

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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from _____ to _____

Commission File Number 001-08174

DUCOMMUN INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

200 Sandpointe Avenue, Suite 700, Santa Ana, California
(Address of principal executive offices)

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

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 October 25, 2023, the registrant had 14,596,379 shares of common stock outstanding.

DUCOMMUN INCORPORATED AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This Quarterly Report on Form 10-Q (“Form 10-Q”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be preceded by, followed by or include words such as “could,” “may,” “believe,” “expect,” “anticipate,” “plan,” “estimate,” “expect,” “would,” or similar expressions. These statements are based on the beliefs and assumptions of our management at the time such statements are made. Generally, forward-looking statements include information concerning our possible or assumed future actions, events or results of operations. Forward-looking statements specifically include, without limitation, the information in this Form 10-Q regarding: future sales, earnings, cash flow, revenue recognition, uses of cash and other measures of financial performance, projections or expectations for future operations, including costs to complete contracts, goodwill impairment evaluations, useful life of intangible assets, unrecognized tax benefits and effective tax rate, environmental remediation costs, insurance recoveries, industry trends and expectations, including ramp up times for build rates, our plans with respect to restructuring activities, capital expenditures, completed acquisitions, future acquisitions and dispositions and expected business opportunities that may be available to us.

Although we believe that the expectations reflected in the forward-looking statements are based on reasonable assumptions, these forward-looking statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. We cannot guarantee future results, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. All written and oral forward-looking statements made in connection with this Form 10-Q that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the “Risk Factors” contained within Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 (“Form 10-K”).

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

- our ability to manage and otherwise comply with our covenants with respect to our outstanding indebtedness;
- our ability to service our indebtedness;
- our acquisitions, business combinations, joint ventures, divestitures, or restructuring activities may entail certain operational and financial risks;
- the cyclical nature of our end-use markets and the level of new commercial and military aircraft orders;
- industry and customer concentration;
- production rates for various commercial and military aircraft programs;
- the level of U.S. Government defense spending;
- compliance with applicable regulatory requirements and changes in regulatory requirements, including regulatory requirements such as Cybersecurity Maturity Model Certification (“CMMC”), applicable to government contracts and sub-contracts;
- further consolidation of customers and suppliers in our markets;
- product performance and delivery;
- start-up costs, manufacturing inefficiencies and possible overruns on contracts;
- increased design, product development, manufacturing, supply chain and other risks and uncertainties associated with our growth strategy to become a supplier of higher-level assemblies;
- our ability to manage the risks associated with international operations and sales;
- economic and geopolitical developments and conditions, including supply chain issues and rising interest rates;
- environmental, social, and governance (“ESG”) developments and related impact;
- pandemics, such as the COVID-19 pandemic, significantly impacting the global economy and most significantly, the commercial aerospace end-use market;
- disasters, natural or otherwise, damaging or disrupting our operations;

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- unfavorable developments in the global credit markets;
- our ability to operate within highly competitive markets;
- technology changes and evolving industry and regulatory standards;
- possible goodwill and other asset impairments;
- the risk of environmental liabilities;
- the risk of cyber security attacks or not being able to detect such attacks; and
- litigation with respect to us.

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

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

Ducommun Incorporated and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

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

	September 30, 2023	December 31, 2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 27,195	\$ 46,246
Accounts receivable, net of allowance for credit losses of \$1,312 and \$589 at September 30, 2023 and December 31, 2022, respectively	104,551	103,958
Contract assets	191,151	191,290
Inventories	215,189	171,211
Production cost of contracts	5,861	5,693
Other current assets	12,770	8,938
Total Current Assets	556,717	527,336
Property and Equipment, Net of Accumulated Depreciation of \$179,723 and \$171,507 at September 30, 2023 and December 31, 2022, respectively	111,894	106,225
Operating Lease Right-of-Use Assets	31,827	34,632
Goodwill	244,600	203,407
Intangibles, Net	170,665	127,201
Other Assets	26,648	22,705
Total Assets	\$ 1,142,351	\$ 1,021,506
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 78,455	\$ 90,143
Contract liabilities	51,477	47,068
Accrued and other liabilities	45,920	48,820
Operating lease liabilities	8,001	7,155
Current portion of long-term debt	6,250	6,250
Total Current Liabilities	190,103	199,436
Long-Term Debt, Less Current Portion	264,992	240,595
Non-Current Operating Lease Liabilities	24,836	28,841
Deferred Income Taxes	10,624	13,953
Other Long-Term Liabilities	16,394	12,721
Total Liabilities	506,949	495,546
Commitments and Contingencies (Notes 9, 11)		
Shareholders' Equity		
Common Stock - \$0.01 par value; 35,000,000 shares authorized; 14,596,379 and 12,106,285 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	146	121
Additional Paid-In Capital	204,993	112,042
Retained Earnings	416,870	406,052
Accumulated Other Comprehensive Income	13,393	7,745
Total Shareholders' Equity	635,402	525,960
Total Liabilities and Shareholders' Equity	\$ 1,142,351	\$ 1,021,506

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net Revenues	\$ 196,250	\$ 186,590	\$ 564,761	\$ 524,269
Cost of Sales	151,648	148,003	443,270	418,565
Gross Profit	44,602	38,587	121,491	105,704
Selling, General and Administrative Expenses	32,182	24,803	88,755	72,340
Restructuring Charges	3,811	567	12,750	3,270
Operating Income	8,609	13,217	19,986	30,094
Interest Expense	(5,370)	(2,998)	(15,324)	(8,056)
Loss on Extinguishment of Debt	—	(295)	—	(295)
Other Income	—	—	7,945	3,000
Income Before Taxes	3,239	9,924	12,607	24,743
Income Tax Expense	26	1,462	1,789	4,035
Net Income	\$ 3,213	\$ 8,462	\$ 10,818	\$ 20,708
Earnings Per Share				
Basic earnings per share	\$ 0.22	\$ 0.70	\$ 0.81	\$ 1.72
Diluted earnings per share	\$ 0.22	\$ 0.69	\$ 0.79	\$ 1.68
Weighted-Average Number of Common Shares Outstanding				
Basic	14,625	12,112	13,408	12,057
Diluted	14,814	12,350	13,661	12,346

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net Income	\$ 3,213	\$ 8,462	\$ 10,818	\$ 20,708
Other Comprehensive Income, Net of Tax:				
Amortization of actuarial losses and prior service costs, net of tax of \$13 and \$36 for the three months ended September 30, 2023 and October 1, 2022, respectively and \$40 and \$107 for the nine months ended September 30, 2023 and October 1, 2022, respectively	42	111	125	332
Change in net unrealized gains and losses on cash flow hedges, net of tax of \$1,413 and \$17 for the three months ended September 30, 2023 and October 1, 2022, respectively and \$1,719 and \$2,269 for the nine months ended September 30, 2023 and October 1, 2022, respectively	4,537	(55)	5,523	7,371
Other Comprehensive Income, Net of Tax	4,579	56	5,648	7,703
Comprehensive Income	<u>\$ 7,792</u>	<u>\$ 8,518</u>	<u>\$ 16,466</u>	<u>\$ 28,411</u>

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2021	11,925,087	\$ 119	\$ 104,253	\$ 377,263	\$ (7,033)	\$ 474,602
Net income	—	—	—	12,246	—	12,246
Other comprehensive income, net of tax	—	—	—	—	7,647	7,647
Employee stock purchase plan	31,686	—	1,386	—	—	1,386
Stock options exercised	81,212	1	2,473	—	—	2,474
Stock awards vested	160,349	2	(2)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(130,466)	(1)	(6,453)	—	—	(6,454)
Stock-based compensation	—	—	4,644	—	—	4,644
Balance at July 2, 2022	12,067,868	121	106,301	389,509	614	496,545
Net income	—	—	—	8,462	—	8,462
Other comprehensive income, net of tax	—	—	—	—	56	56
Employee stock purchase plan	28,007	—	1,119	—	—	1,119
Stock options exercised	16,551	—	613	—	—	613
Stock awards vested	775	—	—	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(10,893)	—	(518)	—	—	(518)
Stock-based compensation	—	—	2,510	—	—	2,510
Balance at October 1, 2022	12,102,308	\$ 121	\$ 110,025	\$ 397,971	\$ 670	\$ 508,787
Balance at December 31, 2022	12,106,285	\$ 121	\$ 112,042	\$ 406,052	\$ 7,745	\$ 525,960
Net income	—	—	—	7,605	—	7,605
Other comprehensive income, net of tax	—	—	—	—	1,069	1,069
Issuance of common stock in public offering, net of issuance costs	2,300,000	23	85,084	—	—	85,107
Employee stock purchase plan	26,833	—	1,307	—	—	1,307
Stock options exercised	27,332	—	807	—	—	807
Stock awards vested	228,063	3	(3)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(118,924)	(1)	(6,621)	—	—	(6,622)
Stock-based compensation	—	—	6,910	—	—	6,910
Balance at July 1, 2023	14,569,589	146	199,526	413,657	8,814	622,143
Net income	—	—	—	3,213	—	3,213
Other comprehensive income, net of tax	—	—	—	—	4,579	4,579
Employee stock purchase plan	25,378	—	1,314	—	—	1,314
Stock awards vested	2,360	—	—	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(948)	—	(53)	—	—	(53)
Stock-based compensation	—	—	4,206	—	—	4,206
Balance at September 30, 2023	14,596,379	\$ 146	\$ 204,993	\$ 416,870	\$ 13,393	\$ 635,402

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 30, 2023	October 1, 2022
Cash Flows from Operating Activities		
Net Income	\$ 10,818	\$ 20,708
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and amortization	24,421	23,335
Non-cash operating lease cost	5,982	5,184
Inventory write down and property and equipment impairment due to restructuring	819	1,018
Stock-based compensation expense	13,769	7,904
Deferred income taxes	(5,088)	(6,981)
Provision for (recovery of) credit losses	723	(483)
Noncash loss on extinguishment of debt	—	295
Recognition of insurance recoveries	(3,886)	—
Other	180	603
Changes in Assets and Liabilities:		
Accounts receivable	2,833	(21,584)
Contract assets	139	(18,091)
Inventories	(31,967)	(21,690)
Production cost of contracts	(861)	276
Other assets	(289)	(139)
Accounts payable	(12,381)	23,166
Contract liabilities	4,409	(8,020)
Operating lease liabilities	(5,740)	(4,700)
Accrued and other liabilities	690	(171)
Net Cash Provided by Operating Activities	4,571	630
Cash Flows from Investing Activities		
Purchases of property and equipment	(16,032)	(14,365)
Proceeds from sale of assets	404	51
Payments for acquisition of BLR Aerospace L.L.C., net of cash acquired	(114,378)	—
Post closing cash received from the acquisition of Magnetic Seal LLC, net	—	365
Net Cash Used in Investing Activities	(130,006)	(13,949)
Cash Flows from Financing Activities		
Borrowings from senior secured revolving credit facility	152,500	4,000
Repayments of senior secured revolving credit facility	(123,700)	(4,000)
Borrowings from term loans	—	250,000
Repayments of term loans	(4,688)	(287,712)
Repayments of other debt	(250)	(246)
Debt issuance costs	—	(2,511)
Proceeds from issuance of common stock in public offering, net of issuance costs	85,107	—
Net cash paid upon issuance of common stock under stock plans	(2,585)	(1,281)
Net Cash Provided by (Used in) Financing Activities	106,384	(41,750)
Net Decrease in Cash and Cash Equivalents	(19,051)	(55,069)
Cash and Cash Equivalents at Beginning of Period	46,246	76,316
Cash and Cash Equivalents at End of Period	\$ 27,195	\$ 21,247

