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 26, 2020

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	**95-0693330**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Sandpointe Avenue, Suite 700, Santa Ana, California	**92707-5759**
(Address of principal executive offices)	(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 x No ☐

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit). Yes x 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	☐	Accelerated filer	x
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 x

As of October 20, 2020, the registrant had 11,714,590 shares of common stock outstanding.

DUCOMMUN INCORPORATED AND SUBSIDIARIES

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 26, 2020	December 31, 2019
Assets		
Current Assets		
Cash and cash equivalents	$ 74,555	$ 39,584
Accounts receivable, net (allowance for credit losses of $1,423 and $1,321 at September 26, 2020 and December 31, 2019, respectively	62,805	67,133
Contract assets	140,717	106,670
Inventories	127,038	112,482
Production cost of contracts	7,552	9,402
Other current assets	12,438	5,497
Total Current Assets	425,105	340,768
Property and equipment, net of accumulated depreciation of $169,292 and $162,920 at September 26, 2020 and December 31, 2019, respectively	107,003	115,216
Operating Lease Right-of-Use Assets	17,098	19,105
Goodwill	170,830	170,917
Intangibles, Net	128,019	138,362
Deferred Income Taxes	58	55
Other Assets	5,248	6,006
Total Assets	$ 853,361	$ 790,429
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 65,692	$ 82,597
Contract liabilities	26,833	14,517
Accrued and other liabilities	35,276	37,620
Operating lease liabilities	3,106	2,956
Current portion of long-term debt	7,000	7,000
Total Current Liabilities	137,907	144,690
Long-Term Debt, Less Current Portion	340,324	300,887
Non-Current Operating Lease Liabilities	15,346	17,565
Deferred Income Taxes	18,405	16,766
Other Long-Term Liabilities	21,944	17,721
Total Liabilities	533,926	497,629
Commitments and Contingencies (Notes 8, 10)		
Shareholders' Equity		
Common stock - $0.01 par value; 35,000,000 shares authorized; 11,714,590 and 11,572,668 shares issued and outstanding at September 26, 2020 and December 31, 2019, respectively	117	116
Additional paid-in capital	94,783	88,399
Retained earnings	232,074	212,553
Accumulated other comprehensive loss	(7,539)	(8,268)
Total Shareholders' Equity	319,435	292,800
Total Liabilities and Shareholders' Equity	$ 853,361	$ 790,429

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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net Revenues	$ 150,371	$ 181,101	$ 471,155	$ 534,162
Cost of Sales	116,906	142,774	368,218	422,076
Gross Profit	33,465	38,327	102,937	112,086
Selling, General and Administrative Expenses	22,093	23,724	67,253	71,031
Restructuring Charges	1,107	—	1,768	—
Operating Income	10,265	14,603	33,916	41,055
Interest Expense	(3,101)	(4,363)	(11,068)	(13,140)
Other Income	99	—	99	—
Income Before Taxes	7,263	10,240	22,947	27,915
Income Tax Expense	762	1,937	3,426	4,325
Net Income	$ 6,501	$ 8,303	$ 19,521	$ 23,590
Earnings Per Share				
Basic earnings per share	$ 0.56	$ 0.72	$ 1.67	$ 2.05
Diluted earnings per share	$ 0.54	$ 0.70	$ 1.64	$ 2.00
Weighted-Average Number of Common Shares Outstanding				
Basic	11,703	11,551	11,660	11,501
Diluted	11,959	11,794	11,886	11,784

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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net Income	$ 6,501	$ 8,303	$ 19,521	$ 23,590
Other Comprehensive Income, Net of Tax:				
Amortization of actuarial loss and prior service costs, net of tax of $59 and $51 for the three months ended September 26, 2020 and September 28, 2019, respectively, and $177 and $154 for the nine months ended September 26, 2020 and September 28, 2019, respectively	189	170	567	510
Change in unrealized gains and losses on cash flow hedges, net of tax of zero and $29 for the three months ended September 26, 2020 and September 28, 2019, respectively, and $57 and $2 for the nine months ended September 26, 2020 and September 28, 2019, respectively	—	91	162	—
Other Comprehensive Income, Net of Tax	189	261	729	510
Comprehensive Income	$ 6,690	$ 8,564	$ 20,250	$ 24,100

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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Common Stock and Paid-in-Capital				
Balance, Beginning of Period	$ 91,762	$ 83,959	$ 88,515	$ 83,826
Employee Stock Purchase Plan	1,085	1,118	2,197	1,118
Stock Options Exercised	79	570	349	1,409
Stock Awards Vested	—	(1)	(1)	(2)
Stock Repurchased Related to the Exercise of Stock Options and Stock Awards Vested	(102)	(753)	(2,765)	(4,729)
Stock-Based Compensation	2,076	2,051	6,605	5,322
Balance, End of Period	94,900	86,944	94,900	86,944
Retained Earnings				
Balance, Beginning of Period	225,573	195,379	212,553	180,356
Net Income	6,501	8,303	19,521	23,590
Adoption of ASC 842 Adjustment	—	—	—	(264)
Balance, End of Period	232,074	203,682	232,074	203,682
Accumulated Other Comprehensive Loss				
Balance, Beginning of Period	(7,728)	(7,108)	(8,268)	(7,357)
Other Comprehensive Income, Net of Tax	189	261	729	510
Balance, End of Period	(7,539)	(6,847)	(7,539)	(6,847)
Total Stockholders' Equity	$ 319,435	$ 283,779	$ 319,435	$ 283,779

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 26, 2020	September 28, 2019
Cash Flows from Operating Activities		
Net Income	$ 19,521	$ 23,590
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and amortization	21,741	20,751
Non-cash operating lease cost	2,325	1,972
Stock-based compensation expense	6,605	5,322
Deferred income taxes	1,715	113
Provision for (recovery of) credit losses	102	(239)
Insurance recoveries related to loss on operating assets	2,220	—
Other	579	152
Changes in Assets and Liabilities:		
Accounts receivable	4,226	(8,944)
Contract assets	(34,047)	(15,810)
Inventories	(17,991)	(8,723)
Production cost of contracts	(658)	(1,537)
Other assets	133	525
Accounts payable	(16,584)	8,806
Contract liabilities	12,316	(5,295)
Operating lease liabilities	(2,188)	(2,026)
Accrued and other liabilities	1,506	1,412
Net Cash Provided by Operating Activities	**1,521**	**20,069**
Cash Flows from Investing Activities		
Purchases of property and equipment	(8,235)	(14,698)
Insurance recoveries related to property and equipment	2,780	—
Post closing cash received from the acquisition of Nobles Worldwide, Inc., net	190	—
Net Cash Used in Investing Activities	**(5,265)**	**(14,698)**
Cash Flows from Financing Activities		
Borrowings from senior secured revolving credit facility	65,900	163,500
Repayments of senior secured revolving credit facility	(15,900)	(163,500)
Repayments of term loans	(10,862)	(6,570)
Repayments of other debt	(203)	(118)
Net cash paid upon issuance of common stock under stock plans	(220)	(2,204)
Net Cash Provided by (Used in) Financing Activities	**38,715**	**(8,892)**
Net Increase (Decrease) in Cash and Cash Equivalents	34,971	(3,521)
Cash and Cash Equivalents at Beginning of Period	39,584	10,263
Cash and Cash Equivalents at End of Period	**$ 74,555**	**$ 6,742**

See accompanying notes to Condensed Consolidated Financial Statements.

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

Note 1. Summary of Significant Accounting Policies

Description of Business

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

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries ("Ducommun," the "Company," "we," "us" or "our"), after eliminating intercompany balances and transactions. The December 31, 2019 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, 2019. 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, 2019.

