DUCOMMUN INC /DE/
Form 10-Q
July 28, 2008
Table of Contents

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 June 28, 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	**95-0693330**
(State or other jurisdiction of incorporation or organization)	**I.R.S. Employer Identification No.**
23301 Wilmington Avenue, Carson, California	**90745-6209**
(Address of principal executive offices)	**(Zip Code)**

(310) 513-7280

(Registrant s telephone number, including area code)

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

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

Indicate 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 x
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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of June 28, 2008, there were outstanding 10,575,586 shares of common stock.

Table of Contents

DUCOMMUN INCORPORATED

FORM 10-Q

INDEX

			Page
Part I. Financial Information			
.	Item 1.	Financial Statements	
		Consolidated Balance Sheets at June 28, 2008 and December 31, 2007	3
		Consolidated Statements of Income for Three Months Ended June 28, 2008 and June 30, 2007	4
		Consolidated Statements of Income for Six Months Ended June 28, 2008 and June 30, 2007	5
		Consolidated Statements of Cash Flows for Six Months Ended June 28, 2008 and June 30, 2007	6
		Notes to Consolidated Financial Statements	7 - 15
	Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	16 -25
.	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	26
	Item 4.	Controls and Procedures	26
Part II. Other Information			
	Item 1.	Legal Proceedings	27
	Item 1A.	Risk Factors	27
.	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
.	Item 4.	Submission of Matters to a Vote of Security Holders	29
	Item 6.	Exhibits	30
Signatures			31
Exhibits			

Table of Contents

Item 1. Financial Statements

DUCOMMUN INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	(Unaudited) June 28, 2008	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,984	$ 31,571
Accounts receivable	57,846	39,226
Unbilled receivables	3,757	5,615
Inventories	77,974	67,769
Deferred income taxes	7,947	7,727
Other current assets	5,914	5,328
Total Current Assets	160,422	157,236
Property and Equipment, Net	57,775	56,294
Goodwill, Net	106,632	106,632
Other Assets	11,263	12,314
	$ 336,092	$ 332,476
Liabilities and Shareholders Equity		
Current Liabilities:		
Current portion of long-term debt	$ 2,856	$ 1,859
Accounts payable	27,662	33,845
Accrued liabilities	40,579	43,829
Total Current Liabilities	71,097	79,533
Long-Term Debt, Less Current Portion	21,773	23,892
Deferred Income Taxes	6,147	5,584
Other Long-Term Liabilities	10,264	9,416
Total Liabilities	109,281	118,425
Commitments and Contingencies		
Shareholders Equity:		
Common stock	106	105
Additional paid-in capital	55,139	53,444
Retained earnings	173,275	162,192
Accumulated other comprehensive loss	(1,709)	(1,690)
Total Shareholders Equity	226,811	214,051
	$ 336,092	$ 332,476

See accompanying notes to consolidated financial statements.

Table of Contents

DUCOMMUN INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	For Three Months Ended	
	June 28, 2008	**June 30, 2007**
Sales and Service Revenues:		
Product sales	$ 88,592	$ 76,374
Service revenues	14,273	14,730
Net Sales	102,865	91,104
Operating Costs and Expenses:		
Cost of product sales	69,739	59,874
Cost of service revenues	11,433	11,436
Selling, general and administrative expenses	12,079	12,134
Total Operating Costs and Expenses	93,251	83,444
Operating Income	9,614	7,660
Interest Expense, Net	(390)	(765)
Income Before Taxes	9,224	6,895
Income Tax Expense, Net	(3,393)	(2,324)
Net Income	$ 5,831	$ 4,571
Earnings Per Share:		
Basic earnings per share	$ .55	$ .44
Diluted earnings per share	$ .55	$ .44
Weighted Average Number of Common Shares Outstanding:		
Basic	10,572	10,361
Diluted	10,684	10,474

See accompanying notes to consolidated financial statements.

Table of Contents

DUCOMMUN INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	For Six Months Ended	
	June 28, 2008	**June 30, 2007**
Sales and Service Revenues:		
Product sales	$ 172,901	$ 150,870
Service revenues	28,622	28,286
Net Sales	201,523	179,156
Operating Costs and Expenses:		
Cost of product sales	135,973	118,644
Cost of service revenues	22,966	22,241
Selling, general and administrative expenses	24,458	24,360
Total Operating Costs and Expenses	183,397	165,245
Operating Income	18,126	13,911
Interest Expense, Net	(593)	(1,417)
Income Before Taxes	17,533	12,494
Income Tax Expense, Net	(6,450)	(4,123)
Net Income	$ 11,083	$ 8,371
Earnings Per Share:		
Basic earnings per share	$ 1.05	$ .81
Diluted earnings per share	$ 1.04	$ .80
Weighted Average Number of Common Shares Outstanding:		
Basic	10,562	10,331
Diluted	10,671	10,436

See accompanying notes to consolidated financial statements.

