax expense	1,109	1,450
Depreciation	3,423	3,436
Amortization	3,499	3,900
Stock-based compensation expense	3,133	2,279
Guaymas fire related expenses	475	—
Adjusted EBITDA	\$ 21,140	\$ 23,241
% of net revenues	13.5 %	13.4 %

**Results of Operations****First Quarter of 2021 Compared to First Quarter of 2020**

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			
	April 3, 2021	% of Net Revenues	March 28, 2020	% of Net Revenues
Net Revenues	\$ 157,151	100.0 %	\$ 173,475	100.0 %
Cost of Sales	124,051	78.9 %	136,671	78.8 %
Gross Profit	33,100	21.1 %	36,804	21.2 %
Selling, General and Administrative Expenses	22,490	14.3 %	23,178	13.4 %
Operating Income	10,610	6.8 %	13,626	7.8 %
Interest Expense	(2,806)	(1.8)%	(4,246)	(2.4)%
Income Before Taxes	7,804	5.0 %	9,380	5.4 %
Income Tax Expense	1,109	nm	1,450	nm
Net Income	<u>\$ 6,695</u>	4.3 %	<u>\$ 7,930</u>	4.6 %
Effective Tax Rate	14.2 %	nm	15.5 %	nm
Diluted Earnings Per Share	\$ 0.55	nm	\$ 0.67	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 months ended April 3, 2021 and March 28, 2020, respectively, were as follows:

	Change	Three Months Ended		% of Net Revenues	
		(Dollars in thousands)		April 3, 2021	March 28, 2020
		April 3, 2021	March 28, 2020	April 3, 2021	March 28, 2020
<b>Consolidated Ducommun</b>					
Military and space	\$ 12,228	\$ 114,127	\$ 101,899	72.6 %	58.7 %
Commercial aerospace	(25,205)	35,377	60,582	22.5 %	34.9 %
Industrial	(3,347)	7,647	10,994	4.9 %	6.4 %
Total	\$ (16,324)	\$ 157,151	\$ 173,475	100.0 %	100.0 %
<b>Electronic Systems</b>					
Military and space	\$ 7,416	\$ 81,733	\$ 74,317	82.5 %	75.7 %
Commercial aerospace	(3,085)	9,724	12,809	9.8 %	13.1 %
Industrial	(3,347)	7,647	10,994	7.7 %	11.2 %
Total	\$ 984	\$ 99,104	\$ 98,120	100.0 %	100.0 %
<b>Structural Systems</b>					
Military and space	\$ 4,812	\$ 32,394	\$ 27,582	55.8 %	36.6 %
Commercial aerospace	(22,120)	25,653	47,773	44.2 %	63.4 %
Total	\$ (17,308)	\$ 58,047	\$ 75,355	100.0 %	100.0 %

Net revenues for the three months ended April 3, 2021 were \$157.2 million, compared to \$173.5 million for the three months ended March 28, 2020. The year-over-year decrease was primarily due to the following:

- \$25.2 million lower revenues in our commercial aerospace end-use markets due to lower build rates on large aircraft platforms and regional and business aircraft platforms; partially offset by
- \$12.2 million higher revenues in our military and space end-use markets due to higher build rates on military fixed-wing aircraft platforms and other military and space platforms.

### Net Revenues by Major Customers

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

	Three Months Ended	
	April 3, 2021	March 28, 2020
Boeing Company	7.4 %	8.4 %
Lockheed Martin Corporation	5.3 %	4.1 %
Northrop Grumman Corporation	6.1 %	5.6 %
Raytheon Technologies Corporation	22.7 %	18.4 %
Spirit AeroSystems Holdings, Inc.	2.7 %	5.6 %
Total top ten customers <sup>(1)</sup>	58.5 %	56.7 %

(1) Includes The Boeing Company (“Boeing”), Lockheed Martin Corporation (“Lockheed”), Northrop Grumman Corporation (“Northrop”), Raytheon Technologies Corporation (“Raytheon”), and Spirit AeroSystems Holdings, Inc. (“Spirit”).

