

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended April 1, 2000

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 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 West 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 [X] 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 April 1, 2000, there were outstanding 9,636,448 shares of common stock.

DUCOMMUN INCORPORATED
FORM 10-Q
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	April 1, 2000	December 31, 1999
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 70	\$ 138
Accounts receivable (less allowance for doubtful accounts of \$482 and \$153)	19,742	20,022
Inventories	28,726	26,347
Deferred income taxes	2,355	2,698
Prepaid income taxes	1,030	1,864
Other current assets	3,297	3,335
	-----	-----
Total Current Assets	55,220	54,404
Property and Equipment, Net	44,330	44,689
Excess of Cost Over Net Assets Acquired (Net of Accumulated Amortization of \$8,223 and \$7,504)	41,176	41,895
Other Assets	814	814
	-----	-----
	\$141,540	\$141,802
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt (Note 4)	\$ 1,505	\$ 1,496
Accounts payable	8,605	8,135
Accrued liabilities	14,430	14,911
	-----	-----
Total Current Liabilities	24,540	24,542
Long-Term Debt, Less Current Portion (Note 4)	23,454	26,344
Deferred Income Taxes	2,174	2,174
Other Long-Term Liabilities	900	900
	-----	-----
Total Liabilities	51,068	53,960
	-----	-----
Commitments and Contingencies (Note 6)		
Shareholders' Equity (Note 5):		
Common stock -- \$.01 par value; authorized 35,000,000 shares; issued 9,655,848 shares in 2000 and 10,423,810 shares in 1999	96	104
Additional paid-in capital	36,351	45,597
Retained earnings	54,199	51,269
Less common stock held in treasury -- 19,400 shares in 2000 and 855,300 shares in 1999	(174)	(9,128)
	-----	-----
Total Shareholders' Equity	90,472	87,842
	-----	-----
	\$141,540	\$141,802
	=====	=====

See accompanying notes to consolidated financial statements.

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

	For Three Months Ended	
	April 1, 2000	April 3, 1999
Net Sales	\$39,854	\$34,537
Operating Costs and Expenses:		
Cost of goods sold	27,683	23,774
Selling, general and administrative expenses	6,226	5,027
Goodwill amortization expense	719	368
	-----	-----
Total Operating Costs and Expenses	34,628	29,169
	-----	-----
Operating Income	5,226	5,368
Interest Expense	(500)	(25)
	-----	-----
Income Before Taxes	4,726	5,343
Income Tax Expense	(1,796)	(2,138)
	-----	-----
Net Income	\$ 2,930	\$ 3,205
	=====	=====
Earnings Per Share:		
Basic earnings per share	\$.30	\$.31
Diluted earnings per share	.30	.30
Weighted Average Number of Common Shares		
Outstanding:		
Basic earnings per share	9,609	10,409
Diluted earnings per share	9,719	10,758

See accompanying notes to consolidated financial statements.

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

	For Three Months Ended	
	April 1, 2000	April 3, 1999
Cash Flows from Operating Activities:		
Net Income	\$ 2,930	\$ 3,205
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	2,208	1,534
Deferred income tax provision	343	(279)
Other	--	54
Changes in Assets and Liabilities, Net:		
Accounts receivable	280	1,568
Inventories	(2,379)	(2,474)
Prepaid income taxes	834	24
Other assets	38	(16)
Accounts payable	470	1,494
Accrued and other liabilities	(481)	(1,368)
	-----	-----
Net Cash Provided by Operating Activities	4,243	3,742
	-----	-----
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(1,130)	(2,619)
	-----	-----
Net Cash Used in Investing Activities	(1,130)	(2,619)
	-----	-----
Cash Flows from Financing Activities:		
Net Repayment of Long-Term Debt	(2,881)	(86)
Purchase of Common Stock for Treasury	(174)	(478)
Net (Payments) Proceeds Related to Stock Options Exercised	(126)	43
	-----	-----
Net Cash Used in Financing Activities	(3,181)	(521)
	-----	-----
Net (Decrease) Increase in Cash and Cash Equivalents	(68)	602
Cash and Cash Equivalents - Beginning of Period	138	9,066
	-----	-----
Cash and Cash Equivalents - End of Period	\$ 70	\$ 9,668
	=====	=====
Supplemental Disclosures of Cash Flow Information:		
Interest Expense Paid	\$ 403	\$ 93
Income Taxes Paid	\$ 38	\$ 139

See accompanying notes to consolidated financial statements.