Table of Contents

DUCOMMUN INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For Six Months Ended June 28, 2008	For Six Months Ended June 30, 2007
Cash Flows from Operating Activities:		
Net Income	$ 11,083	$ 8,371
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	4,074	3,987
Amortization of other intangible assets	928	1,143
Amortization of discounted notes payable	28	36
Deferred income tax provision	355	650
Income tax benefit from stock-based compensation, net	72	116
Stock-based compensation expense	1,163	1,024
Net increase/(reduction) of contract cost overruns	554	(544)
Other	662	103
Changes in Assets and Liabilities:		
Accounts receivable - (increase)	(18,694)	(2,950)
Unbilled receivables - decrease/(increase)	1,858	(401)
Inventories - (increase)	(10,205)	(10,290)
Other assets - (increase)/decrease	(463)	730
Accounts payable - (decrease)	(6,183)	(10,908)
Accrued and other liabilities - (decrease)/increase	(2,949)	1,198
Net Cash Used in Operating Activities	(17,717)	(7,735)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(6,180)	(5,029)
Net Cash Used in Investing Activities	(6,180)	(5,029)
Cash Flows from Financing Activities:		
Net (repayments)/borrowings of long-term debt	(1,150)	11,297
Net cash effect of exercise related to stock options	387	1,151
Excess tax benefit from stock-based compensation	73	497
Net Cash (Used in)/Provided by Financing Activities	(690)	12,945
Net (Decrease)/Increase in Cash and Cash Equivalents	(24,587)	181
Cash and Cash Equivalents at Beginning of Period	31,571	378
Cash and Cash Equivalents at End of Period	$ 6,984	$ 559

See accompanying notes to consolidated financial statements.

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 June 28, 2008, the consolidated statements of income are unaudited for the three months and six months ended June 28, 2008 and June 30, 2007 and the consolidated statements of cash flows are unaudited for the six months ended June 28, 2008 and June 30, 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 six months ended June 28, 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.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Basic weighted average shares outstanding	10,572,000	10,361,000	10,562,000	10,331,000
Dilutive potential common shares	112,000	113,000	109,000	105,000
Diluted weighted average shares outstanding	10,684,000	10,474,000	10,671,000	10,436,000

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

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net earnings (total numerator)	$ 5,831,000	$ 4,571,000	$ 11,083,000	$ 8,371,000

The weighted average number of shares outstanding, included in the table below, is excluded from the computation of diluted earnings per share because the average market price did not exceed the exercise price. However, these shares may be potentially dilutive common shares in the future.

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Stock options and stock units	440,434	563,300	440,730	563,300

Comprehensive Income

Certain items such as unrealized gains and losses on certain investments in debt and equity securities and pension liability adjustments are presented as separate components of shareholders   equity. The current period change in these items is included in other comprehensive loss and separately reported in the financial statements. Accumulated other comprehensive loss, as reflected in the Consolidated Balance Sheets under the equity section, is comprised of a pension liability adjustment of $1,331,000 net of tax, and an interest rate hedge mark-to-market adjustment of $378,000, net of tax at June 28, 2008, compared to a pension liability adjustment of $1,331,000, net of tax, and an interest rate hedge mark-to-market adjustment of $359,000, net of tax at December 31, 2007.

Recent Accounting Pronouncements

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157,   *Fair Value Measurements   (SFAS No. 157)*, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under Generally Accepted Accounting Principles (GAAP). As a result of SFAS No. 157 there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and

comparable and improve disclosures about those measures. The effective date of SFAS No. 157 is delayed for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Certain provisions of SFAS No. 157 are effective for the Company beginning in the first quarter of 2008. The adoption of SFAS No. 157 for financial assets and liabilities in the first quarter of 2008 did not have a material effect on the Company s results of operations and financial position. The Company is currently evaluating the impact of adoption SFAS No. 157 for nonfinancial assets and liabilities, on its results of operations and financial position.

In February 2007, FASB issued Statement of Financial Accounting Standards No. 159, *Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159)*, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 was effective for the Company beginning in the first quarter of 2008. The adoption of SFAS No. 159 did not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, FASB issued Statement of Financial Accounting Standards No. 141, (revised 2007), *Business Combinations (SFAS No. 141(R))*, which continues the evolution toward fair value reporting and significantly changes the accounting for acquisitions that close beginning in 2009, both at the acquisition date and in subsequent periods. SFAS No. 141(R) introduces new accounting concepts and valuation complexities, and many of the changes have the potential to generate greater earnings volatility after the acquisition. SFAS No. 141(R) applies to acquisitions on or after January 1, 2009 and will impact the Company s reporting prospectively only.

In December 2007, FASB issued Statement Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160)*, which requires companies to measure an acquisition of noncontrolling (minority) interest at fair value in the equity section of the acquiring entity s balance sheet. The objective of SFAS No. 160 is to improve the comparability and transparency of financial data as well as to help prevent manipulation of earnings. The changes introduced by the new standards are likely to affect the planning and execution, as well as the accounting and disclosure, of merger transactions. The effective date to adopt SFAS No. 160 for the Company is January 1, 2009. The adoption of SFAS No. 160 is not expected to have a material effect on its results of operations and financial position.

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161).* SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flow. The provisions of SFAS No. 161 are effective for the Company beginning in the first quarter of 2009. The adoption of SFAS No. 161 is not expected to have a material effect on the Company s results of operations and financial position.

Table of Contents

Use of Estimates

Certain amounts and disclosures included in the consolidated financial statements required management to make estimates and judgments that affect the amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Reclassifications

Certain prior period information has been reclassified to conform to the current period presentation.