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

	April 3, 2021	December 31, 2020
Boeing	6.1 %	4.8 %
Lockheed	1.7 %	2.4 %
Northrop	9.7 %	12.3 %
Raytheon	12.6 %	15.0 %
Spirit	0.9 %	1.1 %

The net revenues and accounts receivable from Boeing, Lockheed, Northrop, Raytheon, and Spirit 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 was essentially flat year-over-year with the three months ended April 3, 2021 of 21.1%, compared to the three months ended March 28, 2020 of 21.2% primarily due to unfavorable manufacturing volume, partially offset by favorable product mix and lower compensation and benefit costs.

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

SG&A expenses decreased \$0.7 million year-over-year in the three months ended April 3, 2021 compared to the three months ended March 28, 2020 primarily due to lower professional services fees of \$0.4 million and lower compensation and benefit costs of \$0.3 million.

### Interest Expense

Interest expense decreased in the three months ended April 3, 2021 compared to the three months ended March 28, 2020 due to lower interest rates and a lower outstanding debt balance.

### Income Tax Expense

We recorded income tax expense of \$1.1 million for the three months ended April 3, 2021, compared to \$1.5 million for the three months ended March 28, 2020. The decrease in income tax expense for the first quarter of 2021 compared to the first quarter of 2020 was primarily due to lower pre-tax income for the first quarter of 2021 compared to the first quarter of 2020 and higher discrete tax benefits recognized in the first quarter of 2021 for net tax windfalls related to stock-based compensation.

We evaluated the amendments in ASU 2019-12 for the three months ended April 3, 2021 and determined they do not have an impact on our income taxes.

We considered the provisions of the Rescue Plan and determined they do not have a material impact on our income taxes.

Our total amount of unrecognized tax benefits was \$4.1 million as of both April 3, 2021 and December 31, 2020. If recognized, \$2.4 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 April 3, 2021 and December 31, 2020 were not significant. We do not expect the total amount of unrecognized tax benefits to increase or decrease by a material amount 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 2016 and by state taxing authorities for tax years after 2015. 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 authority 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 April 3, 2021 were \$6.7 million, or \$0.55 per diluted share, compared to \$7.9 million, or \$0.67 per diluted share, for the three months ended March 28, 2020. The decrease in net income for the three months ended April 3, 2021 compared to the three months ended March 28, 2020 was due to \$3.7 million of lower gross profit as a result of lower revenues, partially offset by lower interest expense of \$1.4 million.



## 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 months ended April 3, 2021 and March 28, 2020:

	Three Months Ended				
	% Change	(Dollars in thousands)		% of Net Revenues	
		April 3, 2021	March 28, 2020	April 3, 2021	March 28, 2020
<b>Net Revenues</b>					
Electronic Systems	1.0 %	\$ 99,104	\$ 98,120	63.1 %	56.6 %
Structural Systems	(23.0)%	58,047	75,355	36.9 %	43.4 %
Total Net Revenues	(9.4)%	\$ 157,151	\$ 173,475	100.0 %	100.0 %
<b>Segment Operating Income</b>					
Electronic Systems		\$ 12,491	\$ 15,122	12.6 %	15.4 %
Structural Systems		5,128	5,390	8.8 %	7.2 %
		17,619	20,512		
Corporate General and Administrative Expenses <sup>(1)</sup>		(7,009)	(6,886)	(4.5)%	(4.0)%
Total Operating Income		\$ 10,610	\$ 13,626	6.8 %	7.8 %
<b>Adjusted EBITDA</b>					
Electronic Systems					
Operating Income		\$ 12,491	\$ 15,122		
Depreciation and Amortization		3,423	3,575		
		15,914	18,697	16.1 %	19.1 %
Structural Systems					
Operating Income		5,128	5,390		
Depreciation and Amortization		3,440	3,689		
Guaymas fire related expenses		475	—		
		9,043	9,079	15.6 %	12.0 %
Corporate General and Administrative Expenses <sup>(1)</sup>					
Operating Loss		(7,009)	(6,886)		
Depreciation and Amortization		59	72		
Stock-Based Compensation Expense		3,133	2,279		
		(3,817)	(4,535)		
Adjusted EBITDA		\$ 21,140	\$ 23,241	13.5 %	13.4 %
<b>Capital Expenditures</b>					
Electronic Systems		\$ 624	\$ 815		
Structural Systems		1,989	2,137		
Corporate Administration		—	—		
Total Capital Expenditures		\$ 2,613	\$ 2,952		

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

### Electronic Systems

Electronic Systems net revenues in the three months ended April 3, 2021 compared to the three months ended March 28, 2020 increased \$1.0 million primarily due to the following:

- \$7.4 million higher revenues in our military and space end-use markets due to higher build rates on other military and space platforms; partially offset by
- \$3.1 million lower revenues in our commercial aerospace end-use markets due to lower build rates on large aircraft platforms, regional and business aircraft platforms, and other commercial aerospace platforms.

