
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 April 3, 2004

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
(State or other jurisdiction of
incorporation or organization)

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

95-0693330
I.R.S. Employer
Identification No.

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 April 3, 2004, there were outstanding 9,962,162 shares of common stock.

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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 3, 2004	December 31, 2003
Assets		
Current Assets:		
Cash and cash equivalents	\$ 109	\$ 3,832
Accounts receivable (less allowance for doubtful accounts of \$467 and \$503)	29,784	26,275
Inventories	45,080	40,003
Deferred income taxes	6,699	6,217
Prepaid income taxes	1,593	1,593
Other current assets	4,256	4,277
	<hr/>	<hr/>
Total Current Assets	87,521	82,197
Property and Equipment, Net	56,945	56,929
Goodwill (Net of Accumulated Amortization of \$10,996 and \$10,996)	57,201	57,201
Other Assets	1,536	1,714
	<hr/>	<hr/>
	\$ 203,203	\$ 198,041
	<hr/>	<hr/>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ 2,185	\$ 2,185
Accounts payable	15,338	14,200
Accrued liabilities	34,150	36,152
	<hr/>	<hr/>
Total Current Liabilities	51,673	52,537
Long-Term Debt, Less Current Portion	3,400	400
Deferred Income Taxes	5,313	5,313
Other Long-Term Liabilities	2,041	2,041
	<hr/>	<hr/>
Total Liabilities	62,427	60,291
	<hr/>	<hr/>
Commitments and Contingencies		
Shareholders' Equity:		
Common stock — \$.01 par value; authorized 35,000,000 shares; issued 9,962,162 shares in 2004 and 9,901,965 shares in 2003	100	99
Additional paid-in capital	39,188	38,394
Retained earnings	103,529	101,298
Accumulated other comprehensive loss	(2,041)	(2,041)
	<hr/>	<hr/>
Total Shareholders' Equity	140,776	137,750
	<hr/>	<hr/>
	\$ 203,203	\$ 198,041
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

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

	For Three Months Ended	
	April 3, 2004	April 5, 2003
Net Sales	\$ 58,247	\$ 55,041
Operating Costs and Expenses:		
Cost of goods sold	47,833	43,028
Selling, general and administrative expenses	6,790	6,983
Total Operating Costs and Expenses	54,623	50,011
Operating Income	3,624	5,030
Interest Expense	(138)	(321)
Income Before Taxes	3,486	4,709
Income Tax Expense	(1,255)	(1,601)
Net Income	\$ 2,231	\$ 3,108
Earnings Per Share:		
Basic earnings per share:	\$ 0.22	\$ 0.31
Diluted earnings per share:	\$ 0.22	\$ 0.31
Weighted Average Number of Common Shares Outstanding:		
Basic	9,922	9,873
Diluted	10,192	9,894

See accompanying notes to consolidated financial statements.

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

	For Three Months Ended	
	April 3, 2004	April 5, 2003
Cash Flows from Operating Activities:		
Net Income	\$ 2,231	\$ 3,108
Adjustments to Reconcile Net Income to Net Cash (Used in) Provided by Operating Activities:		
Depreciation and amortization	1,877	1,886
Deferred income tax benefit	(482)	(533)
Income tax benefit related to the exercise of nonqualified stock options	334	7
Recovery of doubtful accounts	(36)	(79)
Net provision for (recovery of) contract cost overruns	1,796	(276)
Recovery of warranty reserves	(63)	(18)
Gain on sale of assets	(5)	—
Changes in Assets and Liabilities:		
Accounts receivable	(3,473)	(3,183)
Inventories	(5,077)	(1,002)
Other assets	199	295
Accounts payable	1,138	1,280
Accrued and other liabilities	(3,735)	4,501
Net Cash (Used in) Provided by Operating Activities	(5,296)	5,986
Cash Flows from Investing Activities:		
Purchase of property and equipment	(1,893)	(1,436)
Proceeds from sale of assets	5	2
Net Cash Used in Investing Activities	(1,888)	(1,434)
Cash Flows from Financing Activities:		
Net borrowings (repayment) of long-term debt	3,000	(4,527)
Net cash effect of exercise related to stock options	461	123
Net Cash Provided by (Used in) Financing Activities	3,461	(4,404)
Net (Decrease) Increase in Cash and Cash Equivalents	(3,723)	148
Cash and Cash Equivalents - Beginning of Period	3,832	174
Cash and Cash Equivalents - End of Period	\$ 109	\$ 322
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ 12	\$ 208
Income Taxes Paid	\$ 93	\$ 16

Supplemental information for Non-Cash Investing and Financing Activities:

See Note 2 for non-cash investing activities related to the acquisition of business.

See accompanying notes to consolidated financial statements.

DUCOMMUN INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Consolidation

The consolidated balance sheets, consolidated statements of income and consolidated statements of cash flows are unaudited as of and for the three months ended April 3, 2004 and April 5, 2003. The consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries (“Ducommun” or the “Company”), after eliminating inter-company balances and transactions. The financial information included in the quarterly report should be read in conjunction with the Company’s consolidated financial statements and related notes thereto included in its annual report on Form 10-K for the year ended December 31, 2003.

Cash Equivalents

Cash equivalents consist of highly liquid instruments purchased 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 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 and, in the case of leasehold improvements, over the shorter of the lives of the improvements or the lease term. 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.

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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. The Company performs a goodwill impairment tests annually in its fourth quarter 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 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.

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.

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 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.

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.

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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 year. 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 April 3, 2004 and April 5, 2003, income available to common shareholders was \$2,231,000 and \$3,108,000, respectively. The weighted average number of common shares outstanding for the three months ended April 3, 2004 and April 5, 2003 were 9,922,000 and 9,873,000, and the diluted shares associated with stock options were 270,000 and 21,000, respectively.

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 and as such must be reported in a financial statement that is displayed with the same prominence as other financial statements. Accumulated other comprehensive income, as reflected in the Consolidated Statements of Shareholders' Equity, was comprised of a minimum pension liability adjustment of \$2,041,000, net of tax, at April 3, 2004 and December 31, 2003. No items of other comprehensive income were recorded during the quarters ended April 3, 2004 and April 5, 2003.

Recent Accounting Pronouncements

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, as revised in December 2003, 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. The adoption of FIN No. 46 in 2004 did not have any impact on the Company's financial position, results of operations or cash flows.

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

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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

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, and is now part of the Company's Ducommun Technologies, Inc. ("DTI"), subsidiary. 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. This acquisition accounted for approximately \$1,669,000 of the excess of cost over net assets acquired at April 3, 2004 and December 31, 2003. The acquisition was funded from internally generated cash, notes and other accounts payable to sellers, and borrowings under the Company's credit agreement (see Note 5 for additional information). This acquisition strengthened the Company's position in the aerospace industry and added complementary lines of business. Pro forma results for the three months ended April 3, 2004 and April 5, 2003, assuming the acquisition of DBP at the beginning of the period, would not have been materially different from the Company's historical results for the period presented.

