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

FORM 10-Q

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

For the quarterly period ended April 2, 2022

OR

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

For the transition period from _________ to _________

Commission File Number 001-08174

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

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

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	x
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x

As of April 26, 2022, the registrant had 12,033,277 shares of common stock outstanding.

DUCOMMUN INCORPORATED AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	April 2, 2022	December 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	$ 19,260	$ 76,316
Accounts receivable, net (allowance for credit losses of $791 and $1,098 at April 2, 2022 and December 31, 2021, respectively	82,804	72,261
Contract assets	187,171	176,405
Inventories	159,795	150,938
Production cost of contracts	7,862	8,024
Other current assets	8,783	8,625
Total Current Assets	465,675	492,569
Property and Equipment, Net of Accumulated Depreciation of $171,713 and $168,132 at April 2, 2022 and December 31, 2021, respectively	103,900	102,419
Operating Lease Right-of-Use Assets	38,860	33,265
Goodwill	203,694	203,694
Intangibles, Net	138,116	141,764
Other Assets	9,086	5,024
Total Assets	$ 959,331	$ 978,735
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 74,842	$ 66,059
Contract liabilities	37,841	42,077
Accrued and other liabilities	31,917	41,291
Operating lease liabilities	7,028	6,133
Current portion of long-term debt	7,000	7,000
Total Current Liabilities	158,628	162,560
Long-Term Debt, Less Current Portion	247,729	279,384
Non-Current Operating Lease Liabilities	32,917	28,074
Deferred Income Taxes	18,820	18,727
Other Long-Term Liabilities	13,531	15,388
Total Liabilities	471,625	504,133
Commitments and Contingencies (Notes 7, 9)		
Shareholders' Equity		
Common Stock - $0.01 par value; 35,000,000 shares authorized; 12,032,945 and 11,925,087 shares issued and outstanding at April 2, 2022 and December 31, 2021, respectively	120	119
Additional Paid-In Capital	104,244	104,253
Retained Earnings	385,362	377,263
Accumulated Other Comprehensive Loss	(2,020)	(7,033)
Total Shareholders' Equity	487,706	474,602
Total Liabilities and Shareholders' Equity	$ 959,331	$ 978,735

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 2, 2022	April 3, 2021
Net Revenues	$ 163,481	$ 157,151
Cost of Sales	131,006	124,051
Gross Profit	32,475	33,100
Selling, General and Administrative Expenses	23,352	22,490
Operating Income	9,123	10,610
Interest Expense	(2,402)	(2,806)
Other Income	3,000	—
Income Before Taxes	9,721	7,804
Income Tax Expense	1,622	1,109
Net Income	$ 8,099	$ 6,695
Earnings Per Share		
Basic earnings per share	$ 0.68	$ 0.57
Diluted earnings per share	$ 0.66	$ 0.55
Weighted-Average Number of Common Shares Outstanding		
Basic	11,989	11,791
Diluted	12,328	12,250

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 2, 2022	April 3, 2021
Net Income	$ 8,099	$ 6,695
Other Comprehensive Income, Net of Tax:		
Amortization of actuarial loss and prior service costs, net of tax of $36 and $76 for the three months ended April 2, 2022 and April 3, 2021, respectively	110	245
Change in unrealized gains on cash flow hedges, net of tax of $1,509 and zero for the three months ended April 2, 2022 and April 3, 2021, respectively	4,903	—
Other Comprehensive Income, Net of Tax	5,013	245
Comprehensive Income	$ 13,112	$ 6,940

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2020	**11,728,212**	**$ 117**	**$ 97,090**	**$ 241,727**	**$ (9,600)**	**$ 329,334**
Net income	—	—	—	6,695	—	6,695
Other comprehensive income, net of tax	—	—	—	—	245	245
Employee stock purchase plan	31,580	—	1,558	—	—	1,558
Stock options exercised	17,872	—	610	—	—	610
Stock awards vested	178,827	2	(2)	—	—	—
Stock repurchased related to the exercise of stock options and stock awards vested	(106,894)	(1)	(6,004)	—	—	(6,005)
Stock-based compensation	—	—	3,133	—	—	3,133
Balance at April 3, 2021	**11,849,597**	**$ 118**	**$ 96,385**	**$ 248,422**	**$ (9,355)**	**$ 335,570**
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**

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 2, 2022	April 3, 2021
Cash Flows from Operating Activities		
Net Income	$ 8,099	$ 6,695
Adjustments to Reconcile Net Income to		
Net Cash Used in Operating Activities:		
Depreciation and amortization	7,768	6,922
Non-cash operating lease cost	1,842	736
Stock-based compensation expense	1,590	3,133
Deferred income taxes	93	606
(Recovery of) provision for credit losses	(307)	18
Other	139	122
Changes in Assets and Liabilities:		
Accounts receivable	(10,236)	(3,117)
Contract assets	(10,766)	(19,881)
Inventories	(8,857)	(9,064)
Production cost of contracts	(371)	(488)
Other assets	504	(369)
Accounts payable	8,540	8,192
Contract liabilities	(4,236)	(4,007)
Operating lease liabilities	(1,615)	(784)
Accrued and other liabilities	(11,038)	(12,069)
Net Cash Used in Operating Activities	**(18,851)**	**(23,355)**
Cash Flows from Investing Activities		
Purchases of property and equipment	(4,825)	(4,542)
Proceeds from sale of assets	51	—
Net Cash Used in Investing Activities	**(4,774)**	**(4,542)**
Cash Flows from Financing Activities		
Borrowings from senior secured revolving credit facility	—	20,000
Repayments of senior secured revolving credit facility	—	(25,000)
Repayments of term loans	(31,750)	(2,676)
Repayments of other debt	(83)	(84)
Net cash paid upon issuance of common stock under stock plans	(1,598)	(3,837)
Net Cash Used in Financing Activities	**(33,431)**	**(11,597)**
Net Decrease in Cash and Cash Equivalents	(57,056)	(39,494)
Cash and Cash Equivalents at Beginning of Period	76,316	56,466
Cash and Cash Equivalents at End of Period	**$ 19,260**	**$ 16,972**

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, 2021 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, 2021. The financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2021.

In the opinion of management, all adjustments, consisting of recurring accruals, have been made that are necessary to fairly state our condensed consolidated financial position, statements of income, comprehensive income, changes in shareholders' equity, and cash flows in accordance with GAAP for the periods covered by this Quarterly Report on Form 10-Q. The results of operations for the three months ended April 2, 2022 are not necessarily indicative of the results to be expected for the full year ending December 31, 2022.

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

Subsequent to our quarter ended April 2, 2022, in April 2022, management approved and commenced a restructuring plan mainly to reduce headcount, consolidate facilities, write-down inventory, and impair long-lived assets to better position us for stronger performance. We currently anticipate this initiative will result in $10.0 million to $14.0 million in total pre-tax restructuring charges over the next 12 months. Of these charges, we estimate $4.0 million to be cash payments for employee separation and other facility consolidation related expenses, and $6.0 million to $10.0 million to be non-cash charges for the write-down of inventory and impairment of long-lived assets.