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 PoliciesDescription of Business

We are a leading global provider of innovative, value-added proprietary products and manufacturing solutions for high-performance products and high-cost-of failure applications used primarily in the aerospace and defense (“A&D”), industrial, medical and other industries (collectively, “Industrial”). Our operations are organized into two primary businesses: the Electronic Systems segment (“Electronic Systems”) and the Structural Systems segment (“Structural Systems”), each of which is a reportable operating segment. Electronic Systems designs, engineers and manufactures high-reliability electronic and electromechanical products used in worldwide technology-driven markets including A&D and Industrial end-use markets. Electronic Systems’ product offerings primarily range from prototype development to complex assemblies. Structural Systems designs, engineers and manufactures large, complex contoured aerostructure components and assemblies and supplies composite and metal bonded structures and assemblies. Structural Systems’ products are primarily used on commercial aircraft, military fixed-wing aircraft, and military and commercial rotary-wing aircraft. Both reportable operating segments follow the same accounting principles.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries (“Ducommun,” the “Company,” “we,” “us” or “our”), after eliminating intercompany balances and transactions. The December 31, 2022 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, 2022 (“2022 Form 10-K”). The financial information included in this Quarterly Report on Form 10-Q (“Form 10-Q”) should be read in conjunction with the 2022 Form 10-K.

In the opinion of management, all adjustments, including recurring accruals, have been made that are necessary to fairly state our condensed consolidated financial position, statements of income, comprehensive income, changes in shareholders’ equity, and cash flows in accordance with GAAP for the periods covered by this Form 10-Q. The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for the full year ending December 31, 2023.

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)	
	Nine Months Ended	
	September 30, 2023	October 1, 2022
Interest paid	\$ 14,528	\$ 7,417
Taxes paid, net	\$ 10,322	\$ 2,286
Non-cash activities:		
Purchases of property and equipment not paid	\$ 958	\$ 1,828

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)		(Dollars in thousands, except per share data)	
	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net income	\$ 3,213	\$ 8,462	\$ 10,818	\$ 20,708
Weighted-average number of common shares outstanding				
Basic weighted-average common shares outstanding	14,625	12,112	13,408	12,057
Dilutive potential common shares	189	238	253	289
Diluted weighted-average common shares outstanding	14,814	12,350	13,661	12,346
Earnings per share				
Basic	\$ 0.22	\$ 0.70	\$ 0.81	\$ 1.72
Diluted	\$ 0.22	\$ 0.69	\$ 0.79	\$ 1.68

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)		(In thousands)	
	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Stock options and stock units	82	82	45	50

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

There were no transfers between Level 1, Level 2, or Level 3 financial instruments in the three months ended September 30, 2023.

Cash and Cash Equivalents

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

Derivative Instruments

We recognize derivative instruments on our condensed consolidated balance sheets at their fair value. On the date that we enter into a derivative contract, we designate the derivative instrument as a fair value hedge, a cash flow hedge, or a derivative instrument that will not be accounted for using hedge accounting methods. In November 2021, we entered into forward interest rate swap agreements with an aggregate notional amount of \$150.0 million, all with an effective date of January 1, 2024 (“Forward Interest Rate Swaps”) to manage our exposure to interest rate movements on a portion of our debt. As such, at the time we entered into the Forward Interest Rate Swaps, there was a high probability of forecasted interest payments on our debts occurring and the swaps were highly effective in offsetting those interest payments and therefore, we elected to apply cash flow hedge accounting. In July 2022, as a result of refinancing all our existing debt, which allowed borrowing based on a Secured Overnight Financing Rate (“SOFR”), we were required to complete an amendment of the Forward Interest Rate Swaps from One Month London Interbank Offered Rate (“LIBOR”) to One Month Term SOFR (“Amended Forward Interest Rate Swaps”), which occurred on the same day. After the transition of the Forward Interest Rate Swaps and debt to SOFR was completed, we determined the hedging relationship was still highly effective as of the amendment date. See Note 7. As of September 30, 2023, all of our derivative instruments were designated as cash flow hedges.

We record changes in the fair value of a derivative instrument that is highly effective and that is designated and qualifies as a cash flow hedge in other comprehensive income (loss), net of tax until our earnings are affected by the variability of cash flows of the underlying hedged item. We report changes in the fair values of derivative instruments that are not designated or do not qualify for hedge accounting in current period earnings. We classify cash flows from derivative instruments in the condensed consolidated statements of cash flows in the same category as the item being hedged or on a basis consistent with the nature of the instrument. Since the Amended Forward Interest Rate Swaps are not effective until January 1, 2024, we only record the changes in fair value of the derivative instruments that were highly effective and that were designated and qualified as cash flow hedges. As such, during the three months ended September 30, 2023 and October 1, 2022, we recorded the unrealized gain (loss) to other comprehensive income (loss) of \$4.5 million and \$(0.1) million, respectively, and the associated change to other current assets, other assets, and deferred income taxes. During the nine months ended September 30, 2023 and October 1, 2022, we recorded the unrealized gain (loss) to other comprehensive income (loss) of \$5.5 million and \$7.4 million, respectively, and the associated change to other current assets, other assets, and deferred income taxes.

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

Inventories

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

Accumulated Other Comprehensive Income

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

Revenue Recognition

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

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

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

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

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

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

Contract estimates 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 and nine months ended September 30, 2023 and October 1, 2022.

Payments under long-term contracts may be received before or after revenue is recognized. When revenue is recognized before we bill our customer, a contract asset is created for the work performed but not yet billed. Similarly, when we receive payment before we ship our products to our customer and have met the shipping terms, a contract liability is created for the advance or progress payment. When a contract liability and a contract asset exist on the same contract, we report it on a net basis.

We record provisions for the total anticipated losses on contracts, considering total estimated costs to complete the contract compared to total anticipated revenues, in the period in which such losses are identified. The provisions for estimated losses on contracts require us to make certain estimates and assumptions, including those with respect to the future revenue under a contract and the future cost to complete the contract. Our estimate of the future cost to complete a contract may include assumptions as to changes in manufacturing efficiency, operating and material costs, and our ability to resolve claims and assertions with our customers. If any of these or other assumptions and estimates do not materialize in the future, we may be required to adjust the provisions for estimated losses on contracts. The provision for estimated losses on contracts is included as part of contract liabilities on the condensed consolidated balance sheets. As of September 30, 2023 and December 31, 2022, provision for estimated losses on contracts were \$5.8 million and \$3.9 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 September 30, 2023 and December 31, 2022, production cost of contracts were \$5.9 million and \$5.7 million, respectively.

Contract Assets and Contract Liabilities

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

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

	(Dollars in thousands)	
	September 30, 2023	December 31, 2022
Contract assets	\$ 191,151	\$ 191,290
Contract liabilities	\$ 51,477	\$ 47,068

The decrease in our contract assets as of September 30, 2023 compared to December 31, 2022 was primarily due to a net decrease of products in work in process in the current period.

The increase in our contract liabilities as of September 30, 2023 compared to December 31, 2022 was primarily due to a net increase of advance or progress payments received from our customers in the current period. We recognized \$33.6 million of the contract liabilities as of December 31, 2022 as revenues during the nine months ended September 30, 2023.

Performance obligations are defined as customer placed purchase orders (“POs”) with firm fixed price and firm delivery dates. Our remaining performance obligations as of September 30, 2023 totaled \$947.9 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 2024 and beyond.

Revenue by Category

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

	(Dollars in thousands)		(Dollars in thousands)	
	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
<u>Consolidated Ducommun</u>				
Military and space	\$ 108,693	\$ 106,303	\$ 301,020	\$ 312,317
Commercial aerospace	77,904	68,348	229,201	179,490
Industrial	9,653	11,939	34,540	32,462
Total	<u>\$ 196,250</u>	<u>\$ 186,590</u>	<u>\$ 564,761</u>	<u>\$ 524,269</u>
<u>Electronic Systems</u>				
Military and space	\$ 75,579	\$ 78,811	\$ 220,678	\$ 230,818
Commercial aerospace	25,475	22,654	68,239	57,322
Industrial	9,653	11,939	34,540	32,462
Total	<u>\$ 110,707</u>	<u>\$ 113,404</u>	<u>\$ 323,457</u>	<u>\$ 320,602</u>
<u>Structural Systems</u>				
Military and space	\$ 33,114	\$ 27,492	\$ 80,342	\$ 81,499
Commercial aerospace	52,429	45,694	160,962	122,168
Total	<u>\$ 85,543</u>	<u>\$ 73,186</u>	<u>\$ 241,304</u>	<u>\$ 203,667</u>

Government Grant

In November 2021, we were awarded an Aviation Manufacturing Jobs Protection Program grant from the U.S. Department of Transportation (“AMJPP Grant”) of \$4.0 million. As part of the award, we had to meet, and did complete, certain requirements over a six month performance period from November 2021 to May 2022. As of December 31, 2022, we had received the entire \$4.0 million grant balance, \$2.0 million of which was received during 2021 and the remainder during 2022. We recorded no reduction to cost of sales or selling, general and administrative expenses during the three and nine months ended September 30, 2023. We recorded zero and \$2.7 million as a reduction of cost of sales during the three and nine months ended October 1, 2022, respectively, and zero and \$0.3 million as a reduction of selling, general, and administrative expenses during the three and nine months ended October 1, 2022, respectively. As of December 31, 2022, the requirements under the AMJPP Grant were completed and the entire \$4.0 million awarded were received and thus, we also recorded the entire aggregate total of \$3.6 million and \$0.4 million as a reduction of cost of sales and selling, general and administrative expenses, respectively.

Recent Accounting Pronouncements

New Accounting Guidance Adopted in 2023

In July 2023, the FASB issued ASU 2023-03, “Presentation of Financial Statements (Topic 205), Income Statement - Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation - Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 - General Revision of Regulation S-X: Income or Loss Applicable to Common Stock” (“ASU 2023-03”), which amends or supersedes various SEC paragraphs within the Accounting Standards Codification to conform to past SEC announcements and guidance issued by the SEC. ASU 2023-03 does not provide any new guidance so there was no transition or effective date. ASU 2023-03 did not have a material impact on our condensed consolidated financial statements.

