FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended July 5, 2003

OR

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

For the transition period form __________ to __________

Commission File Number 1-8174

DUCOMMUN INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	95-0693330
(State or other jurisdiction of incorporation or organization)	I.R.S. Employer Identification No.

111 W. Ocean Boulevard, Suite 900, Long Beach, California 90802
(Address of principal executive offices) (Zip Code)

(562) 624-0800
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of July 5, 2003, there were outstanding 9,873,551 shares of common stock.

Table of Contents

DUCOMMUN INCORPORATED
FORM 10-Q
INDEX

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

DUCOMMUN INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	July 5, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 220	$ 174
Accounts receivable (less allowance for doubtful accounts of $533 and $534)	26,555	23,968
Inventories	43,438	41,336
Deferred income taxes	6,782	6,711
Prepaid income taxes	—	140
Other current assets	4,554	4,400
Total Current Assets	81,549	76,729
Property, Plant and Equipment, Net	61,076	61,936
Deferred Income Taxes	889	1,049
Goodwill	55,532	55,532
Other Assets	1,979	2,364
	$ 201,025	$ 197,610
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 3,709	$ 1,501
Accounts payable	15,256	16,203
Accrued liabilities	28,127	25,039
Total Current Liabilities	47,092	42,743
Long-Term Debt, Less Current Portion	16,200	24,349
Deferred Income Taxes	3,122	3,122
Other Long-Term Liabilities	6,937	6,954
Total Liabilities	73,351	77,168
Commitments and Contingencies		
Shareholders' Equity:		
Common stock—$.01 par value; authorized 35,000,000 shares; issued 9,873,551 shares in 2003 and 9,863,985 shares in 2002	99	99
Additional paid-in capital	38,058	37,925
Retained earnings	92,196	85,097
Accumulated other comprehensive loss	(2,679)	(2,679)
Total Shareholders' Equity	127,674	120,442
	$ 201,025	$ 197,610

See accompanying notes to consolidated financial statements.

Table of Contents

DUCOMMUN INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	For Three Months Ended	
	July 5, 2003	June 29, 2002
Net Sales	$ 56,211	$ 56,148
Operating Costs and Expenses:		
Cost of goods sold	43,282	43,227
Selling, general and administrative expenses	7,105	8,005
Total Operating Costs and Expenses	50,387	51,232
Operating Income from Continuing Operations	5,824	4,916
Interest Expense	(244)	(467)
Income from Continuing Operations Before Taxes	5,580	4,449
Income Tax Expense	(1,589)	(1,601)
Income from Continuing Operations	3,991	2,848
Loss From Discontinued Operation, Net of Tax	—	(201)
Net Income	$ 3,991	$ 2,647
Earnings Per Share:		
Basic:		
Income from continuing operations	$ 0.40	$ 0.29
Loss from discontinued operation, net of tax	—	(0.02)
	$ 0.40	$ 0.27
Diluted:		
Income from continuing operations	$ 0.40	$ 0.28
Loss from discontinued operation, net of tax	—	(0.02)
	$ 0.40	$ 0.26
Weighted Average Number of Common Shares Outstanding:		
Basic	9,874	9,802
Diluted	9,897	10,040

Data above have been reclassified to reflect Brice Manufacturing Company, Inc., as a discontinued operation for the three months ended June 29, 2002.

See accompanying notes to consolidated financial statements.

DUCOMMUN INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	For Six Months Ended	
	July 5, 2003	**June 29, 2002**
Net Sales	$ 111,252	$ 110,780
Operating Costs and Expenses:		
Cost of goods sold	86,310	84,970
Selling, general and administrative expenses	14,088	14,464
Total Operating Costs and Expenses	100,398	99,434
Operating Income from Continuing Operations	10,854	11,346
Interest Expense	(565)	(982)
Income from Continuing Operations Before Taxes	10,289	10,364
Income Tax Expense	(3,190)	(3,731)
Income from Continuing Operations	7,099	6,633
Loss From Discontinued Operation, Net of Tax	—	(431)
Cumulative Effect of Accounting Change, Net of Tax	—	(2,325)
Net Income	$ 7,099	$ 3,877
Earnings Per Share:		
Basic:		
Income from continuing operations	$ 0.72	$ 0.68
Loss from discontinued operation, net of tax	—	(0.04)
Cumulative effect of accounting change, net of tax	—	(0.24)
	$ 0.72	$ 0.40
Diluted:		
Income from continuing operations	$ 0.72	$ 0.67
Loss from discontinued operation, net of tax	—	(0.04)
Cumulative effect of accounting change, net of tax	—	(0.24)
	$ 0.72	$ 0.39
Weighted Average Number of Common Shares Outstanding:		
Basic	9,873	9,753
Diluted	9,895	9,913

Data above have been reclassified to reflect Brice Manufacturing Company, Inc., as a discontinued operation for the six months ended June 29, 2002.

See accompanying notes to consolidated financial statements.

DUCOMMUN INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For Six Months Ended	
	July 5, 2003	**June 29, 2002**
Cash Flows from Operating Activities:		
Net Income	$ 7,099	$ 3,877
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Depreciation and amortization	3,768	4,087
Deferred income tax provision (benefit)	89	(2,030)
Income tax benefit related to the exercise of nonqualified stock options	7	648
Cumulative effect of accounting change, net of tax	—	2,325
Changes in Assets and Liabilities:		
Accounts receivable	(2,587)	(1,129)
Inventories	(2,102)	27
Other assets	371	(85)
Accounts payable	(947)	(937)
Accrued and other liabilities	3,071	(3)
Net Cash Provided by Operating Activities from Continuing Operations	8,769	6,780
Net Cash Provided by Operating Activities from Discontinued Operation	—	1,677
Net Cash Provided by Operating Activities	8,769	8,457
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(2,908)	(1,493)
Net Cash Used in Investing Activities	(2,908)	(1,493)
Cash Flows from Financing Activities:		
Net Repayment of Long-Term Debt	(5,941)	(9,867)
Net Cash Effect of Exercise of Stock Options	126	946
Net Cash Used in Financing Activities	(5,815)	(8,921)
Net Increase (Decrease) in Cash and Cash Equivalents	46	(1,957)
Cash and Cash Equivalents—Beginning of Period	174	2,414
Cash and Cash Equivalents—End of Period	$ 220	$ 457
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 572	$ 1,163
Income Taxes Paid	$ 2,439	$ 5,739

Supplemental information for Non-Cash Investing and Financing Activities:
See Note 2 for non-cash investing activities related to the disposition of business.

