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 April 1, 2023

OR

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

For the transition period from _________ to _________

Commission File Number 001-08174

DUCOMMUN INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	**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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
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 ☒

As of April 25, 2023, the registrant had 12,244,451 shares of common stock outstanding.

DUCOMMUN INCORPORATED AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

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

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

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

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

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

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

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	April 1, 2023	December 31, 2022
Assets		
Current Assets		
Cash and cash equivalents	$ 17,115	$ 46,246
Accounts receivable, net of allowance for credit losses of $905 and $589 at April 1, 2023 and December 31, 2022, respectively	95,774	103,958
Contract assets	194,316	191,290
Inventories	193,999	171,211
Production cost of contracts	5,368	5,693
Other current assets	8,803	8,938
Total Current Assets	515,375	527,336
Property and Equipment, Net of Accumulated Depreciation of $175,670 and $171,507 at April 1, 2023 and December 31, 2022, respectively	107,038	106,225
Operating Lease Right-of-Use Assets	37,204	34,632
Goodwill	203,407	203,407
Intangibles, Net	123,576	127,201
Other Assets	19,478	22,705
Total Assets	$ 1,006,078	$ 1,021,506
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 98,879	$ 90,143
Contract liabilities	39,682	47,068
Accrued and other liabilities	28,800	48,820
Operating lease liabilities	7,745	7,155
Current portion of long-term debt	6,250	6,250
Total Current Liabilities	181,356	199,436
Long-Term Debt, Less Current Portion	239,128	240,595
Non-Current Operating Lease Liabilities	30,831	28,841
Deferred Income Taxes	12,250	13,953
Other Long-Term Liabilities	14,129	12,721
Total Liabilities	477,694	495,546
Commitments and Contingencies (Notes 8, 10)		
Shareholders' Equity		
Common Stock - $0.01 par value; 35,000,000 shares authorized; 12,231,704 and 12,106,285 shares issued and outstanding at April 1, 2023 and December 31, 2022, respectively	122	121
Additional Paid-In Capital	111,322	112,042
Retained Earnings	411,283	406,052
Accumulated Other Comprehensive Income	5,657	7,745
Total Shareholders' Equity	528,384	525,960
Total Liabilities and Shareholders' Equity	$ 1,006,078	$ 1,021,506

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 1, 2023	April 2, 2022
Net Revenues	$ 181,191	$ 163,481
Cost of Sales	144,424	131,006
Gross Profit	36,767	32,475
Selling, General and Administrative Expenses	26,225	23,352
Restructuring Charges	4,170	—
Operating Income	6,372	9,123
Interest Expense	(4,219)	(2,402)
Other Income	3,886	3,000
Income Before Taxes	6,039	9,721
Income Tax Expense	808	1,622
Net Income	$ 5,231	$ 8,099
Earnings Per Share		
Basic earnings per share	$ 0.43	$ 0.68
Diluted earnings per share	$ 0.42	$ 0.66
Weighted-Average Number of Common Shares Outstanding		
Basic	12,195	11,989
Diluted	12,538	12,328

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 1, 2023	April 2, 2022
Net Income	$ 5,231	$ 8,099
Other Comprehensive Income, Net of Tax:		
Amortization of actuarial losses and prior service costs, net of tax of $13 and $36 for the three months ended April 1, 2023 and April 2, 2022, respectively	42	110
Change in net unrealized (losses) gains on cash flow hedges, net of tax of $662 and $1,509 for the three months ended April 1, 2023 and April 2, 2022, respectively	(2,130)	4,903
Other Comprehensive (Loss) Income, Net of Tax	(2,088)	5,013
Comprehensive Income	$ 3,143	$ 13,112

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2021	**11,925,087**	**$ 119**	**$ 104,253**	**$ 377,263**	**$ (7,033)**	**$ 474,602**
Net income	—	—	—	8,099	—	8,099
Other comprehensive income, net of tax	—	—	—	—	5,013	5,013
Employee stock purchase plan	31,686	—	1,386	—	—	1,386
Stock options exercised	48,119	1	1,444	—	—	1,445
Stock awards vested	117,387	1	(1)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(89,334)	(1)	(4,428)	—	—	(4,429)
Stock-based compensation	—	—	1,590	—	—	1,590
Balance at April 2, 2022	**12,032,945**	**$ 120**	**$ 104,244**	**$ 385,362**	**$ (2,020)**	**$ 487,706**
Balance at December 31, 2022	**12,106,285**	**$ 121**	**$ 112,042**	**$ 406,052**	**$ 7,745**	**$ 525,960**
Net income	—	—	—	5,231	—	5,231
Other comprehensive income, net of tax	—	—	—	—	(2,088)	(2,088)
Employee stock purchase plan	26,833	—	1,307	—	—	1,307
Stock options exercised	25,561	—	737	—	—	737
Stock awards vested	173,249	2	(2)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(100,224)	(1)	(5,479)	—	—	(5,480)
Stock-based compensation	—	—	2,717	—	—	2,717
Balance at April 1, 2023	**12,231,704**	**$ 122**	**$ 111,322**	**$ 411,283**	**$ 5,657**	**$ 528,384**

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 1, 2023	April 2, 2022
Cash Flows from Operating Activities		
Net Income	$ 5,231	$ 8,099
Adjustments to Reconcile Net Income to		
Net Cash Used in Operating Activities:		
Depreciation and amortization	7,989	7,768
Non-cash operating lease cost	1,967	1,842
Inventory write down and property and equipment impairment due to restructuring	428	—
Stock-based compensation expense	3,081	1,590
Deferred income taxes	(1,055)	93
Provision for (recovery of) credit losses	316	(307)
Recognition of insurance recoveries	(3,886)	—
Other	221	139
Changes in Assets and Liabilities:		
Accounts receivable	7,868	(10,236)
Contract assets	(3,026)	(10,766)
Inventories	(22,788)	(8,857)
Production cost of contracts	(299)	(371)
Other assets	352	504
Accounts payable	9,117	8,540
Contract liabilities	(7,386)	(4,236)
Operating lease liabilities	(1,866)	(1,615)
Accrued and other liabilities	(15,192)	(11,038)
Net Cash Used in Operating Activities	**(18,928)**	**(18,851)**
Cash Flows from Investing Activities		
Purchases of property and equipment	(5,362)	(4,825)
Proceeds from sale of assets	—	51
Net Cash Used in Investing Activities	**(5,362)**	**(4,774)**
Cash Flows from Financing Activities		
Borrowings from senior secured revolving credit facility	7,500	—
Repayments of senior secured revolving credit facility	(7,500)	—
Repayments of term loans	(1,562)	(31,750)
Repayments of other debt	(86)	(83)
Net cash paid upon issuance of common stock under stock plans	(3,193)	(1,598)
Net Cash Used in Financing Activities	**(4,841)**	**(33,431)**
Net Decrease in Cash and Cash Equivalents	(29,131)	(57,056)
Cash and Cash Equivalents at Beginning of Period	46,246	76,316
Cash and Cash Equivalents at End of Period	**$ 17,115**	**$ 19,260**

See accompanying notes to Condensed Consolidated Financial Statements.

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

Note 1. Summary of Significant Accounting Policies

Description of Business

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

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries (“Ducommun,” the “Company,” “we,” “us” or “our”), after eliminating intercompany balances and transactions. The December 31, 2022 condensed consolidated balance sheet data was derived from audited financial statements, but does not contain all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”).

Our significant accounting policies were described in Part IV, Item 15(a)(1), “Note 1. Summary of Significant Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2022 (“2022 Form 10-K”). The financial information included in this Quarterly Report on Form 10-Q (“Form 10-Q”) should be read in conjunction with the 2022 Form 10-K.

In the opinion of management, all adjustments, consisting of recurring accruals, have been made that are necessary to fairly state our condensed consolidated financial position, statements of income, comprehensive income, changes in shareholders’ equity, and cash flows in accordance with GAAP for the periods covered by this Form 10-Q. The results of operations for the three months ended April 1, 2023 are not necessarily indicative of the results to be expected for the full year ending December 31, 2023.

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

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

Use of Estimates

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

Subsequent Event

On April 25, 2023, subsequent to our quarter ended April 1, 2023, we completed the acquisition of BLR Aerospace, L.L.C. (“BLR”). The purchase price for BLR was $115.0 million, net of cash acquired, all payable in cash. We paid a gross aggregate of $117.0 million in cash upon the closing of the transaction. We utilized the 2022 Revolving Credit Facility to complete the acquisition.

Supplemental Cash Flow Information

	(Dollars in thousands) Three Months Ended	
	April 1, 2023	April 2, 2022
Interest paid	$ 4,010	$ 2,186
Taxes paid, net	$ 8,167	$ 10
Non-cash activities:		
Purchases of property and equipment not paid	$ 814	$ 1,576

Earnings Per Share

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

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

	(Dollars in thousands, except per share data) Three Months Ended	
	April 1, 2023	April 2, 2022
Net income	$ 5,231	$ 8,099
Weighted-average number of common shares outstanding		
Basic weighted-average common shares outstanding	12,195	11,989
Dilutive potential common shares	343	339
Diluted weighted-average common shares outstanding	12,538	12,328
Earnings per share		
Basic	$ 0.43	$ 0.68
Diluted	$ 0.42	$ 0.66

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

	(In thousands) Three Months Ended	
	April 1, 2023	April 2, 2022
Stock options and stock units	28	7

Fair Value

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

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

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

Cash and Cash Equivalents

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

Derivative Instruments

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

We record changes in the fair value of a derivative instrument that is highly effective and that is designated and qualifies as a cash flow hedge in other comprehensive income (loss), net of tax until our earnings are affected by the variability of cash flows of the underlying hedged item. We report changes in the fair values of derivative instruments that are not designated or do not qualify for hedge accounting in current period earnings. We classify cash flows from derivative instruments in the condensed consolidated statements of cash flows in the same category as the item being hedged or on a basis consistent with the nature of the instrument. Since the Amended Forward Interest Rate Swaps are not effective until January 1, 2024, we only record the changes in fair value of the derivative instruments that were highly effective and that were designated and qualified as cash flow hedges. As such, during the three months ended April 1, 2023 and April 2, 2022, we recorded the unrealized gain (loss) to other comprehensive income (loss) of $(2.1) million and $4.9 million, respectively, and the associated change to other current assets, other assets, and deferred income taxes.

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

Inventories

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

Accumulated Other Comprehensive Income

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

Revenue Recognition

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

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

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

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

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

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

Contract estimates are based on various assumptions to project the outcome of future events that can span multiple months or years. These assumptions include labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; and the performance of subcontractors.

As a significant change in one or more of these estimates could affect the progress completed (and related profitability) on our contracts, we review and update our contract-related estimates on a regular basis. We recognize such adjustments under the cumulative catch-up method. Under this method, the impact of the adjustment is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate.

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

Net cumulative catch up adjustments on gross profit recorded were not material for both the three months ended April 1, 2023 and April 2, 2022.