Note 2. Inventories

Inventories consist of the following:

	(In thousands)	
	June 28, 2008	December 31, 2007
Raw materials and supplies	$ 20,509	$ 21,818
Work in process	70,091	60,436
Finished goods	2,202	1,957
	92,802	84,211
Less progress payments	14,828	16,442
Total	$ 77,974	$ 67,769

Note 3. Long-Term Debt and Fair Value

Long-term debt is summarized as follows:

	(In thousands)	
	June 28, 2008	December 31, 2007
Bank credit agreement	$ 20,000	$ 20,000
Notes and other obligations for acquisitions	4,629	5,751
Total debt	24,629	25,751
Less current portion	2,856	1,859
Total long-term debt	$ 21,773	$ 23,892

The Company is party to an Amended and Restated Credit Agreement with Bank of America, N.A., as Administrative Agent, Wachovia Bank, National Association, as Syndication Agent, and the other lenders named therein (the Credit Agreement). The Credit Agreement provides for an unsecured

revolving credit line of $75,000,000 maturing on April 7, 2010. Interest is payable monthly on the outstanding borrowings at Bank of America s prime rate (5.00% at June 28, 2008) plus a spread (0% to 0.50% per annum based on the leverage ratio of the Company) or, at the election of the Company, for terms of up to six months at the LIBOR rate (2.48% at June 28, 2008 for one month LIBOR) plus a spread (1.00% to 1.75% per annum depending on the leverage ratio of the Company). The Credit Agreement includes minimum fixed charge coverage, maximum leverage and minimum net worth covenants, an unused commitment fee (0.25% to 0.40% per annum depending on the leverage ratio of the Company), and limitations on future dispositions of property, repurchases of common stock, dividends, outside indebtedness, and acquisitions. At June 28, 2008, the Company had $53,484,000 of unused lines of credit, after deducting $1,516,000 for outstanding standby letters of credit. The Company had outstanding loans of $20,000,000 and was in compliance with all covenants at June 28, 2008.

The weighted average interest rate on borrowings outstanding was 4.78% at June 28, 2008, compared to 6.36% at June 30, 2007.

The Company had $6,984,000 of cash and cash equivalents at June 28, 2008.

On September 5, 2007 the Company entered into a $20,000,000 interest rate swap with Bank of America, N.A. The Company believes that the credit risk associated with the counterparty is nominal. The interest rate swap is for a $20,000,000 notional amount, under which the Company receives a variable interest rate (one month LIBOR) and pays a fixed 4.88% interest rate, with monthly settlement dates. The interest rate swap expires on September 13, 2010. As of June 28, 2008, the one month LIBOR rate was approximately 2.48%. The fair value of the $20,000,000 notional amount of the interest rate swap was a liability of approximately $631,000 at June 28, 2008.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities.

Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including time value, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3: Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management s best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers needs.

Table of Contents

The following table sets forth by level within the fair value hierarchy the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 28, 2008. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Recurring Fair Value Measures	**At Fair Value as of June 28, 2008**			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Interest rate swap	$	$	$	$
Liabilities:				
Interest rate swap	$	$ 631,000	$	$ 631,000

Note 4. Shareholders Equity

The Company is authorized to issue five million shares of preferred stock. At June 28, 2008 and June 30, 2007, no preferred shares were issued or outstanding.

At June 28, 2008, $4,704,000 remained available to repurchase common stock of the Company under stock repurchase programs as previously approved by the Board of Directors. The Company did not repurchase any of its common stock during the three months ended June 28, 2008 and June 30, 2007, in the open market.

Note 5. Employee Benefit Plans

The Company has a defined benefit pension plan covering certain hourly employees of a subsidiary. Pension plan benefits are generally determined on the basis of the retiree s age and length of service. Assets of the defined benefit pension plan are composed primarily of fixed income and equity securities.

The components of net periodic pension cost for the defined benefit pension plan are as follows:

	(In thousands)			
	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Service cost	$ 137	$ 137	$ 274	$ 274
Interest cost	188	188	376	376
Expected return on plan assets	(225)	(225)	(450)	(451)
Amortization of actuarial loss	17	34	34	68
Net periodic post retirement benefit cost	$ 117	$ 134	$ 234	$ 267

Note 6. 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.

Note 7. Income Taxes

The Company records the interest charge and penalty charge, if any, with respect to uncertain tax positions as a component of tax expense. The Company had approximately $567,000 and $435,000 for the payment of interest and penalties accrued at June 28, 2008 and December 31, 2007, respectively.

The Company s total amount of unrecognized tax benefits was approximately $2,859,000 and $2,720,000 at June 28, 2008 and December 31, 2007, respectively. These amounts, if recognized, would affect the annual income tax rate.

The Company s federal income tax return for 2005 and California franchise (income) tax returns for 2004 and 2005 have been selected for examination. Management does not expect the results of these examinations to have a material impact on the Company s financial statements. Other federal income tax returns after 2003, other California franchise (income) tax returns after 2002 and other state income tax returns after 2003 are subject to examination.

Table of Contents

Note 8. Contingencies

The Company is a defendant in a lawsuit entitled United States of America ex rel Taylor Smith, Jeannine Prewitt and James Ailes v. The Boeing Company and Ducommun Inc., filed in the United States District Court for the District of Kansas. The lawsuit is qui tam action brought against The Boeing Company (Boeing) and Ducommun on behalf of the United States of America for violations of the United States False Claims Act. The lawsuit alleges that Ducommun sold unapproved parts to the Boeing Commercial Airplanes-Wichita Division which were installed by Boeing in 32 aircraft ultimately sold to the United States government. The lawsuit seeks damages, civil penalties and other relief from the defendants for presenting or causing to be presented false claims for payment to the United States government. Although the amount of alleged damages are not specified, the lawsuit seeks damages in an amount equal to three times the amount of damages the United States government sustained because of the defendants actions, plus a civil penalty of $10,000 for each false claim made on or before September 28, 1999, and $11,000 for each false claim made on or after September 28, 1999, together with attorneys fees and costs. The Company intends to defend itself vigorously against the lawsuit. The Company, at this time, is unable to estimate what, if any, liability it may have in connection with the lawsuit.