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 26, 2020 are not necessarily indicative of the results to be expected for the full year ending December 31, 2020.

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.

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 26, 2020	September 28, 2019
Interest paid	$ 8,825	$ 11,597
Taxes paid	$ 2,559	$ 4,610
Non-cash activities:		
Purchases of property and equipment not paid	$ 1,059	$ 1,054

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) Three Months Ended		(In thousands, except per share data) Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income	$ 6,501	$ 8,303	$ 19,521	$ 23,590
Weighted-average number of common shares outstanding				
Basic weighted-average common shares outstanding	11,703	11,551	11,660	11,501
Dilutive potential common shares	256	243	226	283
Diluted weighted-average common shares outstanding	11,959	11,794	11,886	11,784
Earnings per share				
Basic	$ 0.56	$ 0.72	$ 1.67	$ 2.05
Diluted	$ 0.54	$ 0.70	$ 1.64	$ 2.00

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 awards may be potentially dilutive common shares in the future.

	(In thousands) Three Months Ended		(In thousands) Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Stock options and stock units	341	206	340	100

Fair Value

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

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

There were no transfers between Level 1, Level 2, or Level 3 financial instruments in the three months ended September 26, 2020.

Cash and Cash Equivalents

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

Derivative Instruments

We recognize derivative instruments on our condensed consolidated balance sheets at their fair value. On the date that we enter into a derivative contract, we designate the derivative instrument as a fair value hedge, a cash flow hedge, 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 26, 2020, we had no derivative instruments as all of our derivative instruments that were designated as cash flow hedges matured during our second quarter of 2020.

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 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 26, 2020, the impact of cash flow hedges in the respective periods were insignificant and all of our cash flow hedges matured during our second quarter of 2020.

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.

Restructuring Charges

In May 2020, management approved and commenced a restructuring plan in the Structural Systems segment mainly to reduce headcount in response to the impact from the COVID-19 pandemic on the commercial aerospace demand outlook. We recorded an aggregate total of $1.1 million and $1.8 million for severance and benefit costs which were charged to restructuring charges during the three and nine months ended September 26, 2020, respectively.

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.

Accumulated Other Comprehensive Loss

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

Revenue Recognition

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

We have a significant number of contracts that are started and completed within the same year, as well as contracts derived from long-term agreements and programs that can span several years. We recognize revenue when control of the promised goods is transferred to our customers, in an amount that reflects the consideration to which we expect to be entitled to in exchange for those goods. We apply a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when or as the corresponding performance obligation is satisfied.

Each distinct promise to transfer products is considered an identified performance obligation for which revenue is recognized upon transfer of control of the products to our customer. The majority of our contracts have a single performance obligation as the promise to transfer the individual good is not separately identifiable from other promises in the contract and is, therefore, not distinct. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

Orders for our products generally correspond to the production schedules of our customers and are supported with purchase orders with firm fixed price and firm delivery dates. Our customers have continuous control of the work-in-process and finished goods throughout the manufacturing process, as products are built to customer specifications with no alternative use, and there is an enforceable right to payment for work performed to date. As a result, we recognize revenue over time based on the extent of progress towards satisfaction of the performance obligation. The majority of our contracts are production-type contracts for which we have significant historical manufacturing experience. From time to time, we may enter into development type contracts which require more judgment to determine our total estimated costs at completion, including estimates of materials and labor costs to complete the contract. Revenue recognized is based on the cost-to-cost method as it best depicts the transfer of control to our customer which takes place as we incur costs. Under the cost-to-cost measure of progress, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion. Revenues are recorded proportionally as costs are incurred.

We also have some contracts where we recognize revenue at a point in time upon transfer of control of the products to the customer. Point in time recognition was determined as the customer does not simultaneously receive or consume the benefits provided by our performance and the asset being manufactured has alternative uses to us.

Our manufacturing costs include materials, labor, and overhead. A component of materials costs is 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.

As a significant change in estimated costs at completion could affect the estimated gross profit recorded for our contracts, we review and update our estimated costs at completion on a regular basis. We recognize adjustments in estimated gross profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on gross 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 period 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 gross profit recorded were not material for both the three and nine months ended September 26, 2020 and September 28, 2019.

Contract Assets and Contract Liabilities

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 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 26, 2020	December 31, 2019
Contract assets	$ 140,717	$ 106,670
Contract liabilities	$ 26,833	$ 14,517

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 26, 2020 totaled $746.1 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 2021 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) Three Months Ended		(In thousands) Nine Months Ended	
	September 26 2020	September 28, 2019	September 26 2020	September 28, 2019
Consolidated Ducommun				
Military and space	$ 113,859	$ 80,487	$ 307,479	$ 231,635
Commercial aerospace	26,020	88,922	130,948	269,080
Industrial	10,492	11,692	32,728	33,447
Total	$ 150,371	$ 181,101	$ 471,155	$ 534,162
Electronic Systems				
Military and space	$ 82,175	$ 59,081	$ 223,692	$ 176,813
Commercial aerospace	10,803	19,815	37,120	53,785
Industrial	10,492	11,692	32,728	33,447
Total	$ 103,470	$ 90,588	$ 293,540	$ 264,045
Structural Systems				
Military and space	$ 31,684	$ 21,406	$ 83,787	$ 54,822
Commercial aerospace	15,217	69,107	93,828	215,295
Total	$ 46,901	$ 90,513	$ 177,615	$ 270,117

Recent Accounting Pronouncements

New Accounting Guidance Adopted in 2020

In March 2020, the FASB issued ASU 2020-03, “Codification Improvements to Financial Instruments” (“ASU 2020-03”), which provides clarity to, or addresses various specific issues, including modifications of debt instruments. The new guidance was effective upon issuance of this final accounting standards update. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In February 2020, the FASB issued ASU 2020-02, “Financial Statements - Credit losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Relating to Accounting Standards Update No. 2016-02, Leases (Topic 842)” (“ASU 2020-02”), which provides guidance on the measurement and requirements related to credit losses. The new guidance was effective upon issuance of this final accounting standards update. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

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 was our interim period beginning January 1, 2020. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

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 was our interim period beginning January 1, 2020. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “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 was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which was our interim period beginning January 1, 2020. Early adoption was permitted. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

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 was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which was our interim period beginning January 1, 2020. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

Recently Issued Accounting Standards

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

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

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), which removes certain exceptions and provides guidance on various areas of tax accounting. The new guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, which 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 2018-14, "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.

Note 2. Business Combinations

In October 2019, we acquired 100.0% of the outstanding equity interests 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 acquisition of Nobles advances our strategy to diversify and offer more customized, value-driven engineered products with aftermarket opportunities.

The original purchase price for Nobles was $77.0 million, net of cash acquired, all payable in cash. We paid a gross total aggregate of $77.3 million in cash upon the closing of the transaction. Subsequent to the closing of the transaction, during the three months ended March 28, 2020, we received $0.2 million back from the seller which lowered the purchase price to $76.8 million, net of cash acquired. We allocated the final gross purchase price of $77.1 million to the assets acquired and liabilities assumed at estimated fair values. The excess of the purchase price over the aggregate fair values of the net assets was recorded as goodwill.

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

	Estimated Fair Value
Cash	$ 658
Accounts receivable	1,880
Inventories	2,866
Other current assets	288
Property and equipment	2,319
Intangible assets	37,200
Goodwill	34,850
Other non-current assets	675
Total assets acquired	80,736
Current liabilities	(2,187)
Net non-current deferred tax liability	(759)
Other non-current liabilities	(675)
Total liabilities assumed	(3,621)
Total purchase price allocation	$ 77,115

	Useful Life (In years)	Estimated Fair Value (In thousands)
Intangible assets:		
Customer relationships	15-16	$ 34,200
Trade names and trademarks	15	3,000
		$ 37,200

The intangible assets acquired of $37.2 million were determined based on the estimated fair values using valuation techniques consistent with the income approach to measure fair value. The useful lives were estimated based on the underlying agreements or the future economic benefit expected to be received from the assets. The fair values of the identifiable intangible assets were estimated using several valuation methodologies, which represented Level 3 fair value measurements. The value for customer relationships was estimated based on a multi-period excess earnings approach, while the value for trade names and trademarks was assessed using the relief from royalty methodology.

