Table of Contents

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended October 4, 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 **(State or other jurisdiction of incorporation or organization)**	**95-0693330** **I.R.S. Employer Identification No.**
111 W. Ocean Boulevard, Suite 900, Long Beach, California **(Address of principal executive offices)**	**90802** **(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 October 4, 2003, there were outstanding 9,873,784 shares of common stock.

DUCOMMUN INCORPORATED
FORM 10-Q
INDEX

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	October 4, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 261	$ 174
Accounts receivable (less allowance for doubtful accounts of $570 and $534)	33,212	23,968
Inventories	46,496	41,336
Deferred income taxes	7,852	6,711
Prepaid income taxes	—	140
Assets held for sale	3,323	—
Other current assets	4,563	4,400
Total Current Assets	95,707	76,729
Property, Plant and Equipment, Net	57,155	61,936
Deferred Income Taxes	827	1,049
Goodwill	57,332	55,532
Other Assets	1,803	2,364
	$ 212,824	$ 197,610
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 4,079	$ 1,501
Accounts payable	15,975	16,203
Accrued liabilities	32,342	25,039
Total Current Liabilities	52,396	42,743
Long-Term Debt, Less Current Portion	18,600	24,349
Deferred Income Taxes	3,122	3,122
Other Long-Term Liabilities	7,076	6,954
Total Liabilities	81,194	77,168
Commitments and Contingencies		
Shareholders' Equity:		
Common stock — $.01 par value; authorized 35,000,000 shares; issued 9,873,784 shares in 2003 and 9,863,985 shares in 2002	99	99
Additional paid-in capital	38,058	37,925
Retained earnings	96,152	85,097
Accumulated other comprehensive loss	(2,679)	(2,679)
Total Shareholders' Equity	131,630	120,442
	$ 212,824	$ 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	
	October 4, 2003	September 28, 2002
Net Sales	$ 56,404	$ 51,403
Operating Costs and Expenses:		
Cost of goods sold	43,820	42,250
Selling, general and administrative expenses	6,709	4,589
Total Operating Costs and Expenses	50,529	46,839
Operating Income from Continuing Operations	5,875	4,564
Interest Expense	(142)	(360)
Income from Continuing Operations Before Taxes	5,733	4,204
Income Tax Expense	(1,777)	(1,514)
Income from Continuing Operations	3,956	2,690
Loss From Discontinued Operation, Net of Tax	—	(603)
Net Income	$ 3,956	$ 2,087
Earnings Per Share:		
Basic:		
Income from continuing operations	$ 0.40	$ 0.27
Loss from discontinued operation, net of tax	—	(0.06)
	$ 0.40	$ 0.21
Diluted:		
Income from continuing operations	$ 0.40	$ 0.27
Loss from discontinued operation, net of tax	—	(0.06)
	$ 0.40	$ 0.21
Weighted Average Number of Common Shares Outstanding:		
Basic	9,874	9,852
Diluted	9,988	10,055

Data above have been reclassified to reflect Brice Manufacturing Company, Inc., as a discontinued operation for the three months ended September 28, 2002.

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 Nine Months Ended	
	October 4, 2003	September 28, 2002
Net Sales	$ 167,656	$ 162,183
Operating Costs and Expenses:		
Cost of goods sold	130,130	127,220
Selling, general and administrative expenses	20,797	19,053
Total Operating Costs and Expenses	150,927	146,273
Operating Income from Continuing Operations	16,729	15,910
Interest Expense	(707)	(1,342)
Income from Continuing Operations Before Taxes	16,022	14,568
Income Tax Expense	(4,967)	(5,245)
Income from Continuing Operations	11,055	9,323
Loss From Discontinued Operation, Net of Tax	—	(1,034)
Cumulative Effect of Accounting Change, Net of Tax	—	(2,325)
Net Income	$ 11,055	$ 5,964
Earnings Per Share:		
Basic:		
Income from continuing operations	$ 1.12	$ 0.95
Loss from discontinued operation, net of tax	—	(0.10)
Cumulative effect of accounting change, net of tax	—	(0.24)
	$ 1.12	$ 0.61
Diluted:		
Income from continuing operations	$ 1.11	$ 0.94
Loss from discontinued operation, net of tax	—	(0.10)
Cumulative effect of accounting change, net of tax	—	(0.24)
	$ 1.11	$ 0.60
Weighted Average Number of Common Shares Outstanding:		
Basic	9,873	9,786
Diluted	9,926	9,955

Data above have been reclassified to reflect Brice Manufacturing Company, Inc., as a discontinued operation for the nine months ended September 28, 2002.