DAS has been directed by California environmental agencies to investigate and take corrective action for ground water contamination at its facilities located in El Mirage and Monrovia, California. Based on currently available information, the Company has established a reserve for its estimated liability for such investigation and corrective action in the approximate amount of $3,114,000. DAS also faces liability as a potentially responsible party for hazardous waste disposed at two landfills located in Casmalia and West Covina, California. DAS and other companies and government entities have entered into consent decrees with respect to each landfill with the United States Environmental Protection Agency and/or California environmental agencies under which certain investigation, remediation and maintenance activities are being performed. Based upon currently available information, the Company has established a reserve for its estimated liability in connection with the landfills in the approximate amount of $1,588,000. The Company s ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities, and the allocation of liability among potentially responsible parties.

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 9. 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. The accounting policies of the segments are the same as those of the Company. 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.

Table of Contents

Financial information by operating segment is set forth below:

	(In thousands)			
	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net Sales:				
Ducommun AeroStructures	$ 65,134	$ 52,843	$ 128,983	$ 105,090
Ducommun Technologies	37,731	38,261	72,540	74,066
Total Net Sales	$ 102,865	$ 91,104	$ 201,523	$ 179,156
Segment Operating Income				
Ducommun AeroStructures	$ 9,579	$ 6,802	$ 20,122	$ 13,284
Ducommun Technologies	2,550	3,676	3,777	5,749
	12,129	10,478	23,899	19,033
Corporate General and Administrative Expenses	(2,515)	(2,818)	(5,773)	(5,122)
Total Operating Income	$ 9,614	$ 7,660	$ 18,126	$ 13,911

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

	(In thousands)	
	June 28, 2008	December 31, 2007
Total Assets:		
Ducommun AeroStructures	$ 175,549	$ 154,978
Ducommun Technologies	139,779	132,643
Corporate Administration	20,764	44,855
Total Assets	$ 336,092	$ 332,476

Table of Contents

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

Ducommun Incorporated (Ducommun or the Company), through its subsidiaries designs, engineers and manufactures aerostructure and electromechanical components and subassemblies, and provides engineering, technical and program management services principally for the aerospace industry. These components, assemblies and services are provided principally for domestic and foreign commercial and military aircraft, helicopter, missile and related programs as well as space programs.

Domestic commercial aircraft programs include the Boeing 737NG, 747, 767, 777 and 787, and the Eclipse business jet. Foreign commercial aircraft programs include the Airbus Industrie A330 and A340 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 and F-22 aircraft, and various aircraft and shipboard electronics upgrade programs. Commercial and military helicopter programs include helicopters manufactured by Boeing (principally the Apache helicopter), Sikorsky, Bell, Augusta and Carson. The Company also supports various unmanned space launch vehicle and satellite programs.

Sales, diluted earnings per share, gross profit as a percentage of sales, selling, general and administrative expense as a percentage of sales, and the effective tax rate in the second quarter and the first six months of 2008 and 2007, respectively, were as follows:

	Second Quarter		Six Months	
	2008	**2007**	**2008**	**2007**
Sales (in $000 s)	$ 102,865	$ 91,104	$ 201,523	$ 179,156
Diluted Earnings Per Share	$ 0.55	$ 0.44	$ 1.04	$ 0.80
Gross Profit % of Sales	21.1%	21.7%	21.1%	21.4%
SG&A Expense % of Sales	11.7%	13.3%	12.1%	13.6%
Effective Tax Rate	36.8%	33.7%	36.8%	33.0%

The Company manufactures components and assemblies principally for domestic and foreign commercial and military aircraft and space programs. The Company s Miltec subsidiary provides engineering, technical and program management services almost entirely for United States defense, space and homeland security programs.

Table of Contents

The Company s mix of military, commercial and space business in the second quarter and the first six months of 2008 and 2007, respectively, was approximately as follows:

	Second Quarter		Six Months	
	2008	2007	2008	2007
Military	58%	61%	58%	61%
Commercial	40%	37%	40%	37%
Space	2%	2%	2%	2%
Total	100%	100%	100%	100%

The Company is dependent on Boeing commercial aircraft, the C-17 aircraft and the Apache helicopter programs. Sales to these programs, as a percentage of total sales, for the second quarter and first six months of 2008 and 2007, respectively, were approximately as follows:

	Second Quarter		Six Months	
	2008	2007	2008	2007
Boeing Commercial Aircraft	17%	19%	17%	18%
Boeing C-17 Aircraft	10%	9%	9%	9%
Boeing Apache Helicopter	13%	14%	14%	14%
All Others	60%	58%	60%	59%
Total	100%	100%	100%	100%

Net income for the second quarter and first six months of 2008 was higher than the second quarter and first six months of 2007. The reasons for the increase in net income in 2008 include an improvement in operating performance at Ducommun AeroStructures, Inc. (DAS) and a decrease in interest expense due to lower debt and lower interest rates in 2008. The positive factors were partially offset by lower operating performance at Ducommun Technologies, Inc. (DTI), and a higher effective tax rate in 2008.