Note 3. Inventories

Inventories consist of the following:

	(In thousands)	
	April 3, 2004	December 31, 2003
Raw materials and supplies	\$ 12,382	\$ 10,994
Work in process	37,807	36,794
Finished goods	1,323	1,484
	51,512	49,272
Less progress payments	6,432	9,269
Total	\$ 45,080	\$ 40,003

Work in process inventories include amounts under long-term fixed price contracts aggregating \$26,118,000 and \$25,342,000 at April 3, 2004 and December 31, 2003, respectively.

Note 4. Goodwill

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Pursuant to the nonamortization provisions of SFAS No. 142, there was no goodwill amortization expense in 2004 and 2003. There was no change in goodwill during the first quarter of 2004.

[Table of Contents](#)**Note 5. Long-Term Debt**

Long-term debt is summarized as follows:

	(In thousands)	
	April 3, 2004	December 31, 2003
Bank credit agreement	\$ 3,000	\$ —
Notes and other liabilities for acquisitions	2,585	2,585
Total debt	5,585	2,585
Less current portion	2,185	2,185
Total long-term debt	\$ 3,400	\$ 400

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 April 3, 2004). 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 (2.59% at April 3, 2004). At April 3, 2004, the Company had \$70,578,000 of unused lines of credit, after deducting \$3,000,000 of loans outstanding and \$1,422,000 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 April 3, 2004), and limitations on future dispositions of property, repurchases of common stock, outside indebtedness, capital expenditures and acquisitions.

Note 6. Shareholders' Equity

At April 3, 2004 and December 31, 2003, no preferred shares were issued or outstanding. The Company did not repurchase any of its common stock during 2004 and 2003.

Note 7. Stock Options

The Company has three stock option or incentive plans. Stock awards may be made to directors, officers and key employees under the stock plans on terms determined by the Compensation Committee of the Board of Directors or, with respect to directors, on terms determined by the Board of Directors. Stock options have been and may be granted to directors, officers and key employees under the stock plans at prices not less than 100% of the market value on the date of grant, and expire not more than ten years from the date of grant. The option price and number of shares are subject to adjustment under certain dilutive circumstances. At April 3, 2004, 107,271 common shares were available for future grants and 696,226 common shares were reserved for the exercise of outstanding options.

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In accordance with the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("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	
	April 3, 2004	April 5, 2003
Net Income:		
As reported	\$2,231	\$3,108
Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(173)	(99)
Pro forma	\$2,058	\$3,009
Earnings per common share:		
As reported:		
Basic	\$.22	\$.31
Diluted	.22	.31
Pro forma:		
Basic	\$.21	\$.30
Diluted	.20	.30

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

Note 8. Employee Benefit Plans

The Company has an unfunded supplemental retirement plan that was suspended in 1986, but which continues to cover certain former executives. The accumulated benefit obligations under the plan at April 3, 2004 and December 31, 2003 were \$514,000 and \$516,000, respectively, which are included in accrued liabilities.

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The Company sponsors for all of its employees, a 401(k) defined contribution plan under which employees can make annual voluntary contributions not to exceed the lesser of an amount equal to 25% of their compensation or limits established by the Internal Revenue Code. The Company generally provides a match equal to 50 percent of the employees' contributions up to the first 4 percent of compensation, except for union employees who are not eligible to receive the match. The Company matching contributions for the periods ended April 3, 2004 and April 5, 2003 were approximately \$173,000 and \$177,000, respectively.

The Company provides certain health care benefits for retired employees. Eligibility for additional employees to become covered by retiree health benefits was terminated in 1988. Employees became eligible for these benefits if they met minimum age and service requirements and were eligible for retirement benefits. The Company accrues postretirement health care benefits over the period in which active employees become eligible for such benefits. The accrued postretirement benefit cost under these plans is included in accrued liabilities. The components of net periodic post retirement benefits cost for these plans are as follows:

	(In thousands)	
	Three Months Ended	
	April 3, 2004	April 5, 2003
Service cost	\$ —	\$ —
Interest cost	18	20
Expected return on plan assets	—	—
Amortization of net transition obligation	21	21
Amortization of actuarial gain	(5)	(5)
Net periodic post retirement benefits cost	\$ 34	\$ 36

Certain hourly employees at one location of the Company are covered by a defined benefit plan. Pension plan benefits are generally determined on the basis of the retiree's age and length of service. Assets of the defined benefit plan are composed primarily of fixed income and equity securities.

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The components of net periodic pension cost for this plan is as follows:

	(In thousands) Three Months Ended	
	April 3, 2004	April 5, 2003
Service cost	\$ 127	\$ 112
Interest cost	156	134
Expected return on plan assets	(182)	(140)
Amortized losses	40	43
Net periodic pension cost	\$ 141	\$ 149

On December 31, 2003, the Company's annual measurement date, and April 3, 2004, the accumulated benefit obligation, related to the defined benefit plan, exceeded the fair value of the plan assets. Such excess is referred to as an unfunded accumulated benefit obligation. In accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," the Company recognized a minimum pension liability at April 3, 2004 and December 31, 2003 of \$2,041,000, net of tax, which decreased shareholders' equity and is included in other long-term liabilities. This charge to shareholders' equity represents a net loss not yet recognized as pension expense. This charge did not affect reported earnings, and would be reversible if either interest rates increase or market performance and plan returns improved or contributions cause the pension plan to return to fully funded status. There were no charges during the quarters ended April 3, 2004 and April 5, 2003.

Amounts recognized in the statement of financial position consist of:

	(In thousands)			
	Pension Benefits		Other Benefits	
	April 3, 2004	December 31, 2003	April 3, 2004	December 31, 2003
Prepaid benefit cost	\$ 407	\$ 547	\$ —	\$ —
Accrued benefit cost	—	638	(1,234)	(1,256)
Accumulated other comprehensive income, net of tax	—	(638)	—	—
Net amount recognized	\$ 407	\$ 547	\$ (1,234)	\$ (1,256)

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The deferred benefit plan assets consist primarily of listed stocks and bonds. The Company's funding policy is to contribute cash to its pension plans so that the minimum contribution requirements established by government funding and taxing authorities are met. The Company was not required to make any contributions to the pension plan in 2003, but plans to contribute as much as \$1,300,000 in 2004.

Note 9. Indemnifications and Warranty Liability

Indemnifications

The Company has made guarantees and indemnities under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions, including revenue transactions in the ordinary course of business. In connection with certain facility leases the Company has indemnified its lessors for certain claims arising from the facility or the lease. The Company indemnifies its directors and officers to the maximum extent permitted under the laws of the State of Delaware. However, the Company has a directors and officers insurance policy that may reduce its exposure in certain circumstances and may enable it to recover a portion of future amounts that may be payable, if any. The duration of the guarantees and indemnities varies and, in many cases is indefinite but subject to statute of limitations. The majority of guarantees and indemnities do not provide any limitations of the maximum potential future payments the Company could be obligated to make. Historically, payments related to these guarantees and indemnities have been immaterial. The Company estimates the fair value of its indemnification obligations as insignificant based on this history and insurance coverage and has, therefore, not recorded any liability for these guarantees and indemnities in the accompanying consolidated balance sheets. However, there can be no assurances that the Company will not have any future financial exposure under these indemnification obligations.