The goodwill of $34.9 million arising from the acquisition is attributable to the benefits we expect to derive from expected synergies from the transaction, including complementary products that will enhance our overall product portfolio, opportunities within new markets, and an acquired assembled workforce. All the goodwill was assigned to the Structural Systems segment. The Nobles acquisition, for tax purposes, is also deemed a stock acquisition and thus, the goodwill recognized is not deductible for income tax purposes except for $6.7 million of pre-acquisition goodwill that is tax deductible.

Acquisition related transaction costs were not included as components of consideration transferred but have been expensed as incurred. Total acquisition-related transaction costs incurred by us were $0.8 million during 2019 and charged to selling, general and administrative expenses.

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

Note 3. Inventories

Inventories consisted of the following:

	(In thousands)	
	September 26, 2020	December 31, 2019
Raw materials and supplies	$ 106,782	$ 98,151
Work in process	14,889	10,887
Finished goods	5,367	3,444
Total	$ 127,038	$ 112,482

Note 4. 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.

Our business has been negatively impacted during the nine months ended September 26, 2020 as a result of the COVID-19 pandemic. Therefore, we assessed our goodwill for potential impairment indicators. The most recent Step 1 goodwill impairment test for our Electronic Systems reporting unit was the annual goodwill impairment test as of the first day of the fourth quarter of 2019 where the fair value of our Electronic Systems reporting unit exceeded its carrying value by 44%. The most recent Step 1 goodwill impairment test for our Structural Systems reporting unit was April 2019, where the fair value of our Structural Systems reporting unit exceeded its carrying value by 85%. For our annual goodwill impairment test of our Structural Systems reporting unit as of the first day of the fourth quarter of 2019, we used a qualitative assessment and determined it was not more likely than not that the fair value of a reporting unit was less than its carrying amount. During the first quarter of 2020, we performed qualitative assessments of our reporting units including consideration of 1) margin of passing most recent annual goodwill impairment test or Step 1 analysis, 2) earnings before interest, taxes, depreciation, and amortization, 3) long-term growth rate, 4) analyzing material adverse factors/changes between valuation dates, 5) general macroeconomic factors, and 6) industry and market conditions. We determined for the first quarter of 2020 it was not more likely than not that the fair value of the reporting units were less than their carrying amounts and thus, goodwill was not deemed impaired. For the third quarter of 2020, no material adverse factors/changes have occurred since the first quarter of 2020 that would require us to perform another qualitative assessment. As such, for the third quarter of 2020, it was also not more likely than not that the fair value of the reporting units were less than their carrying amounts and thus, the respective goodwill amounts were not deemed impaired.

We acquired Nobles in October 2019 and recorded goodwill of $34.9 million in our Structural Systems segment. See Note 2.

The carrying amounts of our goodwill were as follows:

	Electronic Systems	Structural Systems	Consolidated Ducommun
Gross goodwill	$ 199,157	$ 53,482	$ 252,639
Accumulated goodwill impairment	(81,722)	—	(81,722)
Balance at December 31, 2019	117,435	53,482	170,917
Purchase price allocation refinements	—	(87)	(87)
Balance at September 26, 2020	$ 117,435	$ 53,395	$ 170,830

Note 5. Accrued and Other Liabilities

The components of accrued and other liabilities were as follows:

	(In thousands)	
	September 26, 2020	December 31, 2019
Accrued compensation	$ 27,698	$ 31,342
Accrued income tax and sales tax	239	163
Other	7,339	6,115
Total	$ 35,276	$ 37,620

Note 6. Long-Term Debt

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

	(In thousands)	
	September 26, 2020	December 31, 2019
Term loans	$ 299,138	$ 310,000
Revolving credit facility	50,000	—
Total debt	349,138	310,000
Less current portion	7,000	7,000
Total long-term debt, less current portion	342,138	303,000
Less debt issuance costs - term loans	1,814	2,113
Total long-term debt, net of debt issuance costs - term loans	$ 340,324	$ 300,887
Debt issuance costs - revolving credit facility (1)	$ 1,610	$ 1,894
Weighted-average interest rate	3.72 %	6.87 %

(1) Included as part of other assets.

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

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 1.50% to 2.50% per year) or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.50% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly. In addition, the New Term Loan requires installment payments of 1.25% of the original outstanding principal balance of the New Term Loan amount on a quarterly basis, on the last day of each calendar quarter. For the three and nine months ended September 26, 2020, we made the required quarterly payments totaling $1.8 million and $3.5 million, 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 1.50% to 2.50% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.50% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly. The undrawn portion of the commitment of the New Revolving Credit Facility is subject to a commitment fee ranging from 0.175% to 0.275%, based upon the consolidated total net adjusted leverage ratio.

The 2018 Term Loan bears interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR plus an applicable margin ranging from 3.75% to 4.00% per year) or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 3.75% to 4.00% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly.

In addition, the 2018 Term Loan requires installment payments of 0.25% of the outstanding principal balance of the 2018 Term Loan amount on a quarterly basis.

Further, under the Credit Facilities, if we meet the annual excess cash flow threshold, we will be required to make excess 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. During our first quarter of 2020, we made the required 2019 annual excess cash flow payment of $7.4 million. As of September 26, 2020, we were in compliance with all covenants required under the Credit Facilities.

During the three and nine months ended September 26, 2020, as a result of drawing down $50.0 million on the New Revolving Credit Facility during our first quarter of 2020 to hold as cash, we made no net aggregate voluntary prepayments.

In conjunction with entering into the New Revolving Credit Facility and the New Term Loan, we drew down the entire $140.0 million on the New Term Loan and used those proceeds to pay off and close the 2018 Revolving Credit Facility of $58.5 million, pay down a portion of the 2018 Term Loan of $56.0 million, pay the accrued interest associated with the amounts being paid down on the 2018 Revolving Credit Facility and 2018 Term Loan, pay the fees related to this transaction, and the remainder will be used for general corporate expenses. The New Revolving Credit Facility does not require any principal installment payments, however, the undrawn portion is subject to a commitment fee ranging from 0.175% to 0.275%, based upon the consolidated total net adjusted leverage ratio. The New Term Loan requires installment payments of 1.25% of the initial principal balance outstanding on a quarterly basis. The $56.0 million pay down paid all the required quarterly principal installment payments on the 2018 Term Loan until it matures.

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

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

In October 2019, we acquired 100.0% of the outstanding equity interests of Nobles for an original purchase price of $77.0 million, net of cash acquired, all payable in cash. Upon the closing of the transaction, we paid a gross total aggregate of $77.3 million in cash by drawing down on the 2018 Revolving Credit Facility. See Note 2.

As of September 26, 2020, we had $49.8 million of unused borrowing capacity under the New Revolving Credit Facility, after deducting $0.2 million for standby letters of credit.

