FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended March 29, 1997

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 0-1222

DUCOMMUN INCORPORATED

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 95-0693330 |
| (State or other jurisdiction of incorporation or organization) | I.R.S. Employer Identification No. |
| 23301 South Wilmington Avenue, Carson, California | 90745 |
| (Address of principal executive offices) | (Zip Code) |

(310) 513-7200

(Registrant's telephone number, including area code)

N/A

(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 Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of March 29, 1997, there were outstanding 7,316,894 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 amounts)

| | March 29, 1997 | December 31, 1996 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 35 | $ 571 |
| Accounts receivable (less allowance for doubtful accounts of $193 and $206) | 16,857 | 14,722 |
| Inventories | 23,575 | 22,595 |
| Deferred income taxes | 4,057 | 4,597 |
| Other current assets | 1,707 | 1,850 |
| Total Current Assets | 46,231 | 44,335 |
| Property and Equipment, Net | 27,889 | 27,051 |
| Deferred Income Taxes | 4,782 | 5,594 |
| Excess of Cost Over Net Assets Acquired (Net of Accumulated Amortization of $3,869 and $3,548) | 17,870 | 18,326 |
| Other Assets | 507 | 508 |
| | $ 97,279 | $ 95,814 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current portion of long-term debt (Note 5) | $ 1,158 | $ 1,117 |
| Accounts payable | 9,351 | 8,343 |
| Accrued liabilities | 15,464 | 17,589 |
| Total Current Liabilities | 25,973 | 27,049 |
| Long-Term Debt (Note 5) | 9,049 | 9,173 |
| Other Long-Term Liabilities | 405 | 404 |
| Total Liabilities | 35,427 | 36,626 |
| Commitments and Contingencies (Note 6) | | |
| Shareholders' Equity: | | |
| Common stock -- $.01 par value; authorized 12,500,000 shares; issued and outstanding 7,316,894 shares in 1997 and 7,301,428 in 1996 | 73 | 73 |
| Additional paid-in capital | 59,314 | 59,280 |
| Retained earnings (accumulated deficit) | 2,465 | (165) |
| Total Shareholders' Equity | 61,852 | 59,188 |
| | $ 97,279 | $ 95,814 |

See accompanying notes to consolidated financial statements.

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

| | For Three Months Ended | |
|---|---|---|
| | March 29, 1997 | March 30, 1996 |
| Net Sales | $35,305 | $23,792 |
| Operating Costs and Expenses: | | |
| Cost of goods sold | 24,201 | 15,588 |
| Selling, general and administrative expenses | 6,365 | 6,240 |
| Total Operating Costs and Expenses | 30,566 | 21,828 |
| Operating Income | 4,739 | 1,964 |
| Interest Expense | (201) | (422) |
| Income Before Taxes | 4,538 | 1,542 |
| Income Tax Expense | (1,908) | (432) |
| Net Income | $ 2,630 | $ 1,110 |
| Earnings Per Share: | | |
| Primary | $ .33 | $ .19 |
| Fully Diluted | .33 | .18 |
| Weighted Average Number of Common and Common Equivalent Shares Outstanding for Computation of Earnings Per Share: | | |
| Primary | 7,904 | 5,756 |
| Fully Diluted | 7,920 | 7,393 |

See accompanying notes to consolidated financial statements.