See accompanying notes to consolidated financial statements.

DUCOMMUN INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Consolidation

The consolidated balance sheets as of July 5, 2003 and December 31, 2002, the consolidated statements of income for the three months and six months ended July 5, 2003 and June 29, 2002 and the consolidated statements of cash flows for the six months ended July 5, 2003 and June 29, 2002 are unaudited. The consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries ("Ducommun" or the "Company"), after eliminating inter-company balances and transactions. The financial information included in the quarterly report should be read in conjunction with the Company's consolidated financial statements and the related notes thereto included in its annual report on Form 10-K for the year ended December 31, 2002.

Cash Equivalents

Cash equivalents consist of highly liquid instruments with original maturities of three months or less. The cost of these investments approximates fair value.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. The Company records provisions for estimated losses on contracts in the period in which such losses are identified.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses from the inability of customers to make required payments. The allowance for doubtful accounts is evaluated periodically based on the aging of accounts receivable, the financial condition of customers and their payment history, historical write-off experience and other assumptions.

Inventory Valuation

Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. The Company assesses the inventory carrying value and reduces 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 Company's customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the Company. The Company maintains an allowance for inventories for potentially excess and obsolete inventories and gross inventory levels that are carried at costs that are higher than their net realizable values. If market conditions are less favorable than those projected by management, such as an unanticipated decline in demand not meeting expectations, inventory write-downs may be required.

Property and Depreciation

Property and equipment, including assets recorded under capital leases, are recorded at cost. Depreciation and amortization are computed using the straight-line method over the assets' estimated useful lives and, in the case of leasehold improvements, over the shorter of the lives of the improvements or the lease terms. The Company evaluates long-lived assets for recoverability, when significant changes in conditions occur, and recognizes impairment losses, if any, based upon the fair value of the assets.

Goodwill

The Company's business acquisitions have typically resulted in goodwill, which affects the amount of possible impairment expense that the Company may incur. The determination of the value of goodwill requires management to make estimates and assumptions that affect the Company's consolidated financial statements. The Company performs goodwill impairment test on an annual basis and between annual tests, in certain circumstances, whenever events may indicate an impairment may have occurred. In assessing the recoverability of the Company's goodwill, management makes assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets.

Warranty Liability

The Company quantifies and records an estimate for warranty related costs based on the Company's actual historical and projected return and failure rates and the current repair costs. Should the Company experience actual return and failure rates or repair costs that are higher than the estimated return and failure rates or repair costs used to calculate the provision, the Company's operating results for the period or periods in which such returns or additional costs materialize will be adversely impacted. At July 5, 2003 and December 31, 2002 the Company's estimates for warranty liabilities were $1,709,000 and $1,697,000, respectively. During the period December 31, 2002 through July 5, 2003, there were no significant changes in the Company's warranty liabilities.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes” (“SFAS No. 109”), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company’s effective tax rate may vary significantly from period to period, particularly as a result of differences in tax credits available to the Company.

Litigation and Commitments

In the normal course of business, the Company and its subsidiaries are defendants in certain litigation, claims and inquiries, including matters relating to environmental laws. In addition, the Company makes various commitments and incurs contingent liabilities. Management’s estimates regarding contingent liabilities could differ from actual results.

Environmental Liabilities

Environmental liabilities are recorded when environmental assessments and/or remedial efforts are probable, and costs can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or the Company’s commitment to a formal plan of action.

Earnings Per Share

Basic earnings per share is 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 plus income associated with dilutive securities by the weighted average number of common shares outstanding plus any potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock in each period.

Comprehensive Income

Statement of Financial Accounting Standards No. 130, “Reporting Comprehensive Income” (“SFAS No. 130”), requires that certain items such as foreign currency translation adjustments, unrealized gains and losses on certain investments in debt and equity securities and minimum pension liability adjustments be presented as separate components of shareholders’ equity. SFAS No. 130 defines these as items of other comprehensive income. Accumulated other comprehensive loss was comprised of a minimum pension liability adjustment of $2,679,000, net of tax, at July 5, 2003 and December 31, 2002.

Use of Estimates

Certain amounts and disclosures included in the consolidated financial statements required management to make estimates and judgments that affect the amounts of assets, 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 under different assumptions or conditions.

Note 2. Disposition

In October 2002, the Company sold the capital stock of its airline seating manufacturing subsidiary, Brice Manufacturing Company, Inc. (“Brice”). The Company’s financial statements for the three months and six months ended June 29, 2002 have been reclassified to reflect Brice as a discontinued operation. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of Brice have been condensed in the accompanying consolidated statement of income and consolidated statement of cash flows for 2002.

Summarized financial information for Brice is as follows:

	(In thousands)	
	For Three Months Ended June 29, 2002	For Six Months Ended June 29, 2002
Net Sales	$ 1,932	$ 3,537
Operating Costs and Expenses:		
Cost of goods sold	1,652	3,063
Selling, general and administrative expenses	593	1,147
Total Operating Costs and Expenses	2,245	4,210
Operating Loss	(313)	(673)
Income Tax Benefit	112	242
Net Loss	$ (201)	$ (431)

Note 3. Earnings Per Share

Basic earnings per share is 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 plus income associated with dilutive securities by the weighted average number of common shares outstanding plus any potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock in each period. For the three months ended July 5, 2003 and June 29, 2002, income available to common shareholders was $3,991,000 and $2,647,000, respectively. The weighted average number of common shares outstanding for the three months ended July 5, 2003 and June 29, 2002 were 9,874,000 and 9,802,000, and the diluted shares associated with stock options were 23,000 and 238,000, respectively. For the six months ended July 5, 2003 and June 29, 2002, income available to common shareholders was $7,099,000 and $3,877,000, respectively. The weighted average number of common shares outstanding for the six months ended July 5, 2003 and June 29, 2002 were 9,873,000 and 9,753,000, and the diluted shares associated with stock options were 22,000 and 160,000, respectively.

Note 4. Goodwill

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 141, “Business Combinations” (“SFAS No. 141”) and Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”). Pursuant to the impairment recognition provisions of SFAS No. 142, a pre-tax goodwill impairment loss of $3,633,000 ($2,325,000 after-tax) was recognized related to the Brice Manufacturing Company, Inc. ("Brice") reporting unit during the first quarter of 2002.

