

DUCOMMUN INC /DE/
Form 10-Q
July 30, 2007
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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 June 30, 2007

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

90745-6209

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(Address of principal executive offices)

(310) 513-7280

(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 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 Non-accelerated filer

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 June 30, 2007, there were outstanding 10,379,698 shares of common stock.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

DUCOMMUN INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	(Unaudited) June 30, 2007	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	\$ 559	\$ 378
Accounts receivable	45,504	42,658
Unbilled receivables	3,883	3,482
Inventories	74,877	64,587
Deferred income taxes	6,099	6,116
Other current assets	4,889	5,521
Total Current Assets	135,811	122,742
Property and Equipment, Net	54,030	52,987
Goodwill, Net	106,632	106,628
Other Assets	13,431	14,676
	\$ 309,904	\$ 297,033
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ 1,851	\$ 1,196
Accounts payable	22,040	32,948
Accrued liabilities	32,207	33,243
Total Current Liabilities	56,098	67,387
Long-Term Debt, Less Current Portion	39,918	29,240
Deferred Income Taxes	5,477	6,670
Other Long-Term Liabilities	9,900	6,711
Total Liabilities	111,393	110,008
Commitments and Contingencies		
Shareholders' Equity:		
Common stock	104	103
Additional paid-in capital	49,107	46,320
Retained earnings	150,941	142,760
Accumulated other comprehensive loss	(1,641)	(2,158)
Total Shareholders' Equity	198,511	187,025
	\$ 309,904	\$ 297,033

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 The Three Months Ended	
	June 30,	July 1,
	2007	2006
Net Sales	\$ 91,104	\$ 77,480
Operating Costs and Expenses:		
Cost of goods sold	71,310	62,255
Selling, general and administrative expenses	12,134	9,599
Total Operating Costs and Expenses	83,444	71,854
Operating Income	7,660	5,626
Interest Expense, Net	(765)	(649)
Income Before Taxes	6,895	4,977
Income Tax Expense, Net	(2,324)	(1,809)
Net Income	\$ 4,571	\$ 3,168
Earnings Per Share:		
Basic earnings per share	\$.44	\$.31
Diluted earnings per share	\$.44	\$.31
Weighted Average Number of Common Shares Outstanding:		
Basic	10,361	10,222
Diluted	10,474	10,312

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 The Six Months Ended	
	June 30,	July 1,
	2007	2006
Net Sales	\$ 179,156	\$ 149,638
Operating Costs and Expenses:		
Cost of goods sold	140,885	119,896
Selling, general and administrative expenses	24,360	19,235
Total Operating Costs and Expenses	165,245	139,131
Operating Income	13,911	10,507
Interest Expense, Net	(1,417)	(1,164)
Income Before Taxes	12,494	9,343
Income Tax Expense, Net	(4,123)	(3,413)
Net Income	\$ 8,371	\$ 5,930
Earnings Per Share:		
Basic earnings per share	\$.81	\$.58
Diluted earnings per share	\$.80	\$.58
Weighted Average Number of Common Shares Outstanding:		
Basic	10,331	10,178
Diluted	10,436	10,266

See accompanying notes to consolidated financial statements.

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DUCOMMUN INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For The Six Months Ended	
	June 30,	July 1,
	2007	2006
Cash Flows from Operating Activities:		
Net Income	\$ 8,371	\$ 5,930
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	3,987	4,054
Amortization of other intangible assets	1,143	633
Amortization of discounted notes payable	36	
Deferred income tax provision/(benefit)	650	(460)
Income tax benefit from stock-based compensation, net	116	314
Stock-based compensation expense	1,024	782
Expense/(Recovery) of doubtful accounts	104	(19)
Gain on sale of assets	(1)	(27)
Net recovery of warranty reserves		(14)
Net (reduction of)/provision for contract cost overruns	(544)	198
Changes in Assets and Liabilities Net of Effects from Acquisitions:		
Accounts receivable (increase)	(2,950)	(2,584)
Unbilled receivables (increase)	(401)	(2,732)
Inventories (increase)	(10,290)	(6,484)
Other assets decrease/(increase)	730	(156)
Accounts payable (decrease)/increase	(10,908)	2,376
Accrued and other liabilities increase/(decrease)	1,198	(3,980)
Net Cash Used in Operating Activities	(7,735)	(2,169)
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(5,029)	(4,680)
Proceeds from Sale of Assets		166
Acquisition of Businesses, Net of Cash Acquired		(49,691)
Net Cash Used in Investing Activities	(5,029)	(54,205)
Cash Flows from Financing Activities:		
Net Borrowings of Long-Term Debt	11,297	38,000
Net Cash Effect of Exercise Related to Stock Options	1,151	1,497
Excess Tax Benefit from Stock-Based Compensation	497	178
Net Cash Provided by Financing Activities	12,945	39,675
Net Increase/(Decrease) in Cash and Cash Equivalents	181	(16,699)
Cash and Cash Equivalents at Beginning of Period	378	19,221
Cash and Cash Equivalents at End of Period	\$ 559	\$ 2,522

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 June 30, 2007, the consolidated statements of income are unaudited for the three months and six months ended June 30, 2007 and July 1, 2006 and the consolidated statements of cash flows are unaudited for the six months ended June 30, 2007 and July 1, 2006. 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, 2006. The results of operations for the three months and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007.

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 the same as described in the Company's Form 10-K for the year ended December 31, 2006, except as noted below.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Revenue from products sold under long-term contracts is recognized by the Company on the same basis as other sale transactions. The Company also recognizes revenue on the sale of services (including prototype products) based on the type of contract: time and materials, cost-plus reimbursement and firm-fixed price. Revenue is recognized (i) on time and materials contracts as time is spent at hourly rates, which are negotiated with customers, plus the cost of any allowable materials and out-of-pocket expenses, (ii) on cost plus reimbursement contracts based on direct and indirect costs incurred plus a negotiated profit calculated as a percentage of cost, a fixed amount or a performance-based award fee, and (iii) on fixed-price contracts on the percentage-of-completion method measured by the percentage of costs incurred to estimated total costs.

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Earnings Per Share

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

	Three months ended		Six months ended	
	June 30,	July 1,	June 30,	July 1,
	2007	2006	2007	2006
Basic weighted average shares outstanding	10,361,000	10,222,000	10,331,000	10,178,000
Dilutive potential common shares	113,000	90,000	105,000	88,000
Diluted weighted average shares outstanding	10,474,000	10,312,000	10,436,000	10,266,000

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

	Three months ended		Six months ended	
	June 30,	July 1,	June 30,	July 1,
	2007	2006	2007	2006
Net earnings (total numerator)	\$ 4,571,000	\$ 3,168,000	\$ 8,371,000	\$ 5,930,000

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 30,	July 1,	June 30,	July 1,
	2007	2006	2007	2006