See accompanying notes to consolidated financial statements.

Table of Contents

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

	For Nine Months Ended	
	October 4, 2003	September 28, 2002
Cash Flows from Operating Activities:		
Net Income	$ 11,055	$ 5,964
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	5,670	5,965
Deferred income tax benefit	(919)	(1,925)
Income tax benefit related to the exercise of nonqualified stock options	8	745
Gain on sale of assets	(6)	(203)
Charge related to the sale of business, net of tax	—	505
Cumulative effect of accounting change, net of tax	—	2,325
Changes in Assets and Liabilities, Net of Effects from Acquisition:		
Accounts receivable	(8,684)	3,762
Inventories	(4,786)	352
Other assets	563	(181)
Accounts payable	(376)	(2,297)
Accrued and other liabilities	7,366	1,643
Net Cash Provided by Operating Activities from Continuing Operations	9,891	16,655
Net Cash Provided by Operating Activities from Discontinued Operation	—	1,318
Net Cash Provided by Operating Activities	9,891	17,973
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(4,042)	(2,895)
Acquisition of Business	(2,322)	—
Proceeds from Sale of Assets	6	403
Net Cash Used in Investing Activities	(6,358)	(2,492)
Cash Flows from Financing Activities:		
Net Repayment of Long-Term Debt	(3,571)	(19,011)
Net Cash Effect of Exercise of Stock Options	125	1,251
Net Cash Used in Financing Activities	(3,446)	(17,760)
Net Increase (Decrease) in Cash and Cash Equivalents	87	(2,279)
Cash and Cash Equivalents - Beginning of Period	174	2,414
Cash and Cash Equivalents - End of Period	$ 261	$ 135
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 708	$ 1,482
Income Taxes Paid	$ 3,172	$ 5,785

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

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 October 4, 2003 and December 31, 2002, the consolidated statements of income for the three months and nine months ended October 4, 2003 and September 28, 2002 and the consolidated statements of cash flows for the nine months ended October 4, 2003 and September 28, 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 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. 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 October 4, 2003 and December 31, 2002 the Company's estimates for warranty liabilities were $1,698,000 and $1,697,000, respectively. During the period December 31, 2002 through October 4, 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 October 4, 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. Acquisition and Disposition

Acquisition

In August 2003, the Company acquired the assets of DBP Microwave, Inc. (“DBP”), a privately held company based in Azusa, California for $2,322,000 in cash and a $400,000 nonnegotiable promissory note. DBP is a manufacturer of electromechanical RF and microwave switches for both aerospace and nonaerospace applications. The acquisition was accounted for under the purchase method of accounting and, accordingly, the operating results for the acquisition have been included in the consolidated statements of income and of cash flows since the date of the acquisition. The cost of the acquisition was allocated on the basis of the estimated fair value of the assets acquired and liabilities assumed. Based on preliminary allocation of the purchase price, the acquisition accounted for approximately $1,800,000 of goodwill at October 4, 2003. The acquisition was funded from internally generated cash, the note payable to seller, and borrowings under the Company’s credit agreement (see Financial Condition for additional information). The acquisition broadens the Company’s microwave switch product line and adds new customers to its business.

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 nine months ended September 28, 2002 have been reclassified to reflect Brice as a discontinued operation. Accordingly, the revenues, costs and expenses 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 September 28, 2002	For Nine Months Ended September 28, 2002
Net Sales	$ 2,316	$ 5,853
Operating Costs and Expenses:		
Cost of goods sold	1,897	4,960
Selling, general and administrative expenses	1,419	2,566
Total Operating Costs and Expenses	3,316	7,526
Operating Loss	(1,000)	(1,673)
Income Tax Benefit	397	639
Net Loss	$ (603)	$ (1,034)

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 October 4, 2003 and September 28, 2002, income available to common shareholders was $3,956,000 and $2,087,000, respectively. The weighted average number of common shares outstanding for the three months ended October 4, 2003 and September 28, 2002 were 9,874,000 and 9,852,000, and the diluted shares associated with stock options were 114,000 and 203,000, respectively. For the nine months ended October 4, 2003 and September 28, 2002, income available to common shareholders was $11,055,000 and $5,964,000, respectively. The weighted average number of common shares outstanding for the nine months ended October 4, 2003 and September 28, 2002 were 9,873,000 and 9,786,000, and the diluted shares associated with stock options were 53,000 and 169,000, respectively.