Results of Operations

Second Quarter 2008 Compared to Second Quarter 2007

Net sales in the second quarter of 2008 were $102,865,000, compared to net sales of $91,104,000 for the second quarter of 2007. Net sales in the second quarter of 2008 increased 13% from the same period last year due to an increase in commercial and military sales. The Company s mix of business in the second quarter of 2008 was approximately 58% military, 40% commercial, and 2% space, compared to 61% military, 37% commercial, and 2% space in the second quarter of 2007.

Table of Contents

The Company had substantial sales, through both of its business segments, to Boeing, the United States government and Raytheon. During the second quarters of 2008 and 2007, sales to these customers were as follows:

	(In thousands) Second Quarter Ended	
	June 28, 2008	June 30, 2007
Boeing	$ 34,488	$ 32,652
United States Government	8,092	7,610
Raytheon	6,973	7,097
Total	$ 49,553	$ 47,359

At June 28, 2008, trade receivables from Boeing, the United States government and Raytheon were $16,110,000, $7,389,000 and $4,018,000, respectively. The sales and receivables relating to these customers are diversified over a number of different commercial, space and military programs.

Military components manufactured by the Company are employed in many of the country s front-line fighters, bombers, helicopters and support aircraft, as well as sea-based applications. Engineering, technical and program management services are provided principally for United States defense, space and homeland security programs. The Company s defense business is diversified among military manufacturers and programs. Sales related to military programs were approximately $59,176,000, or 58% of total sales in the second quarter of 2008, compared to $56,005,000, or 61% of total sales in the second quarter of 2007. The increase in military sales in the second quarter of 2008 resulted principally from a $1,919,000 increase in sales in the C-17 program at DAS, and a $1,252,000 net increase in all other military programs at DAS and at DTI. The Apache helicopter program accounted for approximately $13,534,000 in sales in the second quarter of 2008, compared to $12,851,000 in sales in the second quarter of 2007. The C-17 program accounted for approximately $10,031,000 in sales in the second quarter of 2008, compared to $8,112,000 in sales in the second quarter of 2007.

The Company s commercial business is represented on many of today s major commercial aircraft. Sales related to commercial business were approximately $41,387,000, or 40% of total sales in the second quarter of 2008, compared to $33,363,000, or 37% of total sales in the second quarter of 2007. The increase in commercial sales in the second quarter of 2008 resulted principally from an increase in commercial aftermarket sales of $4,366,000 and a $3,322,000 increase in sales in the Carson helicopter program. The Boeing 737NG program accounted for approximately $11,556,000 in sales in the second quarter of 2008, compared to $10,721,000 in sales in the second quarter of 2007. The Boeing 777 program accounted for approximately $3,263,000 in sales in the second quarter of 2008, compared to $3,093,000 in sales in the second quarter of 2007.

In the space sector, the Company produces components for a variety of unmanned launch vehicles and satellite programs and provides engineering services. Sales related to space programs were approximately $2,302,000, or 2% of total sales in the second quarter of 2008, compared to $1,736,000, or 2% of total sales in the second quarter of 2007. The decrease in sales for space programs resulted principally from a decrease in engineering services at DTI.

Table of Contents

Gross profit, as a percent of sales, decreased to 21.1% in the second quarter of 2008 from 21.7% in the second quarter of 2007. The gross profit margin decrease was primarily attributable to lower operating performance at DTI, partially offset by an improvement in operating performance at DAS.

Selling, general and administrative (SG&A) expenses increased to $12,079,000, or 11.7% of sales, in the second quarter of 2008, compared to $12,134,000, or 13.3% of sales, in the second quarter of 2007.

Interest expense was $390,000 in the second quarter of 2008, compared to $765,000 in the second quarter of 2007. The decrease was primarily due to lower debt in 2008.

Income tax expense increased to $3,393,000 in the second quarter of 2008, compared to $2,324,000 in the second quarter of 2007. The increase in income tax expense was due to an increase in income before taxes and a higher effective income tax rate. The Company s effective tax rate for the second quarter of 2008 was 36.8%, compared to 33.7% in the second quarter of 2007. The Company s effective tax rate in the second quarter of 2007 included the benefit of research and development tax credits. However, the Company s effective tax rate in the second quarter of 2008 did not include the benefit of research and development tax credits since the federal tax law providing for research and development tax credits has not been extended for 2008. Cash expended to pay income taxes was $4,606,000 in the second quarter of 2008, compared to $3,466,000 in the second quarter of 2007.

Net income for the second quarter of 2008 was $5,831000, or $0.55 diluted earnings per share, compared to $4,571,000, or $0.44 diluted earnings per share, in the second quarter of 2007.

Six Months 2008 Compared to Six Months 2007

Net sales in the first six months of 2008 were $201,523,000, compared to net sales of $179,156,000 for the first six months of 2007. Net sales in the first six months of 2008 increased 12% from the same period last year due to an increase in commercial and military sales. The Company s mix of business in the first six months of 2008 was approximately 58% military, 40% commercial, and 2% space, compared to 61% military, 37% commercial, and 2% space in the first six months of 2007.

The Company had substantial sales, through both of its business segments, to Boeing, the United States government and Raytheon. During the first six months of 2008 and 2007, sales to these customers were as follows:

	(In thousands) Six Months Ended	
	June 28, 2008	**June 30, 2007**
Boeing	$ 68,510	$ 61,813
United States Government	15,955	15,619
Raytheon	13,914	14,092
Total	$ 98,379	$ 91,524

At June 28, 2008, trade receivables from Boeing, the United States government and Raytheon were $16,110,000, $7,389,000 and $4,018,000, respectively. The sales and receivables relating to these customers are diversified over a number of different commercial, space and military programs.