Electronic Systems segment operating income in the three months ended April 3, 2021 compared to the three months ended March 28, 2020 decreased \$2.6 million primarily due to unfavorable manufacturing volume and unfavorable product mix, partially offset by lower compensation and benefit costs.

### Structural Systems

Structural Systems net revenues in the three months ended April 3, 2021 compared to the three months ended March 28, 2020 decreased \$17.3 million due to the following:

- \$22.1 million lower revenues in our commercial aerospace end-use markets due to lower build rates on large aircraft platforms and regional and business aircraft platforms; partially offset by
- \$4.8 million higher revenues in our military and space end-use markets due to higher build rates on various missile platforms.

The Structural Systems segment operating income in the three months ended April 3, 2021 compared to the three months ended March 28, 2020 decreased \$0.3 million primarily due to unfavorable manufacturing volume, partially offset by favorable product mix and lower compensation and benefit costs.

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, inventory, and tooling in this leased facility were damaged. We have insurance coverage and expect the majority, if not all, of 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. Our Guaymas performance center is comprised of two buildings with an aggregate total of 62,000 square feet. The loss of production from the Guaymas performance center is being absorbed by our other existing performance centers. See Note 8 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 were essentially flat for the three months ended April 3, 2021 compared to the three months ended March 28, 2020.

**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 industrial end-use markets. \$555.0 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of April 3, 2021 and December 31, 2020:

	Change	(Dollars in thousands)	
		April 3, 2021	December 31, 2020
<b><u>Consolidated Ducommun</u></b>			
Military and space	\$ 1,028	\$ 516,424	\$ 515,396
Commercial aerospace	(1,926)	266,400	268,326
Industrial	3,290	27,309	24,019
Total	<u>\$ 2,392</u>	<u>\$ 810,133</u>	<u>\$ 807,741</u>
<b><u>Electronic Systems</u></b>			
Military and space	\$ (4,251)	\$ 385,626	\$ 389,877
Commercial aerospace	(2,620)	54,099	56,719
Industrial	3,290	27,309	24,019
Total	<u>\$ (3,581)</u>	<u>\$ 467,034</u>	<u>\$ 470,615</u>
<b><u>Structural Systems</u></b>			
Military and space	\$ 5,279	\$ 130,798	\$ 125,519
Commercial aerospace	694	212,301	211,607
Total	<u>\$ 5,973</u>	<u>\$ 343,099</u>	<u>\$ 337,126</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)			
	April 3, 2021		December 31, 2020	
Total debt, including long-term portion	\$	313.0	\$	320.6
Weighted-average interest rate on debt		3.16 %		3.59 %
Term Loans interest rate		3.23 %		3.81 %
Cash and cash equivalents	\$	17.0	\$	56.5
Unused Revolving Credit Facility	\$	79.8	\$	74.8

In December 2019, we completed the refinancing of a portion of our existing debt by entering into a new revolving credit facility (“2019 Revolving Credit Facility”) to replace the then existing revolving credit facility that was entered into in November 2018 (“2018 Revolving Credit Facility”) and entered into a new term loan (“2019 Term Loan”). The 2019 Revolving Credit Facility is a \$100.0 million senior secured revolving credit facility that will mature on December 20, 2024, replacing the \$100.0 million 2018 Revolving Credit Facility that would have matured on November 21, 2023. The 2019 Term Loan is a \$140.0 million senior secured term loan that will mature on December 20, 2024. We also have an existing \$240.0 million senior secured term loan that was entered into in November 2018 that will mature on November 21, 2025 (“2018 Term Loan”). The original amounts available under the 2019 Revolving Credit Facility, 2019 Term Loan, and 2018 Term Loan (collectively, the “Credit Facilities”) in aggregate, totaled \$480.0 million. We are required to make installment payments of 1.25% of the original outstanding principal balance of the 2019 Term Loan amount on a quarterly basis, on the last day of the calendar quarter. We made the mandatory quarterly principal prepayment under the 2019 Term Loan during the three months ended April 3, 2021 of \$1.8 million. In addition, if we meet the annual excess cash flow threshold, we are required to make an annual additional principal payment on the 2018 Term Loan based on the consolidated adjusted leverage ratio. During the first quarter of 2021, we made the required 2020 annual excess cash flow principal payment of \$0.9 million. Further, the undrawn portion of the commitment of the 2019 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. As of April 3, 2021, we were in compliance with all covenants required under the Credit Facilities. See Note 5 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