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

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

Note 7. Employee Benefit Plans

The components of net periodic pension expense were as follows:

	(In thousands) Three Months Ended		(In thousands) Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Service cost	$ 155	$ 126	$ 466	$ 377
Interest cost	302	347	907	1,041
Expected return on plan assets	(440)	(411)	(1,321)	(1,233)
Amortization of actuarial losses	248	221	744	664
Net periodic pension cost	$ 265	$ 283	$ 796	$ 849

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 26, 2020 were as follows:

	(In thousands) Three Months Ended	Nine Months Ended
	September 26, 2020	September 26, 2020
Amortization of actuarial losses - total before tax (1)	$ 248	$ 744
Tax benefit	(59)	(177)
Net of tax	$ 189	$ 567

(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 8. 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 our 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 9. 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 detriments related to our equity compensation recognized in the income statement could result in fluctuations in our effective tax rate period-over-period depending on the volatility of our stock price and how many units vest and options exercised in the period. We recognize deferred tax assets and liabilities, using enacted tax rates, for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating loss and tax credit carryovers.

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

We recorded income tax expense of $0.8 million for the three months ended September 26, 2020 compared to $1.9 million for the three months ended September 28, 2019. The decrease in income tax expense for the third quarter of 2020 compared to the third quarter of 2019 was primarily due to lower pre-tax income for the third quarter of 2020 compared to the third quarter of 2019 and higher discrete tax benefits recognized in the third quarter of 2020 mainly related to the U.S. Federal research and development tax credit.

We recorded income tax expense of $3.4 million for the nine months ended September 26, 2020 compared to $4.3 million for the nine months ended September 28, 2019. The decrease in income tax expense for the first nine months of 2020 compared to the first nine months of 2019 was primarily due to lower pre-tax income for the first nine months ended of 2020 compared to the first nine months ended of 2019 and higher discrete tax benefits recognized in the third quarter of 2020. The higher discrete tax benefits recognized were mainly related to the U.S. Federal research and development tax credit, partially offset by lower discrete tax benefits related to net windfalls from stock-based compensation.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") that provides tax relief to individuals and businesses affected by the coronavirus pandemic. We considered the provisions of the CARES Act and determined they do not have a material impact to our income taxes.

Our total amount of unrecognized tax benefits was $5.9 million and $5.7 million as of September 26, 2020 and December 31, 2019, respectively. If recognized, $4.3 million would affect the effective tax rate. As a result of the statute of limitations set to expire in the fourth quarter of 2020, we expect decreases to our unrecognized tax benefits of approximately $2.0 million in the next twelve months.

Note 10. Commitments and 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, we have established an accrual for its estimated liability for such investigation and corrective action of $1.5 million at both September 26, 2020 and December 31, 2019, which is reflected in other long-term liabilities on our condensed consolidated balance sheets.

Structural Systems also faces liability as a potentially responsible party for hazardous waste disposed at landfills located in Casmalia and West Covina, California. Structural Systems and other companies and government entities have entered into consent decrees with respect to these landfills with the United States Environmental Protection Agency and/or California environmental agencies under which certain investigation, remediation and maintenance activities are being performed. Based on currently available information, we preliminarily estimate that the range of its future liabilities in connection with the landfill located in West Covina, California is between $0.4 million and $3.1 million. We have established an accrual for its estimated liability in connection with the West Covina landfill of $0.4 million at September 26, 2020, which is reflected in other long-term liabilities on our condensed consolidated balance sheet. Our ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities, and the allocation of liability among potentially responsible parties.

On June 29, 2020, a fire severely damaged our performance center in Guaymas, Mexico, which is part of our Structural Systems segment. There were no injuries, however, property and equipment, inventories, and tooling in this leased facility were damaged. Our Guaymas performance center is comprised of two buildings with an aggregate total of 62,000 square feet. The loss of production from the Guaymas performance center is being absorbed by our other existing performance centers. A neighboring, non-related manufacturing facility, also suffered fire damage during the same time as the fire that severely damaged our Guaymas performance center. The cause of the fire is still undetermined and as such, there is no amount of loss that is probable and reasonably estimable at this time.

Our insurance covers damage to the facility, equipment, unfinished inventory, and other assets at replacement cost, finished goods inventory at selling price, as well as business interruption, third party property damage, and recovery related expenses caused by the fire, less our per claim deductible. The anticipated insurance recoveries related to losses and incremental costs incurred are recognized when receipt is probable. The anticipated insurance recoveries in excess of net book value of the damaged operating assets and business interruption will not be recorded until all contingencies related to our claim have been resolved. During the three months ended September 26, 2020, $0.8 million of revenue and $0.5 million of related cost of sales were reversed for revenue previously recognized using the over time method as the revenue recognition process for these items were deemed to be interrupted as a result of these inventory items being damaged. Also during the three months ended September 26, 2020, we wrote off property and equipment and tooling with an aggregate total net book value of $6.8 million and inventory on hand of $3.4 million that were damaged by the fire. The related anticipated insurance recoveries were also presented within the same financial statement line item in the condensed consolidated statements of income resulting in no net impact, with the anticipated insurance recoveries receivable included as part of other current assets on the condensed consolidated balance sheets. As of September 26, 2020, $5.0 million of general insurance recoveries have been received to date. The timing of and the remaining amounts of insurance recoveries, including for business interruption, are not known at this time.

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

Note 11. 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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net Revenues				
Electronic Systems	$ 103,470	$ 90,588	$ 293,540	$ 264,045
Structural Systems	46,901	90,513	177,615	270,117
Total Net Revenues	$ 150,371	$ 181,101	$ 471,155	$ 534,162
Segment Operating Income				
Electronic Systems	$ 14,867	$ 9,657	$ 40,427	$ 28,750
Structural Systems	1,769	12,877	13,373	35,199
	16,636	22,534	53,800	63,949
Corporate General and Administrative Expenses (1)	(6,371)	(7,931)	(19,884)	(22,894)
Operating Income	$ 10,265	$ 14,603	$ 33,916	$ 41,055
Depreciation and Amortization Expenses				
Electronic Systems	$ 3,492	$ 3,569	$ 10,591	$ 10,602
Structural Systems	3,528	3,350	10,956	9,750
Corporate Administration	58	73	194	399
Total Depreciation and Amortization Expenses	$ 7,078	$ 6,992	$ 21,741	$ 20,751
Capital Expenditures				
Electronic Systems	$ 586	$ 1,768	$ 3,518	$ 4,820
Structural Systems	1,796	2,747	4,400	10,108
Corporate Administration	—	—	—	—
Total Capital Expenditures	$ 2,382	$ 4,515	$ 7,918	$ 14,928

(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 26, 2020	December 31, 2019
Total Assets		
Electronic Systems	$ 441,151	$ 411,981
Structural Systems	322,111	328,718
Corporate Administration [1]	90,099	49,730
Total Assets	$ 853,361	$ 790,429
Goodwill and Intangibles		
Electronic Systems	$ 203,399	$ 210,453
Structural Systems	95,450	98,826
Total Goodwill and Intangibles	$ 298,849	$ 309,279

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

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

Overview

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

COVID-19 Pandemic Impact on Our Business

The COVID-19 pandemic has had a significant impact on our overall business during the three and nine months ended September 26, 2020. As a result of the COVID-19 pandemic, precautionary measures were instituted by governments and businesses to mitigate its spread, including the imposition of travel restrictions, quarantines, shelter in place directives, and shutting down of non-essential businesses.

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

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") which provides tax relief to individuals and businesses affected by the coronavirus pandemic. We have not requested or accepted any loans or payments that are available under the CARES Act, however, we have utilized the option to defer payment of the employer portion of payroll taxes (Social Security) that would otherwise be required to be made during the period beginning March 27, 2020 to December 31, 2020. One half of the deferred amount is required to be paid by December 31, 2021, with the remaining 50% to be paid by December 31, 2022. As of September 26, 2020, we have deferred $4.0 million and is included as part of other long-term liabilities on the condensed consolidated balance sheets.

