

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

---

**FORM 10-Q**

---

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

For the quarterly period ended September 28, 2019  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-08174

---

**DUCOMMUN INCORPORATED**

(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

92707-5759  
(Zip code)

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

N/A

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

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

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

---

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 22, 2019, the registrant had 11,563,241 shares of common stock outstanding.

## DUCOMMUN INCORPORATED AND SUBSIDIARIES

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <a href="#">Financial Statements (unaudited)</a>	<a href="#">3</a>
<a href="#">Condensed Consolidated Balance Sheets as of September 28, 2019 and December 31, 2018</a>	<a href="#">3</a>
<a href="#">Condensed Consolidated Statements of Income for the Three Months and Nine Months Ended September 28, 2019 and September 29, 2018</a>	<a href="#">4</a>
<a href="#">Condensed Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended September 28, 2019 and September 29, 2018</a>	<a href="#">5</a>
<a href="#">Condensed Consolidated Statements of Changes in Shareholders' Equity for the Three Months and Nine Months Ended September 28, 2019 and September 29, 2018</a>	<a href="#">6</a>
<a href="#">Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 28, 2019 and September 29, 2018</a>	<a href="#">7</a>
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	<a href="#">8</a>
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">24</a>
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">33</a>
Item 4. <a href="#">Controls and Procedures</a>	<a href="#">34</a>
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <a href="#">Legal Proceedings</a>	<a href="#">34</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">34</a>
Item 4. <a href="#">Mine Safety Disclosures</a>	<a href="#">34</a>
Item 6. <a href="#">Exhibits</a>	<a href="#">35</a>
<a href="#">Signatures</a>	<a href="#">38</a>

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

**Ducommun Incorporated and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(Unaudited)  
(Dollars in thousands, except share and per share data)

	September 28, 2019	December 31, 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,381	\$ 10,263
Restricted cash	361	—
Accounts receivable, net of allowance for doubtful accounts of \$896 and \$1,135 at September 28, 2019 and December 31, 2018, respectively	77,002	67,819
Contract assets	102,475	86,665
Inventories	109,848	101,125
Production cost of contracts	10,704	11,679
Other current assets	5,947	6,531
Total Current Assets	312,718	284,082
Property and equipment, net of accumulated depreciation of \$164,907 and \$154,840 at September 28, 2019 and December 31, 2018, respectively	112,597	107,045
Operating lease right-of-use assets	18,602	—
Goodwill	136,057	136,057
Intangibles, net	103,977	112,092
Non-current deferred income taxes	313	308
Other assets	5,290	5,155
<b>Total Assets</b>	<b>\$ 689,554</b>	<b>\$ 644,739</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 78,310	\$ 69,274
Contract liabilities	11,850	17,145
Accrued and other liabilities	37,701	37,786
Operating lease liabilities	2,915	—
Current portion of long-term debt	2,281	2,330
Total Current Liabilities	133,057	126,535
Long-term debt	222,600	228,868
Non-current operating lease liabilities	17,156	—
Non-current deferred income taxes	18,107	18,070
Other long-term liabilities	14,855	14,441
Total Liabilities	405,775	387,914
Commitments and contingencies (Notes 10, 12)		
<b>Shareholders' Equity</b>		
Common stock - \$0.01 par value; 35,000,000 shares authorized; 11,561,987 and 11,417,863 shares issued and outstanding at September 28, 2019 and December 31, 2018, respectively	116	114
Additional paid-in capital	86,828	83,712
Retained earnings	203,682	180,356
Accumulated other comprehensive loss	(6,847)	(7,357)
Total Shareholders' Equity	283,779	256,825
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 689,554</b>	<b>\$ 644,739</b>

*See accompanying notes to Condensed Consolidated Financial Statements.*

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net Revenues	\$ 181,101	\$ 159,842	\$ 534,162	\$ 465,124
Cost of Sales	142,774	128,726	422,076	375,225
Gross Profit	38,327	31,116	112,086	89,899
Selling, General and Administrative Expenses	23,724	20,956	71,031	61,476
Restructuring Charges	—	3,373	—	10,784
Operating Income	14,603	6,787	41,055	17,639
Interest Expense	(4,363)	(2,497)	(13,140)	(9,159)
Income Before Taxes	10,240	4,290	27,915	8,480
Income Tax Expense	1,937	119	4,325	118
Net Income	<u>\$ 8,303</u>	<u>\$ 4,171</u>	<u>\$ 23,590</u>	<u>\$ 8,362</u>
Earnings Per Share				
Basic earnings per share	\$ 0.72	\$ 0.37	\$ 2.05	\$ 0.73
Diluted earnings per share	\$ 0.70	\$ 0.36	\$ 2.00	\$ 0.72
Weighted-Average Number of Common Shares Outstanding				
Basic	11,551	11,404	11,501	11,382
Diluted	11,794	11,683	11,784	11,639

*See accompanying notes to Condensed Consolidated Financial Statements.*

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net Income	\$ 8,303	\$ 4,171	\$ 23,590	\$ 8,362
Other Comprehensive Income, Net of Tax:				
Amortization of actuarial loss and prior service costs, net of tax of \$(51) and \$(45) for the three months ended September 28, 2019 and September 29, 2018, respectively, and \$(154) and \$(134) for the nine months ended September 28, 2019 and September 29, 2018, respectively	170	140	510	423
Change in unrealized gains and losses on cash flow hedges, net of tax of \$(29) and \$(16) for the three months ended September 28, 2019 and September 29, 2018, respectively, and \$(2) and \$(104) for the nine months ended September 28, 2019 and September 29, 2018, respectively	91	129	—	594
Other Comprehensive Income, Net of Tax	261	269	510	1,017
Comprehensive Income	<u>\$ 8,564</u>	<u>\$ 4,440</u>	<u>\$ 24,100</u>	<u>\$ 9,379</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)

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Common Stock and Paid-in-Capital</b>				
Balance, Beginning of Period	\$ 83,959	\$ 81,445	\$ 83,826	\$ 80,336
Employee Stock Purchase Plan	1,118	—	1,118	—
Stock Options Exercised	570	539	1,409	1,397
Stock Awards Vested	30	7	6,665	2,724
Stock Repurchased Related to Stock Options Exercised and Stock Awards Vested	(784)	(729)	(11,396)	(5,467)
Stock-Based Compensation	2,051	1,299	5,322	3,571
Balance, End of Period	<u>86,944</u>	<u>82,561</u>	<u>86,944</u>	<u>82,561</u>
<b>Retained Earnings</b>				
Balance, Beginning of Period	195,379	175,512	180,356	161,364
Net Income	8,303	4,171	23,590	8,362
Adoption of ASC 842 Adjustment	—	—	(264)	—
Adoption of ASC 606 Adjustment	—	—	—	8,665
Adoption of ASU 2018-02 Adjustment	—	—	—	1,292
Balance, End of Period	<u>203,682</u>	<u>179,683</u>	<u>203,682</u>	<u>179,683</u>
<b>Accumulated Other Comprehensive Loss</b>				
Balance, Beginning of Period	(7,108)	(6,687)	(7,357)	(6,117)
Other Comprehensive Income, Net of Tax	261	269	510	1,017
Adoption of ASU 2018-02 Adjustment	—	—	—	(1,318)
Balance, End of Period	<u>(6,847)</u>	<u>(6,418)</u>	<u>(6,847)</u>	<u>(6,418)</u>
<b>Total Stockholders' Equity</b>	<u>\$ 283,779</u>	<u>\$ 255,826</u>	<u>\$ 283,779</u>	<u>\$ 255,826</u>

*See accompanying notes to Condensed Consolidated Financial Statements.*

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

	Nine Months Ended	
	September 28, 2019	September 29, 2018
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 23,590	\$ 8,362
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and amortization	20,751	18,635
Non-cash operating lease cost	1,972	—
Property and equipment impairment due to restructuring	—	5,784
Stock-based compensation expense	5,322	3,414
Deferred income taxes	113	3,446
(Recovery of) provision for doubtful accounts	(239)	344
Other	152	9,275
Changes in Assets and Liabilities:		
Accounts receivable	(8,944)	10,771
Contract assets	(15,810)	(88,066)
Inventories	(8,723)	22,909
Production cost of contracts	(1,537)	(1,447)
Other assets	525	3,709
Accounts payable	8,806	22,610
Contract liabilities	(5,295)	15,108
Accrued and other liabilities	(614)	(1,452)
<b>Net Cash Provided by Operating Activities</b>	<b>20,069</b>	<b>33,402</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(14,698)	(12,796)
Proceeds from sale of assets	—	117
Payments for acquisition of Certified Thermoplastics Co., LLC, net of cash acquired	—	(30,711)
<b>Net Cash Used in Investing Activities</b>	<b>(14,698)</b>	<b>(43,390)</b>
<b>Cash Flows from Financing Activities</b>		
Borrowings from senior secured revolving credit facility	163,500	239,700
Repayments of senior secured revolving credit facility	(163,500)	(227,100)
Repayments of term loan	(6,570)	—
Repayments of other debt and finance lease obligations	(118)	—
Net cash paid upon issuance of common stock under stock plans	(2,204)	(1,189)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(8,892)</b>	<b>11,411</b>
Net (Decrease) Increase in Cash, Cash Equivalents, and Restricted Cash	(3,521)	1,423
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	10,263	2,150
<b>Cash, Cash Equivalents, and Restricted Cash at End of Period</b>	<b>\$ 6,742</b>	<b>\$ 3,573</b>

*See accompanying notes to Condensed Consolidated Financial Statements.*

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

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

Description of Business

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

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries (“Ducommun,” the “Company,” “we,” “us” or “our”), after eliminating intercompany balances and transactions. The December 31, 2018 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, 2018. We followed the same accounting policies for interim reporting except for the change in our lease accounting practices described below. The financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018.