DUCOMMUN INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The consolidated balance sheets, consolidated statements of income and consolidated statements of cash flows are unaudited as of and for the three months ended April 1, 2000 and April 3, 1999. 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 to shareholders for the year ended December 31, 1999.

Note 2. Certain amounts and disclosures included in the consolidated financial statements required management to make estimates which could differ from actual results.

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 stock options by the weighted average number of common shares outstanding plus any potential dilution that could occur if stock options were exercised or converted into common stock in each period. For the three months ended April 1, 2000 and April 3, 1999, income available to common stockholders was \$2,930,000 and \$3,205,000, respectively. The weighted average number of common shares outstanding for the three months ended April 1, 2000 and April 3, 1999 were 9,609,000 and 10,409,000 and the dilutive shares associated with stock options were 110,000 and 349,000, respectively.

Note 4. Long-term debt is summarized as follows:

	(In thousands)	
	April 1, 2000	December 31, 1999
	-----	-----
Bank credit agreement	\$18,230	\$20,990
Term and real estate loans	4,054	4,175
Notes and other liabilities for acquisitions	2,675	2,675
	-----	-----
Total debt	24,959	27,840
Less current portion	1,505	1,496
	-----	-----
Total long-term debt	\$23,454	\$26,344
	=====	=====

The Company's bank credit agreement provides for a \$40,000,000 unsecured revolving credit line with an expiration date of July 1, 2002. Interest is payable monthly on the outstanding borrowings based on the bank's prime rate (9.00% at April 1, 2000) minus 0.25%. 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 (1.00% at April 1, 2000). At April 1, 2000, the Company had \$21,770,000 of unused lines of credit, after deducting \$18,230,000 of loans outstanding. The credit agreement includes fixed charge coverage and maximum leverage ratios, an unused commitment fee of .125%, and limitations on future dividend payments and outside indebtedness.

Note 5. Shareholders' Equity

Since 1998, the Company's Board of Directors has authorized the repurchase of up to \$30,000,000 of its common stock. During 1998 and 1999, the Company repurchased in the open market 1,809,062 shares of its common stock for a total of \$24,066,000, and cancelled 953,762 shares of treasury stock. During the first three months of 2000, the Company repurchased in the open market 19,400 shares of its common stock for a total of \$174,000 and cancelled 855,300 shares of treasury stock.

Note 6. Commitments and Contingencies

Ducommun's subsidiary, Aerochem, Inc. ("Aerochem"), is a major supplier of chemical milling services for the aerospace industry. Aerochem has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its El Mirage, California facility (the "Site"). Aerochem 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.

In October 1999, Com Dev Consulting Ltd. ("Com Dev") filed a complaint in the United States District Court against the Company and certain of its officers relating to the sale of the capital stock of 3dbm, Inc. ("3dbm") by the Company to Com Dev in August 1998. On February 3, 2000, the United States District Court dismissed the complaint without prejudice. On April 7, 2000, Com Dev filed another complaint in California Superior Court against the Company and certain of its officers relating to the sale of the capital stock of 3dbm by the Company to Com Dev. The Company intends to vigorously defend the matter. While it is not feasible to predict the outcome of this matter, the Company presently believes that the final resolution of the matter will not have a material adverse effect on its consolidated financial position or results of operations.

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.

Note 7. Acquisitions

In November 1999, the Company, through a wholly-owned subsidiary, acquired the assets and assumed certain liabilities of Parsons Precision Products, Inc. ("Parsons") for \$22,073,000 in cash. Parsons is a leading manufacturer of complex titanium hot-formed subassemblies and components for commercial and military aerospace applications. In April 1999, the Company acquired the capital stock of Sheet Metal Specialties Company ("SMS") for \$10,096,000 in cash, net of cash acquired and payments of other liabilities of SMS, and a \$1,500,000 note. SMS is a manufacturer of subassemblies for commercial and military aerospace applications.

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

FINANCIAL STATEMENT PRESENTATION

The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of the Company, necessary for a fair presentation of the results for the interim periods presented.