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

We record provisions for the total anticipated losses on contracts, considering total estimated costs to complete the contract compared to total anticipated revenues, in the period in which such losses are identified. The provisions for estimated losses on contracts require us to make certain estimates and assumptions, including those with respect to the future revenue under a contract and the future cost to complete the contract. Our estimate of the future cost to complete a contract may include assumptions as to changes in manufacturing efficiency, operating and material costs, and our ability to resolve claims and assertions with our customers. If any of these or other assumptions and estimates do not materialize in the future, we may be required to adjust the provisions for estimated losses on contracts. The provision for estimated losses on contracts is included as part of contract liabilities on the condensed consolidated balance sheets. As of April 1, 2023 and December 31, 2022, provision for estimated losses on contracts were $5.3 million and $3.9 million, respectively.

Production cost of contracts includes non-recurring production costs, such as design and engineering costs, and tooling and other special-purpose machinery necessary to build parts as specified in a contract. Production costs of contracts are recorded to cost of sales using the over time revenue recognition model. We review the value of the production cost of contracts on a quarterly basis to ensure when added to the estimated cost to complete, the value is not greater than the estimated realizable value of the related contracts. As of April 1, 2023 and December 31, 2022, production cost of contracts were $5.4 million and $5.7 million, respectively.

Contract Assets and Contract Liabilities

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

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

	(Dollars in thousands)	
	April 1, 2023	December 31, 2022
Contract assets	$ 194,316	$ 191,290
Contract liabilities	$ 39,682	$ 47,068

The increase in our contract assets as of April 1, 2023 compared to December 31, 2022 was primarily due to a net increase of products in work in process in the current period.

The decrease in our contract liabilities as of April 1, 2023 compared to December 31, 2022 was primarily due to a net decrease of advance or progress payments received from our customers in the current period. We recognized $8.1 million of the contract liabilities as of December 31, 2022 as revenues during the three months ended April 1, 2023.

Performance obligations are defined as customer placed purchase orders (“POs”) with firm fixed price and firm delivery dates. Our remaining performance obligations as of April 1, 2023 totaled $874.0 million. We anticipate recognizing an estimated 70% of our remaining performance obligations as revenue during the next 12 months with the remaining performance obligations being recognized in the remainder of 2024 and beyond.

Revenue by Category

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

	(Dollars in thousands)	
	Three Months Ended	
	April 1 2023	April 2, 2022
Consolidated Ducommun		
Military and space	$ 96,440	$ 99,334
Commercial aerospace	73,050	54,075
Industrial	11,701	10,072
Total	$ 181,191	$ 163,481
Electronic Systems		
Military and space	$ 73,327	$ 71,820
Commercial aerospace	20,598	15,574
Industrial	11,701	10,072
Total	$ 105,626	$ 97,466
Structural Systems		
Military and space	$ 23,113	$ 27,514
Commercial aerospace	52,452	38,501
Total	$ 75,565	$ 66,015

Government Grant

In November 2021, we were awarded an Aviation Manufacturing Jobs Protection Program grant from the U.S. Department of Transportation (“AMJPP Grant”) of $4.0 million. As part of the award, we had to meet, and did complete, certain requirements over a six month performance period from November 2021 to May 2022. As of December 31, 2022, we had received the entire $4.0 million grant balance, $2.0 million of which was received during 2021 and the remainder during 2022. We recorded no reduction to cost of sales or selling, general and administrative expenses during the three months ended April 1, 2023, and $1.8 million and $0.2 million as a reduction of cost of sales and selling, general and administrative expenses, respectively, during the three months ended April 2, 2022. As of December 31, 2022, the requirements under the AMJPP Grant were completed and the entire $4.0 million awarded were received and thus, we also recorded the entire aggregate total of $3.6 million and $0.4 million as a reduction of cost of sales and selling, general and administrative expenses, respectively.

Recent Accounting Pronouncements

Recently Issued Accounting Standards

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

Note 2. Business Combinations

On March 20, 2023, we entered into a definitive securities purchase agreement to acquire 100.0% of the outstanding equity interests of BLR Aerospace, L.L.C. ("BLR"), a privately-held leading provider of aerodynamic systems that enhance the productivity, performance, and safety of rotary and fixed-wing aircraft on commercial and military platforms. BLR is located in Everett, Washington. The acquisition of BLR adds to our strategy to diversify and offer more customized, value-driven engineered products with aftermarket opportunities. The purchase price for the transaction is $115.0 million, net of cash acquired, subject to adjustments for working capital. BLR will be a part of our Structural Systems segment.

Subsequent to the quarter ended April 1, 2023, we completed the acquisition of BLR on April 25, 2023. The purchase price for BLR was $115.0 million, net of cash acquired, all payable in cash. We paid a gross aggregate of $117.0 million in cash upon the closing of the transaction. We utilized the 2022 Revolving Credit Facility to complete the acquisition.

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

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

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

Note 3. Restructuring Activities

Summary of 2022 Restructuring Plan

In April 2022, management approved and commenced a restructuring plan that will better position us for stronger performance. The restructuring plan will mainly reduce headcount and consolidate facilities. As a result of this restructuring plan, we analyzed the need to write-down inventory and impair long-lived assets, including operating lease right-of-use assets. During the three months ended April 1, 2023, we recorded total charges of $4.2 million. Cumulative through the three months ended

April 1, 2023, we recorded aggregate total charges of $10.9 million ($0.5 million of which was recorded as cost of sales). As of April 1, 2023, we estimate the remaining amount of charges related to this initiative will be $8.0 million to $12.0 million in total pre-tax restructuring charges through 2023. Of these charges, we estimate $6.0 million to $9.0 million to be cash payments for employee separation and other facility consolidation related expenses, and $2.0 million to $3.0 million to be non-cash charges for impairment of long-lived assets.

In the Electronics Systems segment, we recorded $1.7 million, $0.1 million, and $0.1 million during the three months ended April 1, 2023, for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, and other restructuring charges, respectively. Cumulative through the three months ended April 1, 2023, we recorded total charges for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, and other restructuring charges of $5.2 million, $0.4 million, and $0.1 million, respectively.

In the Structural Systems segment, we recorded $1.7 million, $0.3 million, and $0.3 million during the three months ended April 1, 2023 for severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, and other restructuring charges, respectively. Cumulative through the three months ended April 1, 2023, we recorded total charges for inventory write down that was classified as cost of sales, severance and benefits that were classified as restructuring charges, accelerated depreciation of property and equipment that was classified as restructuring charges, impairment of property and equipment that was classified as restructuring charges, and other restructuring charges of $0.5 million, $3.3 million, $0.8 million, $0.3 million, and $0.3 million, respectively.

Our restructuring activities during the three months ended April 1, 2023 were as follows (in thousands):

	December 31, 2022	Three Months Ended April 1, 2023				April 1, 2023
	Balance	Charges	Cash Payments	Non-Cash Payments	Change in Estimates	Balance
Severance and benefits	$ 2,799	$ 3,367	$ (1,377)	$ —	$ —	$ 4,789
Property and equipment accelerated depreciation due to restructuring	—	427	—	(427)	—	—
Property and equipment impairment due to restructuring	—	—	—	—	—	—
Other	—	376	(376)	—	—	—
Ending balance	$ 2,799	$ 4,170	$ (1,753)	$ (427)	$ —	$ 4,789

The restructuring activities accrual for severance and benefits of $4.8 million as of April 1, 2023 was included as part of accrued and other liabilities.

Note 4. Inventories

Inventories consisted of the following:

	(Dollars in thousands)	
	April 1, 2023	December 31, 2022
Raw materials and supplies	$ 166,375	$ 143,495
Work in process	23,774	23,799
Finished goods	3,850	3,917
Total	$ 193,999	$ 171,211

Note 5. Goodwill

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

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

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

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

The carrying amounts of our goodwill were as follows:

	(Dollars in thousands)		
	Electronic Systems	Structural Systems	Consolidated Ducommun
Gross goodwill	$ 199,157	$ 85,972	$ 285,129
Accumulated goodwill impairment	(81,722)	—	(81,722)
Balance at December 31, 2022	$ 117,435	$ 85,972	$ 203,407
Balance at April 1, 2023	$ 117,435	$ 85,972	$ 203,407

Note 6. Accrued and Other Liabilities

The components of accrued and other liabilities were as follows:

	(Dollars in thousands)	
	April 1, 2023	December 31, 2022
Accrued compensation	$ 20,228	$ 28,785
Accrued income tax and sales tax	3,898	10,478
Other	4,674	9,557
Total	$ 28,800	$ 48,820

Note 7. Long-Term Debt

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

	(Dollars in thousands)	
	April 1, 2023	December 31, 2022
Term loans	$ 246,875	$ 248,438
Total debt	246,875	248,438
Less current portion	(6,250)	(6,250)
Total long-term debt, less current portion	240,625	242,188
Less debt issuance costs - term loans	(1,497)	(1,593)
Total long-term debt, net of debt issuance costs - term loans	$ 239,128	$ 240,595
Debt issuance costs - revolving credit facility (1)	$ 2,139	$ 2,265
Weighted-average interest rate	6.50 %	4.36 %

(1) Included as part of other assets.

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

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

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

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

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

The 2019 Term Loan bore interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as the London Interbank Offered Rate ["LIBOR"]) plus an applicable margin ranging from 1.50% to 2.50% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America's prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.50% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly. In addition, the 2019 Term Loan required amortization payments of 1.25% of the original outstanding principal balance of the 2019 Term Loan amount on a quarterly basis, on the last day of the calendar quarter. For the three months ended April 1, 2023 and April 2, 2022, we made the required quarterly amortization payments on the 2022 Term Loan and 2019 Term Loan of $1.6 million and $1.8 million, respectively.

The 2019 Revolving Credit Facility bore interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR) plus an applicable margin ranging from 1.50% to 2.50% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America's prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 0.50% to 1.50% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly. The undrawn portion of the commitment of the 2019 Revolving Credit Facility was subject to a commitment fee ranging from 0.175% to 0.275%, based upon the consolidated total net adjusted leverage ratio. However, the 2019 Revolving Credit Facility did not require any principal installment payments.

The 2018 Term Loan bore interest, at our option, at a rate equal to either (i) the Eurodollar Rate (defined as LIBOR plus an applicable margin ranging from 3.75% to 4.00% per year or (ii) the Base Rate (defined as the highest of [a] Federal Funds Rate plus 0.50%, [b] Bank of America's prime rate, and [c] the Eurodollar Rate plus 1.00%) plus an applicable margin ranging from 3.75% to 4.00% per year, in each case based upon the consolidated total net adjusted leverage ratio, typically payable quarterly. In addition, the 2018 Term Loan required amortization payments of 0.25% of the outstanding principal balance of the 2018 Term Loan amount on a quarterly basis.

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

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

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

As of April 1, 2023, we had $199.8 million of unused borrowing capacity under the 2022 Revolving Credit Facility, after deducting $0.2 million for standby letters of credit.

As of April 1, 2023, we were in compliance with all covenants required under the 2022 Credit Facilities.

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

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

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

Subsequent to the quarter ended April 1, 2023, we completed the acquisition of BLR on April 25, 2023. The purchase price for BLR was $115.0 million, net of cash acquired, all payable in cash. We paid a gross aggregate of $117.0 million in cash upon the closing of the transaction. We utilized the 2022 Revolving Credit Facility to complete the acquisition. See Note 2 for further information.