Supplemental Cash Flow Information

	(Dollars in thousands) Three Months Ended	
	April 2, 2022	April 3, 2021
Interest paid	$ 2,186	$ 2,544
Taxes paid (refunded), net	$ 10	$ (30)
Non-cash activities:		
Purchases of property and equipment not paid	$ 1,576	$ 540

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 2, 2022	April 3, 2021
Net income	$ 8,099	$ 6,695
Weighted-average number of common shares outstanding		
Basic weighted-average common shares outstanding	11,989	11,791
Dilutive potential common shares	339	459
Diluted weighted-average common shares outstanding	12,328	12,250
Earnings per share		
Basic	$ 0.68	$ 0.57
Diluted	$ 0.66	$ 0.55

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 2, 2022	April 3, 2021
Stock options and stock units	7	3

Fair Value

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

We have money market funds and they are included as cash and cash equivalents. We also have forward interest rate swap agreements and the fair value of the forward interest rate swap agreements were 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 2, 2022.

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, 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, we have made the following cash flow hedging relationship elections to qualify for hedge accounting treatment related to the Forward Interest Rate Swaps as our current term loans mature before the expiration of the Forward Interest Rate Swaps: 1) Probability of forecasted transactions, and 2) Assessment of effectiveness. See Note 6. As of April 2, 2022, 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 Forward Interest Rate Swaps are not effective until January 1, 2024, in both the three months ended April 2, 2022 and April 3, 2021, we only recorded the changes in the fair value of the derivative instruments that were highly effective and that were designated and qualified as cash flow hedges in other long term assets, other long term liabilities, and other comprehensive income (loss) of $6.4 million and zero, respectively.

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 Loss

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

Net cumulative catch up adjustments on gross profit recorded were not material for both the three months ended April 2, 2022 and April 3, 2021.

Payments under long-term contracts may be received before or after revenue is recognized. When revenue is recognized before we bill our customer, a contract asset is created for the work performed but not yet billed. Similarly, when we receive payment before we ship our products to our customer, a contract liability is created for the advance or progress payment. 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 2, 2022 and December 31, 2021, provision for estimated losses on contracts were $3.3 million and $2.8 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 2, 2022 and December 31, 2021, production cost of contracts were $7.9 million and $8.0 million, respectively.

Contract Assets and Contract Liabilities

Contract assets consist of our right to payment for work performed but not yet billed. Contract assets are transferred to accounts receivable when we bill our customers. We bill our customers when we ship the products and meet the shipping terms within the revenue contract. Contract liabilities consist of advance or progress payments received from our customers prior to the time transfer of control occurs plus the estimated losses on contracts. 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 2, 2022	December 31, 2021
Contract assets	$ 187,171	$ 176,405
Contract liabilities	$ 37,841	$ 42,077

The increase in our contract assets as of April 2, 2022 compared to December 31, 2021 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 2, 2022 compared to December 31, 2021 was primarily due to a net decrease of advance or progress payments received from our customers in the current period. We recognized $10.1 million of the contract liabilities as of December 31, 2021 as revenues during the three months ended April 2, 2022.

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 2, 2022 totaled $767.1 million. We anticipate recognizing an estimated 70% of our remaining performance obligations as revenue during the next 12 months with the remaining performance obligations being recognized in the remainder of 2023 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 2 2022	April 3, 2021
Consolidated Ducommun		
Military and space	$ 99,334	$ 114,127
Commercial aerospace	54,075	35,377
Industrial	10,072	7,647
Total	$ 163,481	$ 157,151
Electronic Systems		
Military and space	$ 71,820	$ 81,733
Commercial aerospace	15,574	9,724
Industrial	10,072	7,647
Total	$ 97,466	$ 99,104
Structural Systems		
Military and space	$ 27,514	$ 32,394
Commercial aerospace	38,501	25,653
Total	$ 66,015	$ 58,047

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 have to meet certain requirements over a six month performance period from November 15, 2021 to May 14, 2022. As of April 2, 2022, we have received $2.0 million, all during 2021, with the remaining $2.0 million included as other current assets and expected to be received during 2022. We recorded $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. Cumulative through the three months ended April 2, 2022, we have recorded $2.7 million and $0.3 million as a reduction of cost of sales and selling, general and administrative expenses, respectively. The remaining $1.0 million is included as accrued and other liabilities.

Recent Accounting Pronouncements

New Accounting Guidance Adopted in 2022

In August 2020, the FASB issued ASU 2020-06, "Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) - Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" ("ASU 2020-06"), which simplifies reporting or provides clarification on various topics, including clarification that an entity should use the weighted-average share count from each quarter when calculating the year-to-date weighted-average share count. The new guidance is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years, which was our interim period beginning January 1, 2022. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

Recently Issued Accounting Standards

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04"), which provides optional guidance for a limited time for contracts that reference London Interbank Offered Rate ("LIBOR"), to ease the potential burden in accounting for, or recognizing the effects, of reference rate reform on financial reporting as a result of the cessation of LIBOR. The new guidance is effective at any time after March 12, 2020 but no later than December 31, 2022. We have made the following elections related to our current cash flow hedging relationships as our current term loans mature before the expiration of the Forward Interest Rate Swaps: 1) Probability of forecasted transactions, and 2) Assessment of effectiveness. See Note 6.

Note 2. Business Combinations

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 will continue to advance our strategy to diversify and offer more customized, value-driven engineered products with aftermarket opportunities.

The 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. We allocated the preliminary gross purchase price of $71.3 million to the assets acquired and liabilities assumed at their estimated fair values. The excess of the purchase price over the aggregate fair values of the net assets was recorded as goodwill.

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

	Estimated Fair Value
Cash	$ 1,821
Accounts receivable	2,093
Inventories	4,586
Other current assets	98
Property and equipment	482
Operating lease right-of-use assets	1,533
Intangible assets	30,100
Goodwill	32,864
Total assets acquired	73,577
Current liabilities	(869)
Other non-current liabilities	(1,408)
Total liabilities assumed	(2,277)
Total purchase price allocation	$ 71,300

	Useful Life (In years)	Estimated Fair Value (In thousands)
Intangible assets:		
Customer relationships	19	$ 24,800
Backlog	2	600
Trade name	Indefinite	4,700
		$ 30,100

The intangible assets acquired of $30.1 million were determined based on the estimated fair values using valuation techniques consistent with the income approach to measure fair value, which represented Level 3 fair value measurements. The useful lives were estimated based on the underlying agreements or the future economic benefit expected to be received from the assets. The value for customer relationships and backlog were estimated based on a multi-period excess earnings approach, while the value for trade name was assessed using the relief from royalty methodology. Inputs to the income approach models and other aspects of the allocation of the purchase price require judgment. The more significant inputs used in the customer relationships intangible asset valuation include (i) future revenue growth rates, (ii) projected gross margins, (iii) the customer attrition rate, and (iv) the discount rate.

The goodwill of $32.9 million arising from the acquisition is attributable to the benefits we expect to derive from expected synergies from the transaction, including complementary products that will enhance our overall product portfolio, opportunities within new markets, and an acquired assembled workforce. All the goodwill was assigned to the Structural Systems segment. The MagSeal acquisition, for tax purposes, is deemed an asset acquisition and thus, is deductible for income tax purposes.

Acquisition related transaction costs were not included as components of consideration transferred but have been expensed as incurred. Total acquisition-related transaction costs incurred by us were $0.9 million during 2021 and charged to selling, general and administrative expenses.

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. Inventories

Inventories consisted of the following:

	(Dollars in thousands) April 2, 2022	December 31, 2021
Raw materials and supplies	$ 134,990	$ 125,334
Work in process	20,316	20,609
Finished goods	4,489	4,995
Total	$ 159,795	$ 150,938

Note 4. Goodwill

We perform our annual goodwill impairment test as of the first day of the fourth quarter. If certain factors occur, including significant 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.