The COVID-19 pandemic has and continues to contribute to a general slowdown in the global economy and specifically, the commercial aerospace end-use market. While the full extent and impact of the COVID-19 pandemic cannot be reasonably estimated with certainty at this time, COVID-19 has had a significant impact on our business, the businesses of our customers and suppliers, as well as our results of operations and financial condition, and may have a material adverse impact on our business, results of operations and financial condition for the remainder of 2020 and beyond. See Risk Factors included in Part II, Item 1A of this Quarterly Report on Form 10-Q ("Form 10-Q").

Third quarter 2020 recap:

- Revenues of $150.4 million
- Net income of $6.5 million, or $0.54 per diluted share
- Adjusted EBITDA of $21.6 million, or 14.4% of revenues

Non-GAAP Financial Measures

Adjusted earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, and restructuring charges ("Adjusted EBITDA") was $21.6 million and $23.6 million for the three months ended September 26, 2020 and September 28, 2019, 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 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;
- 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
- Guaymas fire related expenses may be useful to our investors in evaluating our core operating performance.

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

	(Dollars in thousands) Three Months Ended		(Dollars in thousands) Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income	$ 6,501	$ 8,303	$ 19,521	$ 23,590
Interest expense	3,101	4,363	11,068	13,140
Income tax expense	762	1,937	3,426	4,325
Depreciation	3,419	3,291	10,407	10,126
Amortization	3,659	3,701	11,334	10,625
Stock-based compensation expense	2,076	2,051	6,605	5,322
Restructuring charges	1,107	—	1,768	—
Guaymas fire related expenses	1,022	—	1,022	—
Adjusted EBITDA	$ 21,647	$ 23,646	$ 65,151	$ 67,128
% of net revenues	14.4 %	13.1 %	13.8 %	12.6 %

Results of Operations

Third Quarter of 2020 Compared to Third Quarter of 2019

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 26, 2020	% of Net Revenues	September 28, 2019	% of Net Revenues	September 26, 2020	% of Net Revenues	September 28, 2019	% of Net Revenues
Net Revenues	$ 150,371	100.0 %	$ 181,101	100.0 %	$ 471,155	100.0 %	$ 534,162	100.0 %
Cost of Sales	116,906	77.7 %	142,774	78.8 %	368,218	78.2 %	422,076	79.0 %
Gross Profit	33,465	22.3 %	38,327	21.2 %	102,937	21.8 %	112,086	21.0 %
Selling, General and Administrative Expenses	22,093	14.7 %	23,724	13.1 %	67,253	14.3 %	71,031	13.3 %
Restructuring Charges	1,107	0.8 %	—	— %	1,768	0.3 %	—	— %
Operating Income	10,265	6.8 %	14,603	8.1 %	33,916	7.2 %	41,055	7.7 %
Interest Expense	(3,101)	(2.1)%	(4,363)	(2.4)%	(11,068)	(2.4)%	(13,140)	(2.5)%
Other Income	99	0.1 %	—	— %	99	— %	—	— %
Income Before Taxes	7,263	4.8 %	10,240	5.7 %	22,947	4.8 %	27,915	5.2 %
Income Tax Expense	762	nm	1,937	nm	3,426	nm	4,325	nm
Net Income	$ 6,501	4.3 %	$ 8,303	4.6 %	$ 19,521	4.1 %	$ 23,590	4.4 %
Effective Tax Rate	10.5 %	nm	18.9 %	nm	14.9 %	nm	15.5 %	nm
Diluted Earnings Per Share	$ 0.54	nm	$ 0.70	nm	$ 1.64	nm	$ 2.00	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 26, 2020 and September 28, 2019, respectively, were as follows:

	Three Months Ended					Nine Months Ended				
		(Dollars in thousands)		% of Net Revenues			(Dollars in thousands)		% of Net Revenues	
	Change	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019	Change	September 26 2020	September 28, 2019	September 26 2020	September 28, 2019
Consolidated Ducommun										
Military and space	$ 33,372	$ 113,859	$ 80,487	75.7 %	44.4 %	$ 75,844	$ 307,479	$ 231,635	65.3 %	43.4 %
Commercial aerospace	(62,902)	26,020	88,922	17.3 %	49.1 %	(138,132)	130,948	269,080	27.8 %	50.4 %
Industrial	(1,200)	10,492	11,692	7.0 %	6.5 %	(719)	32,728	33,447	6.9 %	6.2 %
Total	$ (30,730)	$ 150,371	$ 181,101	100.0 %	100.0 %	$ (63,007)	$ 471,155	$ 534,162	100.0 %	100.0 %
Electronic Systems										
Military and space	$ 23,094	$ 82,175	$ 59,081	79.4 %	65.2 %	$ 46,879	$ 223,692	$ 176,813	76.2 %	67.0 %
Commercial aerospace	(9,012)	10,803	19,815	10.5 %	21.9 %	(16,665)	37,120	53,785	12.6 %	20.4 %
Industrial	(1,200)	10,492	11,692	10.1 %	12.9 %	(719)	32,728	33,447	11.2 %	12.6 %
Total	$ 12,882	$ 103,470	$ 90,588	100.0 %	100.0 %	$ 29,495	$ 293,540	$ 264,045	100.0 %	100.0 %
Structural Systems										
Military and space	$ 10,278	$ 31,684	$ 21,406	67.6 %	23.6 %	$ 28,965	$ 83,787	$ 54,822	47.2 %	20.3 %
Commercial aerospace	(53,890)	15,217	69,107	32.4 %	76.4 %	(121,467)	93,828	215,295	52.8 %	79.7 %
Total	$ (43,612)	$ 46,901	$ 90,513	100.0 %	100.0 %	$ (92,502)	$ 177,615	$ 270,117	100.0 %	100.0 %

Net revenues for the three months ended September 26, 2020 were $150.4 million, compared to $181.1 million for the three months ended September 28, 2019. The year-over-year decrease was primarily due to the following:

- $62.9 million lower revenues in our commercial aerospace end-use markets due to lower build rates on large aircraft platforms; partially offset by
- $33.4 million higher revenues in our military and space end-use markets due to additional content and higher build rates on other military and space platforms, higher build rates on military fixed-wing aircraft platforms and various missile platforms.

Net revenues for the nine months ended September 26, 2020 were $471.2 million, compared to $534.2 million for the nine months ended September 28, 2019. The year-over-year decrease was primarily due to the following:

- $138.1 million lower revenues in our commercial aerospace end-use markets due to lower build rates on large aircraft platforms; partially offset by
- $75.8 million higher revenues in our military and space end-use markets due to higher build rates on military fixed-wing aircraft platforms, additional content and higher build rates on other military and space platforms, and higher build rates on 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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Boeing Company	8.1 %	13.8 %	9.7 %	16.7 %
Lockheed Martin Corporation	5.7 %	4.2 %	5.1 %	4.1 %
Northrop Grumman Corporation	14.9 %	4.7 %	8.5 %	3.7 %
Raytheon Technologies Corporation	21.1 %	15.5 %	20.3 %	15.9 %
Spirit Aerosystems Holdings, Inc.	0.9 %	11.9 %	2.6 %	12.9 %
Total top ten customers (1)	63.7 %	63.4 %	58.4 %	65.8 %

(1) Includes The Boeing Company (“Boeing”), Lockheed Martin Corporation (“Lockheed”), Northrop Grumman Corporation (“Northrop”), and Raytheon Technologies Corporation (“Raytheon”) for the three months ended September 26, 2020, and Spirit

Aerosystems Holdings, Inc. (“Spirit”) for the nine months ended September 26, 2020, as well as the three and nine months ended September 28, 2019. The significant decrease in total aggregate revenues generated from our top ten customers during the nine months ended September 26, 2020 was primarily due to the decrease by Boeing and Spirit, mainly due to the impact from the continued grounding of the Boeing 737 MAX program combined with the outbreak of the COVID-19 pandemic during the first nine months of 2020, which resulted in Boeing and Spirit temporarily shutting down production at some of their facilities. The impacted plants at Boeing and Spirit resumed production during our second quarter of 2020.