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

| | For Three Months Ended | |
|---|---|---|
| | March 29, 1997 | March 30, 1996 |
| Cash Flows from Operating Activities: | | |
| Net Income | $ 2,630 | $ 1,110 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and amortization | 1,314 | 1,202 |
| Deferred income tax provision | 1,352 | 284 |
| Changes in Assets and Liabilities, Net | | |
| Accounts receivable | (2,135) | 443 |
| Inventories | (980) | (2,040) |
| Other assets | 279 | 24 |
| Accounts payable | 1,008 | 2,249 |
| Accrued and other liabilities | (2,135) | (588) |
| Net Cash Provided by Operating Activities | 1,333 | 2,684 |
| Cash Flows from Investing Activities: | | |
| Purchase of Property and Equipment | (1,820) | (973) |
| Net Cash Used in Investing Activities | (1,820) | (973) |
| Cash Flows from Financing Activities: | | |
| Net Repayment of Long-Term Debt | (83) | (1,460) |
| Cash Premium for Conversion of Convertible Subordinated Debentures | -- | (556) |
| Other | 34 | (6) |
| Net Cash Used in Financing Activities | (49) | (2,022) |
| Net Decrease in Cash and Cash Equivalents | (536) | (311) |
| Cash and Cash Equivalents at Beginning of Period | 571 | 371 |
| Cash and Cash Equivalents at End of Period | $ 35 | $ 60 |

Supplemental Disclosures of Cash Flow Information:

| | | |
|---|---|---|
| Interest Expense Paid | $ 263 | $ 910 |
| Income Taxes Paid | $ 350 | $ 400 |

Supplementary Information for Non-Cash Financing Activities:

During the first three months of 1996, the Company issued 844,282 new shares of common stock upon conversion of $8,426,000 of its outstanding 7.75% convertible subordinated debentures.

See accompanying notes to consolidated financial statements.

DUCOMMUN INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

Note 1. The consolidated balance sheets, consolidated statements of income and consolidated statements of cash flows are unaudited as of and for the three months ended March 29, 1997 and March 30, 1996. The financial information included in the quarterly report should be read in conjunction with the Company's consolidated financial statements and the related notes thereto included in its annual report to shareholders for the year ended December 31, 1996.

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

Note 3. Earnings per common share computations are based on the weighted average number of common and common equivalent shares outstanding in each period. Common equivalent shares represent the number of shares which would be issued assuming the exercise of dilutive stock options, reduced by the number of shares which would be purchased with the proceeds from the exercise of such options.

DUCOMMUN INCORPORATED AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON AND COMMON EQUIVALENT SHARES
(In thousands, except per share amounts)

| | For Three Months Ended | |
|---|---|---|
| | March 29, 1997 | March 30, 1996 |
| Income for Computation of Primary Earnings Per Share | $ 2,630 | $ 1,110 |
| Interest, Net of Income Taxes, Relating to 7.75% Convertible Subordinated Debentures | -- | 218 |
| Net Income for Computation of Primary Earnings Per Share | 2,630 | 1,110 |
| Net Income for Computation of Fully Diluted Earnings Per Share | 2,630 | 1,328 |
| Applicable Shares: | | |
| Weighted Average Common Shares Outstanding for Computation of Primary Earnings Per Share | 7,307 | 5,306 |
| Weighted Average Common Equivalent Shares Arising From: | | |
| 7.75% convertible subordinated debentures | -- | 1,587 |
| Stock options: | | |
| Primary | 597 | 450 |
| Fully diluted | 613 | 500 |
| Weighted Average Common and Common Equivalent Shares Outstanding for Computation of Fully Diluted Earnings Per Share | 7,920 | 7,393 |
| Earnings Per Share: | | |
| Primary | $ .33 | $ .19 |
| Fully diluted | .33 | .18 |

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 establishes new standards for computing and presenting earnings per share ("EPS"), and supersedes APB Opinion No. 15, "Earnings Per Share." SFAS 128 replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures, and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. SFAS 128 becomes effective for the Company for the year ending December 31, 1997. Pro forma results for the first quarter of 1997 and 1996, assuming the application of SFAS 128 are as follows:

| | For Three Months Ended | |
|---|---|---|
| | March 29, 1997 | March 30, 1996 |
| Basic earnings per share | $ 0.36 | $ 0.21 |
| Diluted earnings per share | 0.33 | 0.18 |

Note 4. Acquisition

In June 1996, the Company acquired substantially all of the assets of MechTronics of Arizona, Inc. ("MechTronics") for $8,000,000 in cash and a $750,000 note. The Company may be required to make additional payments through 1999, based on the future financial performance of MechTronics. MechTronics is a leading manufacturer of mechanical and electromechanical enclosure products for the defense electronics, commercial aviation and communications markets. The acquisition of MechTronics was accounted for under the purchase method of accounting. The consolidated statements of income include the operating results for MechTronics since the date of the acquisition.