Recently Issued Accounting Standards

In December 2022, the FASB issued ASU 2022-06, “Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848” (“ASU 2022-06”), which defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. Since we adopted ASU 2020-04 during 2022, ASU 2022-06 will not have a material impact on our condensed consolidated financial statements. See Note 7.

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

Note 2. Business Combinations

BLR Aerospace, L.L.C. Acquisition

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

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

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

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

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

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

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

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

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

Magnetic Seal LLC Acquisition

In December 2021, we acquired 100.0% of the outstanding equity interests of Magnetic Seal LLC (f/k/a Magnetic Seal Corporation, “MagSeal”), a privately-held leading provider of high-impact, military-proven magnetic seals for critical systems in aerospace and defense applications, offering sealing solutions that are engineered to perform in high-speed, high-vibration, and other challenging environments. MagSeal is located in Warren, Rhode Island. The acquisition of MagSeal continued the advancement of our strategy to diversify and offer more customized, value-driven engineered products with aftermarket opportunities.

The original purchase price for MagSeal was \$69.5 million, net of cash acquired, all payable in cash. We paid a gross aggregate of \$71.3 million in cash upon the closing of the transaction. Subsequent to the closing of the transaction, during the three months ended July 2, 2022, as part of finalizing the working capital adjustment, we received \$0.4 million back from the seller which lowered the purchase price to \$69.1 million, net of cash acquired. We allocated the gross purchase price of \$70.9 million to the assets acquired and liabilities assumed at their estimated fair values. The estimated fair value of the assets acquired included \$30.1 million of intangible assets, \$4.5 million of inventories, \$2.1 million of accounts receivable, \$1.5 million of operating lease right-of-use assets, \$0.5 million of property and equipment, \$0.1 million of other current assets, and \$2.3 million of liabilities assumed. The excess of the purchase price over the aggregate fair values of the net assets acquired and liabilities assumed of \$32.6 million was recorded as goodwill. The intangible assets acquired were comprised of \$24.8 million for customer relationships, \$0.6 million for backlog, and \$4.7 million for trade name, and were assigned an estimated useful life of 19 years, two years, and indefinite, respectively. All the goodwill was assigned to the Structural Systems segment. The MagSeal acquisition, for tax purposes, was deemed an asset acquisition and thus, the goodwill recognized was deductible for income tax purposes.

MagSeal's results of operations have been included in our condensed consolidated statements of income since the date of acquisition as part of the Structural Systems segment. Pro forma results of operations of the MagSeal acquisition have not been presented as the effect of the MagSeal acquisition was not material to our financial results.

Note 3. Restructuring Activities

Summary of 2022 Restructuring Plan

In April 2022, management approved and commenced a restructuring plan that will better position us for stronger performance. The restructuring plan will mainly reduce headcount and consolidate facilities. As a result of this restructuring plan, we analyzed the need to write-down inventory and impair long-lived assets, including operating lease right-of-use assets. During the three and nine months ended September 30, 2023, we recorded total charges of \$4.0 million and \$12.9 million, respectively. Cumulative through the nine months ended September 30, 2023, we recorded aggregate total charges of \$19.7 million (\$0.7 million of which was recorded as cost of sales). As of September 30, 2023, we estimate the remaining amount of charges related to this initiative will be \$7.0 million to \$9.0 million in total pre-tax restructuring charges through 2024. Of these charges, we estimate \$6.0 million to \$8.0 million to be cash payments for employee separation and other facility consolidation related expenses, and \$1.0 million to be non-cash charges for impairment of long-lived assets.

In the Electronics Systems segment, we recorded (reversals) charges of \$1.5 million, \$0.1 million, and \$(0.1) million during the three months ended September 30, 2023, for severance and benefits that were classified as restructuring charges, charges for inventory write down that was classified as cost of sales, and other restructuring (reversals), respectively. We recorded charges (reversals) of \$5.6 million, \$0.1 million, \$0.1 million, and \$(0.2) million during the nine months ended September 30, 2023, for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, charges for inventory write down that was classified as cost of sales, and other restructuring (reversals), respectively. Cumulative through the nine months ended September 30, 2023, we recorded total charges for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, charges for inventory write down that was classified as cost of sales, and other restructuring (reversals) of \$9.1 million, \$0.4 million, \$0.1 million, and \$(0.2) million, respectively.

In the Structural Systems segment, we recorded \$0.8 million, \$0.4 million, less than \$0.1 million, and \$1.1 million during the three months ended September 30, 2023 for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, charges for inventory write down that was classified as cost of sales, and other restructuring charges, respectively. We recorded \$4.1 million, \$1.1 million, less than \$0.1 million, and \$1.9 million during the nine months ended September 30, 2023, for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, charges for inventory write down that was classified as cost of sales, and other restructuring charges, respectively. Cumulative through the nine months ended September 30, 2023, we recorded total charges for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, charges for inventory write down that was classified as cost of sales, and other restructuring of \$5.7 million, \$1.6 million, \$0.6 million, and \$1.9 million, respectively.

Our restructuring activities during the nine months ended September 30, 2023 were as follows (in thousands):

	December 31, 2022	Nine Months Ended September 30, 2023			September 30, 2023	
	Balance	Charges	Cash Payments	Non-Cash Payments	Change in Estimates	Balance
Severance and benefits	\$ 2,799	\$ 9,782	\$ (6,161)	\$ —	\$ —	\$ 6,420
Property and equipment accelerated depreciation due to restructuring	—	1,137	—	(1,137)	—	—
Inventory write down	—	188	—	(188)	—	—
Other	—	1,831	(1,831)	—	—	—
Ending balance	\$ 2,799	\$ 12,938	\$ (7,992)	\$ (1,325)	\$ —	\$ 6,420

The restructuring activities accrual for severance and benefits of \$6.4 million as of September 30, 2023 was included as part of accrued and other liabilities and are expected to be paid out through 2024.

Note 4. Inventories

Inventories consisted of the following:

	(Dollars in thousands)	
	September 30, 2023	December 31, 2022
Raw materials and supplies	\$ 187,637	\$ 143,495
Work in process	24,456	23,799
Finished goods	3,096	3,917
Total	\$ 215,189	\$ 171,211

Note 5. Goodwill

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

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

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

No material adverse factors/changes have occurred since the fourth quarter of 2022 that would require us to perform another qualitative or quantitative assessment. As such, for the third quarter of 2023, it was also not more likely than not that the fair values of the reporting units were less than their carrying amounts and thus, the respective goodwill amounts were not deemed to be impaired.

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

The carrying amounts of our goodwill were as follows:

	(Dollars in thousands)		
	Electronic Systems	Structural Systems	Consolidated Ducommun
Gross goodwill	\$ 199,157	\$ 85,972	\$ 285,129
Accumulated goodwill impairment	(81,722)	—	(81,722)
Balance at December 31, 2022	\$ 117,435	\$ 85,972	\$ 203,407
Goodwill from acquisition during the period	—	41,193	41,193
Balance at September 30, 2023	<u>\$ 117,435</u>	<u>\$ 127,165</u>	<u>\$ 244,600</u>

Note 6. Accrued and Other Liabilities

The components of accrued and other liabilities were as follows:

	(Dollars in thousands)	
	September 30, 2023	December 31, 2022
Accrued compensation	\$ 29,533	\$ 28,785
Accrued income tax and sales tax	8,094	10,478
Other	8,293	9,557
Total	<u>\$ 45,920</u>	<u>\$ 48,820</u>

Note 7. Long-Term Debt

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

	(Dollars in thousands)	
	September 30, 2023	December 31, 2022
Term loans	\$ 243,750	\$ 248,438
Revolving credit facility	28,800	—
Total debt	272,550	248,438
Less current portion	(6,250)	(6,250)
Total long-term debt, less current portion	266,300	242,188
Less debt issuance costs - term loans	(1,308)	(1,593)
Total long-term debt, net of debt issuance costs - term loans	<u>\$ 264,992</u>	<u>\$ 240,595</u>
Debt issuance costs - revolving credit facility ⁽¹⁾	<u>\$ 1,887</u>	<u>\$ 2,265</u>
Weighted-average interest rate	7.43 %	4.36 %

(1) Included as part of other assets.

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

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

The 2022 Revolving Credit Facility bears interest, at our option, at a rate equal to either (i) Term SOFR plus an applicable margin ranging from 1.375% to 2.375% per year or (ii) Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%,

[b] Bank of America's prime rate, and [c] Term SOFR plus 1.00%, and if the Base Rate is less than zero percent, it will be deemed zero percent) plus an applicable margin ranging from 0.375% to 1.375% per year, in each case based upon the consolidated total net adjusted leverage ratio. Interest payments are typically paid on a quarterly basis, on the last business day each quarter. The undrawn portion of the commitment of the 2022 Revolving Credit Facility is subject to a commitment fee ranging from 0.175% to 0.275%, based upon the consolidated total net adjusted leverage ratio, typically paid on a quarterly basis, on the last business day each quarter. However, the 2022 Revolving Credit Facility does not require any principal installment payments.

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

In December 2019, we completed the refinancing of a portion of then 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 was a \$100.0 million senior secured revolving credit facility that would have matured on December 20, 2024 and replaced the \$100.0 million 2018 Revolving Credit Facility that would have matured on November 21, 2023. The 2019 Term Loan was a \$140.0 million senior secured term loan that would have matured on December 20, 2024. We also had a then existing \$240.0 million senior secured term loan that was entered into in November 2018 that would have matured 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 "Existing Credit Facilities") in aggregate, totaled \$480.0 million at that time.

The 2019 Term Loan bore 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 required amortization 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 September 30, 2023 and October 1, 2022, we made the required quarterly amortization payments on the 2022 Term Loan and 2019 Term Loan of \$1.6 million and \$1.8 million, respectively. For the nine months ended September 30, 2023 and October 1, 2022, we made the required quarterly amortization payments on the 2022 Term Loan and 2019 Term Loan of \$4.7 million and \$3.5 million, respectively. No mandatory quarterly amortization payment was required to be paid on the 2022 Term Loan during the three months ended October 1, 2022.

The 2019 Revolving Credit Facility bore 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 was 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 did not require any principal installment payments.

The 2018 Term Loan bore 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 amortization payments of 0.25% of the outstanding principal balance of the 2018 Term Loan amount on a quarterly basis.

Further, under the then Existing Credit Facilities, if we exceeded the annual excess cash flow threshold, we were required to make an annual additional principal payment based on the consolidated adjusted leverage ratio. The annual mandatory excess cash flow payment was based on (i) 50% of the excess cash flow amount if the adjusted leverage ratio was greater than 3.25 to 1.0, (ii) 25% of the excess cash flow amount if the adjusted leverage ratio was 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 was less than or equal to 2.50 to 1.0. We did not exceed the annual excess cash flow threshold for 2021 and thus, no annual excess cash flow payment was required to be paid during the first quarter of 2022.