We drew down \$50.0 million on the 2019 Revolving Credit Facility during the first quarter of 2020 to hold as cash on hand, \$25.0 million of which was repaid during the fourth quarter of 2020. We made net voluntary prepayments of \$5.0 million on the 2019 Revolving Credit Facility during the first quarter of 2021.

In November 2018, we completed credit facilities to replace the then existing credit facilities. The November 2018 credit facilities consisted of the 2018 Term Loan and the 2018 Revolving Credit Facility (collectively, the “2018 Credit Facilities”). We were required to make installment payments of 0.25% of the outstanding principal balance of the 2018 Term Loan amount on a quarterly basis, however, in conjunction with the 2019 refinancing where we paid down \$56.0 million on the 2018 Term Loan, it paid all the required quarterly installment payments on the 2018 Term Loan until maturity.

In October 2015, we entered into interest rate cap hedges that were designated as cash flow hedges, which matured during our second quarter of 2020.

We expect to spend a total of \$16.0 million to \$18.0 million for capital expenditures in 2021 (excluding capital expenditures we will spend to restore the manufacturing capabilities related to our Guaymas performance center that was severely damaged by fire in June 2020), 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 a wider range 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. However, some portion of the expected capital expenditures in 2021 could be delayed as a result of the COVID-19 pandemic.

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

We continue to depend on operating cash flow and the availability of our Credit 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 used in operating activities for the three months ended April 3, 2021 was \$23.4 million, compared to \$12.0 million for the three months ended March 28, 2020. The higher cash used in operating activities during the first three months of 2021 was due to higher contract assets, lower accrued and other liabilities, and higher inventories, partially offset by higher accounts payable.

Net cash used in investing activities was \$4.5 million for the three months ended April 3, 2021, compared to \$3.7 million in the three months ended March 28, 2020. The higher net cash used during the first three months of 2021 compared to the prior year period was due to higher purchases of property and equipment.

Net cash used in financing activities was \$11.6 million for the three months ended April 3, 2021, compared to net cash provided by financing activities of \$41.7 million for the three months ended March 28, 2020. The higher net cash used in financing activities during the first three months of 2021 was mainly due to lower net draw downs on the 2019 Revolving Credit Facility, partially offset by lower repayments of term loans.

### **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 2020 Annual Report on Form 10-K. There have been no material changes in any of our critical accounting policies during the three months ended April 3, 2021.

### **Recent Accounting Pronouncements**

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

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

Our main market risk exposure relates to changes in U.S. and U.K. interest rates on our outstanding long-term debt. At April 3, 2021, we had total borrowings of \$313.0 million under our Credit Facilities.

The 2019 Term Loan bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as the London Interbank Offered Rate [“LIBOR”]) plus an applicable margin ranging from 1.50% to 2.50% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.50% per year, in each case based upon the consolidated total net adjusted leverage ratio.

The 2019 Revolving Credit Facility bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR) plus an applicable margin ranging from 1.50% to 2.50% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.50% per year, in each case based upon the consolidated total net adjusted leverage ratio.

The 2018 Term Loan bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR plus an applicable margin ranging from 3.75% to 4.00% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 3.75% to 4.00% 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), and concluded that such disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended April 3, 2021 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 8 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, 2020 for a discussion of our risk factors. There have been no material changes during the three months ended April 3, 2021 to the risk factors disclosed in our Form 10-K for the year ended December 31, 2020.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 6. Exhibits**