Note 4. Inventories

Inventories consist of the following:

	(in thousands)	
	October 4, 2003	December 31, 2002
Raw materials and supplies	$ 10,224	$ 12,469
Work in process	41,779	31,555
Finished goods	1,298	1,766
	53,301	45,790
Less progress payments	6,805	4,454
Total	$ 46,496	$ 41,336

Work in process inventories include amounts under long-term fixed price contracts aggregating $31,221,000 and $23,658,000 at October 4, 2003 and December 31, 2002.

Note 5. Assets Held For Sale

At December 31, 2002 property, plant and equipment included real property with a net book value of approximately $3,412,000. During the third quarter of 2003, the Company's management received approval from its Board of Directors to sell the property which is not needed for the Company's operations. The property has been listed for sale and has been segregated as a separate line item in the consolidated balance sheets.

Note 6. 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. During the third quarter of 2003 goodwill increased from $55,532,000 to $57,332,000 due to the acquisition of DBP.

Note 7. Long-Term Debt

Long-term debt is summarized as follows:

	(In thousands)	
	October 4, 2003	December 31, 2002
Bank credit agreement	$ 18,200	$ 20,300
Term and real estate loans	1,895	1,981
Notes and other liabilities for acquisitions	2,584	3,569
Total debt	22,679	25,850
Less current portion	4,079	1,501
Total long-term debt	$ 18,600	$ 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 October 4, 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 (2.63% at October 4, 2003). At October 4, 2003, the Company had $55,404,000 of unused lines of credit, after deducting $18,200,000 of loans outstanding and $1,396,000 for outstanding standby letters 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 October 4, 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, $30,000; 2004, $4,049,000; 2005, $18,600,000; 2006, $0; 2007, $0.

Note 8. Shareholders' Equity

At October 4, 2003 and December 31, 2002, no preferred shares were issued or outstanding. The Company did not repurchase any of its common stock during 2003 and 2002.

Note 9. Stock Options

The Company has three stock-based and 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 October 4, 2003, 836,913 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) Nine Months Ended	
	October 4, 2003	September 28, 2002	October 4, 2003	September 28, 2002
Net Income:				
As reported	$ 3,956	$ 2,087	$ 11,055	$ 5,964
Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(189)	(75)	(397)	(227)
Pro forma	3,767	2,012	10,658	5,737
Earnings per common share:				
As reported:				
Basic	$ .40	$ .21	$ 1.12	$ .61
Diluted	.40	.21	1.11	.60
Pro forma:				
Basic	$ .38	$ .20	$ 1.08	$ .59
Diluted	.38	.20	1.07	.58

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 10. 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 11. 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 third quarter of 2003 and 2002, sales to Boeing were $27,009,000 and $23,523,000, respectively; sales to Raytheon were $7,507,000 and $7,527,000, respectively; and sales to Lockheed Martin were $4,343,000 and $2,820,000, respectively. During the first nine months of 2003 and 2002, sales to Boeing were $84,726,000 and $78,357,000, respectively; sales to Raytheon were $23,041,000 and $22,096,000, respectively; and sales to Lockheed Martin were $10,855,000 and $8,306,000, respectively. At October 4, 2003, trade receivables from Boeing, Raytheon and Lockheed Martin were $14,991,000, $4,713,000 and $2,061,000, 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 12. 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) Nine Months Ended	
	October 4, 2003	September 28, 2002	October 4, 2003	September 28, 2002
Net Sales:				
DAS	$ 35,086	$ 30,904	$ 105,823	$ 103,868
DT	21,318	20,499	61,833	58,315
Total Net Sales	$ 56,404	$ 51,403	$ 167,656	$ 162,183
Segment Operating Income (1):				
DAS	$ 3,593	$ 9	$ 11,764	$ 9,561
DT	4,314	3,566	11,886	10,211
	7,907	3,575	23,650	19,772
Corporate General and Administrative Expenses	(2,032)	989	(6,921)	(3,862)
Total Operating Income	$ 5,875	$ 4,564	$ 16,729	$ 15,910
Depreciation and Amortization Expenses:				
DAS	$ 1,553	$ 1,538	$ 4,621	$ 4,576
DT	323	469	947	1,271
Discontinued Operation	—	84	—	258
Corporate Administration	26	45	102	118
Total Depreciation and Amortization Expenses	$ 1,902	$ 2,136	$ 5,670	$ 6,223
Capital Expenditures:				
DAS	$ 687	$ 712	$ 3,069	$ 1,938
DT	442	720	968	955
Discontinued Operation	—	1	—	29
Corporate Administration	5	(2)	5	2
Total Capital Expenditures	$ 1,134	$ 1,431	$ 4,042	$ 2,924

(1) Before certain allocated corporate overhead.