Pursuant to the nonamortization provisions of SFAS No. 142, there was no goodwill amortization expense in 2003 and 2002, respectively.

Note 5. Long-Term Debt

Long-term debt is summarized as follows:

	(In thousands)	
	July 5, 2003	**December 31, 2002**
Bank credit agreement	$ 15,800	$ 20,300
Term and real estate loans	1,924	1,981
Notes and other liabilities for acquisitions	2,185	3,569
Total debt	19,909	25,850
Less current portion	3,709	1,501
Total long-term debt	$ 16,200	$ 24,349

In December 2002, the Company and its lenders amended the Company's credit agreement. The amended credit agreement provides for a $75,000,000 unsecured revolving credit line gradually declining to $60,000,000 at maturity on September 30, 2005. Interest is payable monthly on the outstanding borrowings based on the bank's prime rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter (4.25% at July 5, 2003). A Eurodollar pricing option is also available to the Company for terms of up to six months at the Eurodollar rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter (2.64% at July 5, 2003). At July 5, 2003, the Company had $57,910,000 of unused lines of credit, after deducting $15,800,000 of loans outstanding and $1,290,000 for an outstanding standby letter of credit. The credit agreement includes minimum interest coverage, maximum leverage, minimum EBITDA (earnings before interest, taxes, depreciation and amortization) and minimum net worth covenants, an unused commitment fee based on the leverage ratio (0.40% per annum at July 5, 2003), and limitations on future dispositions of property, repurchases of common stock, outside indebtedness, capital expenditures and acquisitions.

The carrying amount of long-term debt approximates fair value based on the terms of the related debt, recent transactions and estimates using interest rates currently available to the Company for debt with similar terms and remaining maturities.

Aggregate maturities of long term debt during the next five years are as follows: 2003, $60,000; 2004, $3,649,000; 2005, $16,200,000; 2006, $0; 2007, $0.

Note 6. Shareholders' Equity

At July 5, 2003 and June 29, 2002, no preferred shares were issued or outstanding. The Company did not repurchase any of its common stock during 2003 and 2002.

Note 7. Stock Options

The Company has three stock option or incentive plans. Stock awards may be made to directors, officers and key employees under the stock plans on terms determined by the Compensation Committee of the Board of Directors or, with respect to directors, on terms determined by the Board of Directors. Stock options have been and may be granted to directors, officers and key employees under the stock plans at prices not less than 100% of the market value on the date of grant, and expire not more than ten years from the date of grant. The option price and number of shares are subject to adjustment under certain dilutive circumstances. At July 5, 2003, 525,413 common shares were reserved for the exercise of outstanding options.

In December 2002, Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-An Amendment of SFAS No. 123" ("SFAS No. 148"), was issued. SFAS No. 148 amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in not only annual, but also interim financial statements about the effect the fair value method would have had on reported results.

In accordance with the provisions of SFAS No. 123, the Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans based on the fair value method. If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed by SFAS No. 123, the Company's net income and earnings per share would be reduced to the pro forma amounts indicated below:

	(In thousands) Three Months Ended		(In thousands) Six Months Ended	
	July 5, 2003	June 29, 2002	July 5, 2003	June 29, 2002
Net Income:				
As reported	$3,991	$ 2,647	$7,099	$ 3,877
Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(109)	(62)	(208)	(152)
Pro forma	3,882	2,585	6,891	3,725
Earnings per common share:				
As reported:				
Basic	$ .40	$ .27	$ .72	$ .40
Diluted	.40	.26	.72	.39
Pro forma:				
Basic	$ .39	$ .26	$ .70	$ .37
Diluted	.39	.26	.70	.37

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

Note 8. Contingencies

The Company’s subsidiary, Aerochem, Inc. (“Aerochem”), is a major supplier of chemical milling services for the aerospace industry. Aerochem was directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its El Mirage, California facility (the “Site”). Aerochem continues to work with the environmental agencies, and expects to spend approximately $1 million for future investigation and corrective action at the Site, and the Company has established a provision for such costs. However, the Company’s ultimate liability in connection with the Site will depend upon a number of factors, including changes in existing laws and regulations, and the design and cost of the construction, operation and maintenance of the correction action.

The Company’s subsidiary, Composite Structures, LLC (“CSLLC”), is a major supplier of composite and metal bond aerostructures for the aerospace industry. CSLLC and several other companies have been ordered by a California environmental agency to investigate and clean up soil and groundwater contamination at CSLLC’s Monrovia, California facility. CSLLC has filed a petition for review of the order.

In the normal course of business, the Company and its subsidiaries are defendants in certain other litigation, claims and inquiries, including matters relating to environmental laws. In addition, the Company makes various commitments and incurs contingent liabilities. While it is not feasible to predict the outcome of these matters, the Company 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 consolidated financial position, results of operations or cash flows.

Note 9. Major Customers and Concentrations of Credit Risk

The Company provides proprietary products and services to most of the prime aerospace and aircraft manufacturers. As a result, the Company's sales and trade receivables are concentrated principally in the aerospace industry.

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During the second quarter of 2003 and 2002, sales to Boeing were $28,574,000 and $27,701,000, respectively; sales to Raytheon were $8,423,000 and $7,632,000, respectively; and sales to Lockheed Martin were $3,395,000 and $2,802,000, respectively. At July 5, 2003, trade receivables from Boeing, Raytheon and Lockheed Martin were $12,208,000, $3,099,000 and $1,409,000, respectively. The sales and receivables relating to Boeing, Raytheon and Lockheed Martin are diversified over a number of different commercial, space and military programs.

Note 10. Business Segment Information

The Company supplies products and services to the aerospace industry. The Company's subsidiaries are organized into two strategic businesses, each of which is a reportable operating segment. Ducommun AeroStructures ("DAS") manufactures aerospace structural components and subassemblies. Ducommun Technologies ("DT") manufactures aerospace electromechanical components and subsystems. The accounting policies of the segments are the same as those of the Company, as described in Note 1, Summary of Significant Accounting Policies.

Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS No. 131"), establishes standards for reporting information about segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

[Table of Contents](#)

Financial information by operating segment is set forth below:

	(In thousands) Three Months Ended		(In thousands) Six Months Ended	
	July 5, 2003	**June 29, 2002**	**July 5, 2003**	**June 29, 2002**
Net Sales:				
DAS	$34,932	$ 36,467	$ 70,737	$ 72,964
DT	21,279	19,681	40,515	37,816
Total Net Sales	$56,211	$ 56,148	$111,252	$110,780
Segment Operating Income (1):				
DAS	$ 4,621	$ 4,547	$ 8,171	$ 9,552
DT	4,283	3,705	7,572	6,645
	8,904	8,252	15,743	16,197
Corporate General and Administrative Expenses	(3,080)	(3,336)	(4,889)	(4,851)
Total Operating Income	$ 5,824	$ 4,916	$ 10,854	$ 11,346
Depreciation and Amortization Expenses:				
DAS	$ 1,533	$ 1,519	$ 3,068	$ 3,038
DT	311	401	624	802
Discontinued Operation	—	87	—	174
Corporate Administration	38	33	76	73
Total Depreciation and Amortization Expenses	$ 1,882	$ 2,040	$ 3,768	$ 4,087
Capital Expenditures:				
DAS	$ 1,151	$ 572	$ 2,382	$ 1,226
DT	323	53	526	235
Discontinued Operation	—	14	—	28
Corporate Administration	—	2	—	4
Total Capital Expenditures	$ 1,474	$ 641	$ 2,908	$ 1,493

(1) Before certain allocated corporate overhead.

Segment assets include assets directly identifiable with each segment. Corporate assets include assets not specifically identified with a business segment, including cash.

	(In thousands)	
	July 5, 2003	**December 31, 2002**
Total Assets		
DAS	$ 137,945	$ 135,374
DT	47,329	46,961
Corporate Administration	15,751	15,275
Total Assets	$ 201,025	$ 197,610
Goodwill		
DAS	$ 36,785	$ 36,785
DT	18,747	18,747
Total Goodwill	$ 55,532	$ 55,532

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

Ducommun designs, engineers and manufactures aerostructure and electromechanical components and subassemblies principally for the aerospace industry. The Company manufactures components and assemblies principally for domestic and foreign commercial and military aircraft and space programs. Domestic commercial aircraft programs include the Boeing 717, 737NG, 747, 757, 767 and 777. Foreign commercial aircraft programs include the Airbus Industrie A330, A340 and A340-600 aircraft, Bombardier business and regional jets, and the Embraer 145 and 170/190. Major military programs include the Boeing C-17, F-15 and F-18 and Lockheed Martin F-16, various Sikorsky, Bell, Boeing and Augusta helicopter programs, and various aircraft and shipboard electronics upgrade programs. Space programs include the space shuttle external fuel tank, and various commercial and military space launch and satellite programs.

Critical Accounting Policies

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. The Company records provisions for estimated losses on contracts in the period in which such losses are identified.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses from the inability of customers to make required payments. The allowance for doubtful accounts is evaluated periodically based on the aging of accounts receivable, the financial condition of customers and their payment history, historical write-off experience and other assumptions.

Inventory Valuation

Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. The Company assesses the inventory carrying value and reduces 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 Company's customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the Company. The Company maintains an allowance for inventories for potentially excess and obsolete inventories and gross inventory levels that are carried at costs that are higher than their market values. If market conditions are less favorable than those projected by management, such as an unanticipated decline in demand not meeting expectations, inventory write-downs may be required.

Property and Depreciation

Property and equipment, including assets recorded under capital leases, are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives ranging from 2 to 40 years and, in the case of leasehold improvements, over the shorter of the lives of the improvements or the lease term. The Company periodically evaluates long-lived assets for recoverability, when significant changes in conditions occur, and recognizes impairment losses, if any, based upon the fair value of the assets.

Goodwill

The Company's business acquisitions have typically resulted in goodwill, which affects the amount of possible impairment expense that the Company will incur. The determination of the value of goodwill requires management to make estimates and assumptions that affect the Company's consolidated financial statements. In assessing the recoverability of the Company's goodwill, management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") and was required to analyze its goodwill for impairment during the first quarter 2002. Upon adoption of SFAS No. 142, in the first quarter of 2002, the Company recorded a non-cash, pre-tax charge of \$3,633,000 (\$2,325,000 net of tax) for goodwill impairment of its Brice operating unit. The Company performs goodwill impairment tests on an annual basis and between annual tests in certain circumstances whenever events may indicate an impairment may have occurred. In response to changes in industry and market conditions, the Company may be required to strategically realign its resources and consider restructuring, disposing or otherwise exiting businesses which could result in an impairment of goodwill.

Warranty Liability

The Company quantifies and records an estimate for warranty related costs based on the Company's actual historical and projected return and failure rates and the current repair costs. Should the Company experience actual return and failure rates, or repair costs that are higher than the estimates used to calculate the provision, the Company's operating results for the period or periods in which such returns or additional costs materialize will be adversely impacted. At July 5, 2003 and December 31, 2002 the Company's estimates for warranty liabilities were \$1,709,000 and \$1,697,000, respectively.

During the period December 31, 2002 through July 5, 2003, there were no significant changes in the Company's warranty liabilities.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company's effective tax rate may vary significantly from period to period, particularly as a result of differences in tax credits available to the Company.

Disposition

In October 2002, Ducommun sold the capital stock of its airline seating manufacturing subsidiary, Brice. Brice has been classified as a discontinued operation in the accompanying financial statements for the three months and six months ended June 29, 2002.

Results of Operations

Second Quarter of 2003 Compared to Second Quarter of 2002

Net sales in the second quarter of 2003 were $56,211,000 compared to $56,148,000 for the second quarter of 2002. The Company's mix of business in the second quarter of 2003 was approximately 67% military, 29% commercial, and 4% space, compared to 58% military, 38% commercial, and 4% space in the second quarter of 2002.

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During the second quarters of 2003 and 2002, sales to Boeing were $28,574,000 and $27,701,000, respectively; sales to Raytheon were $8,423,000 and $7,632,000, respectively; and sales to Lockheed Martin were $3,395,000 and $2,802,000, respectively. At July 5, 2003, trade receivables from Boeing, Raytheon and Lockheed Martin were $12,208,000, $3,099,000 and $1,409,000, respectively. The sales and receivables relating to Boeing, Raytheon and Lockheed Martin are diversified over a number of different commercial, space and military programs.