In the opinion of management, all adjustments, consisting of recurring accruals, have been made that are necessary to fairly state our condensed consolidated financial position, statements of income, comprehensive income and cash flows in accordance with GAAP for the periods covered by this Quarterly Report on Form 10-Q. The results of operations for the three and nine months ended September 28, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019.

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 ends 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.

Changes in Accounting Policies

We adopted Accounting Standards Codification (“ASC”) 842, “Leases” (“ASC 842”), on January 1, 2019. As a result, we changed our accounting policy for lease accounting as discussed in Note 2.

We applied ASC 842 using the additional transition method and therefore, recognized the cumulative effect of initially applying ASC 842 as an adjustment to the opening condensed consolidated balance sheet at January 1, 2019. Therefore, the comparative information has not been adjusted and continues to be reported under the previous lease accounting standard, ASC 840, “Leases” (“ASC 840”). The details of the significant changes and quantitative impact of the changes are described in Note 2.

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 forward loss reserves), 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

	(In thousands)	
	Nine Months Ended	
	September 28, 2019	September 29, 2018
Interest paid	\$ 11,597	\$ 8,073
Taxes paid	\$ 4,610	\$ 195
Non-cash activities:		
Purchases of property and equipment not paid	\$ 1,054	\$ 970

## 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:

	(In thousands, except per share data)		(In thousands, except per share data)	
	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	\$ 8,303	\$ 4,171	\$ 23,590	\$ 8,362
Weighted-average number of common shares outstanding				
Basic weighted-average common shares outstanding	11,551	11,404	11,501	11,382
Dilutive potential common shares	243	279	283	257
Diluted weighted-average common shares outstanding	11,794	11,683	11,784	11,639
Earnings per share				
Basic	\$ 0.72	\$ 0.37	\$ 2.05	\$ 0.73
Diluted	\$ 0.70	\$ 0.36	\$ 2.00	\$ 0.72

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

	(In thousands)		(In thousands)	
	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Stock options and stock units	206	171	100	216

## Fair Value

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

We have money market funds and they are included as cash and cash equivalents. We also have interest rate cap hedge agreements and the fair value of the interest rate cap hedge agreements were determined using pricing models that use observable market inputs as of the balance sheet date, a Level 2 measurement. The interest rate cap hedge premium as of September 28, 2019 is less than \$0.1 million and is included as other current assets.

There were no transfers between Level 1, Level 2, or Level 3 financial instruments in the three months ended September 28, 2019.

## Table of Contents

### Cash and Cash Equivalents

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

### Restricted Cash

Restricted cash consists of cash withheld from our employees' salary who have enrolled in our employee stock purchase plan ("ESPP"). An offering period is six months and each employee determines the percentage of their salary that will be withheld during that six month offering period. At the end of the six month offering period, the amounts withheld will be used to purchase our Company's stock at a discounted price. Employees have the option to withdraw from the ESPP during the six month offering period and the cash withheld to date will be returned to the employee.

### 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, a hedge of a net investment in a foreign operation, or a derivative instrument that will not be accounted for using hedge accounting methods. As of September 28, 2019, 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 hedge. We record any hedge ineffectiveness and amounts excluded from effectiveness testing in current period earnings within interest expense. 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. For the three and nine months ended September 28, 2019, the impact of cash flow hedges in the respective periods were insignificant.

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 and the related revenue is recognized. Inventoried costs include raw materials, outside processing, direct labor and allocated overhead, adjusted for any abnormal amounts of idle facility 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.

### Production Cost of Contracts

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.

### Accumulated Other Comprehensive Loss

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

### Provision for Estimated Losses on Contracts

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.

### 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, 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.

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. In the event the customer invokes a termination for convenience clause, we would be entitled to costs incurred to date plus a reasonable profit. The majority of our revenues are recognized over time. Contract costs typically include labor, materials, overhead, and when applicable, subcontractor costs.

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 profitability of our contracts, we review and update our contract-related estimates on a regular basis. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the quarter it is identified.

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 profit recorded were not material during the three and nine months ended for both September 28, 2019 and September 29, 2018.

## [Table of Contents](#)

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

### Contract Assets and Contract Liabilities

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

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

	(In thousands)	
	September 28, 2019	December 31, 2018
Contract assets	\$ 102,475	\$ 86,665
Contract liabilities	\$ 11,850	\$ 17,145

Remaining performance obligations are defined as customer placed purchase orders (“POs”) with firm fixed price and firm delivery dates. Our remaining performance obligations as of September 28, 2019 totaled \$682.2 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 2020 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:

	(In thousands)		(In thousands)	
	Three Months Ended		Nine Months Ended	
	September 28 2019	September 29, 2018	September 28 2019	September 29, 2018
<b><u>Consolidated Ducommun</u></b>				
Military and space	\$ 80,487	\$ 71,459	\$ 231,635	\$ 208,140
Commercial aerospace	88,922	76,343	269,080	219,019
Industrial	11,692	12,040	33,447	37,965
Total	<u>\$ 181,101</u>	<u>\$ 159,842</u>	<u>\$ 534,162</u>	<u>\$ 465,124</u>
<b><u>Electronic Systems</u></b>				
Military and space	\$ 59,081	\$ 54,068	\$ 176,813	\$ 160,969
Commercial aerospace	19,815	19,588	53,785	53,672
Industrial	11,692	12,040	33,447	37,965
Total	<u>\$ 90,588</u>	<u>\$ 85,696</u>	<u>\$ 264,045</u>	<u>\$ 252,606</u>
<b><u>Structural Systems</u></b>				
Military and space	\$ 21,406	\$ 17,391	\$ 54,822	\$ 47,171
Commercial aerospace	69,107	56,755	215,295	165,347
Total	<u>\$ 90,513</u>	<u>\$ 74,146</u>	<u>\$ 270,117</u>	<u>\$ 212,518</u>

### Recent Accounting Pronouncements

#### *New Accounting Guidance Adopted in 2019*

In July 2019, the FASB issued ASU 2019-07, “Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates” (“ASU 2019-07”), which improve, update, and simplify its regulations on financial reporting and disclosure. The new guidance was effective when issued, which is our interim period ending September 28, 2019. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging” (“ASU 2017-12”), which intends to improve and simplify accounting rules around hedge accounting. ASU 2017-12 refines and expands hedge accounting for both financial (i.e., interest rate) and commodity risks. In addition, it creates more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. The new guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, which is our interim period beginning January 1, 2019. Early adoption is permitted, including adoption in any interim period after the issuance of ASU 2017-12. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”), which simplifies the subsequent measurement of goodwill, the amendments eliminate Step Two from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step Two of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which requires lessees to present right-of-use assets and lease liabilities on the balance sheet. Lessees are required to apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements or the additional transition method. Under the additional transition method, the cumulative effect of applying the new guidance is recognized as an adjustment to certain captions on the balance sheet, including the opening balance of retained earnings in the first quarter of 2019, and the prior years’ financial information will be presented under the prior accounting standard, ASC 840, “Leases,” (“ASC 840”). Additional guidance was issued subsequently as follows:

- July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements” (“ASU 2018-11”); and
- July 2018, the FASB issued ASU 2018-10, “Codification Improvements to Topic 842, Leases” (“ASU 2018-10”)

All the new guidance is effective for us beginning January 1, 2019. The cumulative impact to our retained earnings at January 1, 2019 was a net decrease of \$0.3 million. See Note 2.

#### *Recently Issued Accounting Standards*

In April 2019, the FASB issued ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Statements” (“ASU 2019-04”), which clarify, correct, and improve various aspects of the guidance in ASU 2016-01, ASU 2016-13, and ASU 2017-12. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2020. We are evaluating the impact of this standard.

In March 2019, the FASB issued ASU 2019-01, “Leases (Topic 842): Codification Improvements” (“ASU 2019-01”), which addresses various lessor implementation issues and clarifies that lessees and lessors are exempt from certain interim disclosure requirements associated with the adoption of ASC 842. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2020. Early adoption is permitted. We are evaluating the impact of this standard.

In August 2018, the FASB issued ASU 2018-14, “Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans” (“ASU 2018-14”), which will remove disclosures that no longer are considered cost-beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The new guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2021. Early adoption is permitted. We are evaluating the impact of this standard.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”), which should improve the effectiveness of fair value measurement disclosures by removing certain requirements, modifying certain requirements, and adding certain new requirements. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods

within those fiscal years, which will be our interim period beginning January 1, 2020. Early adoption is permitted. We are evaluating the impact of this standard.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”), which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. ASU 2016-13 requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which will be our interim period beginning January 1, 2020. We are evaluating the impact of this standard.

