

DUCOMMUN INC /DE/
Form 10-Q
October 27, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 27, 2008

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)

95-0693330
I.R.S. Employer

Identification No.

23301 Wilmington Avenue, Carson, California
(Address of principal executive offices)
(310) 513-7280

90745-6209
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company). Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 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 September 27, 2008, there were outstanding 10,580,586 shares of common stock.

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DUCOMMUN INCORPORATED

FORM 10-Q

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DUCOMMUN INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	(Unaudited) September 27, 2008	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 20,170	\$ 31,571
Accounts receivable	49,974	39,226
Unbilled receivables	5,910	5,615
Inventories	79,891	67,769
Deferred income taxes	7,043	7,727
Other current assets	6,590	5,328
Total Current Assets	169,578	157,236
Property and Equipment, Net	58,560	56,294
Goodwill, Net	106,632	106,632
Other Assets	11,021	12,314
	\$ 345,791	\$ 332,476
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ 2,864	\$ 1,859
Accounts payable	29,692	33,845
Accrued liabilities	42,411	43,829
Total Current Liabilities	74,967	79,533
Long-Term Debt, Less Current Portion	21,029	23,892
Deferred Income Taxes	6,534	5,584
Other Long-Term Liabilities	10,411	9,416
Total Liabilities	112,941	118,425
Commitments and Contingencies		
Shareholders' Equity:		
Common stock	106	105
Additional paid-in capital	55,705	53,444
Retained earnings	178,746	162,192
Accumulated other comprehensive loss	(1,707)	(1,690)
Total Shareholders' Equity	232,850	214,051
	\$ 345,791	\$ 332,476

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)

(Unaudited)

	For Three Months Ended	
	September 27, 2008	September 29, 2007
Sales and Service Revenues:		
Product sales	\$ 86,299	\$ 80,509
Service revenues	14,557	14,156
 Net Sales	 100,856	 94,665
Operating Costs and Expenses:		
Cost of product sales	68,462	62,748
Cost of service revenues	11,571	11,387
Selling, general and administrative expenses	11,484	11,831
 Total Operating Costs and Expenses	 91,517	 85,966
 Operating Income	 9,339	 8,699
Interest Expense, Net	(355)	(628)
 Income Before Taxes	 8,984	 8,071
Income Tax Expense, Net	(2,720)	(2,239)
 Net Income	 \$ 6,264	 \$ 5,832
Earnings Per Share:		
Basic earnings per share	\$.59	\$.56
Diluted earnings per share	\$.59	\$.55
Weighted Average Number of Common Shares Outstanding:		
Basic	10,578	10,409
Diluted	10,693	10,560

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)

(Unaudited)

	For Nine Months Ended	
	September 27, 2008	September 29, 2007
Sales and Service Revenues:		
Product sales	\$ 259,200	\$ 231,379
Service revenues	43,179	42,442
 Net Sales	 302,379	 273,821
Operating Costs and Expenses:		
Cost of product sales	204,435	181,392
Cost of service revenues	34,537	33,628
Selling, general and administrative expenses	35,942	36,191
 Total Operating Costs and Expenses	 274,914	 251,211
 Operating Income	 27,465	 22,610
Interest Expense, Net	(948)	(2,045)
 Income Before Taxes	 26,517	 20,565
Income Tax Expense, Net	(9,170)	(6,362)
 Net Income	 \$ 17,347	 \$ 14,203
Earnings Per Share:		
Basic earnings per share	\$ 1.64	\$ 1.37
Diluted earnings per share	\$ 1.63	\$ 1.36
Weighted Average Number of Common Shares Outstanding:		
Basic	10,567	10,357
Diluted	10,671	10,440

See accompanying notes to consolidated financial statements.

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DUCOMMUN INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For Nine Months Ended	
	September 27, 2008	September 29, 2007
Cash Flows from Operating Activities:		
Net Income	\$ 17,347	\$ 14,203
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	6,259	5,950
Amortization of other intangible assets	1,150	1,606
Amortization of discounted notes payable	42	52
Deferred income tax provision	1,645	1,009
Income tax benefit from stock-based compensation, net	87	257
Stock-based compensation expense	1,616	1,521
Expense of doubtful accounts	213	634
Net increase/(reduction) of contract cost overruns	282	(176)
Other	958	2
Changes in Assets and Liabilities:		
Accounts receivable (increase)	(10,961)	(4,249)
Unbilled receivables (increase)	(295)	(688)
Inventories (increase)	(12,122)	(10,690)
Other assets (increase)	(1,119)	(479)
Accounts payable (decrease)	(4,153)	(12,063)
Accrued and other liabilities (decrease)/increase	(696)	4,098
Net Cash Provided by Operating Activities	253	987
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(9,520)	(8,440)
Net Cash Used in Investing Activities	(9,520)	(8,440)
Cash Flows from Financing Activities:		
Net (Repayments)/Borrowings of Long-Term Debt	(1,900)	3,847
Cash Dividends Paid	(793)	
Net Cash Effect of Exercise Related to Stock Options	484	2,843
Excess Tax Benefit from Stock-Based Compensation	75	772
Net Cash (Used in)/Provided by Financing Activities	(2,134)	7,462
Net (Decrease)/Increase in Cash and Cash Equivalents	(11,401)	9
Cash and Cash Equivalents at Beginning of Period	31,571	378
Cash and Cash Equivalents at End of Period	\$ 20,170	\$ 387

See accompanying notes to consolidated financial statements.

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DUCOMMUN INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Ducommun Incorporated and its subsidiaries (Ducommun or the Company), after eliminating intercompany balances and transactions. The consolidated balance sheet is unaudited as of September 27, 2008, the consolidated statements of income are unaudited for the three months and nine months ended September 27, 2008 and September 29, 2007 and the consolidated statements of cash flows are unaudited for the nine months ended September 27, 2008 and September 29, 2007. The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The financial information included in this Form 10-Q should be read in conjunction with the Company's consolidated financial statements and related notes thereto included in the Form 10-K for the year ended December 31, 2007. The results of operations for the three months and nine months ended September 27, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

Ducommun operates in two business segments. Ducommun AeroStructures, Inc. (DAS), engineers and manufactures aerospace structural components and subassemblies. Ducommun Technologies, Inc. (DTI), designs, engineers and manufactures electromechanical components and subsystems, and provides engineering, technical and program management services (including design, development, integration and test of prototype products) principally for the aerospace and military markets. The significant accounting policies of the Company and its two business segments are as described below.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in each period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding plus any potential dilutive shares that could be issued if exercised or converted into common stock in each period.

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The weighted average number of shares outstanding used to compute earnings per share is as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Basic weighted average shares outstanding	10,578,000	10,409,000	10,567,000	10,357,000
Dilutive potential common shares	115,000	151,000	104,000	83,000
Diluted weighted average shares outstanding	10,693,000	10,560,000	10,671,000	10,440,000

The numerator used to compute diluted earnings per share is as follows:

	Three Months Ended		Nine Months Ended
	September 27, 2008	September 29, 2007	