The Company's commercial business is represented on virtually all of today's major commercial aircraft. During the second quarter of 2003, commercial sales for Boeing aircraft and various regional and business aircraft were significantly lower, principally because of the dramatic decline in commercial jet aircraft deliveries. Sales related to commercial business were approximately $16,195,000, or 29% of total sales in the second quarter of 2003, compared to sales of $21,489,000, or 38% of total sales in the second quarter of 2002. The Boeing 737/737NG program accounted for approximately $6,458,000 and $9,145,000 in sales in the second quarters of 2003 and 2002, respectively.

Military components manufactured by the Company are employed in many of the country's front-line fighters, bombers, helicopters and support aircraft, as well as many sea-based vehicles. The Company's defense business is widely diversified among military manufacturers and programs. Sales related to military programs were approximately $37,745,000, or 67% of total sales in the second quarter of 2003, compared to sales of $32,413,000, or 58% of sales in the second quarter of 2002. Military sales increased, particularly for the Apache helicopter program and various military electronics upgrade programs. In the second quarters of 2003 and 2002, the C-17 program accounted for sales of approximately $8,023,000 and $9,141,000, respectively, and the Apache helicopter program accounted for sales of approximately $8,856,000 and $5,462,000, respectively.

In the space sector, the Company produces components for the expendable fuel tanks which help boost the Space Shuttle vehicle into orbit. Components are also produced for a variety of unmanned launch vehicles and satellite programs. Sales related to space programs were approximately $2,271,000, or 4% of total sales in the second quarter 2003, compared to sales of $2,285,000, or 4% of total sales in the second quarter of 2002.

Gross profit, as a percentage of sales, was 23.0% in the second quarter of 2003 compared to 23.0% in the second quarter of 2002.

Selling, general and administrative expenses, as a percentage of sales, were 12.6% in the second quarter of 2003, compared to 14.3% in the second quarter of 2002. Selling, general and administrative expenses in 2002 included $1,020,000 of consulting and other costs related to assistance received from a management consulting firm to review the Company's strategic opportunities for growth and enhancing shareholder value.

Interest expense decreased to $244,000 in the second quarter of 2003 compared to $467,000 for the second quarter of 2002. The decrease in interest expense was primarily due to lower debt levels and lower interest rates in 2003 compared to 2002.

Income tax expense decreased to $1,589,000 in the second quarter of 2003, compared to $1,601,000 in the second quarter of 2002. The decrease in income tax expense was primarily due to a lower effective income tax rate partially offset by an increase in income tax expense due to an increase in income from continuing operations before taxes. The Company's effective tax rate for the second quarter of 2003 was 28.5%, compared to 36.0% for the second quarter of 2002, primarily as a result of higher research and development tax credits that became available in 2003. Cash expended to pay income taxes decreased to $2,423,000 in the second quarter of 2003, compared to $4,091,000 in the second quarter of 2002.

Net income for the second quarter of 2003 was $3,991,000, or $0.40 per diluted share, compared to $2,647,000, or $0.26 per diluted share in the second quarter of 2002. Net income for the second quarter of 2002 included an after-tax loss of $201,000, or $0.02 per diluted share, from a discontinued operation which was sold in October 2002.

Six Months of 2003 Compared to Six Months of 2002

Net sales in the first six months of 2003 were $111,252,000 compared to $110,780,000 for the first six months of 2002. The Company's mix of business in the first six months of 2003 was approximately 66% military, 30% commercial, and 4% space, compared to 55% military, 40% commercial, and 5% space in the first six months of 2002.

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During the first six months of 2003 and 2002, sales to Boeing were $57,717,000 and $54,834,000, respectively; sales to Raytheon were $15,534,000 and $14,569,000, respectively; and sales to Lockheed Martin were $6,512,000 and $5,486,000, respectively. At July 5, 2003, trade receivables from Boeing, Raytheon and Lockheed Martin were $12,208,000, $3,099,000 and $1,409,000, respectively. The sales and receivables relating to Boeing, Raytheon and Lockheed Martin are diversified over a number of different commercial, space and military programs.

The Company's commercial business is represented on virtually all of today's major commercial aircraft. During the first six months of 2003, commercial sales for Boeing aircraft and various regional and business aircraft were significantly lower, principally because of the dramatic decline in commercial jet aircraft deliveries. Sales related to commercial business was approximately $33,481,000, or 30% of total sales in the first six months of 2003, compared to sales of $44,863,000, or 40% of total sales in the first six months of 2002. The Boeing 737NG program accounted for approximately $12,721,000 and $17,824,000 in sales in the first six months of 2003 and 2002, respectively.

Military components manufactured by the Company are employed in many of the country's front-line fighters, bombers, helicopters and support aircraft, as well as many sea-based vehicles. The Company's defense business is widely diversified among military manufacturers and programs. Sales related to military programs was approximately $73,480,000, or 66% of total sales in the first six months of 2003, compared to sales of $60,839,000, or 55% of sales in the first six months of 2002. Military sales increased, particularly for the Apache helicopter program and various military electronics upgrade programs. In the first six months of 2003 and 2002, the C-17 program accounted for sales of approximately $17,770,000 and $18,733,000, respectively, and the Apache helicopter program accounted for sales of approximately $16,465,000 and $9,737,000, respectively.

In the space sector, the Company produces components for the expendable fuel tanks which help boost the Space Shuttle vehicle into orbit. Components are also produced for a variety of unmanned launch vehicles and satellite programs. Sales related to space programs were approximately $4,291,000, or 4% of total sales in the first six months of 2003, compared to sales of $5,078,000, or 5% of total sales in the first six months of 2002.

At July 5, 2003, backlog believed to be firm was approximately $293,093,000, compared to $289,857,000 at December 31, 2002. The backlog increase from December 31, 2002 was primarily due to higher bookings for the Apache helicopter program, partially offset by lower bookings for commercial programs. Approximately $82,000,000 of the total backlog is expected to be delivered during the remainder of 2003.

Gross profit, as a percentage of sales, was 22.4% in the first six months of 2003 compared to 23.3% in the first six months of 2002. This decrease was primarily the result of pricing pressures on both new contracts and renewals of existing contracts, increases in manufacturing costs and lower commercial build rates.

Selling, general and administrative expenses, as a percentage of sales, were 12.7% in the first six months of 2003, compared to 13.1% in the first six months of 2002. Selling, general and administrative expenses in 2002 included $1,020,000 of consulting and other costs related to assistance received from a management consulting firm to review the Company’s strategic opportunities for growth and enhancing shareholder value.