In November 2021, we entered into derivative contracts, U.S. dollar-one month LIBOR forward interest rate swaps designated as cash flow hedges, all with an effective date of January 1, 2024, for an aggregate total notional amount of $150.0 million, weighted average fixed rate of 1.8%, and all terminating on January 1, 2031 (“Forward Interest Rate Swaps”). The Forward Interest Rate Swaps mature on a monthly basis, with fixed amount payer payment dates on the first day of each calendar month, commencing on February 1, 2024 through January 1, 2031. The Forward Interest Rate Swaps were deemed to be highly effective upon entering into the derivative contracts and thus, hedge accounting treatment was utilized. Since the Amended Forward Interest Rate Swaps (as defined below) are not effective until January 1, 2024, we only record the changes in fair value of the derivative instruments that were highly effective and that were designated and qualified as cash flow hedges. As such, during the three months ended April 1, 2023 and April 2, 2022, we recorded the unrealized gain (loss) to other comprehensive income (loss) of $(2.1) million and $4.9 million, respectively, and the associated change to other current assets, other assets, and deferred income taxes. See Note 1 for further information.

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

Note 8. Indemnifications

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

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

Note 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, recognition or derecognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where we conduct business. Also, excess tax benefits and tax detriments related to our equity compensation recognized in the condensed consolidated income statement could result in fluctuations in our effective tax rate period-over-period depending on the volatility of our stock price, number of restricted or performance stock units that vests, and stock options exercised during the period. We recognize deferred tax assets and liabilities, using enacted tax rates, for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating loss and tax credit carryovers.

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

We recorded income tax expense of $0.8 million for the three months ended April 1, 2023 compared to $1.6 million for the three months ended April 2, 2022. The decrease in income tax expense for the first quarter of 2023 compared to the first quarter of 2022 was primarily due to lower pre-tax income in the first quarter of 2023 compared to the first quarter of 2022 and higher discrete tax benefits recognized in the first quarter of 2023 for net tax windfalls related to stock-based compensation compared to the first quarter of 2022. The decrease in income tax expense was partially offset by lower income tax benefits recognized in the first quarter of 2023 related to the U.S. Federal research and development tax credit compared to the first quarter of 2022.

Our total amount of unrecognized tax benefits was $5.2 million and $4.9 million as of April 1, 2023 and December 31, 2022, respectively. If recognized, $2.6 million would affect the effective tax rate. We record interest and penalty charges, if any, related to uncertain tax positions as a component of tax expense and unrecognized tax benefits. The amounts accrued for interest and penalty charges as of April 1, 2023 and December 31, 2022 were not significant. As a result of statute of limitations set to expire in the fourth quarter of 2023, we expect decreases to our unrecognized tax benefits of approximately $0.7 million in the next twelve months.

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

Note 10. Commitments and Contingencies

In December 2020, a representative action under California's Private Attorneys General Act was filed against us in the Superior Court for the State of California, County of San Bernardino. We received service of process of this complaint in January 2021. The complaint alleges violations of California's wage and hour laws relating to our current and former employees and seeks attorney's fees and penalties. We vigorously refuted and defended these claims, and reached a tentative settlement of $0.8 million during the fourth quarter 2021, which was subject to court approval. Thus, we recorded accrued liabilities of $0.8 million as of December 31, 2021. During the second quarter of 2022, additional factual information was identified resulting in an increase in the amount of the tentative settlement to $0.9 million. Therefore, we recorded an additional accrued liabilities of $0.1 million for a total accrued liabilities amount of $0.9 million as of the end of the second quarter of 2022 which remained unchanged as of December 31, 2022 as we were awaiting final court approval of this settlement. We received final court approval and paid the $0.9 million on January 17, 2023.

Structural Systems has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at our facilities located in El Mirage and Monrovia, California. Based on currently available information, we have established an accrual for its estimated liability for such investigation and corrective action of $1.5 million at both April 1, 2023 and December 31, 2022, which is reflected in other long-term liabilities on our condensed consolidated balance sheets.

Structural Systems also faces liability as a potentially responsible party for hazardous waste disposed at landfills located in Casmalia and West Covina, California. Structural Systems and other companies and government entities have entered into consent decrees with respect to these landfills with the United States Environmental Protection Agency and/or California environmental agencies under which certain investigation, remediation and maintenance activities are being performed. Based on currently available information, we preliminarily estimate that the range of our future liabilities in connection with the landfill located in West Covina, California is between $0.4 million and $3.1 million. We have established an accrual for the estimated liability in connection with the West Covina landfill of $0.4 million as of both April 1, 2023 and December 31, 2022, which is reflected in other long-term liabilities on our condensed consolidated balance sheets. Our ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities, and the allocation of liability among potentially responsible parties.

In June 2020, a fire severely damaged our performance center in Guaymas, Mexico, which is part of our Structural Systems segment. There were no injuries, however, property and equipment, inventories, and tooling in this leased facility were damaged. Our Guaymas performance center the was severely damaged was comprised of two buildings with an aggregate total of 62,000 square feet. The loss of production from the Guaymas performance center was being absorbed by our other existing performance centers, however, we have reestablished and are in the process of ramping up our manufacturing capabilities in a different leased facility with 117,000 square feet in Guaymas. A neighboring, non-related manufacturing facility, also suffered fire damage during the same time as the fire that severely damaged our Guaymas performance center. The cause of the fire is still undetermined and as such, there is no amount of loss that is probable and reasonably estimable at this time.

Our insurance covers damage, up to a capped amount, to the facility, equipment, unfinished inventory, and other assets at replacement cost, finished goods inventory at selling price, as well as business interruption, third party property damage, and recovery related expenses caused by the fire, less our per claim deductible. The anticipated insurance recoveries related to losses and incremental costs incurred are recognized when receipt is probable. The anticipated insurance recoveries in excess of net book value of the damaged operating assets and business interruption will not be recorded until all contingencies related to our claim have been resolved. During the year ended December 31, 2020, $0.8 million of revenue and $0.5 million of related cost of sales were reversed for revenue previously recognized using the over time method as the revenue recognition process for these items were deemed to be interrupted as a result of these inventory items being damaged. Also during the year ended December 31, 2020, we wrote off property and equipment and tooling with an aggregate total net book value of $7.1 million and inventory on hand of $3.4 million that were damaged by the fire. The related anticipated insurance recoveries were also presented within the same financial statement line item in the condensed consolidated statements of income resulting in no net impact, with the anticipated insurance recoveries receivable included as part of other current assets on the condensed consolidated balance sheets. During the three months ended April 1, 2023 and April 2, 2022, we received insurance recoveries of zero and $3.0 million, respectively, for business interruption and since the contingencies related to this amount were deemed to be resolved, we recorded this amount as other income. In addition, as of April 1, 2023, we have received $13.5 million of general insurance recoveries, all during 2020. During the three months ended April 1, 2023, $3.9 million of the general insurance recoveries were gain contingencies related to loss on operating assets that were deemed to be resolved and thus, we recorded this amount as other income. 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:

	(Dollars in thousands) Three Months Ended	
	April 1, 2023	April 2, 2022
Net Revenues		
Electronic Systems	$ 105,626	$ 97,466
Structural Systems	75,565	66,015
Total Net Revenues	$ 181,191	$ 163,481
Segment Operating Income		
Electronic Systems	$ 10,011	$ 9,411
Structural Systems	4,745	4,887
	14,756	14,298
Corporate General and Administrative Expenses (1)	(8,384)	(5,175)
Total Operating Income	$ 6,372	$ 9,123
Depreciation and Amortization Expenses		
Electronic Systems	$ 3,498	$ 3,506
Structural Systems	4,432	4,203
Corporate Administration	59	59
Total Depreciation and Amortization Expenses	$ 7,989	$ 7,768
Capital Expenditures		
Electronic Systems	$ 1,851	$ 1,696
Structural Systems	3,130	3,372
Corporate Administration	—	—
Total Capital Expenditures	$ 4,981	$ 5,068

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

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

	(Dollars in thousands)	
	April 1, 2023	December 31, 2022
Total Assets		
Electronic Systems	$ 544,302	$ 543,298
Structural Systems	425,736	410,565
Corporate Administration (1)	36,040	67,643
Total Assets	$ 1,006,078	$ 1,021,506
Goodwill and Intangibles		
Electronic Systems	$ 180,179	$ 182,501
Structural Systems	146,804	148,107
Total Goodwill and Intangibles	$ 326,983	$ 330,608

(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 had a significant impact on our overall business during the prior year three months ended April 2, 2022. As a result of the COVID-19 pandemic, precautionary measures were instituted by governments and businesses to mitigate its spread, including the imposition of travel restrictions, quarantines, shelter in place directives, and shutting down of non-essential businesses.

The COVID-19 pandemic and the resulting inflation, rising interest rates, supply chain issues, and other events including the war in Ukraine have contributed and continues to contribute to a general slowdown in the global economy and most significantly, the commercial aerospace end-use market. While both major large aircraft manufacturers, The Boeing Company ("Boeing") and Airbus SE, have announced increases in build rates for 2023, the ramp up is slower than expected and below pre-pandemic levels. In its 2022 Annual Report on Form 10-K, Boeing indicated that domestic travel continues to recover from the lingering effects of the COVID-19 pandemic and will recover before international travel. However, the pace of the commercial market recovery remains impacted by government restrictions related to COVID-19, especially China. 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 2023 and beyond.

First quarter 2023 recap:

- Net revenues of $181.2 million
- Net income of $5.2 million, or $0.42 per diluted share
- Adjusted EBITDA of $23.1 million, or 12.7% of net revenues

Non-GAAP Financial Measures

Adjusted earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, restructuring charges, Guaymas fire related expenses, insurance recoveries related to loss on operating assets, insurance recoveries related to business interruption, and inventory purchase accounting adjustments ("Adjusted EBITDA") were $23.1 million and $20.1 million for the three months ended April 1, 2023 and April 2, 2022, respectively.

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

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

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

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

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

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

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

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

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

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

	(Dollars in thousands) Three Months Ended	
	April 1, 2023	April 2, 2022
Net income	$ 5,231	$ 8,099
Interest expense	4,219	2,402
Income tax expense	808	1,622
Depreciation	3,740	3,587
Amortization	4,249	4,181
Stock-based compensation expense (1)	3,081	1,590
Restructuring charges	4,170	—
Guaymas fire related expenses	1,468	957
Insurance recoveries related to loss on operating assets	(3,886)	—
Insurance recoveries related to business interruption	—	(3,000)
Inventory purchase accounting adjustments	—	637
Adjusted EBITDA	$ 23,080	$ 20,075
% of net revenues	12.7 %	12.3 %

(1) The three months ended April 1, 2023 and April 2, 2022 included $0.4 million and zero, respectively, of stock-based compensation expense for awards with both performance and market conditions that will be settled in cash.

