



Building a better company

Vision Statement A premier supplier to the worldwide aerospace and related high technology markets, profitably growing by producing highly engineered aerostructural subassemblies, electromechanical subsystems and proprietary products with a balance between the commercial, military and space market segments.

On the cover: Apache Helicopter blade assembler at Ducommun Aerostructures in Monrovia, CA

financial highlights

in millions, except per share data

	2003	2002	Change
Net Sales	\$ 225.9	\$ 212.4	6%
Operating Income	22.6	17.1	32%
Net Income	16.2	6.5	149%
Diluted EPS	1.63	0.65	151%
Total Assets	198.0	197.6	0%
Total Debt	2.6	25.9	- 90%
Shareholders' Equity	137.8	120.4	14%
Cash Flow from Operations	30.5	25.3	21%

We are taking bold steps to create and implement common practices throughout the Company, forming aspirations and goals that start with our management team and reach to our newest employee. We are building the Ducommun Team.

honesty

professionalism

customer orientation

continuous improvement

best value producer

Our strong values

teamwork



These values guide our decision making as we fulfill our responsibilities to our shareholders, customers, vendors, employees and the communities in which we operate. We are instilling these values by incorporating them into our policies and procedures throughout the company, and by compensating employees accordingly. We want all employees to share in Ducommun's success as we meet our corporate and business unit goals. The important issue here is not who we think we are, but how our customers, peers and suppliers think of us as a result of our actions and attitudes. We believe that if we are committed to these values in our daily work activities, we will keep our customers happy, earn more business, and be a part of a very successful Ducommun Team—one that is indispensable to its key customers.



In order to achieve these goals, we are using productivity measures to drive performance. We have been practitioners of Lean Manufacturing for several years and have now added Six Sigma practices in order to increase productivity and efficiency. We are focused on improving operating margins through better operating efficiency and integration of our activities, as well as accelerating our growth and profits through acquisitions and the standardization of policies and procedures in our new businesses. We recently acquired DBP Microwave, Inc. in Azusa, CA, a company which brings complementary microwave products as well as an experienced and talented workforce to the Ducommun Team. By year-end we were able to integrate DBP into our Carson, CA facility.

team building
integrating cultures
meeting commitments
moving up the food chain
accretive acquisitions

Our operating goals
integrating processes

quality

on-time delivery

customer satisfaction

preferred supplier

Our ultimate goal

true partnerships



Our ultimate goal is to become indispensable to our key customers. We believe that to achieve this goal we must be approaching perfection in quality, delivery and customer returns. We are currently a Boeing Silver Supplier in Carson, CA, a Boeing Bronze Supplier in Fort Defiance, AZ and Gardena, CA, a Lockheed Star Supplier in Phoenix, AZ and have achieved the highest Airbus Supplier rating (Green) in Gardena, CA. But this is not enough. We must become a true partner with our key customers, providing technical support and solutions to their problems. When we can do all of this, then we will become the recipient of our customers' first call—whether for help or for the chance to take on new work.

Our Top Programs

APACHE AH-64 HELICOPTER

Main and tail rotor blades • Inlet ducts
Avionics interconnect assemblies

BOEING 737NG

Flight and ground spoilers • Fuselage frames and stringers
APU exhaust ducts • Nacelle firewalls • Cockpit window doublers
Cargo door thresholds • Fuselage stiffener assemblies
Landing gear light assemblies • Landing gear lever assemblies
Winglet assemblies • Heads-up display status panels

C-17

All composite spoiler assemblies • Fuselage skin panels
Wing leading edges • Engine components, tail cone, angles and skins
Upper nose skins and doublers • Cargo door and ramp door skins
Wing beam supports • Refueling housing • Nacelle strut reinforcement webs
Nacelle deicing ducts • Nacelle exhaust ducts • Pod beams
Light housing assemblies • Lighted switches