Military components manufactured by the Company are employed in many of the country s front-line fighters, bombers, helicopters and support aircraft, as well as sea-based applications. Engineering, technical and program management services are provided principally for United States defense, space and homeland security programs. The Company s defense business is diversified among military manufacturers and programs. Sales related to military programs were approximately $117,313,000, or 58% of total sales in the first six months of 2008, compared to $108,265,000, or 61% of total sales in the first six months of 2007. The increase in military sales in the first six months of 2008 resulted principally from a $3,674,000 increase in sales in the Apache helicopter program, a $4,271,000 increase in sales in other military helicopter programs and a $2,730,000 increase in sales in the C-17 program at DAS, partially offset by a $2,345,000 decrease in sales in the F-15 program and a $1,479,000 decrease in sales in the F-18 program at DTI. The Apache helicopter program accounted for approximately $28,532,000 in sales in the first six months of 2008, compared to $24,858,000 in sales in the first six months of 2007. The C-17 program accounted for approximately $19,028,000 in sales in the first six months of 2008, compared to $16,298,000 in sales in the first six months of 2007.

The Company s commercial business is represented on many of today s major commercial aircraft. Sales related to commercial business were approximately $79,857,000, or 40% of total sales in the first six months of 2008, compared to $66,566,000, or 37% of total sales in the first six months of 2007. The increase in commercial sales in the first six months of 2008 resulted principally from a $2,084,000 increase in sales for Boeing commercial aircraft programs, a $6,816,000 increase in commercial aftermarket sales and a $4,861,000 increase in sales in the Carson helicopter program. The Boeing 737NG program accounted for approximately $21,934,000 in sales in the first six months of 2008, compared to $19,131,000 in sales in the first six months of 2007. The Boeing 777 program accounted for approximately $5,996,000 in sales in the first six months of 2008, compared to $6,152,000 in sales in the first six months of 2007.

In the space sector, the Company produces components for a variety of unmanned launch vehicles and satellite programs and provides engineering services. Sales related to space programs were approximately $4,353,000, or 2% of total sales in the first six months of 2008, compared to $4,325,000, or 2% of total sales in the first six months of 2007.

Gross profit, as a percent of sales, decreased to 21.1% in the first six months of 2008 from 21.4% in the first six months of 2007. The gross profit margin decrease was primarily attributable to lower operating performance at DTI, partially offset by an improvement in operating performance at DAS.

Selling, general and administrative (SG&A) expenses increased to $24,458,000, or 12.1% of sales, in the first six months of 2008, compared to $24,360,000, or 13.6% of sales, in the first six months of 2007.

Interest expense was $593,000 in the first six months of 2008, compared to $1,417,000 in the first six months of 2007. The decrease was primarily due to lower debt in 2008.

Income tax expense increased to $6,450,000 in the first six months of 2008, compared to $4,123,000 in the first six months of 2007. The increase in income tax expense was due to an increase in income before taxes and a higher effective income tax rate. The Company s effective tax rate for the first six months of 2008 was 36.8%, compared to 33.0% in the first six months of 2007. The Company s effective tax rate in the first six months of 2007 included the benefit of research and development tax credits. However, the Company s effective tax rate in the first six months of 2008 did not include the benefit of research and development tax credits since the federal tax law providing for research and development tax credits has not been extended for 2008. Cash expended to pay income taxes was $5,242,000 in the first six months of 2008, compared to $3,499,000 in the first six months of 2007.

Net income for the first six months of 2008 was $11,083,000, or $1.04 diluted earnings per share, compared to $8,371,000, or $0.80 diluted earnings per share, in the first six months of 2007.

Backlog is subject to delivery delays or program cancellations, which are beyond the Company s control. As of June 28, 2008, backlog believed to be firm was approximately $382,651,000, compared to $353,225,000 at December 31, 2007. Approximately $143,000,000 of total backlog is expected to be delivered during the remainder of 2008. The backlog at June 28, 2008 included the following programs:

	Backlog (In thousands)
737NG	$ 43,709
Sikorsky Helcopter	34,851
Chinook Helicopter	32,191
Carson Helicopter	28,974
Apache Helicopter	25,933
F-15	18,830
C-17	18,476
F-18	16,577
	$ 219,541

Trends in the Company s overall level of backlog, however, may not be indicative of trends in future sales because the Company s backlog is affected by timing differences in the placement of customer orders and because the Company s backlog tends to be concentrated in several programs to a greater extent than the Company s sales.

Table of Contents

Financial Condition

Cash Flow Summary

Net cash used in operating activities for the first six months of 2008 and 2007 was $17,717,000 and $7,735,000, respectively. Net cash used in operating activities for the first six months of 2008 was impacted by an increase in accounts receivables of $18,694,000 primarily related to the timing of billings to customers, and an increase in inventory of $10,205,000 primarily related to work-in-process for production jobs scheduled to be shipped in 2008. Net cash used in operating activities for the first six months of 2008 was also impacted by a decrease in accounts payable of $6,183,000 due to timing of payments of vendor invoices and a decrease in accrued and other liabilities of $2,949,000 primarily due to the payment of 2007 accrued bonuses.

Net cash used in investing activities for the first six months of 2008 consisted primarily of $6,180,000 of capital expenditures.

Net cash used in financing activities for the first six months of 2008 of $690,000 included approximately $1,150,000 of net repayment of debt and $387,000 of net cash received from the exercise of stock options.