Results of Operations

First Quarter of 2023 Compared to First Quarter of 2022

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

	(Dollars in thousands, except per share data) Three Months Ended			
	April 1, 2023	% of Net Revenues	April 2, 2022	% of Net Revenues
Net Revenues	$ 181,191	100.0 %	$ 163,481	100.0 %
Cost of Sales	144,424	79.7 %	131,006	80.1 %
Gross Profit	36,767	20.3 %	32,475	19.9 %
Selling, General and Administrative Expenses	26,225	14.5 %	23,352	14.3 %
Restructuring Charges	4,170	2.3 %	—	— %
Operating Income	6,372	3.5 %	9,123	5.6 %
Interest Expense	(4,219)	(2.3)%	(2,402)	(1.5)%
Other Income	3,886	2.1 %	3,000	1.8 %
Income Before Taxes	6,039	3.3 %	9,721	5.9 %
Income Tax Expense	808	nm	1,622	nm
Net Income	$ 5,231	2.9 %	$ 8,099	5.0 %
Effective Tax Rate	13.4 %	nm	16.7 %	nm
Diluted Earnings Per Share	$ 0.42	nm	$ 0.66	nm

nm = not meaningful

Net Revenues by End-Use Market and Operating Segment

Net revenues by end-use market and operating segment during the fiscal three months ended April 1, 2023 and April 2, 2022, respectively, were as follows:

	Three Months Ended				
	(Dollars in thousands)			% of Net Revenues	
	Change	April 1, 2023	April 2, 2022	April 1, 2023	April 2, 2022
Consolidated Ducommun					
Military and space	$ (2,894)	$ 96,440	$ 99,334	53.2 %	60.8 %
Commercial aerospace	18,975	73,050	54,075	40.3 %	33.1 %
Industrial	1,629	11,701	10,072	6.5 %	6.1 %
Total	$ 17,710	$ 181,191	$ 163,481	100.0 %	100.0 %
Electronic Systems					
Military and space	$ 1,507	$ 73,327	$ 71,820	69.4 %	73.7 %
Commercial aerospace	5,024	20,598	15,574	19.5 %	16.0 %
Industrial	1,629	11,701	10,072	11.1 %	10.3 %
Total	$ 8,160	$ 105,626	$ 97,466	100.0 %	100.0 %
Structural Systems					
Military and space	$ (4,401)	$ 23,113	$ 27,514	30.6 %	41.7 %
Commercial aerospace	13,951	52,452	38,501	69.4 %	58.3 %
Total	$ 9,550	$ 75,565	$ 66,015	100.0 %	100.0 %

Net revenues for the three months ended April 1, 2023 were $181.2 million, compared to $163.5 million for the three months ended April 2, 2022. The year-over-year increase was primarily due to the following:

- $19.0 million higher revenues in our commercial aerospace end-use markets due to higher build rates on other commercial aerospace platforms and large aircraft platforms; partially offset by
- $2.9 million lower revenues in our military and space end-use markets due to lower build rates on military fixed-wing aircraft platforms and military rotary-wing aircraft platforms, partially offset by higher build rates on other military and space platforms.

Net Revenues by Major Customers

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

	Three Months Ended	
	April 1, 2023	April 2, 2022
Boeing Company	7.6 %	7.1 %
General Dynamics Corporation	5.6 %	5.2 %
Northrop Grumman Corporation	5.2 %	6.7 %
Raytheon Technologies Corporation	16.4 %	20.5 %
Spirit AeroSystems Holdings, Inc.	7.1 %	3.9 %
Viasat, Inc.	5.4 %	3.6 %
Total top ten customers (1)	60.2 %	59.5 %

(1) Includes The Boeing Company (“Boeing”), General Dynamics Corporation (“GD”), Northrop Grumman Corporation (“Northrop”), Raytheon Technologies Corporation (“Raytheon”), Spirit AeroSystems Holdings, Inc. (“Spirit”), and Viasat, Inc. (“Viasat”) for the three months ended April 1, 2023 and April 2, 2022.

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

	April 1, 2023	December 31, 2022
Boeing	4.8 %	3.8 %
GD	3.7 %	3.4 %
Northrop	8.0 %	13.0 %
Raytheon	11.2 %	16.2 %
Spirit	1.2 %	1.0 %
Viasat	7.6 %	10.3 %

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

Gross Profit

Gross profit consists of net revenues less cost of sales. Cost of sales includes the cost of production of finished products and other expenses related to inventory management, manufacturing quality, and order fulfillment. Gross profit as a percentage of net revenues increased year-over-year with the three months ended April 1, 2023 of 20.3%, compared to the three months ended April 2, 2022 of 19.9% primarily due to favorable manufacturing volume, partially offset by unfavorable other manufacturing costs and unfavorable product mix.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses increased $2.9 million year-over-year in the three months ended April 1, 2023 compared to the three months ended April 2, 2022 primarily due to higher professional services fees of $1.9 million, mainly due to the BLR acquisition, and higher other general and administrative expenses of $0.6 million.

Restructuring Charges

Restructuring charges increased $4.2 million year-over-year in the three months ended April 1, 2023, compared to the three months ended April 2, 2022, primarily due to the restructuring plan that was approved and commenced in April 2022 that is expected to better position us for stronger performance. See Note 3 for further information.

Interest Expense

Interest expense increased $1.8 million year-over-year in the three months ended April 1, 2023 compared to the three months ended April 2, 2022 primarily due to higher interest rates, partially offset by a lower outstanding debt balance.

Income Tax Expense

We recorded income tax expense of $0.8 million for the three months ended April 1, 2023, compared to $1.6 million for the three months ended April 2, 2022. The decrease in income tax expense for the first quarter of 2023 compared to the first quarter of 2022 was primarily due to lower pre-tax income in the first quarter of 2023 compared to the first quarter of 2022 and higher discrete tax benefits recognized for the first quarter of 2023 for net tax windfalls related to stock-based compensation compared to the first quarter of 2022. The decrease in income tax expense was partially offset by lower income tax benefits recognized in the first quarter of 2023 related to the U.S. Federal research and development tax credit compared to the first quarter of 2022.

Our total amount of unrecognized tax benefits was $5.2 million and $4.9 million as of April 1, 2023 and December 31, 2022, respectively. If recognized, $2.6 million would affect the effective tax rate. We record interest and penalty charges, if any, related to uncertain tax positions as a component of tax expense and unrecognized tax benefits. The amounts accrued for interest and penalty charges as of April 1, 2023 and December 31, 2022 were not significant. As a result of statute of limitations set to expire in the fourth quarter of 2023, we expect decreases to our unrecognized tax benefits of approximately $0.7 million in the next twelve months.

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

Net Income and Earnings per Share

Net income and earnings per share for the three months ended April 1, 2023 were $5.2 million, or $0.42 per diluted share, compared to $8.1 million, or $0.66 per diluted share, for the three months ended April 2, 2022. The decrease in net income for the three months ended April 1, 2023 compared to the three months ended April 2, 2022 was primarily due to higher restructuring charges of $4.2 million and higher SG&A expenses of $2.9 million, partially offset by higher gross profit of $4.3 million.

Business Segment Performance

We report our financial performance based upon the two reportable operating segments: Electronic Systems and Structural Systems. The results of operations differ between our reportable operating segments due to differences in competitors, customers, extent of proprietary deliverables and performance. The following table summarizes our business segment performance for the three months ended April 1, 2023 and April 2, 2022:

	Three Months Ended				
	% Change	(Dollars in thousands) April 1, 2023	April 2, 2022	% of Net Revenues April 1, 2023	April 2, 2022
Net Revenues					
Electronic Systems	8.4 %	$ 105,626	$ 97,466	58.3 %	59.6 %
Structural Systems	14.5 %	75,565	66,015	41.7 %	40.4 %
Total Net Revenues	10.8 %	$ 181,191	$ 163,481	100.0 %	100.0 %
Segment Operating Income					
Electronic Systems		$ 10,011	$ 9,411	9.5 %	9.7 %
Structural Systems		4,745	4,887	6.3 %	7.4 %
		14,756	14,298		
Corporate General and Administrative Expenses (1)		(8,384)	(5,175)	(4.6)%	(3.2)%
Total Operating Income		$ 6,372	$ 9,123	3.5 %	5.6 %
Adjusted EBITDA					
Electronic Systems					
Operating Income		$ 10,011	$ 9,411		
Depreciation and Amortization		3,498	3,506		
Restructuring Charges		1,874	—		
		15,383	12,917	14.6 %	13.3 %
Structural Systems					
Operating Income		4,745	4,887		
Depreciation and Amortization		4,432	4,203		
Restructuring Charges		2,296	—		
Guaymas fire related expenses		1,468	957		
Inventory Purchase Accounting Adjustments		—	637		
		12,941	10,684	17.1 %	16.2 %
Corporate General and Administrative Expenses (1)					
Operating Loss		(8,384)	(5,175)		
Depreciation and Amortization		59	59		
Stock-Based Compensation Expense (2)		3,081	1,590		
		(5,244)	(3,526)		
Adjusted EBITDA		$ 23,080	$ 20,075	12.7 %	12.3 %
Capital Expenditures					
Electronic Systems		$ 1,851	$ 1,696		
Structural Systems		3,130	3,372		
Corporate Administration		—	—		
Total Capital Expenditures		$ 4,981	$ 5,068		

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

(2) The three months ended April 1, 2023 and April 2, 2022 included $0.4 million and zero, respectively, of stock-based compensation expense for awards with both performance and market conditions that will be settled in cash.

Electronic Systems

Electronic Systems net revenues in the three months ended April 1, 2023 compared to the three months ended April 2, 2022 increased $8.2 million primarily due to the following:

- $5.0 million higher revenues in our commercial aerospace end-use markets due to higher build rates on other commercial aerospace platforms; and
- $1.5 million higher revenues in our military and space end-use markets due to higher build rates on other military and space platforms, partially offset by lower build rates on military fixed-wing aircraft platforms.

Electronic Systems segment operating income in the three months ended April 1, 2023 compared to the three months ended April 2, 2022 increased $0.6 million primarily due to favorable manufacturing volume, partially offset by higher restructuring charges and unfavorable product mix.

Structural Systems

Structural Systems net revenues in the three months ended April 1, 2023 compared to the three months ended April 2, 2022 increased $9.6 million primarily due to the following:

- $14.0 million higher revenues in our commercial aerospace end-use markets due to higher build rates on large aircraft platforms and other commercial aerospace platforms; partially offset by
- $4.4 million lower revenues in our military and space end-use markets due to lower build rates on various missile platforms and military rotary-wing aircraft platforms.

The Structural Systems segment operating income in the three months ended April 1, 2023 compared to the three months ended April 2, 2022 decreased $0.1 million primarily due to unfavorable other manufacturing costs, higher restructuring charges, and unfavorable product mix, partially offset by favorable manufacturing volume.