Our most recent goodwill impairment test of our Electronic Systems reporting unit as of the first day of the fourth quarter of 2021 was performed using a qualitative assessment and we determined it was not more likely than not that the fair value of the reporting unit was less than its carrying amount. Our most recent annual goodwill impairment test of our Structural Systems reporting unit as of the first day of the fourth quarter of 2021 was performed using a step one goodwill impairment test where the fair value of our Structural Systems reporting unit exceeded its carrying value by 72%. Thus, the respective goodwill amounts were not deemed impaired. While our business continues to be negatively impacted during the three months ended April 2, 2022 as a result of the COVID-19 pandemic, no material adverse factors/changes have occurred since the fourth quarter of 2021 that would require us to perform another qualitative or quantitative assessment. As such, for the first quarter of 2022, 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	$ 86,259	$ 285,416
Accumulated goodwill impairment	(81,722)	—	(81,722)
Balance at December 31, 2021	$ 117,435	$ 86,259	$ 203,694
Balance at April 2, 2022	$ 117,435	$ 86,259	$ 203,694

Note 5. Accrued and Other Liabilities

The components of accrued and other liabilities were as follows:

	(Dollars in thousands)	
	April 2, 2022	December 31, 2021
Accrued compensation	$ 14,774	$ 24,391
Accrued income tax and sales tax	4,024	926
Other	13,119	15,974
Total	$ 31,917	$ 41,291

Note 6. Long-Term Debt

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

	(Dollars in thousands)	
	April 2, 2022	December 31, 2021
Term loans	$ 255,962	$ 287,712
Total debt	255,962	287,712
Less current portion	(7,000)	(7,000)
Total long-term debt, less current portion	248,962	280,712
Less debt issuance costs - term loans	(1,233)	(1,328)
Total long-term debt, net of debt issuance costs - term loans	$ 247,729	$ 279,384
Debt issuance costs - revolving credit facility (1)	$ 1,042	$ 1,136
Weighted-average interest rate	3.37 %	3.27 %

(1) Included as part of other assets.

In December 2019, we completed the refinancing of a portion of our existing debt by entering into a new revolving credit facility (“2019 Revolving Credit Facility”) to replace the then existing revolving credit facility that was entered into in November 2018 (“2018 Revolving Credit Facility”) and entered into a new term loan (“2019 Term Loan”). The 2019 Revolving Credit Facility is a $100.0 million senior secured revolving credit facility that matures on December 20, 2024 replacing the $100.0 million 2018 Revolving Credit Facility that would have matured on November 21, 2023. The 2019 Term

Loan is a $140.0 million senior secured term loan that matures on December 20, 2024. We also have an existing $240.0 million senior secured term loan that was entered into in November 2018 that matures on November 21, 2025 (“2018 Term Loan”). The original amounts available under the 2019 Revolving Credit Facility, 2019 Term Loan, and 2018 Term Loan (collectively, the “Credit Facilities”) in aggregate, totaled $480.0 million.

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

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

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

Further, under the Credit Facilities, if we exceed the annual excess cash flow threshold, we are required to make an annual additional principal payment based on the consolidated adjusted leverage ratio. The annual mandatory excess cash flow payment is based on (i) 50% of the excess cash flow amount if the adjusted leverage ratio is greater than 3.25 to 1.0, (ii) 25% of the excess cash flow amount if the adjusted leverage ratio is less than or equal to 3.25 to 1.0 but greater than 2.50 to 1.0, and (iii) zero percent of the excess cash flow amount if the consolidated adjusted leverage ratio is less than or equal to 2.50 to 1.0. 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. As of April 2, 2022, we were in compliance with all covenants required under the Credit Facilities.

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

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.

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

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

As of April 2, 2022, we had $99.8 million of unused borrowing capacity under the 2019 Revolving Credit Facility, after deducting $0.2 million for standby letters of credit.

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

In 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 Forward Interest Rate Swaps are not effective until January 1, 2024, we only recorded the changes in the fair value of the Forward Interest Rate Swaps. As such, we recorded the change in other long term assets, other long term liabilities, and other comprehensive income (loss) of $6.4 million for the three months ended April 2, 2022. See Note 1 for further information.

Note 7. 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 statute of limitations. The majority of guarantees and indemnities do not provide any limitations of the maximum potential future payments we could be obligated to make. Historically, payments related to these guarantees and indemnities have been immaterial. We estimate the fair value of our indemnification obligations as insignificant based on this history and insurance coverage and have, therefore, not recorded any liability for these guarantees and indemnities in the accompanying condensed consolidated balance sheets.

Note 8. 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 $1.6 million for the three months ended April 2, 2022 compared to $1.1 million for the three months ended April 3, 2021. The increase in income tax expense for the first quarter of 2022 compared to the first quarter of 2021 was primarily due to higher pre-tax income for the first quarter of 2022 compared to the first quarter of 2021 and lower discrete tax benefits recognized in the first quarter of 2022 for net tax windfalls related to stock-based compensation. The increase in income tax expense was partially offset by higher income tax benefits recognized in the first quarter of 2022 related to the U.S. Federal research and development tax credit.

Our total amount of unrecognized tax benefits was $4.5 million and $4.4 million as of April 2, 2022 and December 31, 2021, respectively. If recognized, $2.7 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 2, 2022 and December 31, 2021 were not significant. As a result of statute of limitations set to expire in the fourth quarter of 2022, 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 2017 and by state taxing authorities for tax years after 2016. 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.

The Tax Cuts and Jobs Act of 2017 ("TCJA"), which was signed into U.S. law in December 2017, eliminated the option to immediately deduct research and development expenditures in the year incurred under Section 174 effective January 1, 2022. The amended provision under Section 174 requires us to capitalize and amortize these expenditures over five years (for U.S.-based research). Although there is proposed legislation to temporarily reinstate the current deduction of the expenditures after 2021 through 2025, we must consider the changes under the TCJA. As of April 2, 2022, we recorded an increase to current income taxes payable by approximately $2.6 million and a decrease to net deferred tax liabilities by a similar amount. We are monitoring legislation for any further changes to Section 174 and the impact to the financial statements in 2022.

Note 9. Commitments and Contingencies

In December 2020, a representative action under California's Private Attorneys General Act was filed against us in the Superior Court of California, County of San Bernardino. We received service of process of this complaint on January 28, 2021. The complaint alleges violations of California's wage and hour laws relating to our current and former employees and seeks attorney's fees and penalties. We vigorously refuted and defended these claims, and reached a tentative settlement of $0.8 million during the fourth quarter 2021, which is subject to court approval. Thus, we recorded accrued liabilities of $0.8 million as of December 31, 2021. We are awaiting final court approval and thus, the accrued liabilities amount remains unchanged at $0.8 million as of April 2, 2022.

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 2, 2022 and December 31, 2021, 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 2, 2022 and December 31, 2021, which is reflected in other long-term liabilities on our condensed consolidated balance sheets. Our ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities, and the allocation of liability among potentially responsible parties.

In June 2020, a fire severely damaged our performance center in Guaymas, Mexico, which is part of our Structural Systems segment. There were no injuries, however, property and equipment, inventories, and tooling in this leased facility were damaged. Our Guaymas performance center is comprised of two buildings with an aggregate total of 62,000 square feet. The loss of production from the Guaymas performance center is being absorbed by our other existing performance centers, however, we are in the process of re-establishing 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.