In conjunction with entering into the 2019 Revolving Credit Facility and the 2019 Term Loan, we used the \$140.0 million of proceeds from the 2019 Term Loan 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 used the remainder for

general corporate purposes. The \$56.0 million pay down on the 2018 Term Loan paid all the required quarterly amortization payments on the 2018 Term Loan until maturity.

However, since we were paying down on the term loans during the three months ended April 2, 2022, we were required to pay down on the 2019 Term Loan and 2018 Term Loan on a pro-rata basis and thus, we paid down \$13.0 million and \$17.0 million on the 2019 Term Loan and 2018 Term Loan, respectively, for an aggregate total pay down of \$30.0 million. During the three months ended September 30, 2023 and October 1, 2022, we made no other voluntary prepayments on our term loans.

As of September 30, 2023, we had \$171.0 million of unused borrowing capacity under the 2022 Revolving Credit Facility, after deducting \$0.2 million for standby letters of credit.

As of September 30, 2023, we were in compliance with all covenants required under the 2022 Credit Facilities.

The 2022 Term Loan was considered a modification of debt for some lenders and an extinguishment of debt for other lenders, and thus, a loss of \$0.2 million was recorded related to the extinguishment. In addition, the new fees incurred of \$0.8 million were capitalized and will be amortized over the life of the 2022 Term Loan. Further, the remaining debt issuance costs related to the 2019 Term Loan and 2018 Term Loan of \$1.0 million as of the modification date will be amortized over the life of the 2022 Term Loan, using the effective interest method.

The 2022 Revolving Credit Facility that replaced the 2019 Revolving Credit Facility was considered a modification of debt except for the portion related to the creditor that is no longer a part of the 2022 Revolving Credit Facility and in which case, it was considered an extinguishment of debt. As a result, we expensed the portion of the unamortized debt issuance costs related to the 2019 Revolving Credit Facility that was considered an extinguishment of debt of \$0.1 million. In addition, the new fees incurred of \$1.7 million as part of the 2022 Revolving Credit Facility were capitalized and will be amortized over the life of the 2022 Revolving Credit Facility. Further, the remaining debt issuance costs related to the 2019 Revolving Credit Facility of \$0.8 million as of the modification date will also be amortized over the life of the 2022 Revolving Credit Facility.

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

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

In May 2023, we completed a public offering of our common stock resulting in net proceeds of \$85.1 million. We utilized the net proceeds plus cash on hand to pay down \$85.2 million on the 2022 Revolving Credit Facility. See Note 8 for further information.

In November 2021, we entered into derivative contracts, U.S. dollar-one month LIBOR forward interest rate swaps designated as cash flow hedges, all with an effective date of January 1, 2024, for an aggregate total notional amount of \$150.0 million, weighted average fixed rate of 1.8%, and all terminating on January 1, 2031 ("Forward Interest Rate Swaps"). The Forward Interest Rate Swaps mature on a monthly basis, with fixed amount payer payment dates on the first day of each calendar month, commencing on February 1, 2024 through January 1, 2031. The Forward Interest Rate Swaps were deemed to be highly effective upon entering into the derivative contracts and thus, hedge accounting treatment was utilized. Since the Amended Forward Interest Rate Swaps (as defined below) are not effective until January 1, 2024, we only record the changes in fair value of the derivative instruments that were highly effective and that were designated and qualified as cash flow hedges. As such, during the three months ended September 30, 2023 and October 1, 2022, we recorded the unrealized gain (loss) to other comprehensive income (loss) of \$4.5 million and \$(0.1) million, respectively, and the associated change to other current assets, other assets, and deferred income taxes. During the nine months ended September 30, 2023 and October 1, 2022, we recorded the unrealized gain (loss) to other comprehensive income (loss) of \$5.5 million and \$7.4 million, respectively, and the associated change to other current assets, other assets, and deferred income taxes. See Note 1 for further information.

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

Note 8. Shareholders' Equity

In May 2023, we completed a public offering of 2.3 million shares of our common stock at \$40.00 per share, for gross proceeds of \$92.0 million. The common stock offering was made under our effective shelf registration statement. We incurred aggregate total out of pocket stock offering related fees of \$6.9 million, resulting in net proceeds of \$85.1 million. As such, we recorded an increase to common stock at par value of less than \$0.1 million with the remaining amount as an increase to additional paid-in capital of \$85.1 million. The public stock offering net proceeds along with cash on hand were used to pay down \$85.2 million on the 2022 Revolving Credit Facility that was drawn on and utilized to complete the acquisition of BLR. See Note 2 and Note 7 for further information.

Note 9. Indemnifications

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

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

Note 10. Income Taxes

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

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

We recorded income tax expense of less than \$0.1 million for the three months ended September 30, 2023 compared to \$1.5 million for the three months ended October 1, 2022. The decrease in income tax expense for the third quarter of 2023 compared to the third quarter of 2022 was primarily due to lower pre-tax income in the third quarter of 2023 compared to the third quarter of 2022.

We recorded income tax expense of \$1.8 million for the nine months ended September 30, 2023 compared to \$4.0 million for the nine months ended October 1, 2022. The decrease in income tax expense for the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 was primarily due to lower pre-tax income and higher income tax benefits recognized related to the U.S. Federal research and development tax credit in the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022. The decrease in income tax expense was partially offset by higher income tax expense related to non-deductible book compensation expenses and higher discrete income tax expense related to changes in deferred tax assets recognized in the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022.

Our total amount of unrecognized tax benefits was \$4.8 million and \$4.9 million as of September 30, 2023 and December 31, 2022, respectively. If recognized, \$2.9 million would affect the effective tax rate. We record interest and penalty charges, if any, related to uncertain tax positions as a component of tax expense and unrecognized tax benefits. The amounts accrued for interest and penalty charges as of September 30, 2023 and December 31, 2022 were not significant. As a result of statute of

limitations set to expire in the fourth quarter of 2023, we expect decreases to our unrecognized tax benefits of approximately \$0.7 million in the next twelve months.

We file U.S. Federal and state income tax returns. We are subject to examination by the Internal Revenue Service (“IRS”) for tax years after 2018 and by state taxing authorities for tax years after 2017. While we are no longer subject to examination prior to those periods, carryforwards generated prior to those periods may still be adjusted upon examination by the IRS or state taxing authorities if they either have been or will be used in a subsequent period. We believe we have adequately accrued for tax deficiencies or reductions in tax benefits, if any, that could result from the examination and all open audit years.

Note 11. 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 in January 2021. The complaint alleged violations of California’s wage and hour laws relating to our current and former employees and sought attorney’s fees and penalties. We vigorously refuted and defended against these claims and reached a tentative settlement of \$0.8 million during the fourth quarter 2021, which was subject to court approval. Thus, we recorded accrued liabilities of \$0.8 million as of December 31, 2021. During the second quarter of 2022, additional factual information was identified resulting in an increase in the amount of the tentative settlement to \$0.9 million. Therefore, we recorded an additional accrued liabilities of \$0.1 million for a total accrued liabilities amount of \$0.9 million as of the end of the second quarter of 2022 which remained unchanged as of December 31, 2022 as we were awaiting final court approval of this settlement. Subsequent to final court approval and paying of the \$0.9 million in January 2023, during the third quarter of 2023 and upon plaintiff’s motion, the court re-opened the settlement agreement to determine whether the class list captured all affected employees. We are appealing this decision as being without merit. Any amount of additional liability is still undetermined pending the appeal and as such, there is no amount of loss that is probable and reasonably estimable at this time. Thus, no additional accrual was recorded during the three months ended September 30, 2023.

Structural Systems has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at our facilities located in El Mirage and Monrovia, California. Based on currently available information, we have established an accrual for its estimated liability for such investigation and corrective action of \$1.5 million at both September 30, 2023 and December 31, 2022, 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 as of both September 30, 2023 and December 31, 2022, 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 was severely damaged and was comprised of two buildings with an aggregate total of 62,000 square feet. The loss of production from the Guaymas performance center was absorbed by our other existing performance centers, however, we have reestablished and are in the process of ramping up our manufacturing capabilities in a different leased facility with 117,000 square feet in Guaymas. A neighboring, non-related manufacturing facility, also suffered fire damage during the same time as the fire that severely damaged our Guaymas performance center. 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, up to a capped amount, to the facility, equipment, unfinished inventory, and other assets at replacement cost, finished goods inventory at selling price, as well as business interruption, third party property damage, and recovery related expenses caused by the fire, less our per claim deductible. The anticipated insurance recoveries related to losses and incremental costs incurred are recognized when receipt is probable. The anticipated insurance recoveries in excess of net book value of the damaged operating assets and business interruption 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.

The insurance claim for damages to our operating assets and business interruption was deemed final and closed by our insurance company during the three months ended July 1, 2023. During both the three months ended September 30, 2023 and October 1, 2022, we received no insurance recoveries. During the nine months ended September 30, 2023 and October 1, 2022, we received insurance recoveries of \$3.8 million and \$3.0 million, respectively. The \$3.8 million of insurance recoveries received during the nine months ended September 30, 2023 was for business interruption and property and equipment damage of \$2.1 million and \$1.7 million, respectively, and recognized as other income. The \$3.0 million received during the nine months ended October 1, 2022 was for business interruption, and was recognized as other income. Cumulatively, as of September 30, 2023, we have received insurance recoveries in aggregate total of \$23.7 million, with \$7.5 million for business interruption and \$16.2 million for damages to property and equipment, inventories, and tooling. Further, all insurance recovery amounts received related to this claim have been recognized up to the amount of net book value loss and presented within the same financial statement line item in the condensed consolidated statements of income resulting in no net impact, with the remaining amounts recognized as other income in our condensed consolidated statements of income when the contingencies were deemed resolved.

In April 2023, a fire damaged a relatively small portion of one of our performance centers in our Structural Systems reporting segment. There were no injuries, however, subsequent to the fire, we determined that some property and equipment in this company owned facility were damaged. Our insurance covers damage, up to a capped amount, to the property and equipment at replacement cost, as well as business interruption and recovery related expenses caused by the fire, less our per claim deductible. There was a loss of production in this damaged portion of the performance center for a short period of time but did not result in significant disruption to customer delivery schedules. Production in this damaged portion has since resumed. 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. As such, during the three months ended July 1, 2023, we wrote off property and equipment with an aggregate total net book value of \$0.2 million. Also during the three months ended July 1, 2023, we received insurance recoveries of \$0.3 million (which was net of our deductible of \$0.1 million) and thus, such insurance recoveries were also presented within the same financial statement line item in the condensed consolidated statements of income resulting in no net impact. The amount of the insurance recoveries received in excess of the loss on operating assets was deemed a contingent gain and since the gain contingencies were deemed resolved, the \$0.1 million was also recorded as other income during the three months ended July 1, 2023. No insurance recoveries were received during the three months ended September 30, 2023.