Subsequent to the quarter ended April 1, 2023, we completed the acquisition of BLR Aerospace, L.L.C. (“BLR”) on April 25, 2023. The purchase price for BLR was $115.0 million, net of cash acquired, all payable in cash. We paid a gross aggregate of $117.0 million in cash upon the closing of the transaction. We utilized the 2022 Revolving Credit Facility to complete the acquisition. See Note 2 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In June 2020, a fire severely damaged our performance center in Guaymas, Mexico. We have insurance coverage and up to a capped amount, expect these items will be covered, less our deductible. The full financial impact cannot be estimated at this time as we are currently working with our insurance carriers to determine the cause of the fire. The loss of production from the Guaymas performance center was being absorbed by our other existing performance centers, however, we have reestablished and are in the process of ramping up our manufacturing capabilities in a different leased facility in Guaymas. A neighboring, non-related manufacturing facility, also suffered fire damage during the same time as the fire that severely damaged our Guaymas performance center. The cause of the fire is still undetermined and as such, there is no amount of loss that is probable and reasonably estimable at this time. If we are ultimately deemed to be responsible or partly responsible, it is possible we could incur a loss in excess of our insurance coverage limits, which could be material to our cash flow, liquidity, or financial results. See Note 8 and 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 increased $3.2 million for the three months ended April 1, 2023 compared to the three months ended April 2, 2022 primarily due to higher compensation and benefits costs of $1.7 million and higher professional services fees of $1.5 million, mainly due to the BLR acquisition.

Backlog

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

The decrease in backlog was primarily in the military and space end-use markets, partially offset by an increase in the commercial aerospace end-use markets. $647.0 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of April 1, 2023 and December 31, 2022:

	(Dollars in thousands)		
	Change	April 1, 2023	December 31, 2022
Consolidated Ducommun			
Military and space	$ (13,036)	$ 444,318	$ 457,354
Commercial aerospace	13,966	464,058	450,092
Industrial	(1,045)	52,329	53,374
Total	$ (115)	$ 960,705	$ 960,820
Electronic Systems			
Military and space	$ (14,850)	$ 346,732	$ 361,582
Commercial aerospace	(17,217)	108,373	125,590
Industrial	(1,045)	52,329	53,374
Total	$ (33,112)	$ 507,434	$ 540,546
Structural Systems			
Military and space	$ 1,814	$ 97,586	$ 95,772
Commercial aerospace	31,183	355,685	324,502
Total	$ 32,997	$ 453,271	$ 420,274

Liquidity and Capital Resources

Available Liquidity

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

	(Dollars in millions)	
	April 1, 2023	December 31, 2022
Total debt, including long-term portion	$ 246.9	$ 248.4
Weighted-average interest rate on debt	6.50 %	4.36 %
Term Loans interest rate	6.49 %	4.24 %
Cash and cash equivalents	$ 17.1	$ 46.2
Unused Revolving Credit Facility	$ 199.8	$ 199.8

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

During the three months ended April 1, 2023 and April 2, 2022, we made voluntary prepayments on our existing debt in aggregate total of zero and $30.0 million, respectively. We also made the mandatory quarterly amortization payments under our existing debt during the three months ended April 1, 2023 and April 2, 2022 of $1.6 million and $1.8 million, respectively.

In April 2022, management approved and commenced a restructuring plan that will position us for stronger performance. The restructuring plan will mainly reduce headcount and consolidate facilities. As a result of this restructuring plan, we analyzed the need to write-down inventory and impair long-lived assets, including operating lease right-of-use assets. As of April 1, 2023, we estimate the remaining amount of charges related to this initiative to be $8.0 million to $12.0 million in total pre-tax restructuring charges through 2023. Of these charges, we estimate $6.0 million to $9.0 million to be cash payments for employee separation and other facility consolidation related expenses, and $2.0 million to $3.0 million to be non-cash charges for impairment of long-lived assets. On an annualized basis, we anticipate these restructuring actions will result in total cost savings of $11.0 million to $13.0 million. See Note 3 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

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

In July 2022, as a result of completing a refinancing of our existing debt, we were required to complete an amendment of the Forward Interest Rate Swaps (“Amended Forward Interest Rate Swaps”). The Forward Interest Rate Swaps were based on U.S. dollar-one month LIBOR and were amended to be based on one month Term SOFR as borrowings using LIBOR are no longer available under the 2022 Credit Facilities. The Amended Forward Interest Rate Swaps weighted average fixed rate is 1.7%, as a result of the difference between U.S. dollar-one month LIBOR and one month Term SOFR. See Note 1 and Note 7 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

Subsequent to the quarter ended April 1, 2023, we completed the acquisition of BLR on April 25, 2023. The purchase price for

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

We expect to spend a total of $17.0 million to $19.0 million for capital expenditures in 2023 financed by cash generated from operations, principally to support new contract awards in Electronic Systems and Structural Systems. As part of our strategic plan to become a supplier of higher-level assemblies and win new contract awards, additional up-front investment in tooling will be required for newer programs which have higher engineering content and higher levels of complexity in assemblies.

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

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

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

Cash Flow Summary

Net cash used in operating activities for the three months ended April 1, 2023 was $18.9 million, essentially flat compared to $18.9 million for the three months ended April 2, 2022. The net cash used in operating activities during the first three months of 2023 was mainly due to higher inventories, lower accrued and other liabilities, and lower net income, partially offset by lower accounts receivable.

Net cash used in investing activities was $5.4 million for the three months ended April 1, 2023, compared to $4.8 million in the three months ended April 2, 2022. The higher net cash used in investing activities during the first three months of 2023 compared to the prior year period was mainly due to higher purchases of property and equipment.

Net cash used in financing activities was $4.8 million for the three months ended April 1, 2023, compared to $33.4 million for the three months ended April 2, 2022. The lower net cash used in financing activities during the first three months of 2023 was mainly due to the $30.0 million pay down on term loans in the prior year three months ended April 2, 2022.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

The preparation of our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States requires estimation and judgment that affect the reported amounts of net revenues, expenses, assets and liabilities. For a description of our critical accounting policies, please refer to "Critical Accounting Policies" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2022 Annual Report on Form 10-K. There have been no material changes in any of our critical accounting policies during the three months ended April 1, 2023.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our main market risk exposure relates to changes in U.S. interest rates on our outstanding long-term debt. At April 1, 2023, we had total borrowings of $246.9 million under our 2022 Credit Facilities.

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

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

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have conducted an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934), and concluded that such disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended April 1, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 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 ("Form 10-K") for the year ended December 31, 2022 for a discussion of our risk factors. There have been no material changes during the three months ended April 1, 2023 to the risk factors disclosed in our Form 10-K for the year ended December 31, 2022.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

Exhibit
No. **Description**

2.1 Agreement and Plan of Merger, dated as of September 11, 2017, among Ducommun LaBarge Technologies, Inc., LS Holdings Company LLC, and DLS Company LLC. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 11, 2017.

2.2 Agreement and Plan of Merger, dated as of October 8, 2019, among Ducommun LaBarge Technologies, Inc., DLT Acquisition, Inc., Nobles Parent Inc., and the Stockholder Representative. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on October 9, 2019.

2.3 Equity Purchase Agreement dated December 15, 2021, by and between Ducommun LaBarge Technologies, Inc., Mag Parent, Inc. and Thomas B. Colby and Lyman J. Colby. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on December 16, 2021.

2.4 Securities Purchase Agreement dated March 20, 2023, by and among BLR Aerospace, L.L.C., the Undersigned Equityholders of the Company, Crescent Capital Aerospace, L.L.C., as the Seller Representative, Ducommun LaBarge Technologies, Inc., and Ducommun Incorporated. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on March 21, 2023.

2.5 Agreement of Purchase and Sale and Agreement to Enter into Lease dated as of December 16, 2021, by and among Ducommun Aerostructures, Inc. and Centerpoint 268 Gardena LLC. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on December 20, 2021.

2.6 Securities Purchase Agreement dated March 20, 2023, by and between Ducommun LaBarge Technologies, Inc., Ducommun Incorporated, solely for the purposes of Section 7.07, BLR, L.L.C., Crescent Capital Aerospace, L.L.C. and Michael Carpenter. Incorporated by reference to Exhibit 2.1 to Form 8-K filed on March 21, 2023.

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

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

3.3 Amended and Restated Bylaws of Ducommun Incorporated, dated as of November 4, 2022. Incorporated by reference to Exhibit 3.3 to to Form 10-K for the year ended December 31, 2022.

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

10.1 Credit Agreement, dated as of July 14, 2022, by and among Ducommun Incorporated, as Borrower, the subsidiaries of the Borrower party thereto as Guarantors, Bank of America, N.A., as Administrative Agent, Swingline Lender and an L/C Issuer, and the lender party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on July 18, 2022.

*10.2 2013 Stock Incentive Plan (Amended and Restated May 2, 2018). Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 23, 2018.

*10.3 Amended and Restated 2020 Stock Incentive Plan. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on April 20, 2022.

*10.4 2018 Employee Stock Purchase Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 23, 2018.

*10.5 2020 Employee Stock Incentive Plan. Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 20, 2020.

*10.6 Form of Stock Option Agreement for 2016 and earlier. Incorporated by reference to Exhibit 10.8 to Form 10-K for the year ended December 31, 2003.

*10.7 Form of Stock Option Agreement for 2017. Incorporated by reference to Exhibit 10.5 to Form 10-K for the year ended December 31, 2016.

*10.8 Form of Stock Option Agreement for 2018 and after. Incorporated by reference to Exhibit 4.7 to Form S-8, filed on May 10, 2018.

*10.9 Form of Restricted Stock Unit Agreement for 2017 through 2019. Incorporated by reference to Exhibit 10.9 to Form 10-K for the year ended December 31, 2016.

Exhibit
No. **Description**

*10.10 Performance Restricted Stock Unit Agreement dated January 23, 2017 between Ducommun Incorporated and Stephen G. Oswald. Incorporated by reference to Exhibit 10.11 to Form 10-K for the year ended December 31, 2016.

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

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

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

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

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

*10.16 Form of Performance Stock Unit Cash-Based Long-Term Incentive Award Agreement for 2022 and after. Incorporated by reference to Exhibit 10.20 to Form 10-Q for the period ended July 2, 2022.

*10.17 Form of Performance Restricted Stock Unit Cash-Based Long-Term Incentive Award Agreement for 2022 and after. Incorporated by reference to Exhibit 10.21 to Form 10-Q for the period ended July 2, 2022.

*10.18 Form of Performance Stock Unit Award Agreement for 2023 and after.

*10.19 Form of Performance Stock Unit Cash-Based Long-Term Incentive Award Agreement for 2023 and after.

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

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

*10.22 Key Executive Severance Agreement between Ducommun Incorporated and Stephen G. Oswald dated January 23, 2017. Incorporated by reference to Exhibit 99.1 to Form 8-K dated January 27, 2017.

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

Executive Officer	Date of Agreement
Laureen S. Gonzalez	September 20, 2022
Suman B. Mookerji	May 2, 2018
Jerry L. Redondo	January 23, 2017
Rajiv A. Tata	January 24, 2020
Christopher D. Wampler	January 23, 2017

*10.24 Employment Letter Agreement dated January 3, 2017 between Ducommun Incorporated and Stephen G. Oswald. Incorporated by reference to Exhibit 99.1 to Form 8-K dated January 9, 2017.

*10.25 Retirement and Release Agreement dated November 29, 2021 between Ducommun Incorporated and Rosalie F. Rogers. Incorporated by reference to Exhibit 10.24 to Form 10-K for the year ended December 31, 2021.