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 2, 2022, we received insurance recoveries of $3.0 million for business interruption and since the contingencies related to this amount are deemed to be resolved, we recorded this amount as other income. In addition, as of April 2, 2022, we have received $13.5 million of general insurance recoveries, all during 2020. 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 and claims, and receive certain demands and inquiries, in both cases, including but not limited to matters relating to environmental laws. In addition, Ducommun makes various commitments, grants indemnities, 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 10. 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 2, 2022	April 3, 2021
Net Revenues		
Electronic Systems	$ 97,466	$ 99,104
Structural Systems	66,015	58,047
Total Net Revenues	$ 163,481	$ 157,151
Segment Operating Income		
Electronic Systems	$ 9,411	$ 12,491
Structural Systems	4,887	5,128
	14,298	17,619
Corporate General and Administrative Expenses [(1)]	(5,175)	(7,009)
Operating Income	$ 9,123	$ 10,610
Depreciation and Amortization Expenses		
Electronic Systems	$ 3,506	$ 3,423
Structural Systems	4,203	3,440
Corporate Administration	59	59
Total Depreciation and Amortization Expenses	$ 7,768	$ 6,922
Capital Expenditures		
Electronic Systems	$ 1,696	$ 624
Structural Systems	3,372	1,989
Corporate Administration	—	—
Total Capital Expenditures	$ 5,068	$ 2,613

(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 2, 2022	December 31, 2021
Total Assets		
Electronic Systems	$ 516,865	$ 490,814
Structural Systems	413,955	408,118
Corporate Administration [1]	28,511	79,803
Total Assets	$ 959,331	$ 978,735
Goodwill and Intangibles		
Electronic Systems	$ 189,467	$ 191,789
Structural Systems	152,343	153,669
Total Goodwill and Intangibles	$ 341,810	$ 345,458

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

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

Overview

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

COVID-19 Pandemic Impact on Our Business

The COVID-19 pandemic has had a significant impact on our overall business during the three months ended April 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 safety of our employees remains our highest priority. The well-being and safety protocols that were already in place at all of our facilities were further enhanced at the onset of the COVID-19 pandemic. We continue to follow safety protocols consistent with guidelines provided by state and local governments and the Centers for Disease Control and Prevention ("CDC"). These measures included social distancing, provision of personal protective equipment, enhanced cleaning, and flexible work arrangements wherever possible. We have also offered enhanced leave and benefits to our employees and provided frequent updates to ensure our workforce is kept apprised of evolving regulations and safety measures.

In March 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") which provides tax relief to individuals and businesses affected by the coronavirus pandemic. We have not requested or accepted any loans or payments that are available under the CARES Act, however, we have utilized the option to defer payment of the employer portion of payroll taxes (Social Security) that would otherwise be required to be made during the period beginning March 27, 2020 to December 31, 2020. One half of the deferred amount was required to be paid and was paid by December 31, 2021, with the remaining 50% to be paid by December 31, 2022. As of April 2, 2022, we have deferred $3.1 million, which is included as part of accrued liabilities and other liabilities on the condensed consolidated balance sheets.

The COVID-19 pandemic has and continues to contribute to a general slowdown in the global economy and 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 2022, it is well below pre-pandemic levels. In its 2021 Annual Report on Form 10-K, Boeing indicated it expects commercial air travel to return to 2019 levels in 2023 to 2024, and a few years beyond that for the industry to return to the long-term trend growth. 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 2022 and beyond.

First quarter 2022 recap:

- Net revenues of $163.5 million
- Net income of $8.1 million, or $0.66 per diluted share
- Adjusted EBITDA of $20.1 million, or 12.3% of revenues

Non-GAAP Financial Measures

Adjusted earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, Guaymas fire related expenses, insurance recoveries related to business interruption, and inventory purchase accounting adjustments ("Adjusted EBITDA") were $20.1 million and $21.1 million for the three months ended April 2, 2022 and April 3, 2021, 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;
- Guaymas fire related expenses 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 2, 2022	April 3, 2021
Net income	$ 8,099	$ 6,695
Interest expense	2,402	2,806
Income tax expense	1,622	1,109
Depreciation	3,587	3,423
Amortization	4,181	3,499
Stock-based compensation expense	1,590	3,133
Guaymas fire related expenses	957	475
Insurance recoveries related to business interruption	(3,000)	—
Inventory purchase accounting adjustments	637	—
Adjusted EBITDA	$ 20,075	$ 21,140
% of net revenues	12.3 %	13.5 %

Results of Operations

First Quarter of 2022 Compared to First Quarter of 2021

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 2, 2022	% of Net Revenues	April 3, 2021	% of Net Revenues
Net Revenues	$ 163,481	100.0 %	$ 157,151	100.0 %
Cost of Sales	131,006	80.1 %	124,051	78.9 %
Gross Profit	32,475	19.9 %	33,100	21.1 %
Selling, General and Administrative Expenses	23,352	14.3 %	22,490	14.3 %
Operating Income	9,123	5.6 %	10,610	6.8 %
Interest Expense	(2,402)	(1.5)%	(2,806)	(1.8)%
Other Income	3,000	1.8 %	—	— %
Income Before Taxes	9,721	5.9 %	7,804	5.0 %
Income Tax Expense	1,622	nm	1,109	nm
Net Income	$ 8,099	5.0 %	$ 6,695	4.3 %
Effective Tax Rate	16.7 %	nm	14.2 %	nm
Diluted Earnings Per Share	$ 0.66	nm	$ 0.55	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 2, 2022 and April 3, 2021, respectively, were as follows:

	Three Months Ended				
	(Dollars in thousands)			% of Net Revenues	
	Change	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Consolidated Ducommun					
Military and space	$ (14,793)	$ 99,334	$ 114,127	60.8 %	72.6 %
Commercial aerospace	18,698	54,075	35,377	33.1 %	22.5 %
Industrial	2,425	10,072	7,647	6.1 %	4.9 %
Total	$ 6,330	$ 163,481	$ 157,151	100.0 %	100.0 %
Electronic Systems					
Military and space	$ (9,913)	$ 71,820	$ 81,733	73.7 %	82.5 %
Commercial aerospace	5,850	15,574	9,724	16.0 %	9.8 %
Industrial	2,425	10,072	7,647	10.3 %	7.7 %
Total	$ (1,638)	$ 97,466	$ 99,104	100.0 %	100.0 %
Structural Systems					
Military and space	$ (4,880)	$ 27,514	$ 32,394	41.7 %	55.8 %
Commercial aerospace	12,848	38,501	25,653	58.3 %	44.2 %
Total	$ 7,968	$ 66,015	$ 58,047	100.0 %	100.0 %

Net revenues for the three months ended April 2, 2022 were $163.5 million, compared to $157.2 million for the three months ended April 3, 2021. The year-over-year increase was primarily due to the following:

- $18.7 million higher revenues in our commercial aerospace end-use markets due to higher build rates on large aircraft platforms, other commercial aerospace platforms, and regional and business aircraft platforms; partially offset by
- $14.8 million lower revenues in our military and space end-use markets due to lower build rates on other military and space platforms, various missile platforms, and military rotary-wing aircraft platforms.

Net Revenues by Major Customers

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

	Three Months Ended	
	April 2, 2022	April 3, 2021
Boeing Company	7.1 %	7.4 %
General Dynamics Corporation	5.2 %	2.6 %
Lockheed Martin Corporation	3.7 %	5.3 %
Northrop Grumman Corporation	6.7 %	6.1 %
Raytheon Technologies Corporation	20.5 %	22.7 %
Total top ten customers (1)	59.5 %	58.5 %

(1) Includes The Boeing Company (“Boeing”), General Dynamics Corporation (“GD”), Lockheed Martin Corporation (“Lockheed”), Northrop Grumman Corporation (“Northrop”), and Raytheon Technologies Corporation (“Raytheon”) for the three months ended April 2, 2022 and April 3, 2021.