Table of Contents

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

	(In thousands)	
	October 4, 2003	December 31, 2002
Total Assets		
DAS	$ 146,581	$ 135,374
DT	49,633	46,961
Corporate Administration	16,610	15,275
Total Assets	$ 212,824	$ 197,610
Goodwill		
DAS	$ 36,785	$ 36,785
DT	20,547	18,747
Total Goodwill	$ 57,332	$ 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, including components and subassemblies 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 October 4, 2003 and December 31, 2002 the Company's estimates for warranty liabilities were $1,698,000 and $1,697,000, respectively.

During the period December 31, 2002 through October 4, 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.

Acquisition

In August 2003, the Company acquired the assets of DBP Microwave, Inc. (“DBP”), a privately held company based in Azusa, California for $2,322,000 in cash and a $400,000 nonnegotiable promissory note. DBP is a manufacturer of electromechanical RF and microwave switches for both aerospace and non-aerospace applications. The acquisition was accounted for under the purchase method of accounting and, accordingly, the operating results for this acquisition have been included in the consolidated statements of income since the date of the acquisition. The cost of the acquisition was allocated on the basis of the estimated fair value of the assets acquired and liabilities assumed. Based on preliminary allocation of the purchase price, the acquisition accounted for approximately $1,800,000 of goodwill at October 4, 2003. The acquisition was funded from internally generated cash, the note payable to seller, and borrowings under the Company’s credit agreement (see Financial Condition for additional information). This acquisition broadens the Company’s microwave switch product line and adds new customers to its business.

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 nine months ended September 28, 2002.

Results of Operations

Third Quarter of 2003 Compared to Third Quarter of 2002

Net sales in the third quarter of 2003 were $56,404,000 compared to $51,403,000 for the third quarter of 2002. The Company's mix of business in the third quarter of 2003 was approximately 67% military, 28% commercial, and 5% space, compared to 64% military, 32% commercial, and 4% space in the third quarter of 2002.

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During the third quarter of 2003 and 2002, sales to Boeing were $27,009,000 and $23,523,000, respectively; sales to Raytheon were $7,507,000 and $7,527,000, respectively; and sales to Lockheed Martin were $4,343,000 and $2,820,000, respectively. The sales and receivables relating to Boeing, Raytheon and Lockheed Martin are diversified over a number of different commercial, space and military programs.

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 $37,492,000, or 67% of total sales in the third quarter of 2003, compared to sales of $33,046,000, or 64% of sales in the third quarter of 2002. Military sales increased, particularly for the Apache helicopter program and various military electronics upgrade programs. In the third quarters of 2003 and 2002, the C-17 program accounted for sales of approximately $8,583,000 and $7,987,000, respectively, and the Apache helicopter program accounted for sales of approximately $7,662,000 and $5,273,000, respectively.

The Company's commercial business is represented on virtually all of today's major commercial aircraft. During the third quarter of 2003, commercial sales for Boeing aircraft and various regional and business aircraft were lower, principally because of the decline in commercial jet aircraft deliveries. Sales related to commercial business were approximately $15,998,000, or 28% of total sales in the third quarter of 2003, compared to sales of $16,279,000, or 32% of total sales in the third quarter of 2002. The Boeing 737/737NG program accounted for approximately $6,348,000 and $6,026,000 in sales in the third quarters of 2003 and 2002, 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 $2,914,000, or 5% of total sales in the third quarter 2003, compared to sales of $2,078,000, or 4% of total sales in the third quarter of 2002.

Gross profit, as a percentage of sales, was 22.3% in the third quarter of 2003 compared to 17.8% in the third quarter of 2002. The increase in gross profit, as a percentage of sales, was primarily the result of changes in sales mix and lower overhead expenses as a percentage of sales due to higher sales.