## **Note 2. Adoption of Accounting Standards Codification 842**

We adopted ASC 842 with an initial application as of January 1, 2019. We utilized the additional transition method, under which the cumulative effect of initially applying the new guidance is recognized as an adjustment to certain captions on the condensed consolidated balance sheet, including the opening balance of retained earnings in the nine months ended September 28, 2019. As part of the adoption of ASC 842, we have elected to utilize the following practical expedients that are permitted under ASC 842:

- Need not reassess whether any expired or existing contracts are or contain leases;
- Need not reassess the lease classification for any expired or existing leases;
- Need not reassess initial direct costs for any existing leases;
- As an accounting policy election by class of underlying asset, choose not to separate nonlease components from lease components and instead to account for each separate lease component and the nonlease components associated with that lease component as a single lease component; and
- As an accounting policy election not to apply the recognition requirements in ASC 842 to short term leases (a lease at commencement date has a lease term of 12 months or less and does not contain a purchase option that the lessee is reasonably certain to exercise).

The net impact to the various captions on our January 1, 2019 opening unaudited condensed consolidated balance sheets was as follows:

	(In thousands)		
	December 31, 2018 Balances Without Adoption of ASC 842	Effect of Adoption	January 1, 2019 Balances With Adoption of ASC 842
<b>Unaudited Condensed Consolidated Balance Sheets</b>			
<b>Assets</b>			
Other current assets	\$ 6,531	\$ (208)	\$ 6,323
Operating lease right-of-use assets	\$ —	\$ 18,985	\$ 18,985
Non-current deferred income taxes	\$ 308	\$ 5	\$ 313
Other assets	\$ 5,155	\$ 254	\$ 5,409
<b>Liabilities</b>			
Operating lease liabilities	\$ —	\$ 2,544	\$ 2,544
Accrued and other liabilities	\$ 37,786	\$ (329)	\$ 37,457
Non-current operating lease liabilities	\$ —	\$ 18,117	\$ 18,117
Non-current deferred income taxes	\$ 18,070	\$ (76)	\$ 17,994
Other long-term liabilities	\$ 14,441	\$ (956)	\$ 13,485
<b>Shareholders' Equity</b>			
Retained earnings	\$ 180,356	\$ (264)	\$ 180,092

The net impact to retained earnings as a result of adopting ASC 842 on the January 1, 2019 opening balance sheet was shown as a change in "other" on the condensed consolidated statements of cash flows.

We have operating and finance leases for manufacturing facilities, corporate offices, and various equipment. Our leases have remaining lease terms of 1 year to 10 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within 1 year.

The components of lease expense for the three and nine months ended September 28, 2019 were as follows:

	(In thousands)	
	Three Months Ended September 28, 2019	Nine Months Ended September 28, 2019
Operating leases expense	\$ 1,041	\$ 2,960
<b>Finance leases expense:</b>		
Amortization of right-of-use assets	\$ 59	\$ 159
Interest on lease liabilities	12	32
Total finance lease expense	\$ 71	\$ 191

Short term lease expense for the three and nine months ended September 28, 2019 were not material.

Supplemental cash flow information related to leases for the nine months ended September 28, 2019 was as follows:

	(In thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	3,005
Operating cash flows from finance leases	\$	32
Financing cash flows from finance leases	\$	119
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$	1,437
Finance leases	\$	483

The weighted average remaining lease terms as of September 28, 2019 were as follows:

	(In years)
Operating leases	7
Finance leases	4

When a lease is identified, we recognize a right-of-use asset and a corresponding lease liability based on the present value of the lease payments over the lease term discounted using our incremental borrowing rate, unless an implicit rate is readily determinable. As the discount rate in our leases is usually not readily available, we use our own incremental borrowing rate as the discount rate. Our incremental borrowing rate is based on the interest rate on our term loan, which is a secured rate.

The weighted average discount rate as of September 28, 2019 was as follows:

Operating leases	6.5%
Finance leases	6.5%

Maturity of operating and finance lease liabilities are as follows:

	(In thousands)	
	Operating Leases	Finance Leases
2019 (Excluding the nine months ended September 28, 2019)	\$ 1,025	\$ 60
2020	4,129	242
2021	4,005	229
2022	3,610	92
2023	3,275	53
Thereafter	8,832	73
Total lease payments	24,876	749
Less imputed interest	4,805	84
Total	\$ 20,071	\$ 665

Operating lease payments include \$11.4 million related to options to extend lease terms that are reasonably certain of being exercised. As of September 28, 2019, there are no legally binding minimum lease payments for leases signed but not yet commenced.

Finance lease payments related to options to extend lease terms that are reasonably certain of being exercised are not significant. As of September 28, 2019, it excludes \$2.1 million of legally binding minimum lease payments for leases signed but not yet commenced. These finance leases will commence during 2019 with lease terms of 5 years to 10 years.

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous accounting maturities of lease liabilities were as follows as of December 31, 2018:

	(In thousands)
2019	\$ 3,680
2020	3,405
2021	2,789
2022	1,404
2023	980
Thereafter	580
Total	<u>\$ 12,838</u>

### Note 3. Business Combinations

In April 2018, we acquired 100.0% of the outstanding equity interests of Certified Thermoplastics Co., LLC (“CTP”), a privately-held leader in precision profile extrusions and extruded assemblies of engineered thermoplastic resins, compounds, and alloys for a wide range of commercial aerospace, defense, medical, and industrial applications. CTP is located in Santa Clarita, California. The acquisition of CTP was part of our strategy to diversify towards more customized, higher value, engineered products with greater aftermarket potential.

The purchase price for CTP was \$30.7 million, net of cash acquired, all payable in cash. We paid an aggregate of \$30.8 million in cash related to this transaction. We allocated the gross purchase price of \$30.8 million to the assets acquired and liabilities assumed at estimated fair values. The estimated fair value of the assets acquired included \$8.1 million of intangible assets, \$2.2 million of inventories, \$1.5 million of accounts receivable, \$0.6 million of property and equipment, \$0.1 million of cash, less than \$0.1 million of other current assets, and \$0.4 million of liabilities assumed. The excess of the purchase price over the aggregate fair values of the assets acquired and liabilities assumed of \$18.6 million was recorded as goodwill. The intangible assets acquired were comprised of \$6.9 million for customer relationships and \$1.2 million for trade names and trademarks, all of which were assigned an estimated useful life of 10 years. All the goodwill was assigned to the Structural Systems segment. Since the CTP acquisition, for tax purposes, was deemed an asset acquisition, the goodwill recognized is deductible for income tax purposes.

CTP’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.

Subsequent to our quarter ended September 28, 2019, on October 8, 2019, we acquired 100.0% of the outstanding equity of Nobles Parent Inc., the parent company of Nobles Worldwide, Inc. (“Nobles”), a privately-held global leader in the design and manufacturing of high performance ammunition handling systems for a wide range of military platforms including fixed-wing aircraft, rotary-wing aircraft, ground vehicles, and shipboard systems. Nobles is located in St. Croix Falls, Wisconsin. The purchase price was \$77.0 million, net of cash acquired, all payable in cash. The acquisition of Nobles advances our strategy to diversify and offer more customized, value-driven engineered products with aftermarket opportunities. We paid \$77.3 million upon the closing of the transaction.

### Note 4. Restructuring Activities

In November 2017, management approved and commenced a restructuring plan that was intended to increase operating efficiencies (“2017 Restructuring Plan”). We completed the 2017 Restructuring Plan as of December 31, 2018 and have recorded cumulative expenses of \$23.6 million, with \$14.8 million recorded during 2018, and \$8.8 million recorded during 2017.

In the Electronic Systems segment, we recorded cumulative expenses of \$3.8 million for severance and benefits which were classified as restructuring charges. We recorded cumulative \$0.9 million for loss on early exit from lease termination which was classified as restructuring charges. We also recorded cumulative expenses of \$0.9 million of other expenses which were classified as restructuring charges. In addition, we have recorded cumulative expenses of \$0.2 million for professional service fees which were classified as restructuring charges. Further, we also recorded cumulative non-cash expenses of \$0.1 million for inventory write down which were classified as cost of sales. Finally, we recorded cumulative non-cash expenses of \$0.1 million for property and equipment impairment which were classified as restructuring charges.

In the Structural Systems segment, we recorded cumulative expenses of \$3.0 million for severance and benefits which were classified as restructuring charges. We have recorded cumulative non-cash expenses of \$9.8 million for property and equipment impairment which were classified as restructuring charges. We also recorded cumulative non-cash expenses of \$0.5 million for

## [Table of Contents](#)

inventory write down which were classified as cost of sales. Further, we recorded cumulative other expenses of \$0.4 million which were classified as restructuring charges.

In Corporate, we recorded cumulative expenses of \$1.4 million for severance and benefits and cumulative non-cash expenses of \$1.4 million for stock-based compensation awards which were modified, all of which were classified as restructuring charges. We also recorded cumulative expenses of \$1.0 million for professional service fees which were classified as restructuring charges.

During the three months ended September 28, 2019, the activities were not significant.

As of September 28, 2019, we have accrued \$0.1 million and \$0.1 million for severance and benefits and professional service fees in the Electronic Systems segment and Structural Systems segment, respectively.