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

	April 2, 2022	December 31, 2021
Boeing	4.9 %	3.5 %
GD	6.3 %	4.0 %
Lockheed	2.1 %	0.4 %
Northrop	8.1 %	10.9 %
Raytheon	16.6 %	17.8 %

The net revenues and accounts receivable from Boeing, GD, Lockheed, Northrop, and Raytheon, 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 decreased year-over-year with the three months ended April 2, 2022 of 19.9%, compared to the three months ended April 3, 2021 of 21.1% primarily due to unfavorable product mix, partially offset by lower compensation and benefits costs.

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

SG&A expenses increased $0.9 million year-over-year in the three months ended April 2, 2022 compared to the three months ended April 3, 2021 primarily due to one-time severance charges of $1.2 million.

Interest Expense

Interest expense decreased $0.4 million year-over-year in the three months ended April 2, 2022 compared to the three months ended April 3, 2021 primarily due to a lower outstanding debt balance, partially offset by higher interest rates.

Income Tax Expense

We recorded income tax expense of $1.6 million for the three months ended April 2, 2022, compared to $1.1 million for the three months ended April 3, 2021. The increase in income tax expense for the first quarter of 2022 compared to the first quarter of 2021 was primarily due to higher pre-tax income for the first quarter of 2022 compared to the first quarter of 2021 and lower discrete tax benefits recognized in the first quarter of 2022 for net tax windfalls related to stock-based compensation. The increase in income tax expense was partially offset by higher income tax benefits recognized in the first quarter of 2022 mainly related to the U.S. Federal research and development tax credit.

Our total amount of unrecognized tax benefits was $4.5 million and $4.4 million as of April 2, 2022 and December 31, 2021, respectively. If recognized, $2.7 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 2, 2022 and December 31, 2021 were not significant. As a result of statute of limitations set to expire in the fourth quarter of 2022, 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 2017 and by state taxing authorities for tax years after 2016. 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.

The Tax Cuts and Jobs Act of 2017 ("TCJA"), which was signed into U.S. law in December 2017, eliminated the option to immediately deduct research and development expenditures in the year incurred under Section 174 effective January 1, 2022. The amended provision under Section 174 requires us to capitalize and amortize these expenditures over five years (for U.S.-based research). Although there is proposed legislation to temporarily reinstate the current deduction of the expenditures after 2021 through 2025, we must consider the changes under the TCJA. As of April 2, 2022, we recorded an increase to current income taxes payable by approximately $2.6 million and a decrease to net deferred tax liabilities by a similar amount. We are monitoring legislation for any further changes to Section 174 and the impact to the financial statements in 2022.

Net Income and Earnings per Share

Net income and earnings per share for the three months ended April 2, 2022 were $8.1 million, or $0.66 per diluted share, compared to $6.7 million, or $0.55 per diluted share, for the three months ended April 3, 2021. The increase in net income for the three months ended

April 2, 2022 compared to the three months ended April 3, 2021 was primarily due to higher other income of $3.0 million, partially offset by higher selling, general and administrative expenses of $0.9 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 2, 2022 and April 3, 2021:

	Three Months Ended				
	% Change	(Dollars in thousands) April 2, 2022	April 3, 2021	% of Net Revenues April 2, 2022	April 3, 2021
Net Revenues					
Electronic Systems	(1.7)%	$ 97,466	$ 99,104	59.6 %	63.1 %
Structural Systems	13.7 %	66,015	58,047	40.4 %	36.9 %
Total Net Revenues	4.0 %	$ 163,481	$ 157,151	100.0 %	100.0 %
Segment Operating Income					
Electronic Systems		$ 9,411	$ 12,491	9.7 %	12.6 %
Structural Systems		4,887	5,128	7.4 %	8.8 %
		14,298	17,619		
Corporate General and Administrative Expenses (1)		(5,175)	(7,009)	(3.2)%	(4.5)%
Total Operating Income		$ 9,123	$ 10,610	5.6 %	6.8 %
Adjusted EBITDA					
Electronic Systems					
Operating Income		$ 9,411	$ 12,491		
Depreciation and Amortization		3,506	3,423		
		12,917	15,914	13.3 %	16.1 %
Structural Systems					
Operating Income		4,887	5,128		
Depreciation and Amortization		4,203	3,440		
Guaymas fire related expenses		957	475		
Inventory Purchase Accounting Adjustments		637	—		
		10,684	9,043	16.2 %	15.6 %
Corporate General and Administrative Expenses (1)					
Operating Loss		(5,175)	(7,009)		
Depreciation and Amortization		59	59		
Stock-Based Compensation Expense		1,590	3,133		
		(3,526)	(3,817)		
Adjusted EBITDA		$ 20,075	$ 21,140	12.3 %	13.5 %
Capital Expenditures					
Electronic Systems		$ 1,696	$ 624		
Structural Systems		3,372	1,989		
Corporate Administration		—	—		
Total Capital Expenditures		$ 5,068	$ 2,613		

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

Electronic Systems

Electronic Systems net revenues in the three months ended April 2, 2022 compared to the three months ended April 3, 2021 decreased $1.6 million primarily due to the following:

- $9.9 million lower revenues in our military and space end-use markets due to lower build rates on other military and space platforms and various missile platforms; partially offset by
- $5.9 million higher revenues in our commercial aerospace end-use markets due to higher build rates on other commercial aerospace platforms.

Electronic Systems segment operating income in the three months ended April 2, 2022 compared to the three months ended April 3, 2021 decreased $3.1 million primarily due to unfavorable manufacturing volume and unfavorable product mix.

Structural Systems

Structural Systems net revenues in the three months ended April 2, 2022 compared to the three months ended April 3, 2021 increased

$8.0 million primarily due to the following:

- $12.8 million higher revenues in our commercial aerospace end-use markets due to higher build rates on large aircraft platforms and regional and business aircraft platforms; partially offset by
- $4.9 million lower revenues in our military and space end-use markets due to lower build rates on military rotary-wing aircraft platforms.

The Structural Systems segment operating income in the three months ended April 2, 2022 compared to the three months ended April 3, 2021 decreased $0.2 million primarily due to unfavorable product mix, partially offset by favorable manufacturing volume and lower compensation and benefits costs.

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 is being absorbed by our other existing performance centers, however, we are in the process of re-establishing 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 7 and Note 9 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

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

CG&A expenses decreased $1.8 million for the three months ended April 2, 2022 compared to the three months ended April 3, 2021 primarily due to lower compensation and benefits costs of $1.8 million.