Exhibit No.	Description
10.26	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
Shirley G. Drazba	October 18, 2018
Robert C. Ducommun	December 31, 1985
Dean M. Flatt	November 5, 2009
Laureen S. Gonzalez	September 20, 2022
Jay L. Haberland	February 2, 2009
Sheila G. Kramer	June 1, 2021
Suman B. Mookerji	April 27, 2023
Stephen G. Oswald	January 23, 2017
Jerry L. Redondo	October 1, 2015
Samara A. Strycker	December 30, 2021
Rajiv A. Tata	January 24, 2020

31.1 Certification of Principal Executive Officer.

31.2 Certification of Principal Financial Officer.

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

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

101.SCH Inline XBRL Taxonomy Extension Schema

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB Inline XBRL Taxonomy Extension Label Linkbase

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase

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

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* Indicates an executive compensation plan or arrangement.

SIGNATURES

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

Date: May 4, 2023	By:	/s/ Stephen G. Oswald
		Stephen G. Oswald Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: May 4, 2023	By:	/s/ Suman B. Mookerji
		Suman B. Mookerji Senior Vice President, Chief Financial Officer, Controller and Treasurer (Principal Financial and Principal Accounting Officer)

DUCOMMUN INCORPORATED

PERFORMANCE STOCK UNIT AGREEMENT

This performance stock unit agreement is made as of ________, 2022 (the "Effective Date"), between Ducommun Incorporated, a Delaware corporation (the "Corporation"), and __________ ("Award Holder").

R E C I T A L S

This performance stock unit agreement is pursuant to the Amended and Restated 2020 Stock Incentive Plan (the "Plan").

A G R E E M E N T S

1. Grant. The Corporation hereby grants to the Award Holder an award (the "Award") with a target (if the Corporation achieves the target level performance goals described in Exhibit A) of ______ performance stock units (the "Target Units"), and a maximum of up to two hundred fifty percent (250%) of the Target Units (if Corporation achieves the maximum level performance goals described in Exhibit A), in each case subject to certain adjustments as described herein. Each performance stock unit represents the right to receive one share of Common Stock, subject to the conditions set forth in this performance stock unit agreement and the Plan.

2. Definitions. Unless the context clearly indicates otherwise, and subject to the terms and conditions of the Plan as the same may be amended from time to time, the following terms, when used in this performance stock unit agreement, shall have the meanings set forth in this Section 2.

"Common Stock" shall mean the Common Stock, $.01 par value, of the Corporation or such other class of shares or other securities as may be applicable pursuant to the provisions of Section 6 of this performance stock unit agreement.

"Subsidiary" shall mean a corporation or other form of business entity more than 50% of the voting shares of which is owned or controlled, directly or indirectly, by the Corporation and which is designated by the Committee for participation in the Plan by the key employees thereof.

"Committee" shall mean the Compensation Committee of the Board of Directors of the Corporation, or if there is no such committee acting, the Board of Directors of the Corporation.

3. Vesting. The Award shall vest at the end of the 3-year performance period, beginning as of January 1, 202_ and ending on December 31, 202_ (the "Performance Period"). The vesting of the Award shall be subject to the Corporation achieving during the Performance Period the Diluted Earnings Per Share and Relative Total Shareholder Return, as provided in Exhibit A attached hereto. Following the end of each fiscal year of the Performance Period and the collection of relevant data necessary to determine the extent to which the performance goals set forth in Exhibit A have been satisfied, the Committee will determine: (a) the amount of Diluted Earnings Per Share that was achieved by the Corporation for each fiscal year of the Performance Period, and (b) the percentage and number of the Target Units for each fiscal year (for each such fiscal year, the "Earned Units") that will become Vested Units (as defined in Exhibit A) as of the last day of the Performance Period or earlier as provided in Section 5(b). Following the end of the Performance Period and collection of relevant data necessary to determine the extent to which the performance goals set forth in Exhibit A have been satisfied, the Committee will determine: (a) the Relative Total Shareholder Return that was achieved by the Corporation over the Performance Period, and (b) the multiplier that will be applied to the Earned Units to calculate the total number of Vested Units as of the last day of the Performance Period, as provided in Exhibit A attached hereto. The Committee shall make these determinations in its sole discretion. The level of achievement of Diluted Earnings Per Share and Relative Total Shareholder Return shall be evidenced by the Committee's written certification. For the avoidance of doubt, any performance stock units subject to this Award that do not vest in accordance with the forgoing shall expire without consideration at the end of the Performance Period.

4. Settlement of Vested Units. Upon the vesting of all or a portion of the Award, one share of Common Stock shall be issuable for each Vested Unit (as defined in Exhibit A) (the "PSU Shares"). Thereafter, the Corporation will transfer such PSU Shares to the Award Holder upon the Committee's written certification as set forth in Section 3 and the satisfaction of any required tax withholding obligations, securities law registration or other requirements, and applicable stock exchange listing. No fractional shares shall be issued with respect to the Award. The Award Holder shall not acquire or have any rights as a shareholder of the Corporation by virtue of this performance stock unit agreement (or the Award evidenced hereby) until the certificates representing shares of Common Stock issuable pursuant to this Award are actually issued and delivered to the Award Holder in accordance with the terms of the Plan and this performance stock unit agreement. Notwithstanding the foregoing, the Award Holder may elect, on a form and in a manner prescribed by the Corporation, to defer any payment of Vested Units, provided that any such deferral of payment must comply with any applicable requirements of Section 409A of the Code.

5. Termination.

(a) If the Award Holder's employment with the Corporation or a Subsidiary terminates before the end of the Performance Period for any reason, except as provided in this Section 5, then the Award will be forfeited and cancelled and surrendered to the Corporation without payment of any consideration, effective on the date of the Award Holder's termination of employment. Upon the termination of the Award Holder's employment with the Corporation or a Subsidiary as a result of (i) death or "permanent disability" (as defined herein) or (ii) "retirement" (as defined herein), the number of Vested Units and the vesting of such Vested Units shall be determined in accordance with Section 5(b) below. As used herein, the term "retirement" shall mean that, on the date on which the Award Holder terminates employment with the Corporation or a Subsidiary, either (x) the Award Holder is sixty-five (65) or more years of age, or (y) the combination of the Award Holder's age plus years of service equals not less than seventy (70). As used herein, the term "permanent disability" shall mean the date on which the Award Holder has not worked or been able to work due to physical or mental incapacity for a period of one hundred eighty (180) consecutive days.

(b) Upon the termination of the Award Holder's employment with the Corporation or a Subsidiary as a result of death, permanent disability or retirement as provided in Section 5(a), (i) for each full fiscal year that the Award Holder was employed by the Corporation or a Subsidiary, the Earned Units (as defined in Section 3) shall vest immediately, and (ii) for the last fiscal year (if less than a full fiscal year) that the Award Holder was employed by the Corporation or a Subsidiary, the Target Units covered by the Award shall be reduced to a number of performance stock units equal to the Target Units set forth in Section 1 multiplied by a fraction, (x) the numerator of which equals the number of full calendar quarters that have elapsed between January 1 of such fiscal year and the date of termination of employment, and (y) the denominator of which equals four (4), and such performance stock units (as reduced) shall then vest at such time as they become Earned Units (as defined in Section 3) provided that the Award Holder has not rendered services, directly or indirectly, to any third party engaged in competition with the Corporation or its Subsidiaries. For the avoidance of doubt, the Total Vested Units Modifier (as defined in Exhibit A) shall not be applied in determining the Vested Units for any Award covered by this Section 5(b).

6. Adjustments

(a) If the outstanding shares of Common Stock of the Corporation are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of the Corporation through recapitalization (other than the conversion of convertible securities according to their terms), reclassification, stock dividend, stock split or reverse stock split, an appropriate and proportionate adjustment shall be made, or if the Corporation shall spin-off, spin-out or otherwise distribute assets with respect to the outstanding shares of Common Stock of the Corporation, an appropriate and proportionate adjustment shall be made, in the number of performance stock units subject to this Award.

(b) In the event of the dissolution or liquidation of the Corporation, or upon any merger, consolidation or reorganization of the Corporation with any other corporations or entities as a result of which the Corporation is not the surviving corporation, or upon the sale of all or substantially all of the assets of the Corporation or the acquisition of more than 80% of the stock of the Corporation by another corporation or entity, there shall be substituted for each of the shares of Common Stock then subject to this Award the number and kind of shares of stock, securities or other assets which would have been issuable or payable in respect of or in exchange for such Common Stock then subject to the Award, as if the Award Holder had been the owner of such shares as of the transaction date. Any securities so substituted shall be subject to similar successive adjustments.

7. No Right to Continued Employment. Nothing in the Plan, in this performance stock unit agreement or in any other instrument executed pursuant thereto shall confer upon the Award Holder any right to continue in the employ of the Corporation or any Subsidiary of the Corporation or shall interfere in any way with the right of the Corporation or any such Subsidiary to at any time terminate the employment of the Award Holder with or without cause.

8. Legal Requirements. No shares issuable under this Award shall be issued or delivered unless and until, in the opinion of counsel for the Corporation, all applicable requirements of federal and state law and of the Securities and Exchange Commission pertaining to the issuance and sale of such shares and any applicable listing requirements of any national securities exchange on which shares of the same class are then listed, shall have been fully complied with. In connection with any such issuance or transfer, the person

acquiring the shares shall, if requested by the Corporation, give assurances satisfactory to counsel to the Corporation in respect of such matters as the Corporation or any Subsidiary of the Corporation may deem desirable to assure compliance with all applicable legal requirements.

9. No Rights as a Shareholder. Neither the Award Holder nor any beneficiary or other person claiming under or through the Award Holder shall have any right, title or interest in or to any shares of Common Stock allocated or reserved for the purpose of the Plan or subject to this Agreement except as to such shares of Common Stock, if any, as shall have been issued or transferred to such person.

10. Withholding. The Corporation or any Subsidiary of the Corporation may make such provisions as it may deem appropriate for the withholding of any taxes which the Corporation or such Subsidiary determines it is required to withhold in connection with this performance stock unit agreement and the transactions contemplated hereby, and the Corporation or any such Subsidiary may require the Award Holder to pay to the Corporation or such Subsidiary in cash any amount or amounts which may be required to be paid as withheld taxes in connection with any issuance of Common Stock pursuant to this Award or any other transaction contemplated hereby as a condition to the issuance of shares of the Common Stock, provided, however, that any amount withheld for taxes in connection with this Award may, at the election of the Award Holder, be paid with previously issued shares of Common Stock or the deduction of shares of Common Stock to be issued in connection with this Award.

11. No Assignments. Neither this performance stock unit agreement, nor this Award nor any other rights and privileges granted hereby shall be transferred, assigned, pledged or hypothecated in any way, whether by operation of law of descent and distribution. Upon any attempt to so transfer, assign, pledge, hypothecate or otherwise dispose of this performance stock unit agreement, this Award or any other right or privilege granted hereby contrary to the provisions hereof, this performance stock unit agreement, this Award and all of such rights and privileges shall immediately become null and void, provided however, that the Award Holder may transfer an Award to any "family member" (as such term is defined in Section A.1(a)(5) of the General Instructions to Form S-8 under the Securities Act of 1933, as amended ("Form S-8")), to trusts solely for the benefit of such family members and to partnerships in which such family members and/or trusts are the only partners; provided that the transfer is pursuant to a gift or a domestic relations order to the extent permitted under the General Instructions to Form S-8 and provided further, that such transferee acknowledges and agrees that the Award remains subject to all of the terms and conditions of this Agreement and the Plan.