Our restructuring activities in the nine months ended September 28, 2019 were as follows (in thousands):

	December 31, 2018	Nine Months Ended September 28, 2019			September 28, 2019
	Balance	Cash Payments	Adoption of ASU 842 Adjustment	Change in Estimates	Balance
Severance and benefits	\$ 2,631	\$ (2,493)	\$ —	\$ —	\$ 138
Lease termination	861	(126)	(735)	—	—
Professional service fees	43	(43)	—	—	—
Other	416	(416)	—	—	—
Total charged to restructuring charges	3,951	(3,078)	(735)	—	138
Inventory reserve	50	—	—	(50)	—
Total charged to cost of sales	50	—	—	(50)	—
Ending balance	\$ 4,001	\$ (3,078)	\$ (735)	\$ (50)	\$ 138

### Note 5. Inventories

Inventories consisted of the following:

	(In thousands)	
	September 28, 2019	December 31, 2018
Raw materials and supplies	\$ 97,551	\$ 89,767
Work in process	9,459	9,199
Finished goods	2,838	2,159
Total	\$ 109,848	\$ 101,125

### Note 6. Goodwill

We perform our annual goodwill impairment test as of the first day of the fourth quarter. If certain factors occur, including significant under performance of our business relative to expected operating results, significant adverse economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, a decision to divest individual businesses within a reporting unit, or a decision to group individual businesses differently, we may perform an impairment test prior to the fourth quarter. In addition, we early adopted ASU 2017-04 on January 1, 2019 which simplified our goodwill impairment testing by eliminating Step Two of the goodwill impairment test. See Note 1.

We acquired Certified Thermoplastics Co., LLC (“CTP”) in April 2018 and recorded goodwill of \$18.6 million in our Structural Systems segment. Since a goodwill impairment analysis is required to be performed within one year of the acquisition date or sooner upon a triggering event, we performed a Step One goodwill impairment analysis as of April 2019 for our Structural Systems segment. The fair value of our Structural Systems segment exceeded its carrying value by 85% and thus, was not deemed impaired.

The carrying amounts of our goodwill were as follows:

	Electronic Systems	Structural Systems	Consolidated Ducommun
Gross goodwill	\$ 199,157	\$ 18,622	\$ 217,779
Accumulated goodwill impairment	(81,722)	—	(81,722)
Balance at December 31, 2018	\$ 117,435	\$ 18,622	\$ 136,057
Balance at September 28, 2019	\$ 117,435	\$ 18,622	\$ 136,057

#### Note 7. Accrued and Other Liabilities

The components of accrued and other liabilities were as follows:

	(In thousands)	
	September 28, 2019	December 31, 2018
Accrued compensation	\$ 28,938	\$ 29,616
Accrued income tax and sales tax	55	82
Other	8,708	8,088
Total	\$ 37,701	\$ 37,786

#### Note 8. Long-Term Debt

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

	(In thousands)	
	September 28, 2019	December 31, 2018
Term loan	\$ 226,429	\$ 233,000
Revolving credit facility	—	—
Total debt	226,429	233,000
Less current portion	2,281	2,330
Total long-term debt, less current portion	224,148	230,670
Less debt issuance costs - term loan	1,548	1,802
Total long-term debt, net of debt issuance costs - term loan	222,600	228,868
Less debt issuance costs - revolving credit facility <sup>(1)</sup>	1,669	1,907
Total long-term debt, net of debt issuance costs	\$ 220,931	\$ 226,961
Weighted-average interest rate	6.87%	4.71%

(1) Included as part of other assets

In November 2018, we completed new credit facilities to replace the credit facilities existing at that time (“Existing Credit Facilities”). The new credit facilities consist of a \$240.0 million senior secured term loan, which matures on November 21, 2025 (“New Term Loan”), and a \$100.0 million senior secured revolving credit facility (“New Revolving Credit Facility”), which matures on November 21, 2023 (collectively, the “New Credit Facilities”).

The New Term Loan bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as the London Interbank Offered Rate [“LIBOR”]) plus an applicable margin ranging from 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 New Term Loan requires installment payments of 0.25% of the outstanding principal balance of the New Term Loan amount on a quarterly basis. We made an aggregate total of \$0.6 million and \$6.6 million of voluntary and mandatory principal prepayments under the New Term Loan during the three and nine months ended September 28, 2019, respectively.

The New Revolving Credit Facility bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR) plus an applicable margin ranging from 1.75% to 2.75% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America's prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.75% to 1.75% 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 New Revolving Credit Facility is subject to a commitment fee ranging from 0.20% to 0.30%, based upon the consolidated total net adjusted leverage ratio.

Further, if we meet the annual excess cash flow threshold, we will be required to make excess cash flow payments. The annual mandatory excess cash flow payments will be based on (i) 50% of the excess cash flow amount if the adjusted leverage ratio is greater than 3.25 to 1.0, (ii) 25% of the excess cash flow amount if the adjusted leverage ratio is less than or equal to 3.25 to 1.0 but greater than 2.50 to 1.0, and (iii) zero percent of the excess cash flow amount if the adjusted leverage ratio is less than or equal to 2.50 to 1.0. As of September 28, 2019, we were in compliance with all covenants required under the New Credit Facilities.

We had been making periodic voluntary principal prepayments on our Existing Credit Facilities and in conjunction with the closing of the New Credit Facilities on November 21, 2018, we drew down \$240.0 million on the New Term Loan, \$7.9 million on the New Revolving Credit Facility and used those proceeds along with current cash on hand to pay off the Existing Credit Facilities of \$247.9 million. The New Term Loan replacing the term loan that was a part of the Existing Credit Facilities ("Existing Term Loan") was considered an extinguishment of debt except for the portion related to a creditor that was part of the Existing Term Loan and the New Term Loan and in which case, it was considered a modification of debt. As a result, we expensed the portion of the unamortized debt issuance costs related to the Existing Term Loan that was considered an extinguishment of debt of \$0.4 million. In addition, the New Revolving Credit Facility replacing the existing revolving credit facility that was part of the Existing Credit Facilities ("Existing Revolving Credit Facility") was considered an extinguishment of debt except for the portion related to the creditors that were part of the Existing Revolving Credit Facility and the New Revolving Credit Facility and in which case, it was considered a modification of debt. As a result, we expensed the portion of the unamortized debt issuance costs related to the Existing Revolving Credit Facility that was considered an extinguishment of debt of \$0.5 million. As such, an aggregate total loss on extinguishment of debt of \$0.9 million was recorded.

Further, we incurred \$3.5 million of new debt issuance costs that can be capitalized related to the New Credit Facilities, of which \$1.7 million were allocated to the New Term Loan and the \$1.8 million was allocated to the New Revolving Credit facility. The New Term Loan new debt issuance costs of \$1.7 million and remaining unamortized Existing Term Loan debt issuance costs of \$0.1 million, for an aggregate total of \$1.8 million of debt issuance costs related to the New Term Loan were capitalized and are being amortized over the seven years life of the New Term Loan. The New Revolving Credit Facility new debt issuance costs of \$1.8 million and remaining unamortized Existing Revolving Credit Facility debt issuance costs of \$0.2 million, for an aggregate total of \$2.0 million of debt issuance costs related to the New Revolving Credit Facility were capitalized and are being amortized over the five years life of the New Revolving Credit Facility.

Subsequent to our quarter ended September 28, 2019, on October 8, 2019, we acquired Nobles for a purchase price of \$77.0 million, net of cash acquired, all payable in cash. Upon the closing of the transaction, we paid \$77.3 million in cash by drawing down on the Revolving Credit Facility. See Note 3.

In April 2018, we acquired CTP for a purchase price of \$30.7 million, net of cash acquired, all payable in cash. We paid an aggregate of \$30.8 million in cash related to this transaction by drawing down on the Existing Revolving Credit Facility. See Note 3.

As of September 28, 2019, we had \$99.8 million of unused borrowing capacity under the Revolving Credit Facility, after deducting \$0.2 million for standby letters of credit.

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

In October 2015, we entered into interest rate cap hedges designated as cash flow hedges with a portion of these interest rate cap hedges maturing on a quarterly basis, and a final quarterly maturity date of June 2020, and in aggregate, totaling \$135.0 million of our debt. We paid a total of \$1.0 million in connection with entering into the interest rate cap hedges. See Note 1 for further information.

In December 2018, 2017, and 2016, we entered into agreements to purchase \$2.2 million, \$14.2 million, and \$9.9 million of industrial revenue bonds ("IRBs") issued by the city of Parsons, Kansas ("Parsons") and concurrently, sold \$2.2 million, \$14.2 million, and \$9.9 million of property and equipment ("Property") to Parsons as well as entered into lease agreements to lease the Property from Parsons ("Leases") with lease payments totaling \$2.2 million, \$14.2 million, and \$9.9 million over the lease

terms, respectively. The sale of the Property and concurrent lease back of the Property in December 2018, 2017, and 2016 did not meet the sale-leaseback accounting requirements as a result of control not deemed to have transferred to the buyer-lessor under ASC 842 and our continuous involvement with the Property under ASC 840 and thus, the \$2.2 million, \$14.2 million, and \$9.9 million in cash received from Parsons was not recorded as a sale but as a financing obligation, respectively. Further, the Leases included a right of offset so long as we continue to own the IRBs and thus, the financing obligations of \$2.2 million, \$14.2 million, and \$9.9 million were offset against the \$2.2 million, \$14.2 million, and \$9.9 million, respectively, of IRBs assets and are presented net on the condensed consolidated balance sheets with no impact to the condensed consolidated statements of income or condensed consolidated cash flow statements.