ACQUISITIONS

In November 1999, the Company, through a wholly-owned subsidiary, acquired the assets and assumed certain liabilities of Parsons Precision Products, Inc. ("Parsons") for \$22,073,000 in cash. Parsons is a leading manufacturer of complex titanium hot-formed subassemblies and components for commercial and military aerospace applications. In April 1999, the Company acquired the capital stock of Sheet Metal Specialties Company ("SMS") for \$10,096,000 in cash, net of cash acquired and payments of other liabilities of SMS, and a \$1,500,000 note. SMS is a manufacturer of subassemblies for commercial and military aerospace applications.

RESULTS OF OPERATIONS

First Quarter of 2000 Compared to First Quarter of 1999

Net sales increased 15% to \$39,854,000 in the first quarter of 2000. The increase was due primarily to sales in the first quarter of 2000 of \$5,177,000 from the SMS and Parsons acquisitions. Excluding acquisitions, sales were essentially flat with higher sales for military programs in the first quarter of 2000, largely offset by lower sales for commercial aircraft.

The Company had substantial sales to Boeing, Lockheed Martin and Raytheon. During the first quarters of 2000 and 1999, sales to Boeing were approximately \$14,546,000 and \$10,509,000, respectively; sales to Lockheed Martin were approximately \$3,469,000 and \$3,385,000, respectively; and sales to Raytheon were approximately \$2,997,000 and \$2,366,000, respectively. The sales relating to Boeing, Lockheed Martin and Raytheon are diversified over a number of different commercial, space and military programs.

At April 1, 2000, backlog believed to be firm was approximately \$205,400,000 compared to \$213,100,000 at December 31, 1999. Approximately \$69,000,000 of backlog is expected to be delivered during 2000. In April 2000 the Company announced that its AHF-Ducommun subsidiary signed the largest contract in the Company's history with Boeing-Long Beach valued at \$49,000,000 to produce fuselage skin panels for the C-17 aircraft. Performance under the contract began in the first quarter of 2000 and is expected to continue through 2003. In addition, AHF-Ducommun has signed an option contract with Boeing-Long Beach for the production of C-17 fuselage skin panels for the period 2003 - 2007. The option contract, if fully exercised by Boeing, is valued at \$62,000,000.

Gross profit, as a percentage of sales, was 30.5% for the first quarter of 2000 compared to 31.2% in 1999. This decrease was primarily the result of changes in sales mix, pricing pressures from customers and production costs for new programs.

Selling, general and administrative expenses, as a percentage of sales, were 15.6% for the first quarter of 2000 compared to 14.6% in 1999. The increase in these expenses as a percentage of sales was primarily the result of higher personnel related costs, partially offset by the benefit of higher sales volume.

Interest expense increased to \$500,000 in the first quarter of 2000 compared to \$25,000 for 1999. The increase in interest expense was primarily due to higher debt levels.

Income tax expense decreased to \$1,796,000 in the first quarter of 2000 compared to \$2,138,000 for 1999. The decrease in income tax expense was primarily due to the decrease in income before taxes and an effective income tax rate of 38% for 2000 compared to 40% for 1999. The decrease in the tax rate was primarily due to certain tax credits that became available to the Company. Cash paid for income taxes was \$38,000 in the first quarter of 2000, compared to \$139,000 in 1999. Net income for the first quarter of 2000 was \$2,930,000, or \$0.30 per diluted share, compared to \$3,205,000, or \$0.30 per diluted share, in 1999. Diluted earnings per share were flat on a year to year basis, despite a decline in net income, due to a reduction of approximately 1,000,000 in average diluted shares outstanding as a result of the stock repurchase program.

FINANCIAL CONDITION

Liquidity and Capital Resources

Cash flows from operating activities for the three months ended April 1, 2000 was \$4,243,000, compared to \$3,742,000 for the three months ended April 3, 1999. During the first three months of 2000, the Company spent \$2,881,000 to repay principal on its outstanding bank borrowings, promissory notes, and term and commercial real estate loans, \$1,130,000 on capital expenditures and \$174,000 to repurchase shares of the Company's common stock. 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 2000. The Company's bank credit agreement provides for a \$40,000,000 unsecured revolving credit line with an expiration date of July 1, 2002. At April 1, 2000, the Company had \$21,770,000 of unused lines of credit, after deducting \$18,230,000 of loans outstanding. See Note 4 to the Notes to Consolidated Financial Statements.