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.

Information regarding the changes in the Company's aggregate warranty liability is as follows:

	(In thousands)	
	April 3, 2004	December 31, 2003
Warranty liability at beginning of period	\$ 1,759	\$ 1,697
Accruals for warranties during the period	29	184
Adjustments relating to pre-existing warranties	(92)	(122)
Warranty liability at end of period	<u>\$ 1,696</u>	<u>\$ 1,759</u>

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Note 10. Leases

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 for the periods ended April 3, 2004 and April 5, 2003, was \$744,000 and \$799,000, respectively. Future minimum rental payments under operating leases having initial or remaining noncancelable terms in excess of one year at April 3, 2004 are as follows:

	(In thousands)
	Lease
	Commitments

2004	\$ 1,687
2005	1,647
2006	886
2007	883
2008	696
Thereafter	1,603

Total	\$ 7,402

Note 11. Contingencies

The Ducommun AeroStructures, Inc. ("DAS") facility located in El Mirage, California has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination. Based upon currently available information, the Company has established a provision for the cost of such investigation and corrective action. DAS expects to spend approximately \$1 million for future investigation and corrective action for groundwater contamination at its El Mirage location. However, the Company's ultimate liability in connection with the contamination 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 ("Composite"), and several other companies have been ordered by a California environmental agency to investigate and clean up soil and groundwater contamination at its Monrovia, California facility. Composite 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, results of operations or cash flows.

Note 12. 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 first quarter of 2004 and 2003, sales to Boeing were \$27,799,000 and \$29,143,000, respectively; sales to Raytheon were \$7,649,000 and \$7,111,000, respectively; and sales to Lockheed Martin were \$3,345,000 and \$3,117,000, respectively. At April 3, 2004, trade receivables from Boeing, Raytheon and Lockheed Martin were \$12,989,000, \$4,212,000 and \$1,143,000, 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 13. 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, Inc., manufactures aerospace structural components and subassemblies. Ducommun Technologies, Inc., 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.

Financial Accounting Standards Board Statement 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.

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Financial information by operating segment is set forth below:

	(In thousands) Three Months Ended	
	April 3, 2004	April 5, 2003
Net Sales:		
Ducommun AeroStructures, Inc.	\$ 39,526	\$ 35,805
Ducommun Technologies, Inc.	18,721	19,236
Total Net Sales	\$ 58,247	\$ 55,041
Segment Operating Income (1):		
Ducommun AeroStructures, Inc.	\$ 1,775	\$ 3,550
Ducommun Technologies, Inc.	3,017	3,289
	4,792	6,839
Corporate General and Administrative Expenses	(1,168)	(1,809)
Total Operating Income	\$ 3,624	\$ 5,030
Depreciation and Amortization Expenses:		
Ducommun AeroStructures, Inc.	\$ 1,530	\$ 1,535
Ducommun Technologies, Inc.	343	313
Corporate Administration	4	38
Total Depreciation and Amortization Expenses	\$ 1,877	\$ 1,886
Capital Expenditures:		
Ducommun AeroStructures, Inc.	\$ 1,618	\$ 1,231
Ducommun Technologies, Inc.	275	203
Corporate Administration	—	—
Total Capital Expenditures	\$ 1,893	\$ 1,434

(1) Before certain allocated corporate overhead.

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

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	(In thousands) Three Months Ended	
	April 3, 2004	December 31, 2003
Total Assets		
Ducommun AeroStructures, Inc.	\$ 138,446	\$ 135,257
Ducommun Technologies, Inc.	52,473	46,603
Corporate Administration	12,284	16,181
Total Assets	\$ 203,203	\$ 198,041
Goodwill		
Ducommun AeroStructures, Inc.	\$ 36,785	\$ 36,785
Ducommun Technologies, Inc.	20,416	20,416
Total Goodwill	\$ 57,201	\$ 57,201

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

Ducommun designs, engineers and manufactures aerostructure and electromechanical components and subassemblies principally for the aerospace industry. The Company manufactures components and assemblies principally for domestic and foreign commercial and military aircraft and space programs. Domestic commercial aircraft programs include the Boeing 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 Apache 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 and, in the case of leasehold improvements, over the shorter of the lives of the improvements or the lease term. 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.

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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. The Company performs a goodwill impairment test annually in its fourth quarter 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 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.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial 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.

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, and is now part of the Company's Ducommun Technologies, Inc. ("DTI"), subsidiary. 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. This acquisition accounted for approximately \$1,669,000 of the excess of cost over net assets acquired at April 3, 2004 and December 31, 2003, respectively. The acquisition was funded from internally generated cash, notes and other accounts payable to sellers, and borrowings under the Company's credit agreement (see Note 5 for additional information). This acquisition strengthened the Company's position in the aerospace industry and added complementary lines of business.

Results of Operations

First Quarter of 2004 Compared to First Quarter of 2003

Net sales in the first quarter of 2004 were \$58,247,000, compared to net sales of \$55,041,000 for the first quarter of 2003. Net sales in 2004 benefited by approximately \$1,260,000 in sales from the August 2003 acquisition of DBP Microwave. The Company's mix of business in the first quarter of 2004 was approximately 61% military, 35% commercial, and 4% space, compared to 65% military, 31% commercial, and 4% space in the first quarter of 2003.

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During the first quarter of 2004 and 2003, sales to Boeing were \$27,799,000 and \$29,143,000, respectively; sales to Raytheon were \$7,649,000 and \$7,111,000, respectively; and sales to Lockheed Martin were \$3,345,000 and \$3,117,000, respectively. At April 3, 2004, trade receivables from Boeing, Raytheon and Lockheed Martin were \$12,989,000, \$4,212,000 and \$1,143,000, respectively. The sales and receivables relating to Boeing, Raytheon and Lockheed Martin are diversified over a number of different commercial, space and military programs.

The Company's commercial business is represented on virtually all of today's major commercial aircraft. During the first quarter of 2004, sales related to commercial business were approximately \$20,162,000, or 35% of total sales, compared to \$17,091,000, or 31% in the first quarter of 2003. The Boeing 737/737NG program accounted for approximately \$8,611,000 in sales in the first quarter of 2004, compared to \$6,315,000 in sales in the first quarter of 2003.

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 \$35,797,000, or 61% of total sales in the first quarter of 2004, compared to \$35,625,000, or 65% of total sales in the first quarter of 2003. In the first quarter of 2004, the C-17 program accounted for approximately \$7,455,000 in sales, compared to \$9,802,000 in sales in the first quarter of 2003, and the Apache helicopter program accounted for approximately \$10,362,000 in sales, compared to \$7,609,000 in sales in the first quarter of 2003.