**Note 9. Employee Benefit Plans**

The components of net periodic pension expense were as follows:

	(In thousands)		(In thousands)	
	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Service cost	\$ 126	\$ 150	\$ 377	\$ 450
Interest cost	347	317	1,041	951
Expected return on plan assets	(411)	(446)	(1,233)	(1,338)
Amortization of actuarial losses	221	185	664	557
Net periodic pension cost	\$ 283	\$ 206	\$ 849	\$ 620

The components of the reclassifications of net actuarial losses from accumulated other comprehensive loss to net income for the three and nine months ended September 28, 2019 were as follows:

	(In thousands)	
	Three Months Ended	Nine Months Ended
	September 28, 2019	September 28, 2019
Amortization of actuarial losses - total before tax <sup>(1)</sup>	\$ 221	\$ 664
Tax benefit	(51)	(154)
Net of tax	\$ 170	\$ 510

- (1) The amortization expense is included in the computation of periodic pension cost and is a decrease to net income upon reclassification from accumulated other comprehensive loss.

**Note 10. Indemnifications**

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

However, we have a directors and officers insurance policy that may reduce our exposure in certain circumstances and may enable us to recover a portion of future amounts that may be payable, if any. The duration of the guarantees and indemnities vary and, in many cases, are subject to statutes of limitations. The majority of guarantees and indemnities do not provide any limitations of the maximum potential future payments we could be obligated to make. Historically, payments related to these guarantees and indemnities have been immaterial. We estimate the amount of our indemnification obligations as insignificant based on this history and insurance coverage and therefore, have not recorded any liability for these guarantees and indemnities on the accompanying condensed consolidated balance sheets. Further, when considered with our insurance coverage, although recorded through different captions on our condensed consolidated balance sheets, the potential impact is further mitigated.

**Note 11. Income Taxes**

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily due to research and development (“R&D”) tax credits. Our effective tax rate may be subject to

fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as expected utilization of R&D tax credits, valuation allowances against deferred tax assets, the 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 deficiencies related to our equity compensation recognized in the income statement could result in fluctuations in our effective tax rate period-over-period depending on the volatility of our stock price and how many awards vest in the period. We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating loss and tax credit carryovers.

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

We recorded income tax expense of \$1.9 million for the three months ended September 28, 2019 compared to \$0.1 million for the three months ended September 29, 2018. The increase in income tax expense for the third quarter of 2019 compared to the third quarter of 2018 was primarily due to higher pre-tax income and non-deductible expenses related to officers compensation for the third quarter of 2019 compared to the third quarter of 2018.

We recorded income tax expense of \$4.3 million for the nine months ended September 28, 2019 compared to \$0.1 million for the nine months ended September 29, 2018. The increase in income tax expense for the first nine months of 2019 compared to the first nine months of 2018 was primarily due to higher pre-tax income and non-deductible expenses related to officers compensation for the first nine months of 2019 compared to the first nine months of 2018. The increase in income tax expense was partially offset by higher discrete tax benefits recognized in the first nine months of 2019 for net tax windfalls related to stock-based compensation.

Our total amount of unrecognized tax benefits was \$5.5 million and \$5.3 million as of September 28, 2019 and December 31, 2018, respectively. If recognized, \$3.5 million would affect the effective tax rate. We do not reasonably expect significant increases or decreases to our unrecognized tax benefits in the next twelve months.

#### **Note 12. Contingencies**

Structural Systems has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its facilities located in El Mirage and Monrovia, California. Based on currently available information, Ducommun has established an accrual for its estimated liability for such investigation and corrective action of \$1.5 million at both September 28, 2019 and December 31, 2018, which is reflected in other long-term liabilities on its 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, Ducommun preliminarily estimates that the range of its future liabilities in connection with the landfill located in West Covina, California is between \$0.4 million and \$3.1 million. Ducommun has established an accrual for its estimated liability in connection with the West Covina landfill of \$0.4 million at September 28, 2019, which is reflected in other long-term liabilities on its condensed consolidated balance sheet. Ducommun's ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities, and the allocation of liability among potentially responsible parties.

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

**Note 13. Business Segment Information**

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

Financial information by reportable operating segment was as follows:

	(In thousands) Three Months Ended		(In thousands) Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Net Revenues</b>				
Electronic Systems	\$ 90,588	\$ 85,696	\$ 264,045	\$ 252,606
Structural Systems	90,513	74,146	270,117	212,518
Total Net Revenues	<u>\$ 181,101</u>	<u>\$ 159,842</u>	<u>\$ 534,162</u>	<u>\$ 465,124</u>
<b>Segment Operating Income</b>				
Electronic Systems	\$ 9,657	\$ 9,050	\$ 28,750	\$ 23,463
Structural Systems	12,877	3,963	35,199	13,380
	22,534	13,013	63,949	36,843
Corporate General and Administrative Expenses <sup>(1)</sup>	(7,931)	(6,226)	(22,894)	(19,204)
Operating Income	<u>\$ 14,603</u>	<u>\$ 6,787</u>	<u>\$ 41,055</u>	<u>\$ 17,639</u>
<b>Depreciation and Amortization Expenses</b>				
Electronic Systems	\$ 3,569	\$ 3,707	\$ 10,602	\$ 11,022
Structural Systems	3,350	2,576	9,750	7,510
Corporate Administration	73	37	399	103
Total Depreciation and Amortization Expenses	<u>\$ 6,992</u>	<u>\$ 6,320</u>	<u>\$ 20,751</u>	<u>\$ 18,635</u>
<b>Capital Expenditures</b>				
Electronic Systems	\$ 1,768	\$ 879	\$ 4,820	\$ 5,091
Structural Systems	2,747	3,935	10,108	6,565
Corporate Administration	—	185	—	375
Total Capital Expenditures	<u>\$ 4,515</u>	<u>\$ 4,999</u>	<u>\$ 14,928</u>	<u>\$ 12,031</u>

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

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

	(In thousands)	
	September 28, 2019	December 31, 2018
<b>Total Assets</b>		
Electronic Systems	\$ 418,187	\$ 405,743
Structural Systems	254,171	220,993
Corporate Administration <sup>(1)</sup>	17,196	18,003
Total Assets	<u>\$ 689,554</u>	<u>\$ 644,739</u>
<b>Goodwill and Intangibles</b>		
Electronic Systems	\$ 212,808	\$ 219,872
Structural Systems	27,226	28,277
Total Goodwill and Intangibles	<u>\$ 240,034</u>	<u>\$ 248,149</u>

(1) Includes assets not specifically identified to or allocated to either the Electronic Systems or Structural Systems operating segments, including cash and cash equivalents.

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

### Overview

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

We adopted ASC 842, “Leases” (“ASC 842”), as of January 1, 2019, using the additional transition method of adoption. As such, our results for the three and nine months ended September 28, 2019 are reported under ASC 842 while our results for the three and nine months ended September 29, 2018 are reported under the prior lease accounting standard, ASC 840, “Leases” (“ASC 840”). See Note 2 to condensed consolidated financial statements included in Part I, Item I of this Form 10-Q.

Third quarter 2019 highlights:

- Revenues of \$181.1 million
- Net income of \$8.3 million, or \$0.70 per diluted share
- Adjusted EBITDA of \$23.6 million
- Acquired Nobles Worldwide, Inc. (“Nobles”) subsequent to quarter end

### Non-GAAP Financial Measures

Adjusted earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, and restructuring charges (“Adjusted EBITDA”) was \$23.6 million and \$18.1 million for the three months ended September 28, 2019 and September 29, 2018, respectively.

When viewed with our financial results prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and accompanying reconciliations, we believe Adjusted EBITDA provides additional useful information to clarify and enhance the understanding of the factors and trends affecting our past performance and future prospects. We define these measures, explain how they are calculated and provide reconciliations of these measures to the most comparable GAAP measure in the table below. Adjusted EBITDA and the related financial ratios, as presented in this 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 non-GAAP operating performance measures internally as complementary financial measures to evaluate the performance and trends of our businesses. We present Adjusted EBITDA and the related financial ratios, as applicable, because we believe that measures such as these provide useful information with respect to our ability to meet our operating commitments.

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

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

## [Table of Contents](#)

- They do not reflect the impact on earnings of charges resulting from matters unrelated to our ongoing operations; and
- Other companies in our industry may calculate Adjusted EBITDA differently from us, limiting their usefulness as comparative measures.