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 12. Business Segment Information

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

Financial information by reportable operating segment was as follows:

	(Dollars in thousands) Three Months Ended		(Dollars in thousands) Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net Revenues				
Electronic Systems	\$ 110,707	\$ 113,404	\$ 323,457	\$ 320,602
Structural Systems	85,543	73,186	241,304	203,667
Total Net Revenues	<u>\$ 196,250</u>	<u>\$ 186,590</u>	<u>\$ 564,761</u>	<u>\$ 524,269</u>
Segment Operating Income ⁽¹⁾				
Electronic Systems	\$ 12,710	\$ 13,881	\$ 32,249	\$ 36,902
Structural Systems	6,743	6,687	16,873	12,839
	19,453	20,568	49,122	49,741
Corporate General and Administrative Expenses ⁽²⁾	<u>(10,844)</u>	<u>(7,351)</u>	<u>(29,136)</u>	<u>(19,647)</u>
Total Operating Income	<u>\$ 8,609</u>	<u>\$ 13,217</u>	<u>\$ 19,986</u>	<u>\$ 30,094</u>
Depreciation and Amortization Expenses				
Electronic Systems	\$ 3,567	\$ 3,510	\$ 10,626	\$ 10,500
Structural Systems	4,852	4,100	13,619	12,659
Corporate Administration	59	59	176	176
Total Depreciation and Amortization Expenses	<u>\$ 8,478</u>	<u>\$ 7,669</u>	<u>\$ 24,421</u>	<u>\$ 23,335</u>
Capital Expenditures				
Electronic Systems	\$ 978	\$ 3,192	\$ 4,752	\$ 7,831
Structural Systems	3,802	1,175	11,043	7,033
Corporate Administration	—	—	—	—
Total Capital Expenditures	<u>\$ 4,780</u>	<u>\$ 4,367</u>	<u>\$ 15,795</u>	<u>\$ 14,864</u>

(1) The results for the three and nine months ended September 30, 2023 include BLR's results of operations which have been included in our condensed consolidated statements of income since the date of acquisition as part of the Structural Systems segment. See Note 2.

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

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

	(Dollars in thousands)	
	September 30, 2023	December 31, 2022
Total Assets		
Electronic Systems	\$ 540,497	\$ 543,298
Structural Systems ⁽¹⁾	550,201	410,565
Corporate Administration ⁽²⁾	51,653	67,643
Total Assets	<u>\$ 1,142,351</u>	<u>\$ 1,021,506</u>
Goodwill and Intangibles		
Electronic Systems	\$ 175,536	\$ 182,501
Structural Systems ⁽¹⁾	239,729	148,107
Total Goodwill and Intangibles	<u>\$ 415,265</u>	<u>\$ 330,608</u>

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

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

Overview

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

COVID-19 Pandemic Impact on Our Business

The COVID-19 pandemic had a significant impact on our overall business during the prior year three and nine months ended October 1, 2022. 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 COVID-19 pandemic and the resulting inflation, rising interest rates, supply chain issues, geopolitical developments, and other events have contributed and/or continues to contribute to a general slowdown in the global economy and most significantly, the commercial aerospace end-use market. While both major large aircraft manufacturers, The Boeing Company (“Boeing”) and Airbus SE, have announced increases in build rates for 2023, the ramp up is slower than expected and below pre-pandemic levels. In its 2022 Annual Report on Form 10-K, Boeing indicated that domestic travel continues to recover from the lingering effects of the COVID-19 pandemic and will recover before international travel. While the full extent and impact of the COVID-19 pandemic cannot be reasonably estimated with certainty, in the prior year, COVID-19 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 such lingering effects could have a material adverse impact on our business, results of operations and financial condition for 2023 and beyond.

Third quarter 2023 recap:

- Net revenues of \$196.3 million
- Net income of \$3.2 million, or \$0.22 per diluted share
- Adjusted EBITDA of \$29.3 million, or 14.9% of net revenues

Non-GAAP Financial Measures

Adjusted earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, restructuring charges, Guaymas fire related expenses, other fire related expenses, insurance recoveries related to loss on operating assets, insurance recoveries related to business interruption, inventory purchase accounting adjustments, loss on extinguishment of debt, and other debt refinancing costs (“Adjusted EBITDA”) were \$29.3 million and \$26.0 million for the three months ended September 30, 2023 and October 1, 2022, respectively.

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

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

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

- It does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- It does not reflect changes in, or cash requirements for, our working capital needs;
- It does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- It is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- It does not reflect the impact on earnings of charges resulting from matters unrelated to our ongoing operations; and
- Other companies in our industry may calculate Adjusted EBITDA differently from us, limiting its usefulness as a comparative measure.

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

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

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

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

- Interest expense may be useful to investors for determining current cash flow;
- Income tax expense may be useful to investors because it represents the taxes which may be payable for the period and the change in deferred taxes during the period, and may reduce cash flow available for use in our business;
- Depreciation may be useful to investors because it generally represents the wear and tear on our property and equipment used in our operations;
- Amortization expense may be useful to investors because it represents the estimated attrition of our acquired customer base and the diminishing value of product rights;
- Stock-based compensation may be useful to our investors for determining current cash flow;
- Restructuring charges may be useful to our investors in evaluating our core operating performance;
- Guaymas fire related expenses may be useful to our investors in evaluating our core operating performance;
- Other fire related expenses may be useful to our investors in evaluating our core operating performance;
- Insurance recoveries related to loss on operating assets (property and equipment, inventories, and other assets) may be useful to our investors in evaluating our core operating performance;
- Insurance recoveries related to business interruption may be useful to our investors in evaluating our core operating performance;
- Purchase accounting inventory step-ups may be useful to our investors as they do not necessarily reflect the current or on-going cash charges related to our core operating performance;

- Loss on extinguishment of debt may be useful to our investors for determining current cash flow; and
- Other debt refinancing costs 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)		(Dollars in thousands)	
	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net income	\$ 3,213	\$ 8,462	\$ 10,818	\$ 20,708
Interest expense	5,370	2,998	15,324	8,056
Income tax expense	26	1,462	1,789	4,035
Depreciation	4,020	3,652	11,692	10,849
Amortization	4,458	4,017	12,729	12,486
Stock-based compensation expense ⁽¹⁾	5,652	2,714	13,769	7,904
Restructuring charges ⁽²⁾	3,999	567	12,938	3,798
Guaymas fire related expenses	548	1,496	3,896	3,451
Other fire related expenses	—	—	477	—
Insurance recoveries related to loss on operating assets	—	—	(5,563)	—
Insurance recoveries related to business interruption	—	—	(2,160)	(3,000)
Inventory purchase accounting adjustments	2,041	107	2,807	1,381
Loss on extinguishment of debt	—	295	—	295
Other debt refinancing costs	—	224	—	224
Adjusted EBITDA	<u>\$ 29,327</u>	<u>\$ 25,994</u>	<u>\$ 78,516</u>	<u>\$ 70,187</u>
% of net revenues	14.9 %	13.9 %	13.9 %	13.4 %

(1) The three and nine months ended September 30, 2023 included \$1.4 million and \$2.7 million, respectively, and the three and nine months ended October 1, 2022 included \$0.3 million and \$0.8 million, respectively, of stock-based compensation expense for awards with both performance and market conditions that will be settled in cash. The three and nine months ended September 30, 2023 included \$0.1 million and \$0.3 million, respectively, of stock-based compensation expense recorded as cost of sales. The three and nine months ended October 1, 2022 both included zero stock-based compensation expense recorded as cost of sales.

(2) The three and nine months ended September 30, 2023 both included \$0.2 million, and the three and nine months ended October 1, 2022 included zero and \$0.5 million, respectively, of restructuring charges that were recorded as cost of sales.

Results of Operations

Third Quarter of 2023 Compared to Third Quarter of 2022

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

	(Dollars in thousands, except per share data) Three Months Ended				(Dollars in thousands, except per share data) Nine Months Ended			
	September 30, 2023	% of Net Revenues	October 1, 2022	% of Net Revenues	September 30, 2023	% of Net Revenues	October 1, 2022	% of Net Revenues
Net Revenues	\$ 196,250	100.0 %	\$ 186,590	100.0 %	\$ 564,761	100.0 %	\$ 524,269	100.0 %
Cost of Sales	151,648	77.3 %	148,003	79.3 %	443,270	78.5 %	418,565	79.8 %
Gross Profit	44,602	22.7 %	38,587	20.7 %	121,491	21.5 %	105,704	20.2 %
Selling, General and Administrative Expenses	32,182	16.4 %	24,803	13.3 %	88,755	15.7 %	72,340	13.8 %
Restructuring Charges	3,811	1.9 %	567	0.3 %	12,750	2.3 %	3,270	0.7 %
Operating Income	8,609	4.4 %	13,217	7.1 %	19,986	3.5 %	30,094	5.7 %
Interest Expense	(5,370)	(2.7)%	(2,998)	(1.6)%	(15,324)	(2.7)%	(8,056)	(1.5)%
Loss on Extinguishment of Debt	—	— %	(295)	(0.2)%	—	— %	(295)	(0.1)%
Other Income	—	— %	—	— %	7,945	1.4 %	3,000	0.6 %
Income Before Taxes	3,239	1.7 %	9,924	5.3 %	12,607	2.2 %	24,743	4.7 %
Income Tax Expense	26	nm	1,462	nm	1,789	nm	4,035	nm
Net Income	\$ 3,213	1.6 %	\$ 8,462	4.5 %	\$ 10,818	1.9 %	\$ 20,708	3.9 %
Effective Tax Rate	0.8 %	nm	14.7 %	nm	14.2 %	nm	16.3 %	nm
Diluted Earnings Per Share	\$ 0.22	nm	\$ 0.69	nm	\$ 0.79	nm	\$ 1.68	nm

nm = not meaningful

Net Revenues by End-Use Market and Operating Segment

Net revenues by end-use market and operating segment during the fiscal three and nine months ended September 30, 2023 and October 1, 2022, respectively, were as follows:

	Three Months Ended					Nine Months Ended				
	Change	(Dollars in thousands)		% of Net Revenues		Change	(Dollars in thousands)		% of Net Revenues	
		September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022		September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Consolidated Ducommun										
Military and space	\$ 2,390	\$ 108,693	\$ 106,303	55.4 %	57.0 %	\$ (11,297)	\$ 301,020	\$ 312,317	53.3 %	59.6 %
Commercial aerospace	9,556	77,904	68,348	39.7 %	36.6 %	49,711	229,201	179,490	40.6 %	34.2 %
Industrial	(2,286)	9,653	11,939	4.9 %	6.4 %	2,078	34,540	32,462	6.1 %	6.2 %
Total	\$ 9,660	\$ 196,250	\$ 186,590	100.0 %	100.0 %	\$ 40,492	\$ 564,761	\$ 524,269	100.0 %	100.0 %
Electronic Systems										
Military and space	\$ (3,232)	\$ 75,579	\$ 78,811	68.3 %	69.5 %	\$ (10,140)	\$ 220,678	\$ 230,818	68.2 %	72.0 %
Commercial aerospace	2,821	25,475	22,654	23.0 %	20.0 %	10,917	68,239	57,322	21.1 %	17.9 %
Industrial	(2,286)	9,653	11,939	8.7 %	10.5 %	2,078	34,540	32,462	10.7 %	10.1 %
Total	\$ (2,697)	\$ 110,707	\$ 113,404	100.0 %	100.0 %	\$ 2,855	\$ 323,457	\$ 320,602	100.0 %	100.0 %
Structural Systems										
Military and space	\$ 5,622	\$ 33,114	\$ 27,492	38.7 %	37.6 %	\$ (1,157)	\$ 80,342	\$ 81,499	33.3 %	40.0 %
Commercial aerospace	6,735	52,429	45,694	61.3 %	62.4 %	38,794	160,962	122,168	66.7 %	60.0 %
Total	\$ 12,357	\$ 85,543	\$ 73,186	100.0 %	100.0 %	\$ 37,637	\$ 241,304	\$ 203,667	100.0 %	100.0 %

Net revenues for the three months ended September 30, 2023 were \$196.3 million, compared to \$186.6 million for the three months ended October 1, 2022. The year-over-year increase was primarily due to the following:

- \$9.6 million higher revenues in our commercial aerospace end-use markets due to higher build rates on large aircraft platforms, commercial rotary-wing aircraft platforms, and other commercial aerospace platforms; and
- \$2.4 million higher revenues in our military and space end-use markets due to higher build rates on military rotary-wing aircraft platforms and other military and space platforms, partially offset by lower build rates on military fixed-wing aircraft platforms and various missile platforms.