The Company continues to depend on operating cash flow and the availability of its bank line of credit to provide short-term liquidity. Cash from operations and bank borrowing capacity are expected to provide sufficient liquidity to meet the Company s obligations during the next twelve months.

Liquidity and Capital Resources

The Company is party to an Amended and Restated Credit Agreement with Bank of America, N.A., as Administrative Agent, Wachovia Bank, National Association, as Syndication Agent, and the other lenders named therein (the Credit Agreement). The Credit Agreement provides for an unsecured revolving credit line of $75,000,000 maturing on April 7, 2010. Interest is payable monthly on the outstanding borrowings at Bank of America s prime rate (5.00% at June 28, 2008) plus a spread (0% to 0.50% per annum based on the leverage ratio of the Company) or, at the election of the Company, for terms of up to six months at the LIBOR rate (2.48% at June 28, 2008 for one month LIBOR) plus a spread (1.00% to 1.75% per annum depending on the leverage ratio of the Company). The Credit Agreement includes minimum fixed charge coverage, maximum leverage and minimum net worth covenants, an unused commitment fee (0.25% to 0.40% per annum depending on the leverage ratio of the Company), and limitations on future dispositions of property, repurchases of common stock, dividends, outside indebtedness, and acquisitions. At June 28, 2008, the Company had $53,484,000 of unused lines of credit, after deducting $1,516,000 for outstanding standby letters of credit. The Company had outstanding loans of $20,000,000 and was in compliance with all covenants at June 28, 2008.

The weighted average interest rate on borrowings outstanding was 4.78% at June 28, 2008, compared to 6.36% at June 30, 2007.

The Company had $6,984,000 of cash and cash equivalents at June 28, 2008.

On September 5, 2007 the Company entered into a $20,000,000 interest rate swap with Bank of America, N.A. The Company believes that the credit risk associated with the counterparty is nominal. The interest rate swap is for a $20,000,000 notional amount, under which the Company receives a variable interest rate (one month LIBOR) and pays a fixed 4.88% interest rate, with monthly settlement

dates. The interest rate swap expires on September 13, 2010. As of June 28, 2008, the one month LIBOR rate was approximately 2.48%. The fair value of the $20,000,000 notional amount of the interest rate swap was a liability of approximately $631,000 at June 28, 2008.

The Company expects to spend less than $11,000,000 for capital expenditures in 2008. The capital expenditures in 2008 are principally to support new contract awards at DAS and DTI and offshore manufacturing expansion. The Company believes the ongoing subcontractor consolidation makes acquisitions an increasingly important component of the Company s future growth. 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 programs.

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 June 28, 2008, the Company expects to make the following payments on its contractual obligations (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Remainder of 2008**	**2009-2011**	**2012-2014**	**After 2014**
Interest rate swap	$ 631	$ 316	$ 315	$	$
Future interest on notes payable and long-term debt	1,224	379	845		
Pension liability	2,368		2,368		
Liabilities related to uncertain tax positions	3,558	693	2,865		
Environmental commitments	4,702	258	474	474	3,496
Operating leases	10,331	2,025	7,779	506	21
Long-term debt	24,629	745	23,884		
Total	$ 47,443	$ 4,416	$ 38,530	$ 980	$ 3,517

Table of Contents

The Company is a defendant in a lawsuit entitled United States of America ex rel Taylor Smith, Jeannine Prewitt and James Ailes v. The Boeing Company and Ducommun Inc., filed in the United States District Court for the District of Kansas. The lawsuit is qui tam action brought against The Boeing Company (Boeing) and Ducommun on behalf of the United States of America for violations of the United States False Claims Act. The lawsuit alleges that Ducommun sold unapproved parts to the Boeing Commercial Airplanes-Wichita Division which were installed by Boeing in 32 aircraft ultimately sold to the United States government. The lawsuit seeks damages, civil penalties and other relief from the defendants for presenting or causing to be presented false claims for payment to the United States government. Although the amount of alleged damages are not specified, the lawsuit seeks damages in an amount equal to six times the amount of damages the United States government sustained because of the defendants actions, plus a civil penalty of $10,000 for each false claim made on or before September 28, 1999, and $11,000 for each false claim made on or after September 28, 1999, together with attorneys fees and costs. The Company intends to defend itself vigorously against the lawsuit. The Company, at this time, is unable to estimate what, if any, liability it may have in connection with the lawsuit.

DAS has been directed by California environmental agencies to investigate and take corrective action for ground water contamination at its facilities located in El Mirage and Monrovia, California. Based on currently available information, the Company has established a reserve for its estimated liability for such investigation and corrective action in the approximate amount of $3,114,000. DAS also faces liability as a potentially responsible party for hazardous waste disposed at two landfills located in Casmalia and West Covina, California. DAS and other companies and government entities have entered into consent decrees with respect to each landfill with the United States Environmental Protection Agency and/or California environmental agencies under which certain investigation, remediation and maintenance activities are being performed. Based upon currently available information, the Company has established a reserve for its estimated liability in connection with the landfills in the approximate amount of $1,588,000. The Company s ultimate liability in connection with these matters will depend upon a number of factors, including changes in existing laws and regulations, the design and cost of construction, operation and maintenance activities, and the allocation of liability among potentially responsible parties.

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 Sheet Arrangements

The Company s off-balance sheet arrangements consist of operating leases.