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

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

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

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

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

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

	(Dollars in thousands) Three Months Ended		(Dollars in thousands) Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	\$ 8,303	\$ 4,171	\$ 23,590	\$ 8,362
Interest expense	4,363	2,497	13,140	9,159
Income tax expense	1,937	119	4,325	118
Depreciation	3,291	3,276	10,126	10,058
Amortization	3,701	3,044	10,625	8,577
Stock-based compensation expense	2,051	1,299	5,322	3,414
Restructuring charges	—	3,373	—	10,952
Inventory purchase accounting adjustments	—	293	—	622
Adjusted EBITDA	\$ 23,646	\$ 18,072	\$ 67,128	\$ 51,262
% of net revenues	13.1%	11.3%	12.6%	11.0%

**Results of Operations****Third Quarter of 2019 Compared to Third Quarter of 2018**

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

	(Dollars in thousands, except per share data) Three Months Ended				(Dollars in thousands, except per share data) Nine Months Ended			
	September 28, 2019	% of Net Revenues	September 29, 2018	% of Net Revenues	September 28, 2019	% of Net Revenues	September 29, 2018	% of Net Revenues
Net Revenues	\$ 181,101	100.0 %	\$ 159,842	100.0 %	\$ 534,162	100.0 %	\$ 465,124	100.0 %
Cost of Sales	142,774	78.8 %	128,726	80.5 %	422,076	79.0 %	375,225	80.7 %
Gross Profit	38,327	21.2 %	31,116	19.5 %	112,086	21.0 %	89,899	19.3 %
Selling, General and Administrative Expenses	23,724	13.1 %	20,956	13.1 %	71,031	13.3 %	61,476	13.2 %
Restructuring Charges	—	— %	3,373	2.1 %	—	— %	10,784	2.3 %
Operating Income	14,603	8.1 %	6,787	4.3 %	41,055	7.7 %	17,639	3.8 %
Interest Expense	(4,363)	(2.4)%	(2,497)	(1.6)%	(13,140)	(2.5)%	(9,159)	(2.0)%
Income Before Taxes	10,240	5.7 %	4,290	2.7 %	27,915	5.2 %	8,480	1.8 %
Income Tax Expense	1,937	nm	119	nm	4,325	nm	118	nm
Net Income	\$ 8,303	4.6 %	\$ 4,171	2.6 %	\$ 23,590	4.4 %	\$ 8,362	1.8 %
Effective Tax Rate	18.9%	nm	2.8%	nm	15.5%	nm	1.4%	nm
Diluted Earnings Per Share	\$ 0.70	nm	\$ 0.36	nm	\$ 2.00	nm	\$ 0.72	nm

nm = not meaningful

## Net Revenues by End-Use Market and Operating Segment

Net revenues by end-use market and operating segment during the fiscal three and nine months ended September 28, 2019 and September 29, 2018, respectively, were as follows:

	Three Months Ended					Nine Months Ended				
	Change	(Dollars in thousands)		% of Net Revenues		Change	(Dollars in thousands)		% of Net Revenues	
		September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018		September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Consolidated Ducommun</b>										
Military and space	\$ 9,028	\$ 80,487	\$ 71,459	44.4%	44.7%	\$ 23,495	\$ 231,635	\$ 208,140	43.4%	44.7%
Commercial aerospace	12,579	88,922	76,343	49.1%	47.8%	50,061	269,080	219,019	50.4%	47.1%
Industrial	(348)	11,692	12,040	6.5%	7.5%	(4,518)	33,447	37,965	6.2%	8.2%
<b>Total</b>	<b>\$ 21,259</b>	<b>\$ 181,101</b>	<b>\$ 159,842</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$ 69,038</b>	<b>\$ 534,162</b>	<b>\$ 465,124</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Electronic Systems</b>										
Military and space	\$ 5,013	\$ 59,081	\$ 54,068	65.2%	63.1%	\$ 15,844	\$ 176,813	\$ 160,969	67.0%	63.7%
Commercial aerospace	227	19,815	19,588	21.9%	22.9%	113	53,785	53,672	20.4%	21.3%
Industrial	(348)	11,692	12,040	12.9%	14.0%	(4,518)	33,447	37,965	12.6%	15.0%
<b>Total</b>	<b>\$ 4,892</b>	<b>\$ 90,588</b>	<b>\$ 85,696</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$ 11,439</b>	<b>\$ 264,045</b>	<b>\$ 252,606</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Structural Systems</b>										
Military and space	\$ 4,015	\$ 21,406	\$ 17,391	23.6%	23.5%	\$ 7,651	\$ 54,822	\$ 47,171	20.3%	22.2%
Commercial aerospace	12,352	69,107	56,755	76.4%	76.5%	49,948	215,295	165,347	79.7%	77.8%
<b>Total</b>	<b>\$ 16,367</b>	<b>\$ 90,513</b>	<b>\$ 74,146</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$ 57,599</b>	<b>\$ 270,117</b>	<b>\$ 212,518</b>	<b>100.0%</b>	<b>100.0%</b>

Net revenues for the three months ended September 28, 2019 were \$181.1 million, compared to \$159.8 million for the three months ended September 29, 2018. The year-over-year increase was primarily due to the following:

- \$12.6 million higher revenues in our commercial aerospace end-use markets due to additional content and higher build rates on large aircraft platforms; and
- \$9.0 million higher revenues in our military and space end-use markets due to higher build rates on other military and space platforms and various missile platforms.

Net revenues for the nine months ended September 28, 2019 were \$534.2 million, compared to \$465.1 million for the nine months ended September 29, 2018. The year-over-year increase was primarily due to the following:

- \$50.1 million higher revenues in our commercial aerospace end-use markets due to additional content and higher build rates on large aircraft platforms; and
- \$23.5 million higher revenues in our military and space end-use markets due to higher build rates on other military and space platforms and various missile 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 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Boeing Company	13.8%	17.0%	16.7%	17.1%
Raytheon Company	11.3%	11.5%	11.2%	11.8%
Spirit Aerosystems Holdings, Inc.	11.9%	10.2%	12.9%	9.3%
Total top ten customers <sup>(1)</sup>	61.5%	62.0%	64.6%	62.9%

(1) Includes The Boeing Company (“Boeing”), Raytheon Company (“Raytheon”), and Spirit Aerosystems Holdings, Inc. (“Spirit”).

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

	September 28, 2019	December 31, 2018
Boeing	14.1%	8.0%
Raytheon	5.3%	2.8%
Spirit	3.5%	0.1%

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

### Gross Profit

Gross profit consists of net revenues less cost of sales. Cost of sales includes the cost of production of finished products and other expenses related to inventory management, manufacturing quality, and order fulfillment. Gross profit margin as a percentage of net revenues increased year-over-year in the three months ended September 28, 2019 to 21.2%, compared to the three months ended September 29, 2018 of 19.5% due to favorable manufacturing volume, favorable product mix, and manufacturing efficiencies.

Gross profit margin as a percentage of net revenues increased year-over-year in the nine months ended September 28, 2019 to 21.0%, compared to the nine months ended September 29, 2018 of 19.3% primarily due to favorable manufacturing volume, favorable product mix, and manufacturing efficiencies, partially offset by higher other manufacturing costs.

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

SG&A expenses increased \$2.8 million year-over-year in the three months ended September 28, 2019 compared to the three months ended September 29, 2018 due to higher other corporate related expenses of \$1.0 million and higher compensation and benefit costs of \$0.8 million.

SG&A expenses increased \$9.6 million year-over-year in the nine months ended September 28, 2019 compared to the nine months ended September 29, 2018 primarily due to higher compensation and benefit costs of \$5.2 million, one-time severance charges of \$1.7 million, and higher other corporate related expenses of \$1.7 million.

### Restructuring Charges

Restructuring charges decreased \$3.4 million and \$11.0 million (including \$0.2 million in cost of sales) year-over-year in the three and nine months ended September 28, 2019 compared to the three and nine months ended September 29, 2018, respectively, due to the restructuring plan implemented in November 2017 that was expected to increase operating efficiencies and was completed by December 31, 2018. See Note 4 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

### Interest Expense

Interest expense increased year-over-year in the three and nine months ended September 28, 2019 compared to the three and nine months ended September 29, 2018 due to higher interest rates.

### Income Tax Expense

We recorded income tax expense of \$1.9 million for the three months ended September 28, 2019 compared to \$0.1 million for the three months ended September 29, 2018. The increase in income tax expense for the third quarter of 2019 compared to the third quarter of 2018 was primarily due to higher pre-tax income and non-deductible expenses related to officers compensation for the third quarter of 2019 compared to the third quarter of 2018.

We recorded income tax expense of \$4.3 million for the nine months ended September 28, 2019 compared to an income tax expense of less than \$0.1 million for the nine months ended September 29, 2018. The increase in income tax expense for the first nine months of 2019 compared to the first nine months of 2018 was primarily due to higher pre-tax income and non-deductible expenses related to officers compensation. The increase in income tax expense was partially offset by higher discrete tax benefits recognized in the first nine months of 2019 for net tax windfalls related to share-based compensation.

Our total amount of unrecognized tax benefits was \$5.5 million and \$5.3 million as of September 28, 2019 and December 31, 2018, respectively. If recognized, \$3.5 million would affect the effective tax rate. We do not reasonably expect significant increases or decreases to our unrecognized tax benefits in the next twelve months.

### **Net Income and Earnings per Share**

Net income and earnings per share for the three months ended September 28, 2019 were \$8.3 million, or \$0.70 per diluted share, compared to \$4.2 million, or \$0.36 per diluted share, for the three months ended September 29, 2018. The increase in net income for the three months ended September 28, 2019 compared to the three months ended September 29, 2018 was due to \$7.2 million of higher gross profit as a result of higher revenues and improved operating performance. Restructuring charges were lower by \$3.4 million that were offset by \$2.8 million of higher selling, general and administrative expenses, \$1.9 million of higher interest expense, and \$1.8 million of higher income taxes.