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

	September 26, 2020	December 31, 2019
Boeing	7.1 %	5.9 %
Lockheed Martin	2.7 %	1.3 %
Northrop	7.8 %	6.5 %
Raytheon	10.3 %	6.7 %
Spirit	1.2 %	2.0 %

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

Gross Profit

Gross profit consists of net revenues less cost of sales. Cost of sales includes the cost of production of finished products and other expenses related to inventory management, manufacturing quality, and order fulfillment. Gross profit margin as a percentage of net revenues increased year-over-year in the three months ended September 26, 2020 to 22.3%, compared to the three months ended September 28, 2019 of 21.2% primarily due to favorable product mix, partially offset by unfavorable manufacturing volume.

Gross profit margin as a percentage of net revenues increased year-over-year in the nine months ended September 26, 2020 to 21.8%, compared to the nine months ended September 28, 2019 of 21.0% primarily due to favorable product mix and lower compensation and benefit costs, partially offset by unfavorable manufacturing volume.

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

SG&A expenses decreased $1.6 million year-over-year in the three months ended September 26, 2020 compared to the three months ended September 28, 2019 primarily due to lower professional services fees of $1.3 million.

SG&A expenses decreased $3.8 million year-over-year in the nine months ended September 26, 2020 compared to the nine months ended September 28, 2019 primarily due to lower other corporate expenses of $2.2 million, lower professional services fees of $1.7 million, and one-time severance charges of $1.7 million in the prior year, partially offset by higher amortization of intangibles of $1.9 million.

Interest Expense

Interest expense decreased in the three and nine months ended September 26, 2020 compared to the three and nine months ended September 28, 2019 due to lower interest rates, partially offset by a higher outstanding balance on the Credit Facilities driven by the acquisition of Nobles Worldwide, Inc. (“Nobles”) in October 2019, and higher net draw downs on the Revolving Credit Facility, including $50.0 million during the first quarter of 2020, which remained as cash on hand at the end of the third quarter of 2020.

Income Tax Expense

We recorded income tax expense of $0.8 million for the three months ended September 26, 2020 compared to $1.9 million for the three months ended September 28, 2019. The decrease in income tax expense for the third quarter of 2020 compared to the third quarter of 2019 was primarily due to lower pre-tax income for the third quarter of 2020 compared to the third quarter of 2019 and higher discrete tax benefits recognized in the third quarter of 2020 mainly related to the U.S. Federal research and development tax credit.

We recorded income tax expense of $3.4 million for the nine months ended September 26, 2020 compared to $4.3 million for the nine months ended September 28, 2019. The decrease in income tax expense for the first nine months of 2020 compared to the first nine months of 2019 was primarily due to lower pre-tax income for the first nine months of 2020 compared to the first nine months of 2019 and higher discrete tax benefits recognized in the third quarter of 2020. The higher discrete tax benefits recognized were mainly related to the U.S. Federal research and development tax credit, partially offset by lower discrete tax benefits related to net windfalls from stock-based compensation.

We considered the provisions of the CARES Act and determined they do not have a material impact to our income taxes.

Our total amount of unrecognized tax benefits was $5.9 million and $5.7 million as of September 26, 2020 and December 31, 2019, respectively. If recognized, $4.3 million would affect the effective tax rate. As a result of the statute of limitations set to expire in the fourth quarter of 2020, we expect decreases to our unrecognized tax benefits of $2.0 million in the next twelve months.

Net Income and Earnings per Share

Net income and earnings per share for the three months ended September 26, 2020 were $6.5 million, or $0.54 per diluted share, compared to $8.3 million, or $0.70 per diluted share, for the three months ended September 28, 2019. The decrease in net income for the three months ended September 26, 2020 compared to the three months ended September 28, 2019 was due to $4.9 million of lower gross profit as a result of lower revenues and higher restructuring charges of $1.1 million, partially offset by lower SG&A expenses of $1.6 million.

Net income and earnings per share for the nine months ended September 26, 2020 were $19.5 million, or $1.64 per diluted share, compared to $23.6 million, or $2.00 per diluted share, for the nine months ended September 28, 2019. The decrease in net income for the nine months ended September 26, 2020 compared to the nine months ended September 28, 2019 was due to $9.1 million of lower gross profit as a result of lower revenues and higher restructuring charges of $1.8 million, partially offset by lower SG&A expenses of $3.8 million.

Business Segment Performance

We report our financial performance based upon the two reportable operating segments: Electronic Systems and Structural Systems. The results of operations differ between our reportable operating segments due to differences in competitors, customers, extent of proprietary deliverables and performance. The following table summarizes our business segment performance for the three and nine months ended September 26, 2020 and September 28, 2019:

	Three Months Ended					Nine Months Ended				
	%	(Dollars in thousands)		% of Net Revenues		%	(Dollars in thousands)		% of Net Revenues	
	Change	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019	Change	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net Revenues										
Electronic Systems	14.2 %	$ 103,470	$ 90,588	68.8 %	50.0 %	11.2 %	$ 293,540	$ 264,045	62.3 %	49.4 %
Structural Systems	(48.2)%	46,901	90,513	31.2 %	50.0 %	(34.2)%	177,615	270,117	37.7 %	50.6 %
Total Net Revenues	(17.0)%	$ 150,371	$ 181,101	100.0 %	100.0 %	(11.8)%	$ 471,155	$ 534,162	100.0 %	100.0 %
Segment Operating Income										
Electronic Systems		$ 14,867	$ 9,657	14.4 %	10.7 %		$ 40,427	$ 28,750	13.8 %	10.9 %
Structural Systems		1,769	12,877	3.8 %	14.2 %		13,373	35,199	7.5 %	13.0 %
		16,636	22,534				53,800	63,949		
Corporate General and Administrative Expenses (1)		(6,371)	(7,931)	(4.2)%	(4.4)%		(19,884)	(22,894)	(4.2)%	(4.3)%
Total Operating Income		$ 10,265	$ 14,603	6.8 %	8.1 %		$ 33,916	$ 41,055	7.2 %	7.7 %
Adjusted EBITDA										
Electronic Systems										
Operating Income		$ 14,867	$ 9,657				$ 40,427	$ 28,750		
Depreciation and Amortization		3,492	3,569				10,591	10,602		
Restructuring Charges		304	—				332	—		
		18,663	13,226	18.0 %	14.6 %		51,350	39,352	17.5 %	14.9 %
Structural Systems										
Operating Income		1,769	12,877				13,373	35,199		
Depreciation and Amortization		3,528	3,350				10,956	9,750		
Restructuring Charges		803	—				1,436	—		
Guaymas fire related expenses		1,022	—				1,022	—		
		7,122	16,227	15.2 %	17.9 %		26,787	44,949	15.1 %	16.6 %
Corporate General and Administrative Expenses (1)										
Operating Loss		(6,371)	(7,931)				(19,884)	(22,894)		
Other Income		99	—				99	—		
Depreciation and Amortization		58	73				194	399		
Stock-Based Compensation Expense		2,076	2,051				6,605	5,322		
		(4,138)	(5,807)				(12,986)	(17,173)		
Adjusted EBITDA		$ 21,647	$ 23,646	14.4 %	13.1 %		$ 65,151	$ 67,128	13.8 %	12.6 %
Capital Expenditures										
Electronic Systems		$ 586	$ 1,768				$ 3,518	$ 4,820		
Structural Systems		1,796	2,747				4,400	10,108		
Corporate Administration		—	—				—	—		
Total Capital Expenditures		$ 2,382	$ 4,515				$ 7,918	$ 14,928		

(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 26, 2020 compared to the three months ended September 28, 2019 increased $12.9 million primarily due to the following:

- $23.1 million higher revenues in our military and space end-use markets due to higher build rates on other military and space platforms and military fixed-wing aircraft platforms; partially offset by
- $9.0 million lower revenues in our commercial aerospace end-use markets due to lower build rates on other commercial aerospace platforms, large aircraft platforms, and commercial rotary-wing aircraft platforms.