Net revenues for the nine months ended September 30, 2023 were \$564.8 million, compared to \$524.3 million for the nine months ended October 1, 2022. The year-over-year increase was primarily due to the following:

- \$49.7 million higher revenues in our commercial aerospace end-use markets due to higher build rates on other commercial aerospace platforms and large aircraft platforms; partially offset by
- \$11.3 million lower revenues in our military and space end-use markets due to lower build rates on military fixed-wing aircraft platforms and various missile platforms, partially offset by higher build rates on other military and space platforms and military rotary-wing aircraft platforms.

Net Revenues by Major Customers

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Boeing Company	8.8 %	7.2 %	8.2 %	7.0 %
General Dynamics Corporation	3.3 %	6.0 %	4.0 %	5.7 %
Northrop Grumman Corporation	4.3 %	5.1 %	5.3 %	5.8 %
RTX Corporation	16.4 %	20.6 %	15.7 %	21.0 %
Spirit AeroSystems Holdings, Inc.	5.9 %	6.8 %	6.2 %	5.7 %
Viasat, Inc.	5.8 %	5.7 %	5.4 %	4.7 %
Total top ten customers ⁽¹⁾	58.0 %	63.9 %	57.5 %	61.1 %

(1) Includes The Boeing Company (“Boeing”), General Dynamics Corporation (“GD”), Northrop Grumman Corporation (“Northrop”), RTX Corporation (“RTX”), Spirit AeroSystems Holdings, Inc. (“Spirit”), and Viasat, Inc. (“Viasat”) for the three and nine months ended September 30, 2023 and October 1, 2022. Raytheon Technologies Corporation changed its name to RTX Corporation effective July 17, 2023.

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

	September 30, 2023	December 31, 2022
Boeing	7.1 %	3.8 %
GD	2.8 %	3.4 %
Northrop	3.8 %	13.0 %
RTX	12.4 %	16.2 %
Spirit	3.0 %	1.6 %
Viasat	6.2 %	10.3 %

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

Gross Profit

Gross profit consists of net revenues less cost of sales. Cost of sales includes the cost of production of finished products and other expenses related to inventory management, manufacturing quality, and order fulfillment. Gross profit as a percentage of net revenues increased year-over-year with the three months ended September 30, 2023 of 22.7%, compared to the three months ended October 1, 2022 of 20.7% primarily due to favorable product mix and favorable manufacturing volume, partially offset by unfavorable other manufacturing costs.

Gross profit as a percentage of net revenues increased year-over-year with the nine months ended September 30, 2023 of 21.5%, compared to the nine months ended October 1, 2022 of 20.2% primarily due to favorable manufacturing volume, partially offset by unfavorable other manufacturing costs and unfavorable product mix.

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

SG&A expenses increased \$7.4 million year-over-year in the three months ended September 30, 2023 compared to the three months ended October 1, 2022 primarily due to BLR SG&A expenses of \$3.6 million which did not exist in the prior year period, and higher stock-based compensation expense of \$2.9 million.

SG&A expenses increased \$16.4 million year-over-year in the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 primarily due to BLR SG&A expenses of \$5.9 million which did not exist in the prior year period, higher stock-based compensation expense of \$5.6 million, and higher professional services fees of \$1.9 million, mainly due to the BLR acquisition.

Restructuring Charges

Restructuring charges increased \$3.2 million and \$9.5 million year-over-year in the three and nine months ended September 30, 2023, compared to the three and nine months ended October 1, 2022, respectively, primarily due to the restructuring plan that was approved and commenced in April 2022 that is expected to better position us for stronger performance. See Note 3 for further information.

Interest Expense

Interest expense increased \$2.4 million and \$7.3 million year-over-year in the three and nine months ended September 30, 2023 compared to the three and nine months ended October 1, 2022, respectively, primarily due to higher interest rates.

Income Tax Expense

We recorded income tax expense of less than \$0.1 million for the three months ended September 30, 2023 compared to \$1.5 million for the three months ended October 1, 2022. The decrease in income tax expense for the third quarter of 2023 compared to the third quarter of 2022 was primarily due to lower pre-tax income in the third quarter of 2023 compared to the third quarter of 2022.

We recorded income tax expense of \$1.8 million for the nine months ended September 30, 2023 compared to \$4.0 million for the nine months ended October 1, 2022. The decrease in income tax expense for the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 was primarily due to lower pre-tax income and higher income tax benefits recognized related to the U.S. Federal research and development tax credit in the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022. The decrease in income tax expense was partially offset by higher income tax expense related to non-deductible book

compensation expenses and higher discrete income tax expense related to changes in deferred tax assets recognized in the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022.

Our total amount of unrecognized tax benefits was \$4.8 million and \$4.9 million as of September 30, 2023 and December 31, 2022, respectively. If recognized, \$2.9 million would affect the effective tax rate. We record interest and penalty charges, if any, related to uncertain tax positions as a component of tax expense and unrecognized tax benefits. The amounts accrued for interest and penalty charges as of September 30, 2023 and December 31, 2022 were not significant. As a result of statute of limitations set to expire in the fourth quarter of 2023, we expect decreases to our unrecognized tax benefits of approximately \$0.7 million in the next twelve months.

We file U.S. Federal and state income tax returns. We are subject to examination by the Internal Revenue Service (“IRS”) for tax years after 2018 and by state taxing authorities for tax years after 2017. While we are no longer subject to examination prior to those periods, carryforwards generated prior to those periods may still be adjusted upon examination by the IRS or state taxing authorities if they either have been or will be used in a subsequent period. We believe we have adequately accrued for tax deficiencies or reductions in tax benefits, if any, that could result from the examination and all open audit years.

Net Income and Earnings per Share

Net income and earnings per share for the three months ended September 30, 2023 were \$3.2 million, or \$0.22 per diluted share, compared to \$8.5 million, or \$0.69 per diluted share, for the three months ended October 1, 2022. The decrease in net income for the three months ended September 30, 2023 compared to the three months ended October 1, 2022 was primarily due to higher SG&A expenses of \$7.4 million, higher restructuring charges of \$3.2 million, and higher interest expense of \$2.4 million, partially offset by higher gross profit of \$6.0 million. The higher SG&A expenses were primarily due to BLR SG&A expenses of \$3.6 million which did not exist in the prior year period as the acquisition of BLR was completed during the three months ended July 1, 2023, and higher stock-based compensation expense of \$2.9 million.

Net income and earnings per share for the nine months ended September 30, 2023 were \$10.8 million, or \$0.79 per diluted share, compared to \$20.7 million, or \$1.68 per diluted share, for the nine months ended October 1, 2022. The decrease in net income for the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 was primarily due to higher SG&A expenses of \$16.4 million, higher restructuring charges of \$9.5 million, and higher interest expense of \$7.3 million, partially offset by higher gross profit of \$15.8 million and higher other income of \$4.9 million. The higher SG&A expenses were primarily due to BLR SG&A expenses of \$5.9 million which did not exist in the prior year period as the acquisition of BLR was completed during the three months ended July 1, 2023, and higher stock-based compensation expense of \$5.6 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 and nine months ended September 30, 2023 and October 1, 2022:

	Three Months Ended					Nine Months Ended				
	% Change	(Dollars in thousands)		% of Net Revenues		% Change	(Dollars in thousands)		% of Net Revenues	
		September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022		September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net Revenues										
Electronic Systems	(2.4)%	\$ 110,707	\$ 113,404	56.4 %	60.8 %	0.9 %	\$ 323,457	\$ 320,602	57.3 %	61.2 %
Structural Systems	16.9 %	85,543	73,186	43.6 %	39.2 %	18.5 %	241,304	203,667	42.7 %	38.8 %
Total Net Revenues	5.2 %	\$ 196,250	\$ 186,590	100.0 %	100.0 %	7.7 %	\$ 564,761	\$ 524,269	100.0 %	100.0 %
Segment Operating Income										
Electronic Systems		\$ 12,710	\$ 13,881	11.5 %	12.2 %		\$ 32,249	\$ 36,902	10.0 %	11.5 %
Structural Systems		6,743	6,687	7.9 %	9.1 %		16,873	12,839	7.0 %	6.3 %
		19,453	20,568				49,122	49,741		
Corporate General and Administrative Expenses ⁽¹⁾		(10,844)	(7,351)	(5.5)%	(3.9)%		(29,136)	(19,647)	(5.2)%	(3.7)%
Total Operating Income		\$ 8,609	\$ 13,217	4.4 %	7.1 %		\$ 19,986	\$ 30,094	3.5 %	5.7 %
Adjusted EBITDA										
Electronic Systems										
Operating Income		\$ 12,710	\$ 13,881				\$ 32,249	\$ 36,902		
Other Income		—	—				222	—		
Depreciation and Amortization		3,567	3,510				10,626	10,500		
Stock-Based Compensation Expense ⁽²⁾		97	—				321	—		
Restructuring Charges		1,794	340				5,739	1,624		
		18,168	17,731	16.4 %	15.6 %		49,157	49,026	15.2 %	15.3 %
Structural Systems										
Operating Income		6,743	6,687				16,873	12,839		
Depreciation and Amortization		4,852	4,100				13,619	12,659		
Stock-Based Compensation Expense ⁽³⁾		76	—				259	—		
Restructuring Charges		2,205	227				7,113	2,174		
Guaymas fire related expenses		548	1,496				3,896	3,451		
Other fire related expenses		—	—				477	—		
Inventory Purchase Accounting Adjustments		2,041	107				2,807	1,381		
		16,465	12,617	19.2 %	17.2 %		45,044	32,504	18.7 %	16.0 %
Corporate General and Administrative Expenses ⁽¹⁾										
Operating Loss		(10,844)	(7,351)				(29,136)	(19,647)		
Depreciation and Amortization		59	59				176	176		
Stock-Based Compensation Expense ⁽⁴⁾		5,479	2,714				13,189	7,904		
Restructuring Charges		—	—				86	—		
Other Debt Refinancing Costs		—	224				—	224		
		(5,306)	(4,354)				(15,685)	(11,343)		
Adjusted EBITDA		\$ 29,327	\$ 25,994	14.9 %	13.9 %		\$ 78,516	\$ 70,187	13.9 %	13.4 %
Capital Expenditures										
Electronic Systems		\$ 978	\$ 3,192				\$ 4,752	\$ 7,831		
Structural Systems		3,802	1,175				11,043	7,033		
Corporate Administration		—	—				—	—		
Total Capital Expenditures		\$ 4,780	\$ 4,367				\$ 15,795	\$ 14,864		