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. During the first quarter of 2004, sales related to space programs were approximately \$2,288,000, or 4% of total sales, compared to \$2,374,000, or 4% of total sales in the first quarter of 2003.

At April 3, 2004, backlog believed to be firm was approximately \$271,757,000, compared to \$283,901,000 at December 31, 2003. The backlog decrease from December 31, 2003 was primarily due to lower bookings for commercial programs. Approximately \$150,000,000 of the total backlog is expected to be delivered during 2004.

Gross profit, as a percentage of sales, decreased to 17.9% in the first quarter of 2004 from 21.8% in the first quarter of 2003. This decrease was primarily the result of initial losses on several new contracts at Ducommun AeroStructures during the first quarter of 2004, partially offset by the impact of spreading fixed overhead costs over a greater sales volume. The decline in gross profit margins also included a provision of \$1,894,000 established during the first quarter of 2004 for estimated cost overruns on certain of the new contracts at Ducommun AeroStructures. The provision for estimated cost overruns

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is based on currently available information and various assumptions, including customers' future production rates and delivery schedules and the Company's future cost structure and learning curve assumptions.

Selling, general and administrative expenses, as a percentage of sales, were 11.7% in the first quarter of 2004, compared to 12.7% in the first quarter of 2003. Selling, general and administrative expenses in the first quarter of 2004 included severance costs of approximately \$559,000, and did not include accruals for incentive compensation. Selling, general and administrative expenses in the first quarter of 2003 included approximately \$279,000 of severance costs and \$654,000 of accrued incentive compensation.

Interest expense decreased to \$138,000 in the first quarter of 2004 compared to \$321,000 for the first quarter of 2003. The decrease in interest expense was primarily due to lower debt levels and lower interest rates in 2004 compared to 2003.

Income tax expense decreased to \$1,255,000 in the first quarter of 2004, compared to \$1,601,000 in the first quarter of 2003. The decrease in income tax expense was primarily due to the decrease in income before taxes partially offset by a higher effective income tax rate. The Company's effective tax rate for the first quarter of 2004 was 36.0%, compared to 34.0% in the first quarter of 2003, the difference primarily attributed to higher research and development tax credits in 2003. Cash expended to pay income taxes increased to \$93,000 in the first quarter of 2004, compared to \$16,000 in the first quarter of 2003.

Net income for the first quarter of 2004 was \$2,231,000, or \$0.22 diluted earnings per share, compared to \$3,108,000, or \$0.31 diluted earnings per share in the first quarter of 2003.

Financial Condition

Liquidity and Capital Resources

Net cash used in operating activities for the first quarter of 2004 was \$5,296,000, compared to \$5,986,000 of net cash provided by operating activities in the first quarter of 2003. Major elements of the net cash used in operating activities for the first quarter of 2004 included a \$5,077,000 increase in inventory primarily due to a reduction in progress payments from customers and delays in shipments, a \$3,473,000 increase in accounts receivable due to timing of shipments and billings to customers, a decrease in accrued and other liabilities of \$3,735,000, due mainly to payment of accrued bonuses, partially offset by \$2,231,000 of net income, \$1,877,000 of depreciation, a \$1,138,000 increase in accounts payable due to timing of payments of vendors invoices and a net increase of \$1,796,000 in the provision for cost overruns.

Net cash used in investing activities for the first quarter of 2004 consisted primarily of \$1,893,000 of capital expenditures.

Net cash from financing activities in the first quarter of 2004 of \$3,461,000 included \$3,000,000 of net borrowings by the Company and \$461,000 of net cash received from the exercise of common stock options.

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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 2004. 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 April 3, 2004). 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 (2.60% at April 3, 2004). At April 3, 2004, the Company had \$70,578,000 of unused lines of credit, after deducting \$3,000,000 of loans outstanding and \$1,422,000 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 April 3, 2004), and limitations on future dispositions of property, repurchases of common stock, outside indebtedness, capital expenditures and acquisitions.

The weighted average interest rate on borrowings outstanding was 4.32% and 5.69% at April 3, 2004 and December 31, 2003, respectively.

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: 2005, \$3,400,000; 2006, \$0; 2007, \$0; 2008, \$0.

Certain hourly employees at one location of the Company are covered by a defined benefit plan. Pension plan benefits are generally determined on the basis of the retiree's age and length of service. Assets of the defined benefit plan are composed primarily of fixed income and equity securities. On December 31, 2003, the Company's annual measurement date, the accumulated benefit obligation, related to the Company's defined benefit plan, exceeded the fair value of the pension plan assets. Such excess is referred to as an unfunded accumulated benefit obligation. In accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," the Company recognized minimum pension liability of \$2,041,000, net of tax, which decreased shareholders' equity and is included in other long-term liabilities at April 3, 2004 and December 31, 2003. Pension expense will be approximately \$562,000 in 2004. The Company was not required to make any contributions to the pension plan in 2003, but plans to contribute as much as \$1,300,000 in 2004.

The Company expects to spend less than \$10,000,000 for capital expenditures in 2004. 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.

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The Company has made guarantees and indemnities under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions, including revenue transactions in the ordinary course of business. In connection with certain facility leases the Company has indemnified its lessors for certain claims arising from the facility or the lease. The Company indemnifies its directors and officers to the maximum extent permitted under the laws of the State of Delaware. However, the Company has a directors and officers insurance policy that may reduce its exposure in certain circumstances and may enable it to recover a portion of future amounts that may be payable, if any. The duration of the guarantees and indemnities varies and, in many cases is indefinite but subject to statute of limitations. The majority of guarantees and indemnities do not provide any limitations of the maximum potential future payments the Company could be obligated to make. Historically, payments related to these guarantees and indemnities have been immaterial. The Company estimates the fair value of its indemnification obligations as insignificant based on this history and insurance coverage and has, therefore, not recorded any liability for these guarantees and indemnities in the accompanying consolidated balance sheets. However, there can be no assurances that the Company will not have any future financial exposure under these indemnification obligations.

As of April 3, 2004 the Company had the following categories of contractual obligations (in thousands):

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt	\$ 5,585	\$ 2,185	\$ 3,400	\$ —	\$ —
Operating leases	7,402	2,152	2,290	1,497	1,463
Other long-term liabilities	2,041	1,306	735	—	—
Total	\$ 15,028	\$ 5,643	\$ 6,425	\$ 1,497	\$ 1,463

The DAS facility located in El Mirage, California has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination. Based upon currently available information, the Company has established a provision for the cost of such investigation and corrective action. DAS expects to spend approximately \$1 million for future investigation and corrective action for groundwater contamination at its El Mirage location. However, the Company's ultimate liability in connection with the contamination 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 ("Composite"), and several other companies have been ordered by a California environmental agency to investigate and clean up soil and groundwater contamination at its Monrovia, California facility. Composite has filed a petition for review of the order.