Interest expense decreased to $565,000 in the first six months of 2003 compared to $982,000 for the first six months of 2002. The decrease in interest expense was primarily due to lower debt levels and lower interest rates in 2003 compared to 2002.

Income tax expense decreased to $3,190,000 in the first six months of 2003, compared to $3,731,000 in the first six months of 2002. The decrease in income tax expense was primarily due to a lower effective income tax rate partially offset by an increase in income tax expense due to an increase in income from continuing operations before taxes. The Company’s effective tax rate for the first six months of 2003 was 31.0%, compared to 36.0% for the first six months of 2002, primarily as a result of higher research and development tax credits that became available in 2003. Cash expended to pay income taxes decreased to $2,439,000 in the first six months of 2003, compared to $5,739,000 in the first six months of 2002.

Net income for the first six months of 2003 was $7,099,000, or $0.72 per diluted share, compared to $3,877,000, or $0.39 per diluted share in the first six months of 2002. Net income for the first six months of 2002 included a non-cash after-tax charge of $2,325,000, or $0.24 per diluted share, related to the cumulative effect of a change in accounting principle related to goodwill impairment of a discontinued operation which was sold in October 2002, and an after-tax loss of $431,000, or $0.04 per diluted share, related to the same discontinued operation.

Financial Condition

Liquidity and Capital Resources

Net cash provided by operating activities for the first six months of 2003 and 2002 was $8,769,000 and $8,457,000, respectively. Net cash provided by operating activities for the first six months of 2003 included $7,099,000 of net income, $3,768,000 of depreciation, an increase of $3,071,000 in accrued liabilities, primarily accrued compensation expense which includes bonus, severance and workers' compensation, partially offset by a decrease in trade payables of $947,000 due to timing of payments to suppliers to optimize discounts and payment periods, a $2,587,000 increase in accounts receivable due to the timing of billing activities to customers and a $2,102,000 increase in inventory for increases in work in process for future shipments to customers.

Net cash used in investing activities for the first six months of 2003 consisted primarily of $2,908,000 of capital expenditures.

Net cash used in financing activities in the first six months of 2003 of $5,815,000 included $5,941,000 of net repayments by the Company of principal on outstanding borrowings, partially offset by $126,000 of net cash received from the exercise of common stock options.

The Company continues to depend on operating cash flow and the availability of its bank line of credit to provide short-term liquidity. Cash from operations and bank borrowing capacity are expected to provide sufficient liquidity to meet the Company's obligations during 2003. In December 2002, the Company and its lenders amended the Company's credit agreement. The amended credit agreement provides for a $75,000,000 unsecured revolving credit line gradually declining to $60,000,000 at maturity on September 30, 2005. Interest is payable monthly on the outstanding borrowings based on the bank's prime rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter (4.25% at July 5, 2003). A Eurodollar pricing option is also available to the Company for terms of up to six months at the Eurodollar rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter (2.64% at July 5, 2003). At July 5, 2003, the Company had $57,910,000 of unused lines of credit, after deducting $15,800,000 of loans outstanding and $1,290,000 for an outstanding standby letter of credit. The credit agreement includes minimum interest coverage, maximum leverage, minimum EBITDA (earnings before interest, taxes, depreciation and amortization) and minimum net worth covenants, an unused commitment fee based on the leverage ratio (0.40% per annum at July 5, 2003), and limitations on future dispositions of property, repurchases of common stock, outside indebtedness, capital expenditures and acquisitions.

The carrying amount of long-term debt approximates fair value based on the terms of the related debt and estimates using interest rates currently available to the Company for debt with similar terms and remaining maturities.

Aggregate maturities of long term debt during the next five years are as follows: 2003, $60,000; 2004, $3,649,000; 2005, $16,200,000; 2006, $0; 2007, $0.

The Company leases certain facilities and equipment for periods ranging from 1 to 9 years. The leases generally are renewable and provide for the payment of property taxes, insurance and other costs relative to the property. Rental expense in the first six months of 2003 and 2002 was $1,562,000 and $1,733,000, respectively. Future minimum rental payments under operating leases having initial or remaining noncancelable terms in excess of one year at July 5, 2003 are as follows:

	(In thousands) Lease Commitments
2003	$ 1,159
2004	2,013
2005	1,469
2006	828
2007	795
Thereafter	2,132
Total	$ 8,396

The Company expects to spend less than $8,000,000 for capital expenditures in 2003. The Company believes that the ongoing subcontractor consolidation makes acquisitions an increasingly important component of the Company's future growth. Accordingly, the Company plans to continue to seek attractive acquisition opportunities and to make substantial capital expenditures for manufacturing equipment and facilities to support long-term contracts for both commercial and military aircraft and space programs.

Ducommun's subsidiary, Aerochem, is a major supplier of chemical milling services for the aerospace industry. Aerochem was directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its El Mirage, California facility (the "Site"). Aerochem continues to work with the environmental agencies, and expects to spend approximately $1 million for future investigation and corrective action at the Site, and the Company has established a provision for such costs. However, the Company's ultimate liability in connection with the Site will depend upon a number of factors, including changes in existing laws and regulations, and the design and cost of the construction, operation and maintenance of the corrective action.

The Company's subsidiary, Composite Structures, LLC ("CSLLC"), is a major supplier of composite and metal bond aerostructures for the aerospace industry. CSLLC and several other companies have been ordered by a California environmental agency to investigate and clean up soil and groundwater contamination at CSLLC's Monrovia, California facility. CSLLC has filed a petition for review of the order.

In the normal course of business, Ducommun and its subsidiaries are defendants in certain other litigation, claims and inquiries, including matters relating to environmental laws. In addition, the Company makes various commitments and incurs contingent liabilities. While it is not feasible to predict the outcome of these matters, the Company 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 consolidated financial position or results of operations or cash flows.

Recent Accounting Pronouncements

In December 2002, Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-An Amendment of SFAS No. 123" ("SFAS No. 148"), was issued. SFAS No. 148 amends Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in not only annual, but also interim financial statements about the effect the fair value method would have had on reported results. The transition and annual disclosure requirements of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The Company has adopted interim disclosure requirements of SFAS No. 148.