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

- (2) The three and nine months ended September 30, 2023 included less than \$0.1 million and \$0.1 million, respectively, of stock-based compensation expense recorded as cost of sales. The three and nine months ended October 1, 2022 both included zero stock-based compensation expense recorded as cost of sales.
- (3) The three and nine months ended September 30, 2023 included \$0.1 million and \$0.2 million, respectively, of stock-based compensation expense recorded as cost of sales. The three and nine months ended October 1, 2022 both included zero stock-based compensation expense recorded as cost of sales.
- (4) The three and nine months ended September 30, 2023 included \$1.4 million and \$2.7 million, respectively, and the three and nine months ended October 1, 2022 included \$0.3 million and \$0.8 million, respectively, of stock-based compensation expense for awards with both performance and market conditions that will be settled in cash.

Electronic Systems

Electronic Systems net revenues in the three months ended September 30, 2023 compared to the three months ended October 1, 2022 decreased \$2.7 million primarily due to the following:

- \$3.2 million lower revenues in our military and space end-use markets due to lower build rates on military fixed-wing aircraft platforms, partially offset by higher build rates on other military and space platforms; partially offset by
- \$2.8 million higher revenues in our commercial aerospace end-use markets due to higher build rates on other commercial aerospace platforms.

Electronic Systems net revenues in the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 increased \$2.9 million primarily due to the following:

- \$10.9 million higher revenues in our commercial aerospace end-use markets due to higher build rates on other commercial aerospace platforms; partially offset by
- \$10.1 million lower revenues in our military and space end-use markets due to lower build rates on military fixed-wing aircraft platforms, partially offset by higher build rates on other military and space platforms.

Electronic Systems segment operating income in the three months ended September 30, 2023 compared to the three months ended October 1, 2022 decreased \$1.2 million primarily due to higher restructuring charges and unfavorable other manufacturing costs, partially offset by favorable product mix and favorable manufacturing volume.

Electronic Systems segment operating income in the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 decreased \$4.7 million primarily due to higher restructuring charges, unfavorable product mix, and unfavorable other manufacturing costs, partially offset by favorable manufacturing volume.

Structural Systems

Structural Systems net revenues in the three months ended September 30, 2023 compared to the three months ended October 1, 2022 increased \$12.4 million primarily due to the following:

- \$6.7 million higher revenues in our commercial aerospace end-use markets due to higher build rates on large aircraft platforms; and
- \$5.6 million higher revenues in our military and space end-use markets due to higher build rates on military rotary-wing platforms and other military and space platforms, partially offset by lower build rates on various missile platforms.

Structural Systems net revenues in the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 increased \$37.6 million primarily due to the following:

- \$38.8 million higher revenues in our commercial aerospace end-use markets due to higher build rates on large aircraft platforms and other commercial aerospace platforms; partially offset by
- \$1.2 million lower revenues in our military and space end-use markets due to lower build rates on various missile platforms and military fixed-wing aircraft platforms, partially offset by higher build rates on other military and space platforms and military rotary-wing aircraft platforms.

The Structural Systems segment operating income in the three months ended September 30, 2023 compared to the three months ended October 1, 2022 increased \$0.1 million primarily due to favorable product mix and favorable manufacturing volume, partially offset by higher restructuring charges, higher inventory purchase accounting adjustments, and unfavorable other manufacturing costs.

The Structural Systems segment operating income in the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 increased \$4.0 million primarily due to favorable manufacturing volume and favorable product mix, partially offset by higher restructuring charges, unfavorable other manufacturing costs, and higher inventory purchase accounting adjustments.

In April 2023, we acquired 100.0% of BLR Aerospace L.L.C. ("BLR"). The initial purchase price for BLR was \$115.0 million, net of

cash acquired, all payable in cash. We paid a gross aggregate of \$117.0 million in cash upon the closing of the transaction. BLR's results of operations have been included in our condensed consolidated statements of income since the date of acquisition and is a part of the Structural Systems segment. See Note 2 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In June 2020, a fire severely damaged our performance center in Guaymas, Mexico. We have insurance coverage and up to a capped amount, expect these items will be covered, less our deductible. The full financial impact cannot be estimated at this time as we are currently working with our insurance carriers to determine the cause of the fire. The loss of production from the Guaymas performance center was being absorbed by our other existing performance centers, however, we have reestablished and are in the process of ramping up our manufacturing capabilities in a different leased facility in Guaymas. A neighboring, non-related manufacturing facility, also suffered fire damage during the same time as the fire that severely damaged our Guaymas performance center. 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. If we are ultimately deemed to be responsible or partly responsible, it is possible we could incur a loss in excess of our insurance coverage limits, which could be material to our cash flow, liquidity, or financial results. See Note 9 and Note 11 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

In April 2023, a fire damaged a relatively small portion of one of our performance centers in our Structural Systems reporting segment. Our insurance covers damage, up to a capped amount, to the property and equipment at replacement cost, as well as business interruption and recovery related expenses caused by the fire, less our per claim deductible. There was a loss of production in this damaged portion of the performance center for a short period of time but did not result in significant disruption to customer delivery schedules. Production in this damaged portion has since resumed. See Note 11 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

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

CG&A expenses increased \$3.5 million for the three months ended September 30, 2023 compared to the three months ended October 1, 2022 primarily due to higher stock-based compensation expense of \$2.8 million.

CG&A expenses increased \$9.5 million for the nine months ended September 30, 2023 compared to the nine months ended October 1, 2022 primarily due to higher stock-based compensation expense of \$5.3 million and higher professional services fees of \$1.1 million, mainly due to the BLR acquisition.

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 decrease in backlog was primarily in the commercial aerospace end-use markets, partially offset by an increase in the military and space end-use markets. \$638.0 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of September 30, 2023 and December 31, 2022:

		(Dollars in thousands)	
	Change	September 30, 2023	December 31, 2022
<u>Consolidated Ducommun</u>			
Military and space	\$ 37,093	\$ 494,447	\$ 457,354
Commercial aerospace	(27,364)	422,728	450,092
Industrial	(12,003)	41,371	53,374
Total	<u>\$ (2,274)</u>	<u>\$ 958,546</u>	<u>\$ 960,820</u>
<u>Electronic Systems</u>			
Military and space	\$ 6,454	\$ 368,036	\$ 361,582
Commercial aerospace	(33,789)	91,801	125,590
Industrial	(12,003)	41,371	53,374
Total	<u>\$ (39,338)</u>	<u>\$ 501,208</u>	<u>\$ 540,546</u>
<u>Structural Systems</u>			
Military and space	\$ 30,639	\$ 126,411	\$ 95,772
Commercial aerospace	6,425	330,927	324,502
Total	<u>\$ 37,064</u>	<u>\$ 457,338</u>	<u>\$ 420,274</u>

Liquidity and Capital Resources**Available Liquidity**

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

	(Dollars in millions)	
	September 30, 2023	December 31, 2022
Total debt, including long-term portion	\$ 272.6	\$ 248.4
Weighted-average interest rate on debt	7.43 %	4.36 %
Term Loans interest rate	6.82 %	4.24 %
Cash and cash equivalents	\$ 27.2	\$ 46.2
Unused Revolving Credit Facility	\$ 171.0	\$ 199.8

In July 2022, we completed a refinancing of all our existing debt by entering into a new term loan (“2022 Term Loan”) and a new revolving credit facility (“2022 Revolving Credit Facility”). The 2022 Term Loan is a \$250.0 million senior secured loan that matures on July 14, 2027. The 2022 Revolving Credit Facility is a \$200.0 million senior secured revolving credit facility that matures on July 14, 2027. The 2022 Term Loan and 2022 Revolving Credit Facility, collectively are the new credit facilities (“2022 Credit Facilities”). In conjunction with the closing of the 2022 Credit Facilities, we utilized the entire \$250.0 million of proceeds from the 2022 Term Loan plus our existing cash on hand to pay off our entire debt balance outstanding of \$254.2 million under our prior credit facilities. At the same leverage ratio, the interest rate spread in the 2022 Credit Facilities is lower than the interest rate spread under our prior credit facilities. Interest payments are typically paid either on a monthly or quarterly basis, depending on the interest rate selected, on the last business day each month or quarter. In addition, the 2022 Term Loan requires quarterly amortization payments of 0.625% during year one and year two, 1.250% during year three and year four, and 1.875% during year five of the original outstanding principal balance of the 2022 Term Loan amount, on the last business day each quarter. Further, the undrawn portion of the commitment of the 2022 Revolving Credit Facility is subject to a commitment fee ranging from 0.175% to 0.275%, based upon the consolidated total net adjusted leverage ratio, typically paid on a quarterly basis, on the last business day each quarter. However, the 2022 Revolving Credit Facility does not require any principal installment payments. As of September 30, 2023, we were in compliance with all covenants required under the 2022 Credit Facilities. See Note 7 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

We made the mandatory quarterly amortization payments under our existing term loans during the three and nine months ended September 30, 2023 of \$1.6 million and \$4.7 million, respectively, and during the three and nine months ended October 1, 2022 of zero and \$3.5 million, respectively. No mandatory quarterly amortization payment was required to be paid on the 2022 Term Loan during the three months ended October 1, 2022. We made no voluntary prepayments on our term loans during both three months ended September 30, 2023 and October 1, 2022.