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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, results of operations or cash flows.

Off-Balance Arrangements

The Company's off-balance sheet arrangements consist of operating leases and capital commitments as described above.

Recent Accounting Pronouncements

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, as revised in December 2003, 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. The adoption of FIN No. 46 in 2004 did not have any 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. If the current downturn in commercial aircraft production 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.

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Commercial Aircraft Production Rates Are Declining

The Company estimates that, in the first quarter of 2004, approximately 20% of its sales were for Boeing commercial aircraft and approximately 15% 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 quarter of 2004, approximately 65% 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 negatively impact 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 quarter of 2004, approximately 20% of its sales were for Boeing commercial aircraft, 13% of its sales were for the C-17 aircraft, and 18% 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 \$12,062,000 to sales in 2003. The Company has been informed that a competitor has been awarded a contract to produce the 737 Spoilers. Although the precise timing and amount of any transition of work to the competitor is presently unknown, such a transition of work may occur as early as late 2004.

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

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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.

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, mistakes in bidding on contracts, underestimation of the scope of work required under contracts, manufacturing inefficiencies and 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 multiyear firm, fixed-price commitments to its customers, without assurance that the Company's anticipated production costs will be achieved.

As discussed above, in the first quarter of 2004, the Company established a provision of \$1,894,000 for estimated cost overruns on certain of the new contracts at Ducommun AeroStructures. The provision for estimated cost overruns is based on currently available information and various assumptions, including customers' future production rates and delivery schedules and the Company's future cost structure and learning curve assumptions. The Company could incur additional losses or be required to establish additional provisions for cost overruns if actual results should differ from the estimates under these assumptions.

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.

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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. Any significant acquisition may result in a material weakening of the Company's financial position and a material increase in the Company's cost of borrowings. Acquisitions also may require the Company 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 effect 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, 2003, management was required to make certain critical estimates and assumptions. These estimates and assumptions, with respect to the Company's Ducommun AeroStructures, Inc. ("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 April 3, 2004.

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.

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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 DAS subsidiary's El Mirage, 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.

The DAS chemical milling business uses various acid and alkaline solutions in the chemical milling process, resulting in potential environmental hazards. Despite existing waste recovery systems and continuing capital expenditures for waste reduction and management, at least for the immediate future, this business will remain dependent on the availability and cost of remote hazardous waste disposal sites or other alternative methods of disposal.

The DAS facility located in El Mirage, California has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination. Based upon currently available information, the Company has established a provision for the cost of such investigation and corrective action. DAS expects to spend approximately \$1 million for future investigation and corrective action for groundwater contamination at its El Mirage location. However, the Company's ultimate liability in connection with the contamination 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 ("Composite"), and several other companies have been ordered by a California environmental agency to investigate and clean up soil and groundwater contamination at its Monrovia, California facility. Composite has filed a petition for review of the order.

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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.

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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
 - 3 Bylaws as amended and restated on March 25, 2004.
 - 11 Reconciliation of the Numerators and Denominators of the Basic and Diluted Earnings Per Share Computations.
 - 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 March 3, 2004 reporting under Item 12 that the Company issued a press release dated March 1, 2004 regarding fourth quarter and year ended December 31, 2003 results.

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: May 10, 2004

As Amended March 25, 2004

**BYLAWS
OF
DUCOMMUN INCORPORATED**

ARTICLE I

Offices

Section 1. Registered Office. The Registered Office of Ducommun Incorporated (hereinafter called the Corporation) in the State of Delaware shall be at 2711 Centerville Road, Suite 400, in the City of Wilmington 19808, County of New Castle, and the name of the Registered Agent in charge thereof shall be Corporation Service Company.

Section 2. Principal Office. The principal office for the transaction of business of the Corporation shall be 111 West Ocean Boulevard, Suite 900, in the City of Long Beach, County of Los Angeles, State of California. The Board of Directors has full power and authority to change said principal office from one location to another, whether within or outside said City, County or State, by amendment of this Section 2.

Section 3. Other Offices. The Corporation may also have an office or offices at such other place or places, either within or without the State of Delaware, as the Board of Directors may from time to time determine as the business of the Corporation may require.

ARTICLE II

Stockholders

Section 1. Annual Meetings. The Annual Meeting of Stockholders shall be held at 9:00 o'clock a.m. Pacific Time on the first Wednesday of May each year, if not a legal holiday, in which case the annual meeting shall be held on the next business day following, or on such other date as shall be designated by the Board of Directors, for the purpose of electing Directors and for the transaction of such other business as may be brought before the meeting. If such annual meeting is not held, or the Directors are not elected thereat, Directors may be elected at a special meeting held for that purpose, and it shall be the duty of the Chairman of the Board of Directors, the President, any Executive Vice President, any Senior Vice President, any Vice President or the Secretary, upon the demand of any stockholder entitled to vote, to call such special meeting.

Section 2. Special Meetings. Special meetings of the stockholders for any purpose or purposes may be called at any time by the Board of Directors or by a majority of the members of the Board of Directors.

Section 3. Notice of Meetings. Except as otherwise required by law, notice of meetings of stockholders, annual or special, shall be given to stockholders entitled to vote thereat by the Secretary or an Assistant Secretary or other person charged with that duty not less than ten (10) nor more than sixty (60) days before the date of any such meeting. Such notice may be printed, typewritten, or in

handwriting, and may be given to any stockholder either personally or by sending a copy of the notice through the mail, or by telegram, charges prepaid, to his address appearing on the books of the Corporation or supplied by him to the Corporation for the purpose of notice. Except as otherwise expressly required by law, no publication of any notice of a meeting of the stockholders shall be required. Every notice of a meeting of the stockholders shall state the place, date and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is called.

Section 4. Place of Meetings. All meetings of the stockholders shall be held at the principal office of the Corporation in the State of California or at such other place within or without the State of Delaware as the Board of Directors may from time to time designate.

Section 5. Quorum. A quorum at any meeting of the stockholders shall consist of stockholders holding a majority of the voting power of the shares of this Corporation outstanding and entitled to vote thereat, represented either in person or by proxy, except as otherwise specifically provided by law or in the Certificate of Incorporation. In the absence of a quorum, any meeting of stockholders may be adjourned from time to time by the vote of a majority of the voting stock, the holders of which are either present in person or represented by proxy thereat. The stockholders present at a meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 6. Adjournments. When a meeting is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given as in the case of the original meeting, but when a meeting is adjourned for less than thirty (30) days it is not necessary to give any notice of the time and place of the adjourned meeting or of the business to be transacted thereat other than by announcement at the meeting at which the adjournment is taken. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally noticed.