Backlog

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

The increase in backlog was primarily in the commercial aerospace end-use market, partially offset by a decrease in the military and space end-use market. $664.0 million of total backlog is expected to be delivered over the next 12 months. The following table summarizes our backlog as of April 2, 2022 and December 31, 2021:

	(Dollars in thousands)		
	Change	April 2, 2022	December 31, 2021
Consolidated Ducommun			
Military and space	$ (11,113)	$ 509,165	$ 520,278
Commercial aerospace	43,654	376,761	333,107
Industrial	5,020	56,822	51,802
Total	$ 37,561	$ 942,748	$ 905,187
Electronic Systems			
Military and space	$ (11,366)	$ 388,636	$ 400,002
Commercial aerospace	21,918	78,728	56,810
Industrial	5,020	56,822	51,802
Total	$ 15,572	$ 524,186	$ 508,614
Structural Systems			
Military and space	$ 253	$ 120,529	$ 120,276
Commercial aerospace	21,736	298,033	276,297
Total	$ 21,989	$ 418,562	$ 396,573

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 2, 2022	December 31, 2021
Total debt, including long-term portion	$ 256.0	$ 287.7
Weighted-average interest rate on debt	3.37 %	3.27 %
Term Loans interest rate	3.28 %	3.22 %
Cash and cash equivalents	$ 19.3	$ 76.3
Unused Revolving Credit Facility	$ 99.8	$ 99.8

In December 2019, we completed the refinancing of a portion of our existing debt by entering into a new revolving credit facility (“2019 Revolving Credit Facility”) to replace the then existing revolving credit facility that was entered into in November 2018 (“2018 Revolving Credit Facility”) and entered into a new term loan (“2019 Term Loan”). The 2019 Revolving Credit Facility is a $100.0 million senior secured revolving credit facility that will mature on December 20, 2024, replacing the $100.0 million 2018 Revolving Credit Facility that would have matured on November 21, 2023. The 2019 Term Loan is a $140.0 million senior secured term loan that will mature on December 20, 2024. We also have an existing $240.0 million senior secured term loan that was entered into in November 2018 that will mature on November 21, 2025 (“2018 Term Loan”). The original amounts available under the 2019 Revolving Credit Facility, 2019 Term Loan, and 2018 Term Loan (collectively, the “Credit Facilities”) in aggregate, totaled $480.0 million. We are required to make installment payments of 1.25% of the original outstanding principal balance of the 2019 Term Loan amount on a quarterly basis, on the last day of the calendar quarter. We made the mandatory quarterly principal prepayment under the 2019 Term Loan during the three months ended April 2, 2022 of $1.8 million. In addition, if we meet the annual excess cash flow threshold, we are required to make an annual additional principal payment on the 2018 Term Loan based on the consolidated adjusted leverage ratio. 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. Further, the undrawn portion of the commitment of the 2019 Revolving Credit Facility is subject to a commitment fee ranging from 0.175% to 0.275%, based upon the consolidated total net adjusted leverage ratio. As of April 2, 2022, we were in compliance with all covenants required under the Credit Facilities. See Note 6 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

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

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.

Subsequent to our quarter ended April 2, 2022, in April 2022, management approved and commenced a restructuring plan mainly to reduce headcount, consolidate facilities, write-down inventory, and impair long-lived assets to better position us for stronger performance. We currently anticipate this initiative will result in $10.0 million to $14.0 million in total pre-tax restructuring charges over the next 12 months. Of these charges, we estimate $4.0 million to be cash payments for employee separation and other facility consolidation related expenses, and $6.0 million to $10.0 million to be non-cash charges for the write-down of inventory and impairment of long-lived assets. On an annualized basis, we anticipate these restructuring actions will result in total cost savings of $3.0 million to $4.0 million. See Note 1 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 6 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In December 2021, we acquired MagSeal for a purchase price of $69.5 million, net of cash acquired, all payable in cash. Upon the closing of the transaction, we paid a gross total aggregate of $71.3 million in cash, a portion of which was by drawing down on the 2019 Revolving Credit Facility. This draw down on the 2019 Revolving Credit Facility was paid off by December 31, 2021. See Note 2 to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for further information.

In December 2021, we entered into a sale-leaseback transaction for the building and related land for our Gardena performance center located in Carson, California ("Sale-Leaseback Agreement"). The building and related land was sold for $141.3 million and we recognized a gain of $132.5 million. As part of the Sale-Leaseback Agreement, we entered into an initial five year lease for the usage of the just sold building and related land. The future minimum base monthly lease payments during the initial five year period in aggregate total $19.6 million.

We expect to spend a total of $16.0 million to $18.0 million for capital expenditures in 2022 (excluding capital expenditures we will spend to restore the manufacturing capabilities related to our Guaymas performance center that was severely damaged by fire in June 2020), financed by cash generated from operations, principally to support new contract awards in Electronic Systems and Structural Systems. As part of our strategic plan to become a supplier of a wider range of higher-level assemblies and win new contract awards, additional up-front investment in tooling will be required for newer programs which have higher engineering content and higher levels of complexity in assemblies. However, some portion of the expected capital expenditures in 2022 could be delayed as a result of the ongoing COVID-19 pandemic.

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

We 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 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 2, 2022 was $18.9 million, compared to $23.4 million for the three months ended April 3, 2021. The lower net cash used in operating activities during the first three months of 2022 was mainly due to higher accounts payable and higher net income, partially offset by lower accrued and other liabilities, higher contract assets, higher accounts receivable, and higher inventories.

Net cash used in investing activities was $4.8 million for the three months ended April 2, 2022, compared to $4.5 million in the three months ended April 3, 2021. The higher net cash used during the first three months of 2022 compared to the prior year period was mainly due to higher purchases of property and equipment.

Net cash used in financing activities was $33.4 million for the three months ended April 2, 2022, compared to $11.6 million for the three months ended April 3, 2021. The higher net cash used in financing activities during the first three months of 2022 was mainly due to the $30.0 million pay down on term loans during the 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 2021 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 2, 2022.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our main market risk exposure relates to changes in U.S. and U.K. interest rates on our outstanding long-term debt. At April 2, 2022, we had total borrowings of $256.0 million under our Credit Facilities.

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

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

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

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended April 2, 2022 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 9 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, 2021 for a discussion of our risk factors. There have been no material changes during the three months ended April 2, 2022 to the risk factors disclosed in our Form 10-K for the year ended December 31, 2021.

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 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.

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

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

3.3 Bylaws as amended and restated on March 19, 2013. Incorporated by reference to Exhibit 99.1 to Form 8-K dated March 22, 2013.

3.4 Amendment to Bylaws dated January 5, 2017. Incorporated by reference to Exhibit 99.2 to Form 8-K dated January 9, 2017.

3.5 Amendment to Bylaws dated February 21, 2018. Incorporated by reference to Exhibit 3.1 to Form 8-K dated February 26, 2018.

3.6 Amendment to Bylaws dated March 5, 2021. Incorporated by reference to Exhibit 3.1 to Form 8-K dated March 8, 2021.

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

10.1 Joinder Agreement to Amended and Restated Credit Agreement dated as of April 15, 2022, by and among Magnetic Seal LLC as Subsidiary Guarantor, Ducommun Incorporated as Borrower, and Bank of America, N.A. as Administrative Agent.

10.2 Second Amendment to Amended and Restated Credit Agreement entered into on March 20, 2020. Incorporated by reference to Exhibit 10.1 to Form 10-Q for the period ended October 2, 2021.

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

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

*10.5 2013 Stock Incentive Plan (Amended and Restated May 2, 2018). Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 23, 2018.

*10.6 2020 Employee Stock Incentive Plan. Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 20, 2020.

*10.7 2018 Employee Stock Purchase Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 23, 2018.

*10.8 2020 Employee Stock Purchase Plan. Incorporated by reference to Appendix A of Definitive Proxy Statement on Schedule 14a, filed on March 20, 2020.

Exhibit No. | **Description**

*10.9 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.

*10.10 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.

*10.11 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.

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

*10.13 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.

*10.14 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.

*10.15 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.

*10.16 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.

*10.17 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.

*10.18 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.

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

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

*10.21 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.

*10.22 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
Jerry L. Redondo	January 23, 2017
Rajiv A. Tata	January 24, 2020
Christopher D. Wampler	January 23, 2017

*10.23 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.

*10.24 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.