Selling, general and administrative expenses, as a percentage of sales, were 11.9% in the third quarter of 2003, compared to 8.9% in the third quarter of 2002. The increase in selling, general and administrative expenses, as a percentage of sales, in the third quarter of 2003 was primarily related to provision for bonuses and expenses associated with the acquisition of DBP. Selling, general and administrative expenses in the third quarter of 2002 included no provision for bonuses.

Interest expense decreased to $142,000 in the third quarter of 2003 compared to $360,000 for the third 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 increased to $1,777,000 in the third quarter of 2003, compared to $1,514,000 in the third quarter of 2002. The increase in income tax expense was primarily due to an increase in income from continuing operations before taxes partially offset by a lower effective income tax rate. The Company's effective tax rate for the third quarter of 2003 was 31.0%, compared to 36.0% for the third 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 was $734,000 in the third quarter of 2003, compared to $46,000 in the third quarter of 2002.

Net income for the third quarter of 2003 was $3,956,000, or $0.40 per diluted share, compared to $2,087,000, or $0.21 per diluted share in the third quarter of 2002. Net income for the third quarter of 2002 included an after-tax loss of $603,000, or $0.06 per diluted share, from a discontinued operation which was sold in October 2002.

Nine Months of 2003 Compared to Nine Months of 2002

Net sales in the first nine months of 2003 were $167,656,000 compared to $162,183,000 for the first nine months of 2002. The Company's mix of business in the first nine months of 2003 was approximately 66% military, 30% commercial, and 4% space, compared to 58% military, 38% commercial, and 4% space in the first nine months of 2002.

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During the first nine months of 2003 and 2002, sales to Boeing were $84,726,000 and $78,357,000, respectively; sales to Raytheon were $23,041,000 and $22,096,000, respectively; and sales to Lockheed Martin were $10,855,000 and $8,306,000, respectively. At October 4, 2003, trade receivables from Boeing, Raytheon and Lockheed Martin were $14,991,000, $4,713,000 and $2,061,000, respectively. The sales and receivables relating to Boeing, Raytheon and Lockheed Martin are diversified over a number of different commercial, space and military programs.

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 $110,927,000, or 66% of total sales in the first nine months of 2003, compared to sales of $93,845,000, or 58% of sales in the first nine months of 2002. Military sales increased, particularly for the Apache helicopter program and various military electronics upgrade programs. In the first nine months of 2003 and 2002, the C-17 program accounted for sales of approximately $26,353,000 and $26,608,000, respectively, and the Apache helicopter program accounted for sales of approximately $24,127,000 and $15,010,000, respectively.

The Company's commercial business is represented on virtually all of today's major commercial aircraft. During the first nine 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 were approximately $49,524,000, or 30% of total sales in the first nine months of 2003, compared to sales of $61,182,000, or 38% of total sales in the first nine months of 2002. The Boeing 737/737NG program accounted for approximately $19,231,000 and $23,781,000 in sales in the first nine months of 2003 and 2002, 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 $7,205,000, or 4% of total sales in the first nine months of 2003, compared to sales of $7,156,000, or 4% of total sales in the first nine months of 2002.

At October 4, 2003, backlog believed to be firm was approximately $289,140,000, compared to $289,857,000 at December 31, 2002. The backlog decrease from December 31, 2002 was primarily due to lower bookings for commercial programs, partially offset by higher bookings for the Apache helicopter program. Approximately $51,000,000 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 nine months of 2003 compared to 21.6% in the first nine months of 2002. The increase in gross profit, as a percentage of sales, was primarily the result of changes in sales mix and lower overhead expenses as a percentage of sales due to higher sales.

Selling, general and administrative expenses, as a percentage of sales, were 12.4% in the first nine months of 2003, compared to 11.7% in the first nine months of 2002. Selling, general and administrative expenses in 2003 included a higher provision for bonuses and expenses related to the acquisition of DBP. 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 $707,000 in the first nine months of 2003 compared to $1,342,000 for the first nine 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 $4,967,000 in the first nine months of 2003, compared to $5,245,000 in the first nine 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 nine months of 2003 was 31.0%, compared to 36.0% for the first nine 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 $3,172,000 in the first nine months of 2003, compared to $5,785,000 in the first nine months of 2002.