In April 2022, management approved and commenced a restructuring plan that will position us for stronger performance. The restructuring plan will mainly reduce headcount and consolidate facilities. As a result of this restructuring plan, we analyzed the need to write-down inventory and impair long-lived assets, including operating lease right-of-use assets. As of September 30, 2023, we estimate the remaining amount of charges related to this initiative will be \$7.0 million to \$9.0 million in total pre-tax restructuring charges through 2024. Of these charges, we estimate \$6.0 million to \$8.0 million to be cash payments for employee separation and other facility consolidation related expenses, and \$1.0 million to be non-cash charges for impairment of long-lived assets. The restructuring accrual for severance and benefits of \$6.4 million as of September 30, 2023 are expected to be paid out through 2024. On an annualized basis, we anticipate these restructuring actions will result in total cost savings of \$11.0 million to \$13.0 million. See Note 3 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In November 2021, we entered into derivative contracts, U.S. dollar-one month LIBOR forward interest rate swaps designated as cash flow hedges, all with an effective date of January 1, 2024, for an aggregate total notional amount of \$150.0 million, weighted average fixed rate of 1.8%, and all terminating on January 1, 2031 (“Forward Interest Rate Swaps”). The Forward Interest Rate Swaps mature on a monthly basis, with fixed amount payer payment dates on the first day of each calendar month, commencing on February 1, 2024 through January 1, 2031. See Note 1 and Note 7 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In July 2022, as a result of completing a refinancing of our existing debt, we were required to complete an amendment of the Forward Interest Rate Swaps (“Amended Forward Interest Rate Swaps”). The Forward Interest Rate Swaps were based on U.S. dollar-one month LIBOR and were amended to be based on one month Term SOFR as borrowings using LIBOR are no longer available under the 2022 Credit Facilities. The Amended Forward Interest Rate Swaps weighted average fixed rate is 1.7%, as a

result of the difference between U.S. dollar-one month LIBOR and one month Term SOFR. See Note 1 and Note 7 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

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

In May 2023, we completed a public offering of our common stock resulting in net proceeds of \$85.1 million. The public stock offering net proceeds along with cash on hand were used to pay down \$85.2 million on the 2022 Revolving Credit Facility that was drawn on and utilized to complete the acquisition of BLR. See Note 2, Note 7, and Note 8 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

We expect to spend a total of \$18.0 million to \$20.0 million for capital expenditures in 2023 financed by cash generated from operations, principally to support new contract awards in Electronic Systems and Structural Systems. As part of our strategic plan to become a supplier of higher-level assemblies and win new contract awards, additional up-front investment in tooling will be required for newer programs which have higher engineering content and higher levels of complexity in assemblies.

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

We monitor our asset base, including the market dynamics of the properties we own, and we may sell such properties and/or enter into sale-leaseback transactions. Such transactions would provide cash for various capital deployment options.

We continue to depend on operating cash flow and the availability of our 2022 Credit Facilities to provide short-term liquidity. Cash generated from operations and bank borrowing capacity is expected to provide sufficient liquidity to meet our obligations during the next twelve months from the date of issuance of these financial statements.

Cash Flow Summary

Net cash provided by operating activities for the nine months ended September 30, 2023 was \$4.6 million, compared to \$0.6 million for the nine months ended October 1, 2022. The higher net cash provided by operating activities during the first nine months of 2023 was mainly due to lower accounts receivable and higher contract liabilities, partially offset by higher inventories, lower accounts payable, and lower net income.

Net cash used in investing activities was \$130.0 million for the nine months ended September 30, 2023, compared to \$13.9 million in the nine months ended October 1, 2022. The higher net cash used in investing activities during the first nine months of 2023 compared to the prior year period was mainly due to payments for the acquisition of BLR.

Net cash provided by financing activities was \$106.4 million for the nine months ended September 30, 2023, compared to a net cash used in financing activities of \$41.8 million for the nine months ended October 1, 2022. The higher net cash provided by financing activities during the first nine months of 2023 was mainly due to \$85.1 million net proceeds from the issuance of common stock in a public offering and \$28.8 million net borrowings under the revolving credit facility, partially offset by the voluntary \$30.0 million pay down on term loans in the prior year nine months ended October 1, 2022.

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 2022 Annual Report on Form 10-K. There have been no material changes in any of our critical accounting policies during the three months ended September 30, 2023.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our main market risk exposure relates to changes in U.S. interest rates on our outstanding long-term debt. At September 30, 2023, we had total borrowings of \$272.6 million under our 2022 Credit Facilities.

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

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

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company’s chief executive officer (“CEO”) and chief financial officer (“CFO”) have conducted an evaluation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934), 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 September 30, 2023 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 11 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, 2022 for a discussion of our risk factors. Other than the risk factor below, there have been no material changes during the three months ended September 30, 2023 to the risk factors disclosed in our Form 10-K for the year ended December 31, 2022.

We expect to face increased costs and resources to comply with the new SEC cybersecurity rule.

The SEC recently adopted a rule, “Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure,” that enhances and standardizes disclosures regarding cybersecurity risk management and governance, as well as material cybersecurity incidents. Under this new rule, public companies will now be required to make annual disclosures describing its processes for identifying and managing material cybersecurity risks, management’s role in assessing and managing such risks, and the Board of Directors’ oversight of cybersecurity risks. Companies also must disclose in a Form 8-K, the nature, scope, and timing of any material cybersecurity incidents identified and the material impact or reasonably likely material impact on the company. We expect to face increased costs to comply with this new SEC cybersecurity rule, including increased costs for cybersecurity training, staffing, and management. In addition, the requirement to report cybersecurity incidents within such a short timeframe could mean there will not be sufficient time to halt a breach before having to report it, potentially giving the hackers an advantage.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

No. Description

- [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.](#)
- [2.3 Equity Purchase Agreement dated December 15, 2021, by and between Ducommun LaBarge Technologies, Inc., Mag Parent, Inc. and Thomas B. Colby and Lyman J. Colby. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on December 16, 2021.](#)
- [2.4 Securities Purchase Agreement dated March 20, 2023, by and among BLR Aerospace, L.L.C., the Undersigned Equityholders of the Company, Crescent Capital Aerospace, L.L.C., as the Seller Representative, Ducommun LaBarge Technologies, Inc., and Ducommun Incorporated. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on March 21, 2023.](#)
- [2.5 Agreement of Purchase and Sale and Agreement to Enter into Lease dated as of December 16, 2021, by and among Ducommun Aerostructures, Inc. and Centerpoint 268 Gardena LLC. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on December 20, 2021.](#)
- [2.6 Securities Purchase Agreement dated March 20, 2023, by and between Ducommun LaBarge Technologies, Inc., Ducommun Incorporated, solely for the purposes of Section 7.07, BLR, L.L.C., Crescent Capital Aerospace, L.L.C. and Michael Carpenter. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on March 21, 2023.](#)
- 3.1 Restated Certificate of Incorporation filed with the Delaware Secretary of State on May 29, 1990. Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 1990.
- [3.2 Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on May 27, 1998. Incorporated by reference to Exhibit 3.2 to Form 10-K for the year ended December 31, 1998.](#)
- [3.3 Amended and Restated Bylaws of Ducommun Incorporated, dated as of November 4, 2022. Incorporated by reference to Exhibit 3.3 to Form 10-K for the year ended December 31, 2022.](#)
- [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 Credit Agreement, dated as of July 14, 2022, 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 July 18, 2022.](#)
- [*10.2 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.](#)
- [*10.3 Amended and Restated 2020 Stock Incentive Plan. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on April 20, 2022.](#)
- [*10.4 2018 Employee Stock Purchase Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 23, 2018.](#)
- [*10.5 2020 Employee Stock Incentive Plan. Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 20, 2020.](#)
- [*10.6 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.](#)
- [*10.7 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.](#)
- [*10.8 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.](#)
- [*10.9 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.](#)

Exhibit

No. Description

- [*10.10 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.](#)
- [*10.11 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.](#)
- [*10.12 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.](#)
- [*10.13 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.](#)
- [*10.14 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.](#)
- [*10.15 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.](#)
- [*10.16 Form of Performance Stock Unit Cash-Based Long-Term Incentive Award Agreement for 2022 and after. Incorporated by reference to Exhibit 10.20 to Form 10-Q for the period ended July 2, 2022.](#)
- [*10.17 Form of Performance Restricted Stock Unit Cash-Based Long-Term Incentive Award Agreement for 2022 and after. Incorporated by reference to Exhibit 10.21 to Form 10-Q for the period ended July 2, 2022.](#)
- [*10.18 Form of Performance Stock Unit Award Agreement for 2023 and after. Incorporated by reference to Exhibit 10.18 to Form 10-Q for the period ended April 1, 2023.](#)
- [*10.19 Form of Performance Stock Unit Cash-Based Long-Term Incentive Award Agreement for 2023 and after. Incorporated by reference to Exhibit 10.19 to Form 10-Q for the period ended April 1, 2023.](#)
- [*10.20 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.](#)
- [*10.21 Non Qualified Deferred Compensation. Incorporated by reference to Exhibit 4.6 to Form S-8 dated November 26, 2019.](#)
- [*10.22 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.](#)
- [*10.23 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>Executive Officer</u> | <u>Date of Agreement</u> |
|--------------------------|--------------------------|
| Laureen S. Gonzalez | September 20, 2022 |
| Suman B. Mookerji | May 2, 2018 |
| Jerry L. Redondo | January 23, 2017 |
| Rajiv A. Tata | January 24, 2020 |
| Christopher D. Wampler | January 23, 2017 |
- [*10.24 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.](#)
- [*10.25 Retirement and Release Agreement dated November 29, 2021 between Ducommun Incorporated and Rosalie F. Rogers. Incorporated by reference to Exhibit 10.24 to Form 10-K for the year ended December 31, 2021.](#)
- [*10.26 Transition Services and Separation Agreement dated May 31, 2023 between Ducommun Incorporated and Christopher D. Wampler. Incorporated by reference to Exhibit 10.01 to Form 8-K dated June 2, 2023.](#)

Exhibit

No. Description

10.27 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
Laureen S. Gonzalez	September 20, 2022
Jay L. Haberland	February 2, 2009
Sheila G. Kramer	June 1, 2021
Suman B. Mookerji	April 27, 2023
Stephen G. Oswald	January 23, 2017
Jerry L. Redondo	October 1, 2015
Samara A. Strycker	December 30, 2021
Rajiv A. Tata	January 24, 2020
Christopher D. Wampler	January 1, 2016

[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)

* Indicates an executive compensation plan or arrangement.

SIGNATURES

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

Date: November 8, 2023

DUCOMMUN INCORPORATED

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

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

Date: November 8, 2023

By: /s/ Suman B. Mookerji

Suman B. Mookerji
Senior Vice President, Chief Financial Officer
(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 September 30, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f), and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 8, 2023

/s/ Stephen G. Oswald

Stephen G. Oswald

Chairman, President and Chief Executive Officer

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

I, Suman B. Mookerji, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the “registrant”) on Form 10-Q for the period ended September 30, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 8, 2023

/s/ Suman B. Mookerji

Suman B. Mookerji

Senior Vice President, Chief Financial Officer

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

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen G. Oswald, Chairman, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

By: /s/ Stephen G. Oswald
Stephen G. Oswald
Chairman, President and Chief Executive Officer
November 8, 2023

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Suman B. Mookerji, Senior Vice President, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

By: /s/ Suman B. Mookerji
Suman B. Mookerji
Senior Vice President, Chief Financial Officer
November 8, 2023

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.