The Company spent \$1,130,000 on capital expenditures during the first three months of 2000 and expects to spend less than \$14,000,000 in the aggregate for capital expenditures in 2000. These expenditures are expected to place the Company in a favorable competitive position among aerospace subcontractors, and to allow the Company to take advantage of the off-load requirements from its customers. In connection

with the C-17 contract signed by the Company's AHF-Ducommun subsidiary, AHF-Ducommun is acquiring a 1,500-ton stretch press and a 5-axis CNC Torres router with a flexible pogo positioning system. AHF-Ducommun also is in the process of completing a 185,000 square foot building addition to support the C-17 contract as well as other off-load opportunities from its customers.

Since 1998, the Company's Board of Directors has authorized the repurchase of up to \$30,000,000 of its common stock. During 1998 and 1999, the Company repurchased in the open market 1,809,062 shares of its common stock for a total of \$24,066,000, and cancelled 953,762 shares of treasury stock. During the first three months of 2000, the Company repurchased in the open market 19,400 shares of its common stock for a total of \$174,000 and cancelled 855,300 shares of treasury stock. Repurchases will be made from time to time on the open market at prevailing prices.

Ducommun's subsidiary, Aerochem, Inc. ("Aerochem"), is a major supplier of chemical milling services for the aerospace industry. Aerochem has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its El Mirage, California facility (the "Site"). Aerochem 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.

In October 1999, Com Dev Consulting Ltd. ("Com Dev") filed a complaint in the United States District Court against the Company and certain of its officers relating to the sale of the capital stock of 3dbm, Inc. ("3dbm") by the Company to Com Dev in August 1998. On February 3, 2000, the United States District Court dismissed the complaint without prejudice. On April 7, 2000, Com Dev filed another complaint in California Superior Court against the Company and certain of its officers relating to the sale of the capital stock of 3dbm by the Company to Com Dev. The Company intends to vigorously defend the matter. While it is not feasible to predict the outcome of this matter, the Company presently believes that the final resolution of the matter will not have a material adverse effect on its consolidated financial position or results of operations.

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.

FUTURE ACCOUNTING REQUIREMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 will become effective for the Company in 2001. The adoption of SFAS 133 is not expected to have a material effect on the Company's financial position, results of operations or cash flow.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

Any forward-looking statements made in this Form 10-Q involve risks and uncertainties. The Company's future financial results could differ materially from those anticipated due to the Company's dependence on conditions in the airline industry, the level of new commercial aircraft orders, the production rate for the Space Shuttle and other space programs, the level of defense spending, competitive pricing pressures, technology and product development risks and uncertainties, product performance, risks associated with acquisitions and dispositions of businesses by the Company, increasing consolidation of customers and suppliers in the aerospace industry, availability of raw materials and components from suppliers, and other factors beyond the Company's control.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On October 25, 1999, Com Dev Consulting Ltd. ("Com Dev") filed a complaint, which was subsequently amended on December 22, 1999, against the Company and certain officers of the Company in the United States Court for the Central District of California. The complaint alleged violation of the federal securities laws, intentional misrepresentation, negligent misrepresentation, unfair business practices and breach of contract in connection with the sale of the capital stock of 3dbm by the Company to Com Dev in August 1998 (the "3dbm Sale"), and sought unspecified general and punitive damages from the defendants. On February 3, 2000, the United States District Court dismissed the complaint without prejudice.

On April 7, 2000, Com Dev filed a complaint against the Company and certain officers of the Company in the Superior Court of the State of California. The complaint alleges breach of contract, intentional misrepresentation, negligent misrepresentation and unfair business practices in connection with the 3dbm Sale, and seeks general and punitive damages in accordance with proof at trial.

The Company intends to vigorously defend the matter. While it is not feasible to predict the outcome of the matter, the Company presently believes that the final resolution of the matter will not have a material adverse effect on its consolidated financial position or results of operations.

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

The following exhibits are filed with this report.

- (a) 27 Financial Data Schedule
- (b) No reports on Form 8-K were filed during the quarter for which this report is filed.

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: April 25, 2000

Exhibit 27 Financial Data Schedule

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1,000

3-MOS
DEC-31-2000
JAN-01-2000
APR-01-2000
70
0
20,224
482
28,726
55,220
86,011
41,681
141,540
24,540
0
0
96
90,376
141,540
39,854
39,854
27,683
27,683
6,945
0
500
4,726
1,796
2,930
0
0
0
2,930
.30
.30