12. Other Programs. Nothing contained in this performance stock unit agreement shall affect the right of the Award Holder to participate in and receive benefits under and in accordance with the then current provisions of any pension, insurance, profit-sharing or other employee benefit plan or program of the Corporation or of any Subsidiary of the Corporation.

13. The Plan. The Award hereby granted is subject to, and the Corporation and Award Holder agree to be bound by all of the terms and conditions of the Plan as the same may be amended from time to time in accordance with the terms thereof, but no such amendment may adversely affect the Award Holder's rights under this performance stock unit agreement. Award Holder acknowledges receipt of a complete copy of the Plan.

14. Committee Authority. All questions arising under the Plan or under this performance stock unit agreement shall be decided by the Committee in its total and absolute discretion. It is expressly understood that the Committee is authorized to administer, construe

and make all determinations necessary or appropriate to the administration of the Plan and this performance stock unit agreement, all of which shall be binding upon the Award Holder to the maximum extent permitted by the Plan.

15. Consideration. The consideration for the rights and benefits conferred on Award Holder by this Award are the services rendered by the Award Holder after and not before the grant of this Award.

16. Applicable Law. This Award has been granted as of the effective date set forth above at Los Angeles, California, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California.

DUCOMMUN INCORPORATED

By: ____________________________________
Chief Executive Officer

By: ____________________________________
Secretary

____
Award Holder

PERFORMANCE STOCK UNIT AGREEMENT

Exhibit A

For purposes of this performance stock unit agreement, the "Diluted Earnings Per Share" means the diluted earnings per share of the Corporation for each of the Corporation's fiscal years ending December 31, 202_, December 31, 202_ and December 31, 202_ as included in the Corporation's audited financial statements, subject to adjustment as provided herein. The Diluted Earnings Per Share shall be adjusted (as determined by the Committee) (i) for changes in accounting, (ii) for discontinued operations (including businesses and product lines that are sold), (iii) to exclude gain or loss on the sale of any business or product line, including but not limited to post-closing adjustments to the purchase price, any indemnity or similar payments, and any costs or expenses in connection therewith, (iv) to exclude any asset impairment write-offs or charges (whether of goodwill, intangible or tangible assets), (v) to exclude any transaction-related costs or expenses arising in connection with the purchase or sale of any business or product line, including but not limited to the effects of Financial Accounting Standards Board Accounting Standards Codification Topic 805, (vi) to exclude any costs or expenses arising in connection with the refinancing, restructuring or prepayment of any Debt, including but not limited to the unamortized portion of any original issue discount, the unamortized portion of any original issue costs and expenses, and any prepayment or make-whole payments, costs or expenses and (vii) any restructuring, reorganization or other costs, expenses or charges that the Compensation Committee determines should be adjusted to fairly reflect the operating performance of the Company. An appropriate adjustment in the Diluted Earnings Per Share amounts in the table below also shall be made for any of the events described in Section 6(a) above.

For purposes of this performance stock unit agreement, the "Relative Total Shareholder Return" means the percentile ranking over the Performance Period of the Corporation's total shareholder return as compared to the total shareholder return of the companies in the Russell 2000 Index at the beginning of the Performance Period. The determination of the total shareholder return for the Corporation and the companies in the Russell 2000 Index shall include the appreciation or depreciation of stock prices plus dividends paid as if reinvested, and shall be determined based on the average closing price of the Corporation's common stock and the average closing price of the companies in the Russell 2000 Index over the first thirty (30) trading days of the Performance Period compared to the last thirty (30) trading days of the Performance Period. If the Russell 2000 Index ceases to be published, the Committee shall, in its discretion, substitute another broad-based stock index that it determines is appropriate.

After the end of the Corporation's fiscal year ending December 31, 202_, the Committee shall determine the Corporation's Diluted Earnings Per Share for such fiscal year and the applicable percentage of Target Units earned with respect to such performance measure for such fiscal year. After the end of the Corporation's fiscal year ending December 31, 202_, the Committee shall determine the Corporation's Diluted Earnings Per Share for such fiscal year and the applicable percentage of Target Units earned with respect to such performance measure for such fiscal year. After the end of the Corporation's fiscal year ending December 31, 202_, the Committee shall determine the Corporation's Diluted Earnings Per Share for such fiscal year and the applicable percentage of Target Units earned with respect to such performance measure for such fiscal year. If the Diluted Earnings Per Share does not equal or exceed the thresholds in the table below, the Award shall expire without consideration.

Diluted Earnings Per Share	202_	202_	202_	Total
Threshold				
Vesting % of Target Units	10%	10%	10%	30%
Target				
Vesting % of Target Units	33%	33%	34%	100%
Maximum				
Vesting % of Target Units	66%	66%	68%	200%

In the event that the Corporation's Diluted Earnings Per Share for any fiscal year of the Performance Period falls between two of the percentages listed in the table above, the applicable percentage of Target Units earned based on such achievement shall be determined by linear interpolation. The total number of performance stock units subject to the Award that are earned based upon the Corporation's achievement over the Performance Period (as determined by the Committee) will be equal to the sum of (i) the percentage determined by reference to the table above with respect to the Corporation's Diluted Earnings Per Share for the fiscal year ending December 31, 202_ multiplied by the number of Target Units set forth in Section 1 above, plus (ii) the percentage determined by reference to the table above with respect to the Corporation's Diluted Earnings Per Share for the fiscal year ending December 31, 202_ multiplied by the number of Target Units set forth in Section 1 above, plus (iii) the percentage determined by reference to the table above with respect to the Corporation's Diluted Earnings Per Share for the fiscal year ending December 31, 202_ multiplied by the number of Target Units set forth in Section 1 above (such units collectively, the "Earned Units").

After the end of the Performance Period, the Committee shall determine the Corporation's Relative Total Shareholder Return (compared to the companies in the Russell 2000 Index at the beginning of the Performance Period) over the Performance Period. The Committee, in its discretion, shall establish such procedures as it deems appropriate to determine the Corporation's percentile rank in Relative Total Shareholder Return. The total Vesting Units will then be determined by multiplying the Earned Units by the Total Vested Units Modifier in the table below.

Notwithstanding the foregoing, the Total Vested Units Modifier shall not be greater than 1.0 unless the Corporation's Total Shareholder Return over the Performance Period is greater than zero.

Relative Total Shareholder Return v. Russell 2000 Index	
Total Shareholder Return Percentile Rank	Total Vested Units Modifier
81% - 100%	1.25
71% - 80%	1.15
61% - 70%	1.10
41% - 60%	1.00
31% - 40%	.90
21% - 30%	.85
0% - 20%	.75

Notwithstanding anything herein to the contrary, in no event will more than two hundred fifty percent (250%) of the number of Target Units become vested hereunder. Performance stock units granted under this Award that are not vested and remain subject to forfeiture are referred to herein as "Unvested Units."

DUCOMMUN INCORPORATED

PSU CASH-BASED LONG-TERM INCENTIVE AWARD AGREEMENT

This cash-based long-time incentive award agreement (the "**Agreement**") is made as of _______ (the "**Effective Date**"), between Ducommun Incorporated, a Delaware corporation (the "**Corporation**"), and _______ ("**Award Holder**").

R E C I T A L S

This Agreement is subject to and governed by the terms of the Amended and Restated 2020 Stock Incentive Plan (the "**Plan**").

A G R E E M E N T S

1. Grant. The Corporation hereby grants to the Award Holder an award (the "**Award**") with a target value (if the Corporation achieves the target level performance goals described in Exhibit A attached hereto) of _____________ Dollars ($________) (the "**Target Award**"), and a maximum of up to two hundred fifty percent (250%) of the Target Award (if Corporation achieves the maximum level performance goals described in Exhibit A), in each case subject to certain adjustments as described herein. The Award granted hereunder represents the right to receive a payment in cash based upon the percentage of the Target Award earned, subject to the conditions set forth in this Agreement and the Plan.

2. Definitions. Unless the context clearly indicates otherwise, and subject to the terms and conditions of the Plan as the same may be amended from time to time, the following terms, when used in this Agreement, shall have the meanings set forth in this Section 2.

"Common Stock" shall mean the Common Stock, $.01 par value, of the Corporation or such other class of shares or other securities as may be applicable pursuant to the provisions of Sections 4 or 9 of this cash-based long-time incentive award agreement.

"Subsidiary" shall mean a corporation or other form of business entity more than 50% of the voting shares of which is owned or controlled, directly or indirectly, by the Corporation and which is designated by the Committee for participation in the Plan by the key employees thereof.

"Committee" shall mean the Compensation Committee of the Board of Directors of the Corporation, or if there is no such committee acting, the Board of Directors of the Corporation.

3. Vesting. The Award shall vest at the end of the 3-year performance period, beginning as of January 1, 202_ and ending on December 31, 202_ (the "**Performance Period**"). The vesting of the Award shall be subject to the Corporation achieving during the Performance Period the Diluted Earnings Per Share and Relative Total Shareholder Return, as provided in Exhibit A. Following the end of each fiscal year of the Performance Period and the collection of relevant data necessary to determine the extent to which the performance goals set forth in Exhibit A have been satisfied, the Committee will determine: (a) the amount of Diluted Earnings Per Share that was achieved by the Corporation for each fiscal year of the Performance Period, and (b) the percentage of the Target Award for each fiscal year (for each such fiscal year, the "**Earned Award**") that will become the Vested Award (as defined in

Exhibit A) as of the last day of the Performance Period or earlier as provided in Section 5(b). Following the end of the Performance Period and collection of relevant data necessary to determine the extent to which the performance goals set forth in Exhibit A have been satisfied, the Committee will determine: (a) the Relative Total Shareholder Return that was achieved by the Corporation over the Performance Period, and (b) the multiplier that will be applied to the Earned Award to calculate the amount of the Vested Award as of the last day of the Performance Period, as provided in Exhibit A attached hereto. The Committee shall make these determinations in its sole discretion. The level of achievement of Diluted Earnings Per Share and Relative Total Shareholder Return shall be evidenced by the Committee's written certification. For the avoidance of doubt, any portion of the Target Award that does not vest in accordance with the forgoing shall expire without consideration at the end of the Performance Period.

4. Settlement of Vested Award. Upon the vesting of all or a portion of the Award, the Vested Award (as defined in Exhibit A) shall be paid to the Award Holder in cash, subject to any required tax withholding obligations, upon the Committee's written certification as set forth in Section 3. No shares of Common Stock shall be issued with respect to the Award. The Award Holder shall not acquire or have any rights as a shareholder of the Corporation by virtue of this cash-based long-time incentive award agreement (or the Award evidenced hereby). Notwithstanding the foregoing, the Award Holder may elect, on a form and in a manner prescribed by the Corporation, to defer any payment of the Vested Award, provided that any such deferral of payment must comply with any applicable requirements of Section 409A of the Code.