Net income and earnings per share for the nine months ended September 28, 2019 were \$23.6 million, or \$2.00 per diluted share, compared to \$8.4 million, or \$0.72 per diluted share, for the nine months ended September 29, 2018. The increase in net income for the nine months ended September 28, 2019 compared to the nine months ended September 29, 2018 was due to \$22.2 million of higher gross profit as a result of higher revenues and improved operating performance. Restructuring charges were lower by \$11.0 million that were offset by \$9.6 million of higher selling, general and administrative expenses, \$4.2 million of higher income taxes, and \$4.0 million of higher interest expense.

## Business Segment Performance

We report our financial performance based upon the two reportable operating segments: Electronic Systems and Structural Systems. The results of operations differ between our reportable operating segments due to differences in competitors, customers, extent of proprietary deliverables and performance. The following table summarizes our business segment performance for the three and nine months ended September 28, 2019 and September 29, 2018:

	Three Months Ended					Nine Months Ended				
	% Change	(Dollars in thousands)		% of Net Revenues		% Change	(Dollars in thousands)		% of Net Revenues	
		September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018		September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Net Revenues</b>										
Electronic Systems	5.7%	\$ 90,588	\$ 85,696	50.0 %	53.6 %	4.5%	\$ 264,045	\$ 252,606	49.4 %	54.3 %
Structural Systems	22.1%	90,513	74,146	50.0 %	46.4 %	27.1%	270,117	212,518	50.6 %	45.7 %
Total Net Revenues	13.3%	\$ 181,101	\$ 159,842	100.0 %	100.0 %	14.8%	\$ 534,162	\$ 465,124	100.0 %	100.0 %
<b>Segment Operating Income</b>										
Electronic Systems		\$ 9,657	\$ 9,050	10.7 %	10.6 %		\$ 28,750	\$ 23,463	10.9 %	9.3 %
Structural Systems		12,877	3,963	14.2 %	5.3 %		35,199	13,380	13.0 %	6.3 %
		22,534	13,013				63,949	36,843		
Corporate General and Administrative Expenses <sup>(1)</sup>		(7,931)	(6,226)	(4.4)%	(3.9)%		(22,894)	(19,204)	(4.3)%	(4.1)%
Total Operating Income		\$ 14,603	\$ 6,787	8.1 %	4.3 %		\$ 41,055	\$ 17,639	7.7 %	3.8 %
<b>Adjusted EBITDA</b>										
Electronic Systems										
Operating Income		\$ 9,657	\$ 9,050				\$ 28,750	\$ 23,463		
Depreciation and Amortization		3,569	3,707				10,602	11,022		
Restructuring Charges		—	1,150				—	2,406		
		13,226	13,907	14.6 %	16.2 %		39,352	36,891	14.9 %	14.6 %
Structural Systems										
Operating Income		12,877	3,963				35,199	13,380		
Depreciation and Amortization		3,350	2,576				9,750	7,510		
Restructuring Charges		—	1,612				—	6,748		
Inventory Purchase Accounting Adjustments		—	293				—	622		
		16,227	8,444	17.9 %	11.4 %		44,949	28,260	16.6 %	13.3 %
Corporate General and Administrative Expenses <sup>(1)</sup>										
Operating Loss		(7,931)	(6,226)				(22,894)	(19,204)		
Depreciation and Amortization		73	37				399	103		
Stock-Based Compensation Expense		2,051	1,299				5,322	3,414		
Restructuring Charges		—	611				—	1,798		
		(5,807)	(4,279)				(17,173)	(13,889)		
Adjusted EBITDA		\$ 23,646	\$ 18,072	13.1 %	11.3 %		\$ 67,128	\$ 51,262	12.6 %	11.0 %
<b>Capital Expenditures</b>										
Electronic Systems		\$ 1,768	\$ 879				\$ 4,820	\$ 5,091		
Structural Systems		2,747	3,935				10,108	6,565		
Corporate Administration		—	185				—	375		
Total Capital Expenditures		\$ 4,515	\$ 4,999				\$ 14,928	\$ 12,031		

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

### Electronic Systems

Electronic Systems net revenues in the three months ended September 28, 2019 compared to the three months ended September 29, 2018 increased \$4.9 million primarily due to the following:

- \$5.0 million higher revenues in our military and space end-use markets due to higher build rates on other military and space platforms and various missile platforms, partially offset by lower military rotary-wing aircraft due to timing of orders; and
- \$0.2 million higher revenues in our commercial aerospace end-use markets.

Electronic Systems net revenues in the nine months ended September 28, 2019 compared to the nine months ended September 29, 2018 increased \$11.4 million primarily due to the following:

- \$15.8 million higher revenues in our military and space end-use markets due to higher build rates on other military and space platforms and various missile platforms, partially offset by lower military rotary-wing aircraft due to timing of orders; and
- \$0.1 million higher revenues in our commercial aerospace end-use markets.

Electronic Systems segment operating income in the three months ended September 28, 2019 compared to the three months ended September 29, 2018 increased \$0.6 million due to lower restructuring charges in the current year.

Electronic Systems segment operating income in the nine months ended September 28, 2019 compared to the nine months ended September 29, 2018 increased \$5.3 million due to favorable product mix, improved manufacturing efficiencies, lower restructuring charges in the current year, and favorable manufacturing volume.

### Structural Systems

Structural Systems net revenues in the three months ended September 28, 2019 compared to the three months ended September 29, 2018 increased \$16.4 million due to the following:

- \$12.4 million higher revenues in our commercial aerospace end-use markets due to additional content and higher build rates on large aircraft platforms; and
- \$4.0 million higher revenues in our military and space end-use markets due to higher build rates on military rotary-wing aircraft platforms and various missile platforms.

Structural Systems net revenues in the nine months ended September 28, 2019 compared to the nine months ended September 29, 2018 increased \$57.6 million due to the following:

- \$49.9 million higher revenues in our commercial aerospace end-use markets due to additional content and higher build rates on large aircraft platforms; and
- \$7.7 million higher revenues in our military and space end-use markets due to higher build rates on military rotary-wing aircraft platforms.

The Structural Systems segment operating income in the three and nine months ended September 28, 2019 compared to the three and nine months ended September 29, 2018 increased \$8.9 million and \$21.8 million, respectively, due to favorable manufacturing volume, favorable product mix, improved manufacturing efficiencies, and lower restructuring charges in the current year.

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

CG&A expenses increased \$1.7 million in the three months ended September 28, 2019 compared to the three months ended September 29, 2018 due to higher other corporate expenses of \$1.0 million and higher compensation and benefit costs of \$0.7 million, partially offset by lower restructuring charges in the current year of \$0.6 million.

CG&A expenses increased \$3.7 million in the nine months ended September 28, 2019 compared to the nine months ended September 29, 2018 due to higher compensation and benefit costs of \$2.6 million, one-time severance charges of \$1.7 million, and higher other corporate expenses of \$1.1 million, partially offset by lower restructuring charges in the current year of \$1.8 million and lower professional services fees of \$0.6 million.

### **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

## [Table of Contents](#)

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 and industrial end-use markets. \$574.0 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of September 28, 2019 and December 31, 2018:

		(Dollars in thousands)	
	Change	September 28, 2019	December 31, 2018
<b><u>Consolidated Ducommun</u></b>			
Military and space	\$ 33,049	\$ 372,492	\$ 339,443
Commercial aerospace	(57,864)	429,368	487,232
Industrial	(4,460)	33,314	37,774
Total	<u>\$ (29,275)</u>	<u>\$ 835,174</u>	<u>\$ 864,449</u>
<b><u>Electronic Systems</u></b>			
Military and space	\$ 14,573	\$ 255,769	\$ 241,196
Commercial aerospace	20,068	68,100	48,032
Industrial	(4,460)	33,314	37,774
Total	<u>\$ 30,181</u>	<u>\$ 357,183</u>	<u>\$ 327,002</u>
<b><u>Structural Systems</u></b>			
Military and space	\$ 18,476	\$ 116,723	\$ 98,247
Commercial aerospace	(77,932)	361,268	439,200
Total	<u>\$ (59,456)</u>	<u>\$ 477,991</u>	<u>\$ 537,447</u>

## Liquidity and Capital Resources

### Available Liquidity

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

	(Dollars in millions)	
	September 28, 2019	December 31, 2018
Total debt, including long-term portion	\$ 226.4	\$ 233.0
Weighted-average interest rate on debt	6.87%	4.71%
Term Loan interest rate	6.49%	4.15%
Cash and cash equivalents	\$ 6.4	\$ 10.3
Unused Revolving Credit Facility	\$ 99.8	\$ 99.7

In November 2018, we completed new credit facilities to replace the Existing Credit Facilities. The new credit facilities consist of a \$240.0 million senior secured term loan, which matures on November 21, 2025 (“New Term Loan”), and a \$100.0 million senior secured revolving credit facility (“New Revolving Credit Facility”), which matures on November 21, 2023 (collectively, the “New Credit Facilities”). We are required to make installment payments of 0.25% of the outstanding principal balance of the New Term Loan amount on a quarterly basis. In addition, if we meet the annual excess cash flow threshold, we will be required to make excess flow payments on an annual basis. Further, the undrawn portion of the commitment of the New Revolving Credit Facility is subject to a commitment fee ranging from 0.20% to 0.30%, based upon the consolidated total net adjusted leverage ratio. As of September 28, 2019, we were in compliance with all covenants required under the Credit Facilities. See Note 8 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information. We made an aggregate total of \$0.6 million and \$6.6 million of voluntary and mandatory principal prepayments under the Term Loan during the three and nine months ended September 28, 2019, respectively.