Table of Contents

Exhibit No.	Description
10.25	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
Jay L. Haberland	February 2, 2009
Sheila G. Kramer	June 1, 2021
Stephen G. Oswald	January 23, 2017
Jerry L. Redondo	October 1, 2015
Samara A. Strycker	December 30, 2021
Rajiv A. Tata	January 24, 2020
Christopher D. Wampler	January 1, 2016

31.1 Certification of Principal Executive Officer.

31.2 Certification of Principal Financial Officer.

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

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

101.SCH Inline XBRL Taxonomy Extension Schema

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB Inline XBRL Taxonomy Extension Label Linkbase

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase

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

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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 3, 2022	By:	/s/ Stephen G. Oswald
		Stephen G. Oswald Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: May 3, 2022	By:	/s/ Christopher D. Wampler
		Christopher D. Wampler Vice President, Chief Financial Officer, Controller and Treasurer (Principal Financial and Principal Accounting Officer)

Joinder Agreement

THIS JOINDER AGREEMENT (this "Agreement"), dated as of April 15, 2022, is by and among Magnetic Seal LLC, a Delaware limited liability company (the "Subsidiary Guarantor"), Ducommun Incorporated, a Delaware corporation (the "Borrower"), and Bank of America, N.A., in its capacity as administrative agent (in such capacity, the "Administrative Agent") under that certain Amended and Restated Credit Agreement, dated as of November 21, 2018 (as amended, extended, restated, replaced, supplemented or otherwise modified in accordance with the terms thereof from time to time, the "Credit Agreement"), by and among the Borrower, the Guarantors party thereto, the Lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent, Swingline Lender and an L/C Issuer. Capitalized terms used herein but not otherwise defined shall have the meanings provided in the Credit Agreement.

The Loan Parties are required by Section 6.13 of the Credit Agreement to cause the Subsidiary Guarantor to become a "Guarantor" thereunder.

Accordingly, the Subsidiary Guarantor and the Borrower hereby agree as follows with the Administrative Agent, for the benefit of the Secured Parties:

1. The Subsidiary Guarantor hereby acknowledges, agrees and confirms that, by its execution of this Agreement, the Subsidiary Guarantor will be deemed to be a party to and a "Guarantor" under the Credit Agreement and shall have all of the rights and obligations of a Guarantor thereunder as if it had executed the Credit Agreement and the other Loan Documents as a Guarantor. The Subsidiary Guarantor hereby ratifies, as of the date hereof, and agrees to be bound by, all representations and warranties, covenants and other terms, conditions and provisions of the Credit Agreement and the other applicable Loan Documents, in each case that are made or applicable to the Subsidiary Guarantor. Without limiting the generality of the foregoing terms of this Paragraph 1, the Subsidiary Guarantor hereby guarantees, jointly and severally together with the other Guarantors, the prompt payment of the Secured Obligations in accordance with Article X of the Credit Agreement.

2. Each of the Subsidiary Guarantor (to the extent applicable thereto) and the Borrower hereby agree that all of the representations and warranties contained in Article II and Article V of the Credit Agreement or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, are true and correct in all material respects (and in all respects if any such representation or warranty is already qualified by materiality or reference to Material Adverse Effect) on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (and in all respects if any such representation or warranty is already qualified by materiality or reference to Material Adverse Effect) as of such earlier date.

3. The Subsidiary Guarantor hereby acknowledges, agrees and confirms that, by its execution of this Agreement, the Subsidiary Guarantor will be deemed to be a party to the Security Agreement, and shall have all the obligations of a "Grantor" (as such term is defined in the Security Agreement) thereunder as if it had executed the Security Agreement. The Subsidiary Guarantor hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions contained in the Security Agreement. Without limiting the generality of the foregoing terms of this Paragraph 3, the Subsidiary Guarantor hereby grants to the Administrative Agent, for the benefit of the Secured Parties, a continuing security interest in, and a right of set off against any and all right, title and interest of the Subsidiary Guarantor in and to the Collateral (as such term is defined in Section 2 of the Security Agreement) of the Subsidiary Guarantor.

4. The Subsidiary Guarantor hereby acknowledges, agrees and confirms that, by its execution of this Agreement, the Subsidiary Guarantor will be deemed to be a party to the Pledge Agreement, and shall have all the rights and obligations of a "Pledgor" (as such term is defined in the Pledge Agreement) thereunder as if it had executed the Pledge Agreement. The Subsidiary Guarantor hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions contained in the Pledge Agreement. Without limiting the generality of the foregoing terms of this Paragraph 4, the Subsidiary Guarantor hereby grants to the Administrative Agent, for the benefit of

the Secured Parties, a continuing security interest in, and a right of set off against any and all right, title and interest of the Subsidiary Guarantor in and to the Pledged Collateral (as such term is defined in Section 2 of the Pledge Agreement) of the Subsidiary Guarantor.

5. The Subsidiary Guarantor acknowledges and confirms that it has received a copy of the Credit Agreement and the schedules and exhibits thereto and each other Loan Document and the schedules and exhibits thereto. The Subsidiary Guarantor hereby represents and warrants to the Administrative Agent, for the benefit of the Secured Parties, that:

(a) Set forth on Schedule 1 attached hereto is complete and accurate list as of the date hereof of (i) all Subsidiaries, joint ventures and partnerships and other equity investments of the Subsidiary Guarantor, (ii) the number of shares of each class of Equity Interests in each Subsidiary Guarantor outstanding, (iii) the number and percentage of outstanding shares of each class of Equity Interests owned by the Subsidiary Guarantor and its Subsidiaries, (iv) the class or nature of such Equity Interests (i.e. voting, non-voting, preferred, etc.), and (v) identification of each Subsidiary that is an Excluded Subsidiary, a CFC Holdco or an Immaterial Subsidiary. The outstanding Equity Interests in all Restricted Subsidiaries of the Subsidiary Guarantor are validly issued, fully paid and non-assessable and are owned free and clear of all Liens (other than Permitted Liens). There are no outstanding subscriptions, options, warrants, calls, rights or other agreements or commitments (other than stock options granted to employees or directors and directors' qualifying shares) of any nature relating to the Equity Interests of the Subsidiary Guarantor (other than as set forth on Schedule 1 attached hereto) or any Restricted Subsidiary thereof, except as contemplated in connection with the Loan Documents.

(b) Set forth on Schedule 2 attached hereto is a complete and accurate list as of the date hereof of the Subsidiary Guarantor's (i) exact legal name, (ii) former legal names in the four (4) months prior to the date hereof, if any, (iii) jurisdiction of its incorporation or organization, as applicable, (iv) type of organization, (v) jurisdictions in which the Subsidiary Guarantor is qualified to do business, (vi) chief executive office address, (vii) principal place of business address, (viii) U.S. federal taxpayer identification number, and (ix) organization identification number.

(c) Set forth on Schedule 3 attached hereto is a list of all Intellectual Property registered or pending registration with the United States Copyright Office or the United States Patent and Trademark Office and owned by the Subsidiary Guarantor as of the date hereof. Except for such claims and infringements that could not reasonably be expected to have a Material Adverse Effect, no claim has been asserted and is pending by any Person challenging or questioning the use of such Intellectual Property or the validity or effectiveness of such Intellectual Property, nor does the Subsidiary Guarantor know of any such claim, and, to the knowledge of the Subsidiary Guarantor, the use of such Intellectual Property by such Subsidiary Guarantor or the granting of a right or a license in respect of such Intellectual Property from the Subsidiary Guarantor does not infringe on the rights of any Person. As of the date hereof, none of the Intellectual Property owned by the Subsidiary Guarantor is subject to any licensing agreement or similar arrangement except as set forth on Schedule 3 attached hereto.