5. Termination.

(a) If the Award Holder's employment with the Corporation or a Subsidiary terminates before the end of the Performance Period for any reason, except as provided in this Section 5, then the Award will be forfeited and cancelled and surrendered to the Corporation without payment of any consideration, effective on the date of the Award Holder's termination of employment. Upon the termination of the Award Holder's employment with the Corporation or a Subsidiary as a result of (i) death or "permanent disability" (as defined herein) or (ii) "retirement" (as defined herein), the amount of the Vested Award and the vesting of such Vested Award shall be determined in accordance with Section 5(b) below. As used herein, the term "retirement" shall mean that, on the date on which the Award Holder terminates employment with the Corporation or a Subsidiary, either (x) the Award Holder is sixty-five (65) or more years of age, or (y) the combination of the Award Holder's age plus years of service equals not less than seventy (70). As used herein, the term "permanent disability" shall mean the date on which the Award Holder has not worked or been able to work due to physical or mental incapacity for a period of one hundred eighty (180) consecutive days.

(b) Upon the termination of the Award Holder's employment with the Corporation or a Subsidiary as a result of death, permanent disability or retirement as provided in Section 5(a), (i) for each full fiscal year that the Award Holder was employed by the Corporation or a Subsidiary, the Earned Award (as defined in Section 3) shall vest immediately, and (ii) for the last fiscal year (if less than a full fiscal year) that the Award Holder was employed by the Corporation or a Subsidiary, the Target Award shall be reduced an amount equal to the Target Award set forth in Section 1 multiplied by a fraction, (x) the numerator of which equals the number of full calendar quarters that have elapsed between January 1 of such fiscal year and the date of termination of employment, and (y) the denominator of which equals four (4), and such Target Award (as reduced) shall then vest at such time as it becomes an Earned Award (as defined in Section 3) provided that the Award Holder has not rendered services, directly or indirectly, to any third party engaged in competition with the Corporation or its Subsidiaries. For the avoidance of doubt, the Total Vested Award Modifier (as described in Exhibit A) shall not be applied in determining the Vested Award for any Award covered by this Section 5(b).

6. Reserved.

7. No Right to Continued Employment. Nothing in the Plan, in this Agreement or in any other instrument executed pursuant thereto shall confer upon the Award Holder any right to continue in the employ of the Corporation or any Subsidiary of the Corporation or shall interfere in any way with the right of the Corporation or any such Subsidiary to at any time terminate the employment of the Award Holder with or without cause.

8. Reserved.

9. No Rights as a Shareholder. Neither the Award Holder nor any beneficiary or other person claiming under or through the Award Holder shall have any right, title or interest in or to any shares of Common Stock as a result of the Award or this Agreement.

10. Withholding. The Corporation or any Subsidiary of the Corporation may make such provisions as it may deem appropriate for the withholding of any taxes which the Corporation or such Subsidiary determines it is required to withhold in connection with this cash-based long-time incentive award agreement and the transactions contemplated hereby.

11. No Assignments. Neither this Agreement, nor this Award nor any other rights and privileges granted hereby shall be transferred, assigned, pledged or hypothecated in any way, whether by operation of law of descent and distribution. Upon any attempt to so transfer, assign, pledge, hypothecate or otherwise dispose of this Agreement, this Award or any other right or privilege granted hereby contrary to the provisions hereof, this Agreement, this Award and all of such rights and privileges shall immediately become null and void, provided however, that the Award Holder may transfer an Award to any “family member” (as such term is defined in Section A.1(a)(5) of the General Instructions to Form S-8 under the Securities Act of 1933, as amended (“**Form S-8**”)), to trusts solely for the benefit of such family members and to partnerships in which such family members and/or trusts are the only partners; provided that the transfer is pursuant to a gift or a domestic relations order to the extent permitted under the General Instructions to Form S-8 and provided further, that such transferee acknowledges and agrees that the Award remains subject to all of the terms and conditions of this Agreement and the Plan.

12. Other Programs. Nothing contained in this cash-based long-time incentive award agreement shall affect the right of the Award Holder to participate in and receive benefits under and in accordance with the then current provisions of any pension, insurance, profit-sharing or other employee benefit plan or program of the Corporation or of any Subsidiary of the Corporation.

13. The Plan. The Award hereby granted is subject to, and the Corporation and Award Holder agree to be bound by all of the terms and conditions of the Plan as the same may be amended from time to time in accordance with the terms thereof, but no such amendment may adversely affect the Award Holder’s rights under this Agreement. Award Holder acknowledges receipt of a complete copy of the Plan.

14. Committee Authority. All questions arising under the Plan or under this Agreement shall be decided by the Committee in its total and absolute discretion. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this Agreement,

all of which shall be binding upon the Award Holder to the maximum extent permitted by the Plan.

15. Consideration. The consideration for the rights and benefits conferred on Award Holder by this Award are the services rendered by the Award Holder after and not before the grant of this Award.

16. Applicable Law. This Award has been granted as of the effective date set forth above at Los Angeles, California, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California.

DUCOMMUN INCORPORATED

By: ______________________________________
Chief Executive Officer

By: ______________________________________
Secretary

____
Award Holder

CASH-BASED LONG-TIME INCENTIVE AWARD AGREEMENT

Exhibit A

For purposes of this Agreement, the "**Diluted Earnings Per Share**" means the diluted earnings per share of the Corporation for each of the Corporation's fiscal years ending December 31, 202_, December 31, 202_ and December 31, 202_ as included in the Corporation's audited financial statements, subject to adjustment as provided herein. The Diluted Earnings Per Share shall be adjusted (as determined by the Committee) (i) for changes in accounting, (ii) for discontinued operations (including businesses and product lines that are sold), (iii) to exclude gain or loss on the sale of any business or product line, including but not limited to post-closing adjustments to the purchase price, any indemnity or similar payments, and any costs or expenses in connection therewith, (iv) to exclude any asset impairment write-offs or charges (whether of goodwill, intangible or tangible assets), (v) to exclude any transaction-related costs or expenses arising in connection with the purchase or sale of any business or product line, including but not limited to the effects of Financial Accounting Standards Board Accounting Standards Codification Topic 805, (vi) to exclude any costs or expenses arising in connection with the refinancing, restructuring or prepayment of any Debt, including but not limited to the unamortized portion of any original issue discount, the unamortized portion of any original issue costs and expenses, and any prepayment or make-whole payments, costs or expenses and (vii) any restructuring, reorganization or other costs, expenses or charges that the Compensation Committee determines should be adjusted to fairly reflect the operating performance of the Company. An appropriate adjustment in the Diluted Earnings Per Share amounts in the table below also shall be made for any change in capitalization as described in the Plan.

For purposes of this Agreement, the "**Relative Total Shareholder Return**" means the percentile ranking over the Performance Period of the Corporation's total shareholder return as compared to the total shareholder return of the companies in the Russell 2000 Index at the beginning of the Performance Period. The determination of the total shareholder return for the Corporation and the companies in the Russell 2000 Index shall include the appreciation or depreciation of stock prices plus dividends paid as if reinvested, and shall be determined based on the average closing price of the Corporation's common stock and the average closing price of the companies in the Russell 2000 Index over the first thirty (30) trading days of the Performance Period compared to the last thirty (30) trading days of the Performance Period. If the Russell 2000 Index ceases to be published, the Committee shall, in its discretion, substitute another broad-based stock index that it determines is appropriate.

After the end of the Corporation's fiscal year ending December 31, 202_, the Committee shall determine the Corporation's Diluted Earnings Per Share for such fiscal year and the applicable percentage of Target Award earned with respect to such performance measure for such fiscal year. After the end of the Corporation's fiscal year ending December 31, 202_, the Committee shall determine the Corporation's Diluted Earnings Per Share for such fiscal year and the applicable percentage of Target Award earned with respect to such performance measure for such fiscal year. After the end of the Corporation's fiscal year ending December 31, 202_, the Committee shall determine the Corporation's Diluted Earnings Per Share for such fiscal year and the applicable percentage of Target Award earned with respect to such performance measure for such fiscal year. If the Diluted Earnings Per Share does not equal or exceed the thresholds in the table below, the Award shall expire without consideration.

Diluted Earnings Per Share	202_	202_	202_	Total
Threshold Vesting % of Target Award	10%	10%	10%	30%
Target Vesting % of Target Award	33%	33%	34%	100%
Maximum Vesting % of Target Award	66%	66%	68%	200%

In the event that the Corporation's Diluted Earnings Per Share for any fiscal year of the Performance Period falls between two of the percentages listed in the table above, the applicable percentage of Target Award earned based on such achievement shall be determined by linear interpolation. The total value of the Award earned based upon the Corporation's achievement over the Performance Period (as determined by the Committee) will be equal to the sum of (i) the percentage determined by reference to the table above with respect to the Corporation's Diluted Earnings Per Share for the fiscal year ending December 31, 202_ multiplied by the amount of the Target Award set forth in Section 1 above, plus (ii) the percentage determined by reference to the table above with respect to the Corporation's Diluted Earnings Per Share for the fiscal year ending December 31, 202_ multiplied by the amount of the Target Award set forth in Section 1 above, plus (iii) the percentage determined by reference to the table above with respect to the Corporation's Diluted Earnings Per Share for the fiscal year ending December 31, 202_ multiplied by the amount of the Target Award set forth in Section 1 above (collectively, the "**Earned Award**").

After the end of the Performance Period, the Committee shall determine the Corporation's Relative Total Shareholder Return (compared to the companies in the Russell 2000 Index at the beginning of the Performance Period) over the Performance Period. The Committee, in its discretion, shall establish such procedures as it deems appropriate to determine the Corporation's percentile rank in Relative Total Shareholder Return. The total Vested Award will then be determined by multiplying the Earned Award by the Total Vested Award Modifier in the table below. Notwithstanding the foregoing, the Total Vested Award Modifier shall not be greater than 1.0 unless the Corporation's Total Shareholder Return over the Performance Period is greater than zero.

Relative Total Shareholder Return v. Russell 2000 Index	
Total Shareholder Return Percentile Rank	Total Vested Award Modifier
81% - 100%	1.25
71% - 80%	1.15
61% - 70%	1.10
41% - 60%	1.00
31% - 40%	.90
21% - 30%	.85
0% - 20%	.75

Notwithstanding anything herein to the contrary, in no event will more than two hundred fifty percent (250%) of the Target Award become earned and vested hereunder. The portion of the Award that is not earned and vested and that remains subject to forfeiture are referred to herein as "**Unvested Award**."

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

Date: May 4, 2023

/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, Suman B. Mookerji, certify that:

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

Date: May 4, 2023

/s/ Suman B. Mookerji
Suman B. Mookerji
Senior Vice President, Chief Financial Officer, Controller and Treasurer

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 April 1, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen G. Oswald, Chairman, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Stephen G. Oswald
Stephen G. Oswald
Chairman, President and Chief Executive Officer
May 4, 2023

In connection with the Quarterly Report of Ducommun Incorporated (the “Company”) on Form 10-Q for the period ending April 1, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Suman B. Mookerji, Senior Vice President, Chief Financial Officer, Controller and Treasurer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Suman B. Mookerji
Suman B. Mookerji
Senior Vice President, Chief Financial Officer, Controller and Treasurer
May 4, 2023

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