Net income for the first nine months of 2003 was $11,055,000, or $1.11 per diluted share, compared to $5,964,000, or $0.60 per diluted share in the first nine months of 2002. Net income for the first nine 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 $1,034,000, or $0.10 per diluted share, related to the same discontinued operation.

Financial Condition

Liquidity and Capital Resources

Net cash provided by operating activities for the first nine months of 2003 and 2002 was $9,891,000 and $17,973,000, respectively. Net cash provided by operating activities for the first nine months of 2003 included $11,055,000 of net income, $5,670,000 of depreciation, an increase of $7,366,000 in accrued and other liabilities, primarily accrued compensation expense which includes bonus, severance and workers' compensation, partially offset by a decrease in trade payables of $376,000 due to timing of payments to suppliers to optimize discounts and payment periods, a $8,684,000 increase in accounts receivable due to the timing of billing activities to customers and a $4,786,000 increase in inventory for increases in work in process for future shipments to customers.

Net cash used in investing activities for the first nine months of 2003 consisted primarily of $4,042,000 of capital expenditures and $2,322,000 of cash payments related to the acquisition of DBP.

Net cash used in financing activities in the first nine months of 2003 of $3,446,000 included $3,571,000 of net repayments by the Company of principal on outstanding borrowings, partially offset by $125,000 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 for the remainder of 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 October 4, 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 (2.63% at October 4, 2003). At October 4, 2003, the Company had $55,404,000 of unused lines of credit, after deducting $18,200,000 of loans outstanding and $1,396,000 for outstanding standby letters 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 October 4, 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, $30,000; 2004, $4,049,000; 2005, $18,600,000; 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 nine months of 2003 and 2002 was $2,331,000 and $2,569,000, respectively. Future minimum rental payments under operating leases having initial or remaining noncancelable terms in excess of one year at October 4, 2003 are as follows:

	(In thousands) Lease Commitments
2003	$ 555
2004	2,013
2005	1,469
2006	828
2007	795
Thereafter	2,120
Total	$ 7,780

The Company expects to spend less than $6,000,000 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.

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN No. 46"), was issued. This Interpretation requires an investor with a majority of the variable interests (primary beneficiary) in a variable interest entity ("VIE") to consolidate the entity. It also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the voting equity investors do not have a controlling interest, or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from other parties. FIN No. 46 is generally effective for the Company in fiscal 2004 and is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In May 2003, Statement of Financial Accounting Standards No. 150, "Accounting for certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"), was issued. SFAS No. 150 requires that the following financial instruments be classified as liabilities (or assets in some circumstances): (1) Mandatorily redeemable shares that represent an unconditional obligation requiring the issuer to redeem those shares by transferring its assets at a specified or determinable date (or dates), or upon an event that is certain to occur; (2) An outstanding share, that, at inception, represents an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets; and (3) An unconditional obligation, or a financial instrument other than an outstanding share, that represents a conditional obligation that the issuer must or may settle by issuing a variable number of its equity shares, if, at inception, the monetary value of the obligation is based solely or predominantly on any of the following: (a) A fixed monetary amount known at inception, (b) Variations in something other than the fair value of the issuer's equity shares, or (c) Variations inversely related to changes in the fair value of the issuer's equity shares. This Statement is effective for financial instruments entered into or modified after May 31, 2003, with certain exceptions. SFAS No. 150 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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 nine months of 2003, approximately 18% of its sales were for Boeing commercial aircraft and approximately 12% 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 nine 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 nine months of 2003, approximately 18% of its sales were for Boeing commercial aircraft, 16% of its sales were for the C-17 aircraft, and 14% 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 $8,517,000 to sales in the first nine 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 October 4, 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 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

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

31.2 Certification of Principal 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 July 30, 2003 furnishing under Item 12 a press release of the Company dated July 30, 2003 regarding second 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: November 12, 2003

Exhibit 31.1

Certification of Principal 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 October 4, 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: November 12, 2003

/s/ Joseph C. Berenato

Joseph C. Berenato
Chairman and Chief Executive Officer

Exhibit 31.2

Certification of Principal 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 October 4, 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: November 12, 2003

/s/ James S. Heiser

James S. Heiser
Vice President and Chief Financial Officer

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 October 4, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Joseph C. Berenato, Chairman 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
Chairman and Chief Executive Officer

By: /s/ James S. Heiser

James S. Heiser
Vice President and Chief Financial Officer

November 12, 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.