Section 7. Organization. The Chairman of the Board of Directors, or, in his absence, the President, or in the absence of the Chairman of the Board of Directors and the President, the Executive Vice President, a Senior Vice President or a Vice President shall call meetings of stockholders to order, and shall act as Chairman of such meetings. In the absence of the Chairman of the Board of Directors, the President, the Executive Vice President, any Senior Vice President and the Vice Presidents, the stockholders shall appoint a Chairman for such meeting. The Secretary of the Corporation shall act as Secretary at all meetings of the stockholders, but in the absence of the Secretary at any meeting of the stockholders, the presiding officer may appoint any person to act as Secretary of the meeting.

Section 8. Voting

(a) Each stockholder shall, at each meeting of the stockholders, be entitled to vote in person or by proxy each share or fractional share of the stock of the Corporation having voting rights on the matter in question and which shall have been held by him and registered in his name on the books of the Corporation:

(i) on the date fixed pursuant to ARTICLE II, Section 11 of these Bylaws as the record date for the determination of stockholders entitled to notice of and to vote at such meeting, or

(ii) if no such record date shall have been so fixed, then (a) at the close of business on the day next preceding the day on which notice of the meeting shall be given, or (b) if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which the meeting shall be held.

(b) Shares of its own stock belonging to the Corporation shall not be entitled to vote. Persons holding in a fiduciary capacity stock of the Corporation shall be entitled to vote such stock so held. A person whose stock is pledged shall be entitled to vote such stock, unless in the transfer by the pledger on the books of the Corporation he shall have expressly empowered the pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent such stock and vote thereon. Stock having voting power standing of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or with respect to which two or more persons have the same fiduciary relationship, shall be voted in accordance with the provisions of the General Corporation Law of the State of Delaware.

(c) Any such voting rights may be exercised by the stockholder entitled thereto in person or by his proxy appointed by an instrument in writing, subscribed by such stockholder or by his attorney thereunto authorized and delivered to the Secretary of the meeting; provided, however, that no proxy shall be voted or acted upon after three years from its date unless said proxy shall provide for a longer period. The attendance at any meeting of a stockholder who may theretofore have given a proxy shall not have the effect of revoking the same unless he shall in writing so notify the Secretary of the meeting prior to the voting of the proxy. At any meeting of the stockholders all matters, except as otherwise provided in the Certificate of Incorporation, these Bylaws or bylaw, shall be decided by the vote of majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat and thereon, a quorum being present. The vote at any meeting of the stockholders on any question need not be by ballot, unless so directed by the Chairman of the meeting. On a vote by ballot each ballot shall be signed by the stockholder voting, or by his proxy, if there be such proxy, and it shall state the number of shares voted.

Section 9. Inspectors of Election. In advance of any meeting of stockholders, the Board of Directors may appoint inspectors of election to act at such meeting or any adjournment thereof. If inspectors of election be not so appointed, the Chairman of any such meeting may make such appointment at the meeting. The number of inspectors shall be either one or three.

Section 10. Consent of Absentees. The transactions of any meeting of stockholders, either annual or special, however called and noticed, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the stockholders entitled to vote, not present in person or by proxy, signs a written waiver of notice. All such waivers shall be filed with the corporate records or made a part of the minutes of the meeting. Attendance of a person at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 11. Record Date and Closing Stock Books. The Board of Directors may fix a record date for the determination of the stockholders entitled to notice of and to vote at any meeting of stockholders, or for the determination of the stockholders entitled to receive any dividend or distribution or any allotment of rights, or to exercise rights in respect to any change, conversion or exchange of shares. The record date so fixed shall not be more than sixty (60) nor less than ten (10) days before the date of any such meeting, nor more than sixty (60) days prior to any other action. When a record date is so fixed, only stockholders who are such of record on that date are entitled to notice of and to vote at the meeting or to receive the dividend, distribution, or allotment of rights, or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date. The Board of Directors may close the books of the Corporation against transfers of shares during the whole or any part of a period not more than sixty (60) days prior to the date of a stockholders' meeting, the date when the right to any dividend, distribution, or allotment of rights vests, or the effective date of any change, conversion or exchange of shares. A determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of such meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 12. Conduct of Meetings. The Chairman of the Board of Directors shall have complete authority to establish rules of conduct governing all meetings of stockholders. These rules may include, but shall not be limited to, rules related to attendance, questions from the audience and similar matters. Notwithstanding the above, the nomination at any meeting of stockholders of any person to serve as a Director shall not be valid unless (i) the nomination of such person has been approved by resolution of the Board of Directors of the Corporation, or (ii) notice of the nomination of such person has been delivered to the Secretary of the Corporation not less than 120 days prior to the date of the meeting of stockholders.

Section 13. Business of Meetings. To be properly brought before the annual meeting of stockholders, business must be either (i) specified in the notice of annual meeting (or any supplement or amendment thereto) given by or at the direction of the Board of Directors, (ii) otherwise brought before the annual meeting by or at the direction of the Board of Directors, (iii) brought before the meeting in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, or (iv) otherwise properly brought before the annual meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder (other than in connection with the nomination of any person to serve as a Director pursuant to Article II, Section 12(ii) hereof), the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than one hundred thirty-five (135) days prior to the meeting; provided, however, that in the event that less than thirty-five (35) days' notice or prior public disclosure of the date of the annual meeting is given or made to stockholders, notice by a stockholder, to be timely, must be received no later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class, series and number of shares of the Corporation which are beneficially owned by the stockholder, and (iv) any material interest of the stockholder in such business. No business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Article II, Section 13. The officer of the Corporation presiding at an annual meeting shall, if the facts warrant, determine and declare to the annual meeting that business was not properly brought before the annual meeting in accordance with the provisions of this Article II, Section 13, and if he should so determine, he shall so declare to the annual meeting and any such business not properly brought before the meeting shall not be transacted.

ARTICLE III

Board of Directors

Section 1(a). Powers. The corporate powers, business and property of this Corporation shall be exercised, conducted and controlled by a Board of Directors. In addition to the powers and authorities expressly conferred upon it by these Bylaws, the Board may exercise all such powers and do all such lawful acts and things as are not by statute or by these Bylaws directed or required to be exercised or done by the stockholders. Directors need not be stockholders.

Section 1(b). Minimum and Maximum Number. The authorized number of Directors of this Corporation shall be not less than six (6) nor more than nine (9) until changed by an amendment of this Bylaw; the exact number of Directors shall be fixed, within the limits specified in this Section 1(b), by a Bylaw or amendment thereof to be numbered as Section 1(c).

Section 1(c). Exact Number of Directors. The exact number of Directors of this Corporation is seven (7) until changed within the limits specified in Section 1(b) or this ARTICLE III by a Bylaw duly adopted amending this Section 1(c).

Section 2. Vacancies. In case of a vacancy in the Directors through death, resignation, disqualification, or other cause, the remaining Directors, though less than a quorum, by affirmative vote of a majority thereof, or the sole remaining Director, may elect a successor or successors to hold office for the unexpired portion of the term of the Director whose place shall be vacant, and until the election of his successor.

Section 3. Place of Meeting. The Directors may hold their meetings and have an office and keep the books of the Corporation in such place or places within or without the State of Delaware as the Board may from time to time determine.