Note 5. Long-term debt is summarized as follows:

| | (In thousands) | |
|---|---|---|
| | March 29, 1997 | December 31, 1996 |
| Bank credit agreement | $ 3,500 | $ 4,000 |
| Term and real estate loans | 5,804 | 5,294 |
| Promissory notes related to acquisitions | 903 | 996 |
| Total debt | 10,207 | 10,290 |
| Less current portion | 1,158 | 1,117 |
| Total long-term debt | $ 9,049 | $ 9,173 |

In April 1997, the Company and its bank signed a commitment letter to amend the Company's credit agreement. The amended credit agreement will provide for a $40,000,000 senior unsecured revolving credit line with an expiration date of July 1, 1999. The amended credit agreement will replace the Company's existing credit agreement which provides for a $21,000,000 senior unsecured revolving credit line. Interest is payable monthly on the outstanding borrowings based on the bank's prime rate (8.50% at March 29, 1997) minus 0.25%. A Eurodollar pricing option is also available to the Company for terms of up to six months at the Eurodollar rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter. At March 29, 1997, the Company had $17,158,000 of unused lines of credit, after deducting $3,500,000 of loans outstanding and $342,000 for an outstanding standby letter of credit which supports the estimated post-closure maintenance cost of a former surface impoundment. The credit agreement includes fixed charge coverage and maximum leverage ratios, and limitations on future dividend payments and outside indebtedness.

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

Note 6. Contingencies

Ducommun's subsidiary, Aerochem, Inc. ("Aerochem"), is a major supplier of chemical milling services for the aerospace industry. Aerochem has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its El Mirage, California facility. Based upon currently available information, the Company has established a provision for the cost of such investigation and corrective action.

In the normal course of business, Ducommun and its subsidiaries are defendants in certain other litigation, claims and inquiries, including matters relating to environmental laws. In addition, the Company makes various commitments and incurs contingent liabilities. While it is not feasible to predict the outcome of these matters, the Company does not presently expect that any sum it may be required to pay in connection with these matters would have a material adverse effect on its consolidated financial position or results of operations.

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

FINANCIAL STATEMENT PRESENTATION

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

RESULTS OF OPERATIONS

First Quarter 1997 Compared to First Quarter 1996

Net sales increased 48% to $35,305,000 in the first quarter of 1997. The increase resulted from a broad-based increase in sales in most of the Company's product lines due to improved industry conditions and new contract awards, as well as sales from MechTronics which was acquired in June 1996.

The Company had substantial sales to Lockheed Martin, Boeing, McDonnell Douglas and Northrop Grumman. During the first quarter of 1997 and 1996, sales to Lockheed Martin were approximately $4,134,000 and $2,463,000, respectively; sales to Boeing were approximately $4,758,000 and $2,425,000, respectively; sales to McDonnell Douglas were approximately $3,340,000 and $2,700,000, respectively; and sales to Northrop Grumman were approximately $1,485,000 and $1,878,000, respectively. The sales to Lockheed Martin are primarily related to the Space Shuttle program. The sales relating to Boeing, McDonnell Douglas and Northrop Grumman are diversified over a number of different commercial and military programs.

At March 29, 1997, backlog believed to be firm was approximately $148,000,000, including $21,498,000 for space-related business, compared to $92,500,000 at March 30, 1996 and $134,500,000 at December 31, 1996. Approximately $77,000,000 of the total backlog is expected to be delivered during 1997.

Gross profit, as a percentage of sales, was 31.5% for the first quarter of 1997 compared to 34.5% in 1996. This decrease was primarily the result of changes in sales mix, as well as higher production cost at MechTronics, which was acquired in June 1996.