In October 2015, we entered into interest rate cap hedges designated as cash flow hedges with maturity dates of June 2020, and in aggregate, totaling \$135.0 million of our debt. We paid a total of \$1.0 million in connection with entering into the interest rate cap hedges.

## [Table of Contents](#)

Subsequent to our quarter ended September 28, 2019, on October 8, 2019, we acquired Nobles Parent Inc., the parent company of Nobles Worldwide, Inc. (“Nobles”) for a purchase price of \$77.0 million, net of cash acquired, all payable in cash. Upon the closing of the transaction, we paid \$77.3 million in cash by drawing down on the Revolving Credit Facility. See Note 3 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

In April 2018, we acquired Certified Thermoplastics Co., LLC (“CTP”) for a purchase price of \$30.7 million, net of cash acquired, all payable in cash. We paid an aggregate of \$30.8 million in cash by drawing down on the Revolving Credit Facility. See Note 3 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

We expect to spend a total of \$16.0 million to \$18.0 million for capital expenditures in 2019 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 continue to depend on operating cash flow and the availability of our New Credit Facilities to provide short-term liquidity. Cash generated from operations and bank borrowing capacity are expected to provide sufficient liquidity to meet our obligations during the next twelve months.

### **Cash Flow Summary**

Net cash provided by operating activities for the nine months ended September 28, 2019 was \$20.1 million, compared to \$33.4 million for the nine months ended September 29, 2018. The lower net cash generated during the first nine months of 2019 was due to higher contract assets, higher accounts receivable, and higher inventories, partially offset by higher net income.

Net cash used in investing activities was \$14.7 million for the nine months ended September 28, 2019 compared to \$43.4 million in the nine months ended September 29, 2018. The lower net cash used in the first nine months of 2019 compared to the prior year period was due to lower acquisitions in the current year.

Net cash used in financing activities was \$8.9 million for the nine months ended September 28, 2019 compared to net cash provided of \$11.4 million for the first nine months of September 29, 2018. The higher net cash used in the first nine months of 2019 was due to higher net repayments on the Revolving Credit Facility and higher repayments on the Term Loan.

### **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 as a part of the adoption of ASC 842 as of January 1, 2019 and indemnities.

### **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 2018 Annual Report on Form 10-K. As a result of adopting ASC 842 as of January 1, 2019, there have been material changes to our lease accounting policies during the nine months ended September 28, 2019, and are described in Note 2 to our condensed consolidated financial statements included in Part I, Item I of this Form 10-Q.

### **Recent Accounting Pronouncements**

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

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

Our main market risk exposure relates to changes in U.S. interest rates on our outstanding long-term debt. At September 28, 2019, we had total borrowings of \$226.4 million under our New Credit Facilities.

The New Term Loan bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as the London Interbank Offered Rate [“LIBOR”]) plus an applicable margin ranging from 3.75% to 4.00% per year or (ii) the Base Rate

## [Table of Contents](#)

(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.

The New Revolving Credit Facility bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR) plus an applicable margin ranging from 1.75% to 2.75% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America's prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.75% to 1.75% 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 the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)), and concluded that such disclosure controls 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 controls over financial reporting during the three months ended September 28, 2019 that would have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

See Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 for a discussion of our risk factors. There have been no material changes in the nine months ended September 28, 2019 to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

### **Item 4. Mine Safety Disclosures**

Not applicable.

## Table of Contents

### **Item 6. Exhibits**

- [2.1 Agreement and Plan of Merger, dated as of April 3, 2011, among Ducommun Incorporated, DLBMS, Inc. and LaBarge, Inc. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on April 5, 2011.](#)
- [2.2 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.](#)
- [2.3 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.](#)
- [2.4 Stock Purchase Agreement dated January 22, 2016, by and among Ducommun Incorporated, Ducommun LaBarge Technologies, Inc., as Seller, LaBarge Electronics, Inc., and Intervala, LLC, as Buyer. Incorporated by reference to Exhibit 2.1 to Form 8-K dated January 25, 2016.](#)
- [2.5 Stock Purchase Agreement dated February 24, 2016, by and between Ducommun LaBarge Technologies, Inc., as Seller, and General Atomics, as Buyer. Incorporated by reference to Exhibit 2.1 to Form 8-K dated February 24, 2016.](#)
- 3.1 Restated Certificate of Incorporation filed with the Delaware Secretary of State on May 29, 1990. Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 1990.
- [3.2 Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on May 27, 1998. Incorporated by reference to Exhibit 3.2 to Form 10-K for the year ended December 31, 1998.](#)
- [3.3 Bylaws as amended and restated on March 19, 2013. Incorporated by reference to Exhibit 99.1 to Form 8-K dated March 22, 2013.](#)
- [3.4 Amendment to Bylaws dated January 5, 2017. Incorporated by reference to Exhibit 99.2 to Form 8-K dated January 9, 2017.](#)
- [3.5 Amendment to Bylaws dated February 21, 2018. Incorporated by reference to Exhibit 3.1 to Form 8-K dated February 26, 2018.](#)
- [10.1 Credit Agreement, dated as of November 21, 2018, among Ducommun Incorporated, certain of its subsidiaries, Bank of America, N.A., as administrative agent, swingline lender and issuing bank, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 26, 2018.](#)
- [\\*10.2 2007 Stock Incentive Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 29, 2010.](#)
- [\\*10.3 2013 Stock Incentive Plan \(Amended and Restated March 18, 2015\). Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on April 22, 2015.](#)
- [\\*10.4 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.](#)
- [\\*10.5 2018 Employee Stock Purchase Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 23, 2018.](#)
- [\\*10.6 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 Performance Stock Unit Agreement for 2014 and 2015. Incorporated by reference to Exhibit 10.19 to Form 10-Q for the period ended March 29, 2014.](#)
- [\\*10.10 Form of Performance Stock Unit Agreement for 2016. Incorporated by reference to Exhibit 10.6 to Form 10-Q for the period ended April 2, 2016.](#)
- [\\*10.11 Form of Performance Stock Unit Agreement for 2017. Incorporated by reference to Exhibit 10.21 to Form 10-Q for the period ended April 1, 2017.](#)
- [\\*10.12 Form of Restricted Stock Unit Agreement for 2016 and earlier. Incorporated by reference to Exhibit 99.1 to Form 8-K dated May 8, 2007.](#)

## Table of Contents

[\\*10.13 Form of Restricted Stock Unit Agreement for 2017 and after. Incorporated by reference to Exhibit 10.9 to Form 10-K for the year ended December 31, 2016.](#)

[\\*10.14 Form of Directors' Restricted Stock Unit Agreement. Incorporated by reference to Exhibit 99.1 to Form 8-K dated May 10, 2010.](#)

[\\*10.15 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.](#)

\*10.16 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
Gregory S. Churchill	March 19, 2013
Shirley G. Drazba	October 18, 2018
Robert C. Ducommun	December 31, 1985
Dean M. Flatt	November 5, 2009
Jay L. Haberland	February 2, 2009
Stephen G. Oswald	January 23, 2017
Robert D. Paulson	March 25, 2003
Jerry L. Redondo	October 1, 2015
Rosalie F. Rogers	July 24, 2008
Christopher D. Wampler	January 1, 2016

[\\*10.17 Ducommun Incorporated 2016 Bonus Plan. Incorporated by reference to Exhibit 99.3 to Form 8-K dated March 1, 2016.](#)

[\\*10.18 Ducommun Incorporated 2017 Bonus Plan. Incorporated by reference to Exhibit 99.1 to Form 8-K dated February 27, 2017.](#)

[\\*10.19 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.](#)

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

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

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

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

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

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

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

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

## Table of Contents

[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 XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

---

\* 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: October 30, 2019

By: /s/ Stephen G. Oswald

Stephen G. Oswald

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

Date: October 30, 2019

By: /s/ Christopher D. Wampler

Christopher D. Wampler

Vice President, Interim Chief Financial Officer and Treasurer, and  
Controller and Chief Accounting 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 28, 2019;
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: October 30, 2019

/s/ Stephen G. Oswald

---

Stephen G. Oswald

Chairman, President and Chief Executive Officer

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

I, Christopher D. Wampler, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the “registrant”) on Form 10-Q for the period ended September 28, 2019;
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: October 30, 2019

/s/ Christopher D. Wampler

---

Christopher D. Wampler

Vice President, Interim Chief Financial Officer and  
Treasurer, and Controller and Chief Accounting Officer

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

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending September 28, 2019, 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  
October 30, 2019

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending September 28, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher D. Wampler, Vice President, Interim Chief Financial Officer and Treasurer, and Controller and Chief Accounting 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/ Christopher D. Wampler

---

Christopher D. Wampler  
Vice President, Interim Chief Financial Officer and Treasurer, and  
Controller and Chief Accounting Officer  
October 30, 2019

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.