Section 4(a). Regular Meetings. By resolution and notice thereof to all the Directors at the time in office, the Board of Directors may provide that regular meetings of said Board shall be held at stated intervals and at a place to be fixed in such resolution. In case such regular meetings are provided for, it shall not be necessary to give notice of any such meetings, or of the business to be transacted. A meeting of the Board of Directors may be held without notice immediately after the Annual Meeting of Stockholders.

Section 4(b). Special Meetings. Special meetings of the Board of Directors may be called by the Chairman or the Board of Directors, the President, any two Vice Presidents, any two Directors, or by the sole remaining Director. Written notice of the time and place of special meetings shall be delivered personally to each Director or sent to each Director by mail or other form of written communication, charges prepaid, addressed at his business address or his residence address, as either may be shown upon the records of the Corporation, or if not so shown, or not readily ascertainable, at the principal office of the Corporation. In case such notice is delivered personally it shall be delivered at least twenty-four hours prior to the time of the holding of the meeting. In case such notice is sent by telegram, facsimile or e-mail, it shall be transmitted at least twenty-four hours prior to the time of the holding of the meeting. In case such notice is mailed, it shall be deposited in the United States mail at least sixty hours prior to the time of the holding of the meeting. Except where otherwise required by law or by these Bylaws,

notice of the purpose of a special meeting need not be given. Notice of any meeting of the Board of Directors shall not be required to be given to any Director who shall have waived such notice and such notice shall be deemed to have been waived by any Director who is present at such meeting.

Section 5. Quorum. A majority of the authorized number of Directors shall constitute a quorum for the transaction of business, but if at any meeting of the Board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time. Every act or decision done or made by a majority of the Directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors, unless a greater number be required by law or by the Certificate of Incorporation.

Section 6. Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action and such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of the Directors.

Section 7. Compensation of Directors. Unless otherwise provided by the Certificate of Incorporation, the Board of Directors shall have authority to fix the compensation of Directors. Directors may be paid a fixed sum for attendance at each meeting of the Board of Directors and may be paid a stated compensation for serving as Directors. Directors may also be paid their expenses, if any, for attending each meeting of the Board of Directors. No payments to Directors shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 8. Presiding Officers. At all meetings of the Board of Directors, the Chairman of the Board of Directors, or, in his absence, the President of the Corporation, or in the absence of the Chairman of the Board of Directors and the President, a Chairman chosen by the Directors present shall preside.

Section 9. Election of Officers. At the first meeting of the Board of Directors each year (at which a quorum shall be present) held next after the Annual Meeting of Stockholders, the Board of Directors shall proceed to the election of the Officers of the Corporation.

Section 10. Committees of the Board of Directors. The Board of Directors may by resolution appoint an Executive Committee and other committees. Such Executive Committee and other committees shall be composed of two or more members of this Board of Directors and shall have such powers as may be expressly delegated to them by resolution of the Board of Directors, except that no such committee shall have the power to amend the Certificate of Incorporation, to adopt an agreement of merger or consolidation, to recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, to recommend to the stockholders the dissolution of the Corporation or a revocation of a dissolution, or to adopt, amend or repeal Bylaws. The Executive Committee, if there shall be one, shall have the right and authority to declare dividends. The Board of Directors shall have the authority to fix the compensation of members of the committees for attending committee meetings.

Section 11. Advisory Directors. The Board of Directors may elect one or more Advisory Directors who shall have such powers and perform such duties as the Directors shall assign to them. Advisory Directors shall, upon election, serve until the next Annual Meeting of Stockholders. Advisory Directors shall receive notice of all meetings of the Board of Directors in the same manner and at the same time as the Directors. They shall attend such meetings in an advisory capacity, but shall not cast a vote or be counted to determine a quorum. Any Advisory Director may be removed, either with or without cause, by a majority of the Directors. The Advisory Directors shall not receive any stated compensation for their services as Advisory Directors, but by resolution of the Board of Directors a fixed

fee and expenses of attendance may be allowed for attendance at each meeting. Nothing herein shall be construed to preclude any Advisory Director from serving the Corporation in any other capacity as an officer, agent or other- wise, and receiving compensation therefor.

ARTICLE IV

Officers

Section 1. Officers. The Officers of the Corporation shall be a President, a Secretary and a Treasurer, who shall be elected by the Directors at their first meeting after the Annual Meeting of Stockholders, and who shall hold office until their successors are elected and qualify. The Board of Directors may also elect at its discretion a Chairman of the Board, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other Officers as the business of the Corporation may require. The Chairman of the Board, if there shall be such an officer, and the President must be members of the Board of Directors. So far as is permitted by law any two or more offices may be held by the same person.

Section 2(a). Chairman of the Board. The Chairman of the Board of Directors, if there shall be such an officer, shall preside at meetings of the stockholders and of the Board of Directors, and shall perform such other duties, in major policy areas or otherwise, consistent with his office, as may be assigned to him by the Board of Directors.

Section 2(b) Vice Chairman of the Board. The Vice Chairman of the Board of Directors, if there shall be such an officer, shall, during any period when so requested by the Chairman of the Board of Directors or during the absence of the Chairman of the Board of Directors or his inability to act, have the powers and perform the duties of the Chairman. The Vice Chairman shall perform such other duties consistent with his office as from time to time may be assigned to him by the Board of Directors.

Section 3. Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation. Subject to the control of the Board of Directors, he shall have general executive powers concerning, and active management and supervision over, the property, business and affairs of the Corporation and its several officers. He shall have the powers and shall perform the duties usually incident to the office of Chief Executive Officer and, during any period when so requested by the Chairman of the Board of Directors, or during the absence of the Chairman and the Vice Chairman of the Board of Directors or the inability of both to act, shall also have the powers and perform the duties of the Chairman of the Board of Directors. The Chief Executive Officer shall perform such other duties consistent with his office as from time to time may be assigned to him by the Board of Directors.

Section 4. President. The President shall be the chief operating officer of the Corporation. The President shall exercise general supervision over and have executive control of the operations of the Corporation's business and shall have such powers as may be assigned to him from time to time by the Board of Directors.. He shall exercise the functions of the Chief Executive Officer during the absence or disability of the Chief Executive Officer.

Section 5(a). Executive Vice President. The Executive Vice President(s), if there shall be such an officer, shall, subject to such powers as shall be assigned to him from time to time by the Board of Directors or by the President, have such managerial responsibility and authority and shall exercise such supervisory powers as shall be assigned to him from time to time by the Board of Directors or by the President. He shall exercise the functions of the President during the absence or disability of the President.

Section 5(b). Senior Vice President. The Senior Vice President(s) shall exercise general supervision over and have executive control of such departments of the Corporation's business and shall have such powers and discharge such duties as may be assigned to him from time to time by the Board of

Directors. The Senior Vice President, as designated by the Board of Directors, shall exercise the functions of the President during the absence or disability of the President and the Executive Vice President.