Selling, general and administrative expenses, as a percentage of sales, were 18.0% for the first quarter of 1997 compared to 26.2% in 1996. The decrease in these expenses as a percentage of sales was primarily the result of higher sales volume partially offset by an increase in related period costs.

Interest expense decreased to $201,000 in the first quarter of 1997 compared to $422,000 for 1996. The decrease in interest expense was primarily due to the conversion of $15,837,000 of convertible subordinated debentures that were outstanding at March 30, 1996.

Income tax expense increased to $1,908,000 in the first quarter of 1997 compared to $432,000 for 1996. The increase in income tax expense was primarily due to the increase in income before taxes. From a cash flow perspective, however, the Company continues to use its federal net operating loss carryforwards to offset taxable income. Cash paid for income taxes was $350,000 in the first quarter of 1997, compared to $400,000 in 1996.

Net income for the first quarter of 1997 was $2,630,000, or $0.33 per share, compared to $1,110,000, or $0.18 per share, in 1996.

## FINANCIAL CONDITION

### Liquidity and Capital Resources

Cash flow from operating activities for the three months ended March 29, 1997 was $1,333,000. 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 1997.

In April 1997, the Company and its bank signed a commitment letter to amend the Company's credit agreement. The amended credit agreement will provide for a $40,000,000 senior unsecured revolving credit line with an expiration date of July 1, 1999. The amended credit agreement will replace the Company's existing credit agreement which provides for a $21,000,000 senior unsecured revolving credit line. Interest is payable monthly on the outstanding borrowings based on the bank's prime rate (8.50% at March 29, 1997) minus 0.25%. A Eurodollar pricing option is also available to the Company for terms of up to six months at the Eurodollar rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter. At March 29, 1997, the Company had $17,158,000 of unused lines of credit, after deducting $3,500,000 of loans outstanding and $342,000 for an outstanding standby letter of credit which supports the estimated post-closure maintenance cost for a former surface impoundment. The credit agreement includes fixed charge coverage and maximum leverage ratios, and limitations on future dividend payments and outside indebtedness.

The Company spent $1,820,000 on capital expenditures during the first three months of 1997 and expects to spend less than $11,000,000 for capital expenditures in 1997. The Company plans to make substantial capital expenditures in 1997 for numerically controlled routers and laser scriber-related equipment to support long-term aerospace structure contracts for both commercial and military aircraft. These expenditures are expected to place the Company in a favorable competitive position among aerospace subcontractors, and to allow the Company to take advantage of the offload requirements from its customers.

Ducommun's subsidiary, Aerochem, Inc. ("Aerochem"), is a major supplier of chemical milling services for the aerospace industry. Aerochem has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination at its El Mirage, California facility. Based upon currently available information, the Company has established a provision for the cost of such investigation and corrective action.

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| | For Three Months Ended | |
|---|---|---|
| | March 29, 1997 | March 30, 1996 |
| Basic earnings per share | $ 0.36 | $ 0.21 |
| Diluted earnings per share | 0.33 | 0.18 |

Any forward looking statements made in this Form 10-Q Report involve risks and uncertainties. The Company's future financial results could differ materially from those anticipated due to the Company's dependence on conditions in the airline industry, the level of new commercial aircraft orders, the production rate for the Space Shuttle program, the level of defense spending, competitive pricing pressures, technology and product development risks and uncertainties, and other factors beyond the Company's control.

PART II - OTHER INFORMATION

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

a) The following exhibits are filed with this report

27 Financial Data Schedule

b) No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DUCOMMUN INCORPORATED
(Registrant)

By: /s/ James S. Heiser
---------------------------------------------
James S. Heiser
Vice President, Chief Financial Officer
and General Counsel
(Duly Authorized Officer of the Registrant)

By: /s/ Samuel D. Williams
---------------------------------------------
Samuel D. Williams
Vice President and Controller
(Chief Accounting Officer of the Registrant)

Date: April 22, 1997

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3-MOS
DEC-31-1997
JAN-01-1997
MAR-29-1997
35
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17,050
193
23,575
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