Electronic Systems net revenues in the nine months ended September 26, 2020 compared to the nine months ended September 28, 2019 increased $29.5 million primarily due to the following:

- $46.9 million higher revenues in our military and space end-use markets due to higher build rates on military fixed-wing aircraft platforms and other military and space platforms; partially offset by
- $16.7 million lower revenues in our commercial aerospace end-use markets due to lower build rates on other commercial aerospace platforms, large aircraft platforms, commercial rotary-wing aircraft platforms, and regional and business aircraft platforms.

Electronic Systems segment operating income in the three months ended September 26, 2020 compared to the three months ended September 28, 2019 increased $5.2 million primarily due to favorable volume and favorable mix.

Electronic Systems segment operating income in the nine months ended September 26, 2020 compared to the nine months ended September 28, 2019 increased $11.7 million primarily due to favorable volume, favorable mix, and lower compensation and benefit costs.

Structural Systems

Structural Systems net revenues in the three months ended September 26, 2020 compared to the three months ended September 28, 2019 decreased $43.6 million due to the following:

- $53.9 million lower revenues in our commercial aerospace end-use markets due to lower build rates on large aircraft platforms; partially offset by
- $10.3 million higher revenues in our military and space end-use markets due to higher build rates on military rotary-wing aircraft platforms, various missile platforms, and military fixed-wing aircraft platforms.

Structural Systems net revenues in the nine months ended September 26, 2020 compared to the nine months ended September 28, 2019 decreased $92.5 million primarily due to the following:

- $121.5 million lower revenues in our commercial aerospace end-use markets due to lower build rates on large aircraft platforms; partially offset by
- $29.0 million higher revenues in our military and space end-use markets due to additional content and higher build rates on other military and space platforms, higher build rates on military fixed-wing aircraft platforms and military rotary-wing aircraft platforms.

The Structural Systems segment operating income in the three months ended September 26, 2020 compared to the three months ended September 28, 2019 decreased $11.1 million primarily due to unfavorable manufacturing volume.

The Structural Systems segment operating income in the nine months ended September 26, 2020 compared to the nine months ended September 28, 2019 decreased $21.8 million primarily due to unfavorable manufacturing volume, partially offset by favorable mix and lower compensation and benefit costs.

On June 29, 2020, a fire severely damaged our performance center in Guaymas, Mexico, which is part of our Structural Systems segment. There were no injuries, however, property and equipment, inventory, and tooling in this leased facility were damaged. We have insurance coverage and expect the majority, if not all, of these items will be covered, less our deductible. The full financial impact cannot be estimated at this time as we are currently working with our insurance carriers to determine the cause of the fire. Our Guaymas performance center is comprised of two buildings with an aggregate total of 62,000 square feet. The loss of production from the Guaymas performance center is being absorbed by our other existing performance centers. See Note 10 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

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

CG&A expenses decreased $1.6 million in the three months ended September 26, 2020 compared to the three months ended September 28, 2019 primarily due to lower professional services fees of $1.1 million.

CG&A expenses decreased $3.0 million in the nine months ended September 26, 2020 compared to the nine months ended September 28, 2019 primarily due to one-time severance charges of $1.7 million in the prior year and lower professional services fees of $1.1 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 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, mainly due to reduced demand as a result of the COVID-19 pandemic on the commercial aerospace end-use market, partially offset by an increase in the military and space end-use markets. $532.0 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of September 26, 2020 and December 31, 2019:

	(Dollars in thousands)		
	Change	September 26, 2020	December 31, 2019
Consolidated Ducommun			
Military and space	$ 54,397	$ 505,690	$ 451,293
Commercial aerospace	(161,748)	268,894	430,642
Industrial	(6,875)	21,411	28,286
Total	$ (114,226)	$ 795,995	$ 910,221
Electronic Systems			
Military and space	$ 57,814	$ 368,841	$ 311,027
Commercial aerospace	(13,507)	62,212	75,719
Industrial	(6,875)	21,411	28,286
Total	$ 37,432	$ 452,464	$ 415,032
Structural Systems			
Military and space	$ (3,417)	$ 136,849	$ 140,266
Commercial aerospace	(148,241)	206,682	354,923
Total	$ (151,658)	$ 343,531	$ 495,189

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 26, 2020	December 31, 2019
Total debt, including long-term portion	$ 349.1	$ 310.0
Weighted-average interest rate on debt	3.72 %	6.87 %
Term Loans interest rate	3.98 %	6.28 %
Cash and cash equivalents	$ 74.6	$ 39.6
Unused Revolving Credit Facility	$ 49.8	$ 99.8

On December 20, 2019, we completed the refinancing of a portion of our existing debt by entering into a new revolving credit facility (“New Revolving Credit Facility”) to replace the existing revolving credit facility that was entered into in November 2018 (“2018 Revolving Credit Facility”) and entering into a new term loan (“New Term Loan”). The New Revolving Credit Facility is a $100.0 million senior secured revolving credit facility that matures on December 20, 2024 replacing the $100.0 million 2018 Revolving Credit Facility that would have matured on November 21, 2023. The New Term Loan is a $140.0 million senior secured term loan that matures on December 20, 2024. We also have an existing $240.0 million senior secured term loan that was entered into in November 2018 that matures on November 21, 2025 (“2018 Term Loan”). The original amounts available under the New Revolving Credit Facility, New Term Loan, and 2018 Term Loan (collectively, the “Credit Facilities”) in aggregate, totaled $480.0 million. We are required to make installment payments of 1.25% of the original outstanding principal balance of the New Term Loan amount on a quarterly basis, on the last day of each calendar quarter. In addition, if we meet the annual excess cash flow threshold, we will be required to make excess cash 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 0.175% to 0.275%, based upon the consolidated total net adjusted leverage ratio. As of September 26, 2020, we were in compliance with all covenants required under the Credit Facilities. See Note 6 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In November 2018, we completed credit facilities to replace the then existing credit facilities. The November 2018 credit facilities consisted of the 2018 Term Loan and the 2018 Revolving Credit Facility (collectively, the “2018 Credit Facilities”). We are required to make installment payments of 0.25% of the outstanding principal balance of the 2018 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. See Note 6 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 $1.8 million and $3.5 million of mandatory quarterly principal prepayments under the Term Loans during the three and nine months ended September 26, 2020, respectively.

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

On June 29, 2020, a fire severely damaged our performance center in Guaymas, Mexico, which is part of our Structural Systems segment. There were no injuries, however, property and equipment, inventories, and tooling in this leased facility were damaged. We have insurance coverage and expect the majority, if not all, of these items will be covered, less our per claim deductible. The full financial impact cannot be estimated at this time as we are currently working with our insurance carriers to determine the specific cause of the fire. Our Guaymas performance center is comprised of two buildings with an aggregate total of 62,000 square feet. The loss of production from the Guaymas performance center is being absorbed by some of our other existing performance centers. See Note 10 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In October 2019, we acquired Nobles Parent Inc., the parent company of Nobles Worldwide, Inc. (“Nobles”) for an original purchase price of $77.0 million, net of cash acquired, all payable in cash. We paid a gross total aggregate of $77.3 million in cash upon the closing of the transaction by drawing down on the 2018 Revolving Credit Facility. See Note 2 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

We expect to spend a total of $12.0 million to $14.0 million for capital expenditures in 2020 (excluding capital expenditures we will spend to restore the manufacturing capabilities related to our leased Guaymas performance center that was severely damaged by fire on June 29, 2020), financed by cash generated from operations, principally to support new contract awards in Electronic Systems and Structural Systems. As part of our strategic plan to become a supplier of higher-level assemblies and win new contract awards, additional up-front investment in tooling will be required for newer programs which have higher engineering content and higher levels of complexity in assemblies. However, some portion of the expected capital expenditures in 2020 could be delayed as a result of the COVID-19 pandemic.