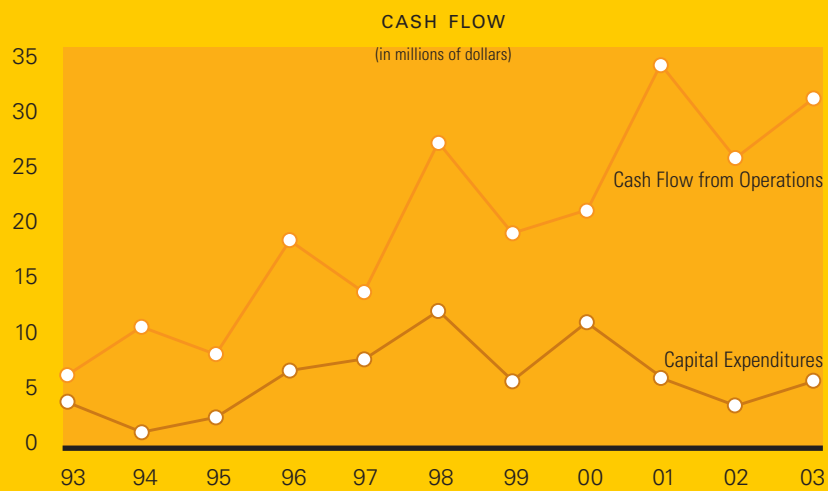
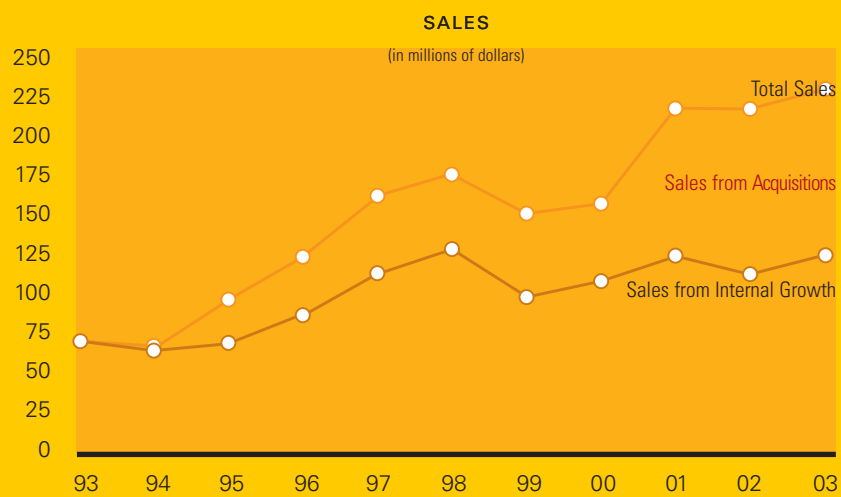
F-15

Empennage skins • APG-63(V)1 radar assemblies
Cockpit warning panel assemblies

F-18

Aft fuselage skins • Engine bay firewall details
Flap skins and doublers • Strut access doors • Flap skin fairings
APG-73 radar assemblies • APG-79 (AESA) radar assemblies
Cockpit warning panel assemblies • Switched notch filters

Ducommun is becoming more focused. We have the financial means to support our growth. We are better able to solve our customers' problems and meet their ever-growing needs. Ducommun is changing — and only for the better.



FELLOW SHAREHOLDERS

A year ago I reported on a disappointing year at Ducommun. This year, I am pleased to report that the men and women of Ducommun pulled together and delivered substantially improved performance, both financially and operationally, despite a continuing tough environment in the aerospace marketplace. On the preceding pages of this report, we outline our main goals; in 2003 we made good progress on all of them.

FINANCIAL SUMMARY

Sales, operating income, net income and earnings per share all showed marked improvement this year and compare favorably with recent years' results. However, the lifeblood of this Company has always been its ability to generate strong cashflow, and 2003 was no exception. We were able to fund all of our cash needs as well as generate over \$25 million available to pay down debt. As a result, our bank debt at year-end was zero. Our ability to maintain a strong balance sheet even in the midst of a major aerospace downturn speaks to our staying power, which allows us to support our customers and their programs for the long term and to finance future acquisitions, both large and small. We have made ten acquisitions over the last ten years and we continue to search for businesses which can provide us with either technologies, products or market opportunities which will help us leverage the capabilities of our existing businesses. Our acquisition last August of DBP Microwave not only provided our Ducommun Technologies subsidiary with new technology, product and market segment expansion, but provided cost savings as we relocated DBP to our Carson, CA facility, significantly reducing our overhead structure.

OPERATIONAL SUMMARY

Last year I discussed the creation of Ducommun AeroStructures (DAS) and Ducommun Technologies (DTI), and the transformation taking place to build lean and focused business units which have the right capabilities to solve our customers' problems, the financial capability to support growth and new program initiatives, and the operational capability to meet ever higher standards of quality and delivery at a competitive price—in short, to become indispensable to our customers. We are on the right track and much has been accomplished this past year as we have concentrated on streamlining our organizational structure and improving our operational efficiencies. To that end, we have begun a unique effort to tailor our own supplier base to fewer, but more capable, suppliers. This process is helping us to reduce our cost and improve the quality and delivery of our purchased goods and services. Both DAS and DTI have been formed as single legal entities. Each of these businesses is installing a common enterprise resource planning system at its facilities. These actions will accelerate a commonality of processes and procedures across Ducommun and will allow for a streamlining of our overhead through both consolidation and integration of common activities.