Section 5(c). Vice Presidents. The Vice Presidents shall exercise general supervision over and have executive control of such departments of the Corporation's business and shall have such powers and discharge such duties as may be assigned to each of them from time to time by the Board of Directors. The Vice Presidents in order of their rank, or if not ranked, as designated by the Board of Directors, shall exercise the functions of the President during the absence or disability of the President, the Executive Vice President and the Senior Vice President.

Section 6. Secretary. The Secretary shall issue due notice to stockholders and Directors in accordance with these Bylaws and as required by law, shall record all the proceedings of the meetings of the stockholders and Directors in a book to be kept for that purpose, shall have charge of the corporate seal, shall keep or cause to be kept a share register of stockholders of the Corporation, and shall make such reports and perform such other duties as are incident to his office, or assigned to him by the Board of Directors.

Section 7. Assistant Secretary. The Assistant Secretaries shall, in the absence or disability of the Secretary, perform the duties and exercise the power of the Secretary.

Section 8. Treasurer. The Treasurer shall have the custody of all monies and securities of the Corporation and shall keep regular books of account. He shall disburse the funds of the Corporation in payment of the just demands against the Corporation, or as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Board of Directors from time to time, as may be required of him, an account of all his transactions as Treasurer and of the financial condition of the Corporation.

Section 9. Assistant Treasurer. The Assistant Treasurer shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer.

Section 10. General Counsel. The General Counsel shall provide legal advice to the Corporation, render legal opinions as necessary in connection with the business of the Corporation, exercise general supervision over the legal affairs of the Corporation and perform such other duties as assigned to him by the Board of Directors.

Section 11. Duties. Except as otherwise provided in this Section, the said Officers shall have all the usual powers and shall perform all the usual duties incident to their respective offices and shall, in addition, perform such other duties as shall be assigned to them from time to time by the Board of Directors.

Section 12. Delegation of Duties. In the absence or disability of any Officer of the Corporation, the Board of Directors may, subject to the provisions of this Section, delegate his powers and duties to any other Executive Officer, or to any Director, during such absence or disability, and the person so delegated shall, for the time being, be the Officer whose powers and duties he so assumes.

Section 13. Vacancies. A vacancy in any office existing at any time may be filled by the Directors at any regular or special meeting.

Section 14. Other Officers. The Board of Directors may appoint such other Officers and agents as it shall deem necessary or expedient, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

Section 15. Salaries. The salaries of all Officers of the Corporation shall be approved by the Board of Directors.

Section 16. Bonds. The Board of Directors may require any and all Officers, respectively, to give a bond for the faithful performance of their respective duties in such sum as said Board of Directors may determine, such bond to be executed by a reliable surety company, but the expense of obtaining the same shall be borne by the Corporation.

Section 17. Representation of Shares of Other Corporations. The President or any Vice President and the Secretary or any Assistant Secretary of this Corporation are authorized to vote, represent and exercise on behalf of this Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this Corporation. The authority herein granted to said Officers to vote or represent on behalf of this Corporation any and all shares held by this Corporation in any other corporation or corporations may be exercised either by such Officers in person or by any person authorized so to do by proxy or power of attorney duly executed by said Officers.

Section 18. Removal of Officers. Any Officer may be removed at any time by the affirmative vote of a majority of the Board of Directors.

ARTICLE V

Certificates of Stock

Section 1. Form and Execution of Certificate. The certificates of shares of stock of the Corporation shall be in such form as shall be approved by the Board of Directors. All certificates shall be signed by the President or a Vice President, and by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer; provided, however, that if any such certificate is countersigned by a transfer agent other than the Corporation or its employee, or by a registrar other than the Corporation or its employee, the signatures of such President or Vice President and of such Secretary or Assistant Secretary or Treasurer or Assistant Treasurer may be facsimiles.

Section 2. Certificates to be Entered. All certificates shall be consecutively numbered and the names in which they are issued, the number of shares and the date of issue shall be entered in the Corporation's books.

Section 3. Transfer of Shares. Shares shall be transferred only on the books of the Corporation by the holder thereof, in person or by his attorney, upon the surrender and cancellation of certificates for a like number of shares.

Section 4. Regulations. The Board of Directors shall have power and authority to make all such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates of stock, and may appoint a transfer agent or transfer agents and a registrar or registrars of transfers, and may require all stock certificates to bear the signature of any such transfer agent and registrar of transfers.

ARTICLE VI

Seal

The Board of Directors shall provide a corporate seal, which shall be in the form of a circle and shall bear the name of the Corporation in words and figures showing that it was incorporated in the State of Delaware in the year 1970.

ARTICLE VII

Indemnification

Section 1. Indemnification of Directors and Officers. The Corporation shall, to the fullest extent permitted by law, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including without limitation any action by or in the right of the Corporation) by reason of the fact that he is or was a Director or Officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint

venture, trust or other enterprise, against expenses (including attorneys' fees) judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, that he had reasonable cause to believe that his conduct was unlawful. The right of indemnity provided herein shall not be exclusive, and the Corporation may provide indemnification to any person, by agreement or otherwise, on such terms and conditions as the Board of Directors may approve. Any agreement for indemnification of any Director, Officer, employee or other person may provide indemnification rights which are broader or otherwise different from those set forth herein.

Section 2. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, Officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this ARTICLE.

ARTICLE VIII

Fiscal Year

The fiscal year of the Corporation shall commence on January 1, and end on December 31 of each year.

ARTICLE IX

Amendments

These Bylaws may be adopted, amended or repealed by the vote of stockholders as set forth in the Certificate of Incorporation. Subject to the right of stockholders to adopt, amend or repeal Bylaws, Bylaws may be adopted, amended or repealed by the Board of Directors.

DUCOMMUN INCORPORATED AND SUBSIDIARIES
RECONCILIATION OF THE NUMERATORS AND DENOMINATORS OF
THE BASIC AND DILUTED EARNINGS PER SHARE COMPUTATIONS

	For the Quarter Ended April 3, 2004		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income Available to Common Stockholders	\$ 2,231,000	9,922,000	\$ 0.22
Effect of Dilutive Securities			
Stock Options		270,000	
Diluted EPS			
Income Available to Common Stockholders + Assumed Conversions	\$ 2,231,000	10,192,000	\$ 0.22
For the Quarter Ended April 5, 2003			
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income Available to Common Stockholders	\$ 3,108,000	9,873,000	\$ 0.31
Effect of Dilutive Securities			
Stock Options	—	21,000	
Diluted EPS			
Income Available to Common Stockholders + Assumed Conversions	\$ 3,108,000	9,894,000	\$ 0.31

**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 April 3, 2004;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2004

/s/ Joseph C. Berenato

Joseph C. Berenato
Chairman and Chief Executive Officer

**Certification of Principal Executive 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 April 3, 2004;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2004

/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 April 3, 2004 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

May 10, 2004

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