(d) Set forth on Schedule 4 attached hereto is a description of all deposit accounts and securities accounts of the Subsidiary Guarantor as of the date hereof, including (i) in the case of a deposit account, the depository institution and average daily balance (as of the close of business) held in such deposit account and whether such account is an Excluded Deposit and Securities Account, and (ii) in the case of a securities account, the securities intermediary or issuer and the average aggregate daily market value (as of the close of business) held in such securities account, as applicable, and whether such account is an Excluded Deposit and Securities Account.

(e) Set forth on Schedule 5 attached hereto is a list of all real property located in the United States that is owned or leased by the Subsidiary Guarantor as of the date hereof (in each case, including (i) the number of buildings located on such property, (ii) the property address, and (iii) the city, county, state and zip code which such property is located).

6. The address and contact information of the Subsidiary Guarantor for purposes of all notices and other communications is the same as the address and contact information for the Borrower as set forth in Schedule 1.01(a) of the Credit Agreement.

7. The Subsidiary Guarantor hereby waives acceptance by the Administrative Agent and the Secured Parties of the guaranty by the Subsidiary Guarantor under Article X of the Credit Agreement upon the execution of this Agreement by the Subsidiary Guarantor.

8. The Borrower confirms that the Credit Agreement is, and upon the Subsidiary Guarantor becoming a Guarantor, shall continue to be, in full force and effect. The parties hereto confirm and agree that immediately upon the Subsidiary Guarantor becoming a Guarantor the term "Obligations," as used in the Credit Agreement, shall include all obligations of the Subsidiary Guarantor under the Credit Agreement and under each other Loan Document.

9. Each of the Borrower and the Subsidiary Guarantor agrees that at any time and from time to time, upon the written request of the Administrative Agent, it will execute and deliver such further documents and do such further acts as the Administrative Agent may reasonably request in accordance with the terms and conditions of the Credit Agreement and the other Loan Documents in order to effect the purposes of this Agreement.

10. This Agreement may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Agreement by fax transmission or other electronic mail transmission (e.g. "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this Agreement.

11. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York. The terms of Sections 11.14 and 11.15 of the Credit Agreement are incorporated herein by reference, *mutatis mutandis*, and the parties hereto agree to such terms.

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IN WITNESS WHEREOF, each of the Borrower and the Subsidiary Guarantor has caused this Agreement to be duly executed by its authorized officer, and the Administrative Agent, for the benefit of the Secured Parties, has caused the same to be accepted by its authorized officer, as of the day and year first above written.

SUBSIDIARY GUARANTOR: MAGNETIC SEAL LLC,
a Delaware limited liability company

By: /s/ Stephen G. Oswald
Name: Stephen G. Oswald
Title: Chief Executive Officer

BORROWER: DUCOMMUN INCORPORATED,
a Delaware corporation

By: /s/ Stephen G. Oswald
Name: Stephen G. Oswald
Title: Chairman, President and Chief Executive Officer

Acknowledged, accepted and agreed:

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/ Denise Jones
Name: Denise Jones
Title: Vice President

Schedule 1

Subsidiaries, Joint Ventures, Partnerships and Other Equity Investments

Owner	Subsidiary	Number of Shares of Each Class of Equity Interests in Subsidiary Outstanding	Number and Percentage of Outstanding Shares of Each Class of Equity Interests Owned	Class/Nature of Equity Interests
N/A	N/A	N/A	N/A	N/A

Schedule 2

Subsidiary Information

Exact Legal Name	Former Legal Names in Four Months Prior	Jurisdiction of Incorporation	Type of Organization	Jurisdictions Qualified to do Business	Chief Executive Office Address	Principal Place of Business Address	U.S. Taxpayer Identification Number	OIN
Magnetic Seal LLC	Magnetic Seal Corp., a Rhode Island corporation	Delaware	Limited Liability Company	Rhode Island	365 Market St., Warren, RI 02885	365 Market St., Warren, RI 02885	05-0274345	6469997

Schedule 3

Intellectual Property

Pending Patent Applications:

Country	Title	Status	App. No.	Filing Date	Owner
US	Rotary face seal with magnetic puller loading	Pending	15/649,246	07/13/17	Magnetic Seal Corp
US	Rotary face seal with magnetic puller loading with band magnet on seal case	Pending	16/054,540	08/03/18	Magnetic Seal Corp.
EU	Rotary face seal with magnetic puller loading	Pending	17828477.4	07/13/17	Magnetic Seal Corp.
US	Thermodynamic Magnetic Seal	Pending	63/091,836	10/14/20	Magnetic Seal Corp.

Registered Marks:

Country	Trademark	Status	Reg. No. App. No.	Reg. Date App. Date	Owner
US	MAG2SEAL	Registered	5541809 87281596	08/14/2018 12/27/2016	Magnetic Seal Corp.
US	MACHSEAL	Registered	4908453 86705214	03/01/2016 07/27/2015	Magnetic Seal Corp.
US	MAGSEAL	Renewed	1238021 73307387	05/17/1983 04/24/1981	Magnetic Seal Corp.

Schedule 4

Deposit Accounts and Securities Accounts

Deposit Accounts

Subsidiary Guarantor	Account Number	Type of Account	Depository Institution	Excluded Deposit Account? Y/N
Magnetic Seal LLC	841249502	PPP Loan Account	BayCoast Bank	Y
Magnetic Seal LLC	841292056	Secured Savings	BayCoast Bank	Y
Magnetic Seal LLC	841293301	Deposit Account	BayCoast Bank	N
Magnetic Seal LLC	841293327	Payroll Account	BayCoast Bank	Y
Magnetic Seal LLC	841293343	Operating Account	BayCoast Bank	N
Magnetic Seal LLC	841260110	SBA PPP	BayCoast Bank	Y
Magnetic Seal LLC	841333074	Comm RE ARM Loan	BayCoast Bank	Y
Magnetic Seal LLC	150000046376	Payroll Account	Bank Newport	Y
Magnetic Seal LLC	150000046375	Operating Account	Bank Newport	Y
Magnetic Seal LLC	000050886485	Payroll Account	Bank of America	Y

Securities Accounts

Subsidiary Guarantor	Account Number	Type of Account	Depository Institution	Excluded Deposit Account? Y/N
Magnetic Seal LLC	359-21563-1-3	Investment Account	Edward Jones Investment Bank	Y

Schedule 5

Real Properties

Owned Property

Subsidiary Guarantor	Number of Buildings Located on Such Property	Address	City, County, State and Zip Code
N/A	N/A	N/A	N/A

Leased Property

Subsidiary Guarantor	Number of Buildings Located on Such Property	Address	City, County, State and Zip Code
Magnetic Seal LLC	One (1)	365 Market St.	Warren, RI 02885

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 2, 2022;
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 3, 2022

/s/ Stephen G. Oswald
Stephen G. Oswald
Chairman, President and Chief Executive Officer

EXHIBIT 31.2

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

I, Christopher D. Wampler, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the “registrant”) on Form 10-Q for the period ended April 2, 2022;
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 3, 2022

/s/ Christopher D. Wampler
Christopher D. Wampler
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 2, 2022, 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 3, 2022

In connection with the Quarterly Report of Ducommun Incorporated (the “Company”) on Form 10-Q for the period ending April 2, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher D. Wampler, Vice President, Chief Financial Officer, Controller and Treasurer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

By: /s/ Christopher D. Wampler
Christopher D. Wampler
Vice President, Chief Financial Officer, Controller and Treasurer
May 3, 2022

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.