Recent Accounting Pronouncements

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements (SFAS No. 157)*, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under Generally Accepted Accounting Principles (GAAP). As a result of SFAS No. 157 there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. The effective date of SFAS No. 157 is

Table of Contents

delayed for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Certain provisions of SFAS No. 157 are effective for the Company beginning in the first quarter of 2008. The adoption of SFAS No. 157 for financial assets and liabilities in the first quarter of 2008 did not have a material effect on the Company s results of operations and financial position. The Company is currently evaluating the impact of adoption SFAS No. 157 for nonfinancial assets and liabilities, on its results of operations and financial position.

In February 2007, FASB issued Statement of Financial Accounting Standards No. 159, *Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159)*, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 was effective for the Company beginning in the first quarter of 2008. The adoption of SFAS No. 159 did not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, FASB issued Statement of Financial Accounting Standards No. 141, (revised 2007), *Business Combinations (SFAS No. 141(R))*, which continues the evolution toward fair value reporting and significantly changes the accounting for acquisitions that close beginning in 2009, both at the acquisition date and in subsequent periods. SFAS No. 141(R) introduces new accounting concepts and valuation complexities, and many of the changes have the potential to generate greater earnings volatility after the acquisition. SFAS No. 141(R) applies to acquisitions on or after January 1, 2009 and will impact the Company s reporting prospectively only.

In December 2007, FASB issued Statement Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160)*, which requires companies to measure an acquisition of noncontrolling (minority) interest at fair value in the equity section of the acquiring entity s balance sheet. The objective of SFAS No. 160 is to improve the comparability and transparency of financial data as well as to help prevent manipulation of earnings. The changes introduced by the new standards are likely to affect the planning and execution, as well as the accounting and disclosure, of merger transactions. The effective date to adopt SFAS No. 160 for the Company is January 1, 2009. The adoption of SFAS No. 160 is not expected to have a material effect on its results of operations and financial position.

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161).* SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flow. The provisions of SFAS No. 161 are effective for the Company beginning in the first quarter of 2009. The adoption of SFAS No. 161 is not expected to have a material effect on the Company s results of operations and financial position.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company uses an interest rate swap for certain debt obligations to manage exposure to interest rate changes. On September 5, 2007 the Company entered into a $20,000,000 interest rate swap with Bank of America, N.A. The interest rate swap is for a $20,000,000 notional amount, under which the Company receives a variable interest rate (one month LIBOR) and pays a fixed 4.88% interest rate, with monthly settlement dates. The interest rate swap expires on September 13, 2010. As of June 28, 2008, the one month LIBOR rate was approximately 2.48% and the fair value of the interest rate swap was a liability of approximately $631,000. An increase or decrease of 50 basis-points in the LIBOR interest rate of the swap at June 28, 2008 would result in a change of approximately $406,000 in the fair value of the swap.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company s chief executive officer (who is currently acting as both the Company s principal executive officer and principal financial officer) has 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(e)), that such disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company s internal control over financial reporting during the six months ended June 28, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Item 3 of the Company s Form 10-K for the year ended December 31, 2007 for a discussion of the lawsuit entitled United States of America ex rel Taylor Smith, Jeannine Prewitt and James Ailes v. The Boeing Company and Ducommun Inc.

Item 1A. Risk Factors

See Item 1A of the Company s Form 10-K for the year ended December 31, 2007 for a discussion of risk factors.

- 27 -

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities For the Three Months Ended June 28, 2008

Period	Total Number of Shares (or Units) Purchase (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)
Period beginning March 30, 2008 and ending April 26, 2008	0	$ 0.00	0	$ 4,704,000
Period beginning April 27, 2008 and ending May 24, 2008	0	$ 0.00	0	$ 4,704,000
Period beginning May 25, 2008 and ending June 28, 2008	0	$ 0.00	0	$ 4,704,000
Total	0	$ 0.00	0	$ 4,704,000

(1) The shares of common stock repurchased represent previously issued shares used by employees to pay the exercise price in connection with the exercise of stock options.

(2) The Company did not repurchase any of its common stock during the second quarter of 2008 or the year ended December 31, 2007 in the open market. At June 28, 2008, $4,704,000 remained available to repurchase common stock of the Company under stock repurchase programs previously approved by the Board of Directors.

Table of Contents

Item 4. Submission of Matters to a Vote of Security Holders

The 2008 Annual Meeting of Shareholders of the Company was held on May 7, 2008. At the meeting, the shareholders approved the election of Joseph C. Berenato and Robert D. Paulson as directors to serve for three-year terms ending in 2011 and the ratification of the selection of PricewaterhouseCoopers LLP as the Company s independent accountants for the fiscal year ending December 31, 2008. The shareholder vote on these matters was as follows:

	For	Withheld	
Election of Joseph C. Berenato as director for a three-year term expiring in 2011	7,942,567	1,693,307	
Election of Robert D. Paulson as director for a three-year term expiring in 2011	9,365,144	270,730	
	For	**Against**	**Abstain**
Ratification of Selection of PricewaterhouseCoopers LLP as the Company s independent accountants for the fiscal year ending December 31, 2008	9,532,082	100,041	6,751

The directors whose term of office continued after the 2008 Annual Meeting of Shareholders were H. Frederick Christie, Eugene P. Conese, Jr., Ralph D. Crosby, Jr., Robert C. Ducommun, and Eric K. Shinseki.

- 29 -

Table of Contents

Item 6. Exhibits.

11	Reconciliation of 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

Table of Contents

SIGNATURES

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

DUCOMMUN INCORPORATED
(Registrant)

By: /s/ Joseph C. Berenato
Joseph C. Berenato
Chairman and Chief Executive Officer
(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: July 28, 2008