Additional Risk Factors

The Company's business, financial condition, results of operations and cash flows may be affected by known and unknown risks, uncertainties and other factors. Any of these risks, uncertainties and other factors could cause the Company's future financial results to differ materially from recent financial results or from currently anticipated future financial results. In addition to those noted elsewhere in this report, the Company is subject to the following risks and uncertainties:

Aerospace Markets Are Cyclical

The aerospace markets in which the Company sells its products are cyclical and have experienced periodic declines. The market for the Company's products sold for new commercial aircraft production is currently experiencing a decline, the depth and duration of which is unknown. The Company's sales are, therefore, unpredictable and tend to fluctuate based on a number of factors, including economic conditions and developments affecting the aerospace industry and the customers served. For example, the tragic events of September 11, 2001 and the continued downturn in commercial aircraft production have negatively impacted the Company's operations. If the current economic downturn were to continue for an extended period or if conditions in the commercial aircraft market were to worsen, the negative impact on the Company's business, financial condition and operating results could be further exacerbated.

Commercial Aircraft Production Rates Are Declining

The Company estimates that, in the first six months of 2003, approximately 17% of its sales were for Boeing commercial aircraft and approximately 13% of its sales were for other commercial aircraft and miscellaneous nonaerospace commercial applications. The production rate for new commercial aircraft is expected to decline at least through 2004, and the timing of any rebound in new commercial aircraft production is unknown. These reductions in commercial aircraft production are expected to affect adversely the Company's result of operations and cash flows.

Military and Space-Related Products Are Dependent Upon Government Spending

The Company estimates that, in the first six months of 2003, approximately 70% of its sales were derived from military and space markets. These military and space markets are largely dependent upon government spending, particularly by the United States government. Changes in the levels of spending for military and space could improve or reduce the Company's prospects in its military and space markets. The tragedy involving the Space Shuttle Columbia may further affect government spending for space programs, which could adversely affect the Company.

The Company Is Dependent on Boeing Commercial Aircraft, the C-17 Aircraft and Apache Helicopter Programs

The Company estimates that, in the first six months of 2003, approximately 17% of its sales were for Boeing commercial aircraft, 16% of its sales were for the C-17 aircraft, and 15% of its sales were for the Apache helicopter. The Company's sales for Boeing commercial aircraft and the C-17 aircraft are principally for new aircraft production; and the Company's sales for the Apache helicopter program are principally for replacement rotor blades. Any significant change in production rates for these programs would have a material effect on the Company's results of operations and cash flows. In addition, there is no guarantee that the Company's current significant customers will continue to buy products from the Company at current levels. The loss of a key customer could have a material adverse effect on the Company. For example, the Company manufactures the spoilers for the Boeing 737NG aircraft (the "737 Spoilers"), which contributed approximately $5,723,000 to sales in the first six months of 2003. The Company has been informed that a competitor has been awarded a contract to produce the 737 Spoilers, although the timing and amount of any transition of work to the competitor is presently unknown.

Terrorist Attacks, Such As Those That Occurred on September 11, 2001, Have Adversely Impacted the Company's Operations and May Do So Again in the Future

The terrorist attacks that occurred on September 11, 2001 have had a negative impact on commercial air travel and, consequently, on the manufacture of commercial aircraft and the demand for the Company's commercial aircraft products. There can be no assurance that the current world political and military tensions, or the United States military actions, will not lead to further acts of terrorism and civil disturbances in the United States or elsewhere. These attacks may strike directly at the physical facilities of the Company, its suppliers or its customers. Such attacks could have an adverse impact on the Company's domestic and international sales, supply chain, production capabilities, insurance premiums or ability to purchase insurance, thereby adversely affecting the Company's financial position, results of operations and cash flows. In addition, the consequences of terrorist attacks and armed conflicts are unpredictable, and their long-term effects upon the Company are uncertain.

The Company Is Experiencing Competitive Pricing Pressures

The aerospace industry is highly competitive and competitive pressures may adversely affect the Company. The Company competes worldwide with a number of United States and international companies that are larger than it in terms of resources and market share. The Company is experiencing competitive pricing pressures, particularly in its Ducommun AeroStructures business. These competitive pricing pressures have had, and are expected to continue to have, a material adverse effect on the Company's business, financial condition and operating results. For example, Ducommun AeroStructures has agreed with several customers to reduce its prices by between 2% and 12% during 2003 from the prices in effect at December 31, 2002. Although the exact amounts of these price reductions vary by contract, the price reductions cover contracts under which the Company had aggregate sales of approximately $33,560,000 in 2002.

The Company Faces Risks of Cost Overruns and Losses on Fixed-Price Contracts

The Company sells its products under firm, fixed-price contracts providing for a fixed price for the products regardless of the production costs incurred by the Company. As a result, manufacturing inefficiencies, start-up costs and other factors may result in cost overruns and losses on contracts. The cost of producing products also may be adversely affected by increases in the cost of labor, materials, outside processing, overhead and other factors. In many cases, the Company makes multi-year firm, fixed-price commitments to its customers, without assurance that the Company's anticipated production costs will be achieved.

The Company's Products and Processes Are Subject to Risks from Changes in Technology

The Company's products and processes are subject to risks of obsolescence as a result of changes in technology. To address this risk, the Company invests in product design and development, and for capital expenditures. There can be no guarantee that the Company's product design and development efforts will be successful, or that the amounts of money required to be invested for product design and development and capital expenditures will not increase materially in the future.

The Company Faces Risks Associated with Acquisitions and Dispositions of Businesses

A key element of the Company's long-term strategy has been growth through acquisitions. The Company is continuously reviewing and actively pursuing acquisitions, including acquisitions outside of its current aerospace markets. Acquisitions may require the Company to incur additional indebtedness, resulting in increased leverage, or to issue additional equity, resulting in dilution to existing stockholders. This additional financing for acquisitions and capital expenditures may not be available on terms acceptable or favorable to the Company. Acquired businesses may not achieve anticipated results, and could result in a material adverse effect on the Company's financial condition, results of operations and cash flows. The Company also periodically reviews its existing businesses to determine if they are consistent with the Company's strategy. The Company has sold, and may sell in the future, business units and product lines, which may result in either a gain or loss on disposition.