- [2.1 Agreement and Plan of Merger, dated as of September 11, 2017, among Ducommun LaBarge Technologies, Inc., LS Holdings Company LLC, and DLS Company LLC. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 11, 2017.](#)
- [2.2 Agreement and Plan of Merger, dated as of October 8, 2019, among Ducommun LaBarge Technologies, Inc., DLT Acquisition, Inc., Nobles Parent Inc., and the Stockholder Representative. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on October 9, 2019.](#)
- 3.1 Restated Certificate of Incorporation filed with the Delaware Secretary of State on May 29, 1990. Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 1990.
- [3.2 Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on May 27, 1998. Incorporated by reference to Exhibit 3.2 to Form 10-K for the year ended December 31, 1998.](#)
- [3.3 Bylaws as amended and restated on March 19, 2013. Incorporated by reference to Exhibit 99.1 to Form 8-K dated March 22, 2013.](#)
- [3.4 Amendment to Bylaws dated January 5, 2017. Incorporated by reference to Exhibit 99.2 to Form 8-K dated January 9, 2017.](#)
- [3.5 Amendment to Bylaws dated February 21, 2018. Incorporated by reference to Exhibit 3.1 to Form 8-K dated February 26, 2018.](#)
- [3.6 Amendment to Bylaws dated March 5, 2021. Incorporated by reference to Exhibit 3.1 to Form 8-K dated March 8, 2021.](#)
- [4.1 Description of Ducommun Incorporated Securities Registered under Section 12 of the Exchange Act. Incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 2019.](#)
- [10.1 Incremental Term Loan Lender Joinder Agreement and Additional Credit Extension Amendment, dated as of December 20, 2019, by and among Ducommun Incorporated, as Borrower, the subsidiaries of the Borrower party thereto, as Guarantors, Bank of America, N.A., as Administrative Agent, Swingline Lender and an L.C. Issuer, and the lender party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 20, 2019.](#)
- [10.2 Credit Agreement, dated as of November 21, 2018, among Ducommun Incorporated, certain of its subsidiaries, Bank of America, N.A., as administrative agent, swingline lender and issuing bank, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 26, 2018.](#)
- [\\*10.3 2013 Stock Incentive Plan \(Amended and Restated May 2, 2018\). Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 23, 2018.](#)
- [\\*10.4 2020 Employee Stock Incentive Plan. Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 20, 2020.](#)
- [\\*10.5 2018 Employee Stock Purchase Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 23, 2018.](#)
- [\\*10.6 2020 Employee Stock Purchase Plan. Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 20, 2020.](#)
- [\\*10.7 Form of Stock Option Agreement for 2016 and earlier. Incorporated by reference to Exhibit 10.8 to Form 10-K for the year ended December 31, 2003.](#)
- [\\*10.8 Form of Stock Option Agreement for 2017. Incorporated by reference to Exhibit 10.5 to Form 10-K for the year ended December 31, 2016.](#)
- [\\*10.9 Form of Stock Option Agreement for 2018 and after. Incorporated by reference to Exhibit 4.7 to Form S-8, filed on May 10, 2018.](#)
- [\\*10.10 Form of Restricted Stock Unit Agreement for 2017 through 2019. Incorporated by reference to Exhibit 10.9 to Form 10-K for the year ended December 31, 2016.](#)
- [\\*10.11 Performance Restricted Stock Unit Agreement dated January 23, 2017 between Ducommun Incorporated and Stephen G. Oswald. Incorporated by reference to Exhibit 10.11 to Form 10-K for the year ended December 31, 2016.](#)
- [\\*10.12 Form of Performance Stock Unit Agreement for 2020 and after. Incorporated by reference to Exhibit 10.18 to Form 10-Q for the period ended June 27, 2020.](#)
- [\\*10.13 Form of Restricted Stock Unit Agreement for Non-Qualified Deferred Compensation Plan Participants for 2020 and after. Incorporated by reference to Exhibit 10.19 to Form 10-Q for the period ended June 27, 2020.](#)

**Exhibit**

**No. Description**

[\\*10.14 Form of Restricted Stock Unit Agreement for 2020 and after. Incorporated by reference to Exhibit 10.20 to Form 10-Q for the period ended June 27, 2020.](#)

[\\*10.15 Form of Stock Option Agreement for 2020 and after. Incorporated by reference to Exhibit 10.21 to Form 10-Q for the period ended June 27, 2020.](#)

[\\*10.16 Form of Performance Restricted Stock Unit Agreement for 2020. Incorporated by reference to Exhibit 10.22 to Form 10-Q for the period ended June 27, 2020.](#)

\*10.17 Form of Indemnity Agreement entered with all directors and officers of Ducommun. Incorporated by reference to Exhibit 10.8 to Form 10-K for the year ended December 31, 1990. All of the Indemnity Agreements are identical except for the name of the director or officer and the date of the Agreement:

<u>Director/Officer</u>	<u>Date of Agreement</u>
Richard A. Baldrige	March 19, 2013
Shirley G. Drazba	October 18, 2018
Robert C. Ducommun	December 31, 1985
Dean M. Flatt	November 5, 2009
Jay L. Haberland	February 2, 2009
Stephen G. Oswald	January 23, 2017
Jerry L. Redondo	October 1, 2015
Rosalie F. Rogers	July 24, 2008
Rajiv A. Tata	January 24, 2020
Christopher D. Wampler	January 1, 2016

[\\*10.18 Directors' Deferred Compensation and Retirement Plan, as amended and restated February 2, 2010. Incorporated by reference to Exhibit 10.15 to Form 10-K for the year ended December 31, 2009.](#)

[\\*10.19 Non Qualified Deferred Compensation. Incorporated by reference to Exhibit 4.6 to Form S-8 dated November 26, 2019.](#)

[\\*10.20 Key Executive Severance Agreement between Ducommun Incorporated and Stephen G. Oswald dated January 23, 2017. Incorporated by reference to Exhibit 99.1 to Form 8-K dated January 27, 2017.](#)

[\\*10.21 Form of Key Executive Severance Agreement between Ducommun Incorporated and each of the individuals listed below. Incorporated by reference to Exhibit 99.2 to Form 8-K dated January 27, 2017. All of the Key Executive Severance Agreements are identical except for the name of the person, the address for notice, and the date of the Agreement:](#)

<u>Person</u>	<u>Date of Agreement</u>
Jerry L. Redondo	January 23, 2017
Rosalie F. Rogers	January 23, 2017
Rajiv A. Tata	January 24, 2020
Christopher D. Wampler	January 23, 2017

[\\*10.22 Employment Letter Agreement dated January 3, 2017 between Ducommun Incorporated and Stephen G. Oswald. Incorporated by reference to Exhibit 99.1 to Form 8-K dated January 9, 2017.](#)

[\\*10.23 Employment Letter Agreement dated December 19, 2016 between Ducommun Incorporated and Amy M. Paul. Incorporated by reference to Exhibit 10.19 to Form 10-K for the year ended December 31, 2016.](#)

[\\*10.24 Transition Services Letter Agreement dated January 10, 2017 between Ducommun Incorporated and James S. Heiser. Incorporated by reference to Exhibit 99.1 to Form 8-K filed on January 17, 2017.](#)

[\\*10.25 Separation and Release Agreement dated May 14, 2018 between Ducommun Incorporated and Amy M. Paul. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 23, 2018.](#)

[\\*10.26 Separation and Release Agreement dated June 26, 2019 between Ducommun Incorporated and Douglas L. Groves. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 28, 2019.](#)

**Exhibit**

**No.   Description**

[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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL

101.SCH    Inline XBRL Taxonomy Extension Schema

101.CAL    Inline XBRL Taxonomy Extension Calculation Linkbase

101.DEF    Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB    Inline XBRL Taxonomy Extension Label Linkbase

101.PRE    Inline XBRL Taxonomy Extension Presentation Linkbase

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

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\* Indicates an executive compensation plan or arrangement.



SIGNATURES

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

Date: May 4, 2021

By: /s/ Stephen G. Oswald  
Stephen G. Oswald  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 4, 2021

By: /s/ Christopher D. Wampler  
Christopher D. Wampler  
Vice President, Chief Financial Officer, Controller and Treasurer  
(Principal Financial and Principal Accounting Officer)

**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 April 3, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f), and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 4, 2021

/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, Christopher D. Wampler, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the “registrant”) on Form 10-Q for the period ended April 3, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 4, 2021

/s/ Christopher D. Wampler

Christopher D. Wampler

Vice President, Chief Financial Officer, Controller and Treasurer

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

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending April 3, 2021, 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

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Stephen G. Oswald  
Chairman, President and Chief Executive Officer  
May 4, 2021

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending April 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher D. Wampler, Vice President, Chief Financial Officer, Controller and Treasurer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

By: /s/ Christopher D. Wampler

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Christopher D. Wampler  
Vice President, Chief Financial Officer, Controller and Treasurer  
May 4, 2021

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.