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

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

Cash Flow Summary

Net cash provided by operating activities for the nine months ended September 26, 2020 was $1.5 million, compared to $20.1 million for the nine months ended September 28, 2019. The lower cash provided by operating activities during the first nine months of 2020 was due to higher contract assets, higher inventories, and lower accounts payable, partially offset by higher contract liabilities and lower accounts receivable.

Net cash used in investing activities was $5.3 million for the nine months ended September 26, 2020 compared to $14.7 million in the nine months ended September 28, 2019. The lower net cash used during the first nine months of 2020 compared to the prior year period was due to lower purchases of property and equipment.

Net cash provided by financing activities was $38.7 million for the nine months ended September 26, 2020 compared to net cash used of $8.9 million for the nine months ended September 28, 2019. The higher net cash provided by financing activities during the first nine months of 2020 was mainly due to higher net draw down on the New Revolving Credit Facility, partially offset by higher repayments of term loans.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist of operating and finance leases not recorded as a result of the practical expedients utilized, right of offset of industrial revenue bonds and associated failed sale-leasebacks on property and equipment, 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 2019 Annual Report on Form 10-K. There have been no material changes in any of our critical accounting policies during the three months ended September 26, 2020.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our main market risk exposure relates to changes in U.S. and U.K. interest rates on our outstanding long-term debt. At September 26, 2020, we had total borrowings of $349.1 million under our 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 1.50% to 2.50% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America’s prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.50% per year, in each case based upon the consolidated total net adjusted leverage ratio.

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

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 control over financial reporting during the three months ended September 26, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 10 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, 2019 for a discussion of our risk factors. Other than the risk factor below, there have been no material changes in the three months ended September 26, 2020 to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

The COVID-19 pandemic could have a material adverse effect on our business, results of operations and financial condition.

The COVID-19 pandemic has caused significant volatility in financial markets, including the market price of our stock, and the commercial aerospace industry during the first nine months of 2020, which has raised the prospect of an extended global recession. Public health problems resulting from COVID-19 and precautionary measures instituted by governments and businesses to mitigate its spread, including travel restrictions, quarantines, shelter in place directives, and shutting down of non-essential businesses has and continues to contribute to a general slowdown in the global economy and if it continues for an extended period of time, it could have a material adverse impact to the businesses of our customers, suppliers and distribution partners, and disrupt our operations. Changes in our operations in response to the COVID-19 pandemic or employee illnesses resulting from the pandemic, may result in inefficiencies or delays, including in sales and product development efforts and our manufacturing and supply chain, and additional costs related to business continuity initiatives, that cannot be fully mitigated through succession planning, employees working remotely, or teleconferencing technologies. The spread of COVID-19 along with related travel restrictions and operational issues has caused a decrease in the demand for air travel and has resulted in lower demand from civil aviation customers for our products. While the full extent and impact of the COVID-19 pandemic cannot be reasonably estimated with certainty at this time, COVID-19 has had a significant impact on our business, the businesses of our customers and suppliers, as well as our results of operations and financial condition, and may have a material adverse impact on our business, results of operations and financial condition for the remainder of 2020 and beyond.

Item 4. Mine Safety Disclosures

Not applicable.

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.

4.1 Description of Ducommun Incorporated Securities Registered under Section 12 of the Exchange Act. Incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 2019.

10.1 Incremental Term Loan Lender Joinder Agreement and Additional Credit Extension Amendment, dated as of December 20, 2019, by and among Ducommun Incorporated, as Borrower, the subsidiaries of the Borrower party thereto, as Guarantors, Bank of America, N.A., as Administrative Agent, Swingline Lender and an L.C. Issuer, and the lender party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 20, 2019.

10.2 Credit Agreement, dated as of November 21, 2018, among Ducommun Incorporated, certain of its subsidiaries, Bank of America, N.A., as administrative agent, swingline lender and issuing bank, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 26, 2018.

*10.3 2007 Stock Incentive Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 29, 2010.

*10.4 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.

*10.5 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.

*10.6 2018 Employee Stock Purchase Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 23, 2018.

*10.7 2020 Employee Stock Purchase Plan. Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 20, 2020.

*10.8 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.

*10.9 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.

*10.10 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.

*10.11 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.

*10.12 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.

*10.13 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.

*10.14 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.

*10.15 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.

*10.16 Form of Directors' Restricted Stock Unit Agreement. Incorporated by reference to Exhibit 99.1 to Form 8-K dated May 10, 2010.

*10.17 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.

*10.18 Form of Performance Stock Unit Agreement for 2020 and after. Incorporated by reference to Exhibit 10.18 to Form 10-Q for the period ended June 27, 2020.

*10.19 Form of Restricted Stock Unit Agreement for Non-Qualified Deferred Compensation Plan Participants for 2020 and after. Incorporated by reference to Exhibit 10.19 to Form 10-Q for the period ended June 27, 2020.

*10.20 Form of Restricted Stock Unit Agreement for 2020 and after. Incorporated by reference to Exhibit 10.20 to Form 10-Q for the period ended June 27, 2020.

*10.21 Form of Stock Option Agreement for 2020 and after. Incorporated by reference to Exhibit 10.21 to Form 10-Q for the period ended June 27, 2020.

*10.22 Form of Performance Restricted Stock Unit Agreement for 2020. Incorporated by reference to Exhibit 10.22 to Form 10-Q for the period ended June 27, 2020.

*10.23 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:

Director/Officer	Date of Agreement
Richard A. Baldridge	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
Jerry L. Redondo	October 1, 2015
Rosalie F. Rogers	July 24, 2008
Rajiv A. Tata	January 24, 2020
Christopher D. Wampler	January 1, 2016

*10.24 Ducommun Incorporated 2016 Bonus Plan. Incorporated by reference to Exhibit 99.3 to Form 8-K dated March 1, 2016.

*10.25 Ducommun Incorporated 2017 Bonus Plan. Incorporated by reference to Exhibit 99.1 to Form 8-K dated February 27, 2017.

*10.26 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.

*10.27 Non Qualified Deferred Compensation. Incorporated by reference to Exhibit 4.6 to Form S-8 dated November 26, 2019.

*10.28 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.

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

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

*10.30 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.

*10.31 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.

*10.32 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.

*10.33 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.

*10.34 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.

31.1 Certification of Principal Executive Officer.

31.2 Certification of Principal Financial Officer.

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

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

101.SCH Inline XBRL Taxonomy Extension Schema

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB Inline XBRL Taxonomy Extension Label Linkbase

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase

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

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* Indicates an executive compensation plan or arrangement.

SIGNATURES

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

Date: October 28, 2020	By:	/s/ Stephen G. Oswald
		Stephen G. Oswald Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: October 28, 2020	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)

EXHIBIT 31.1

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 26, 2020;
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 28, 2020

/s/ Stephen G. Oswald

Stephen G. Oswald
Chairman, President and Chief Executive Officer

EXHIBIT 31.2

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 26, 2020;
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 28, 2020

/s/ Christopher D. Wampler

Christopher D. Wampler

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

EXHIBIT 32

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 26, 2020, 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 28, 2020

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending September 26, 2020, 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 28, 2020

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.