The Company's acquisition strategy exposes it to risks, including the risk that the Company may not be able to successfully integrate acquired businesses. The Company's ability to grow by acquisition is dependent upon, among other factors, the availability of suitable acquisition candidates. Growth by acquisition involves risks that could have a material adverse affect on the Company's business, financial condition and operating results, including difficulties in integrating the operations and personnel of acquired companies, the potential amortization of acquired intangible assets, the potential impairment of goodwill and the potential loss of key employees of acquired companies. The Company may not be able to consummate acquisitions on satisfactory terms or, if any acquisitions are consummated, to satisfactorily integrate these acquired businesses.

Goodwill Could Be Impaired in the Future

In assessing the recoverability of the Company's goodwill at December 31, 2002, management was required to make certain critical estimates and assumptions. These estimates and assumptions, with respect to the Company's Ducommun AeroStructures ("DAS") reporting unit, included that, during the next several years DAS will make improvements in manufacturing efficiency, achieve reductions in operating costs, and obtain increases in sales and backlog. If any of these or other estimates and assumptions are not realized in the future, the Company may be required to record an impairment charge for the goodwill of DAS. The goodwill of DAS was $36,785,000 at July 5, 2003.

Significant Consolidation in the Aerospace Industry Could Adversely Affect the Company’s Business and Financial Results

The aerospace industry is experiencing significant consolidation, including among the Company’s customers, competitors and suppliers. Consolidation among the Company’s customers may result in delays in the award of new contracts and losses of existing business. Consolidation among the Company’s competitors may result in larger competitors with greater resources and market share, which could adversely affect the Company’s ability to compete successfully. Consolidation among the Company’s suppliers may result in fewer sources of supply and increased cost to the Company.

The Company’s Manufacturing Operations May Be Adversely Affected by the Availability of Raw Materials and Components from Suppliers

In some cases, the Company’s customers supply raw materials and components to the Company. In other cases, the Company’s customers designate specific suppliers from which the Company is directed to purchase raw materials and components. As a result, the Company may have limited control over the selection of suppliers and the timing of receipt and cost of raw materials and components from suppliers. The failure of customers and suppliers to deliver on a timely basis raw materials and components to the Company may adversely affect the Company’s results of operations and cash flows.

Environmental Liabilities Could Adversely Affect the Company’s Financial Results

The Company is subject to various environmental laws and regulations. The Company is investigating and taking corrective action for groundwater contamination at its Aerochem subsidiary’s El Mirage, California site. The Company has been ordered to investigate and clean up soil and groundwater contamination at its CSLLC subsidiary’s Monrovia, California site. The Company is also a potentially responsible party at certain sites at which it previously disposed of hazardous wastes. There can be no assurance that future developments, lawsuits and administrative actions, and liabilities relating to environmental matters will not have a material adverse effect on the Company’s results of operations or cash flows.

Product Liability Claims in Excess of Insurance Could Adversely Affect the Company’s Financial Results and Financial Condition

The Company faces potential liability for personal injury or death as a result of the failure of products designed or manufactured by the Company. Although the Company maintains product liability insurance, any material product liability not covered by insurance could have a material adverse effect on the Company’s financial condition, results of operations and cash flows.

Damage or Destruction of the Company's Facilities Caused by Earthquake or Other Causes Could Adversely Affect the Company's Financial Results and Financial Condition

Although the Company maintains standard property casualty insurance covering its properties, the Company does not carry any earthquake insurance because of the cost of such insurance. Most of the Company's properties are located in Southern California, an area subject to frequent and sometimes severe earthquake activity. Even if covered by insurance, any significant damage or destruction of the Company's facilities could result in the inability to meet customer delivery schedules and may result in the loss of customers and significant additional costs to the Company. As a result, any significant damage or destruction of the Company's properties could have a material adverse effect on the Company's business, financial condition or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

The Company’s chief executive officer and chief financial officer have concluded, based on an evaluation of the Company’s disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(c)), that such disclosure controls and procedures were effective as of the end of the period covered by this report. No change in the Company’s internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonable likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The 2003 annual meeting of shareholders of the Company was held on May 7, 2003. At the meeting, Joseph C. Berenato, Eugene P. Conese, Jr., Ralph D. Crosby, Jr. and Robert D. Paulson were elected as directors of the Company. In the election of directors, the shareholder vote was as follows: Joseph C. Berenato, For - 9,153,469, Withheld - 155,842; Eugene P. Conese, Jr., For - 9,158,641, Withheld - 150,670; Ralph D. Crosby, Jr., For - 9,308,311, Withheld - 1,000; Robert D. Paulson, For - 9,308,911, Withheld - 400. The other directors whose terms of office continued after the annual meeting were Norman A. Barkeley, H. Frederick Christie, Robert C. Ducommun, Kevin S. Moore and Thomas P. Mullaney. Messrs. Berenato, Conese and Crosby were elected to serve for three-year terms expiring at the annual meeting of shareholders in 2006, and Mr. Paulson was elected to serve for a two-year term expiring at the annual meeting of shareholders in 2005, and thereafter until their successors are elected.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.

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

(b) The Company filed a report on Form 8-K dated April 29, 2003 reporting under Item 12 that the Company issued a press release dated April 29, 2003 regarding first quarter 2003 results.

Table of Contents

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.

DUCOMMUN INCORPORATED

(Registrant)

By: /s/ JAMES S. HEISER

James S. Heiser
Vice President, Chief Financial Officer
And General Counsel
(Duly Authorized Officer of the Registrant)

By: /s/ SAMUEL D. WILLIAMS

Samuel D. Williams
Vice President and Controller
(Chief Accounting Officer of the Registrant)

Date: August 7, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Joseph C. Berenato, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the "registrant") on Form 10-Q for the period ended July 5, 2003;

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)) 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. 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

c. 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: August 7, 2003

/s/ JOSEPH C. BERENATO

Joseph C. Berenato
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, James S. Heiser, certify that:

1. I have reviewed this Quarterly Report of Ducommun Incorporated (the “registrant”) on Form 10-Q for the period ended July 5, 2003;

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)) 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. 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

c. 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: August 7, 2003

/s/ JAMES S. HEISER

James S. Heiser
Vice President and Chief Financial Officer

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Ducommun Incorporated (the "Company") on Form 10-Q for the period ending July 5, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Joseph C. Berenato, President and Chief Executive Officer of the Company, and James S. Heiser, Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of our 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/ JOSEPH C. BERENATO

Joseph C. Berenato
President and Chief Executive Officer

By: /s/ JAMES S. HEISER

James S. Heiser
Vice President and Chief Financial Officer

August 7, 2003

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.