In September, we took an important step in assuring success in these endeavors by bringing David H. Dittmore on board as President and Chief Operating Officer. David's background is summarized in our "Hail and Farewell" section on page 16 of this report, but he has already had a significant positive impact on the Company through his focus on productivity improvement. Additionally, while we have been a Lean Manufacturing practitioner for several years, David is adding Six Sigma to our operational tool box.

Finally, while we are working on our cost structure and looking for acquisitions, the ability to drive a consistent program of internal growth is essential. We are in the process of

reorganizing and upgrading our sales and marketing efforts. Our goal here is to get on the right programs with more and higher level content (up the food chain) than we have enjoyed on earlier programs. The measure of our success will be expanding participation on major new programs (Joint Strike Fighter, F-22, V22, 7E7, A380), major existing programs (Apache, C-17, F-18, F-15, Boeing Commercial, Airbus, Regional Jets) and key defense electronics upgrades.

SARBANES-OXLEY

This legislation has become the watchword for good corporate governance. At Ducommun, we have long had an independent board of directors which does not feel beholden to management. Further, as our corporate values outlined on page 2 attest, honesty is a core value of this Company and its management team. We believe in an open and above board process in all our actions and activities. We may not always get it right, but we will always be honest about what we are doing. Sarbanes-Oxley will require us to modify or improve documentation of existing policies and procedures, but it will not change at all our traditional honesty and openness.

OUTLOOK

As discussed above, we are laying the groundwork for our future growth. Our challenge in 2004 is to stay the course: continue to build upon our operational and organizational improvements and use these successes to capture new business. We will continue to manage our balance sheet so that we have the ability to support our strategic acquisition activities. By demonstrating high quality and delivery and by controlling our cost structure to allow us to offer a competitive price, Ducommun will be ready to take advantage of the

next aerospace upcycle because we are bigger, financially stronger, operationally more capable and organizationally more agile than during the last aerospace upcycle. We have smart and dedicated people; we are becoming increasingly well positioned in our markets; and we are in great shape financially. The road continues to be rough, but I like our chances.

CONCLUSION

I want to thank all of our Ducommun Team members for their incredible efforts during the past year. It has been gratifying to see our people respond to the challenge and deliver such excellent performance. We at Ducommun also want to thank our customers, suppliers and shareholders for their continued support and confidence.

Finally, we take special note on page 16 of this report of the retirement of two long-serving directors, our Chairman Emeritus, Norm Barkeley, and Kevin Moore, and the addition of one new director, Bob Paulson.

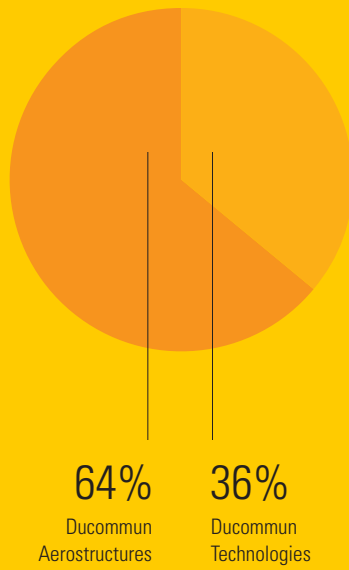


A handwritten signature in blue ink that reads "Joseph C. Berenato". The signature is fluid and cursive.

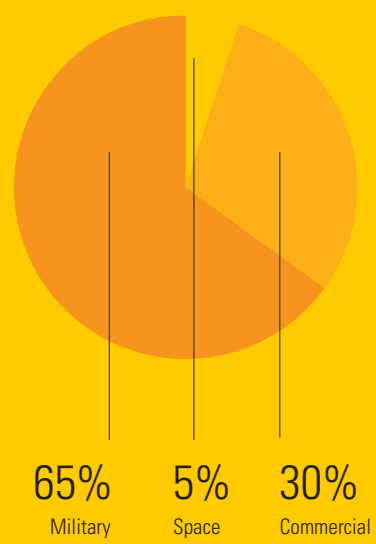
Joseph C. Berenato
Chairman and Chief Executive Officer

2003 SALES

SALES BY SEGMENT



SALES BY MARKET



HAIL AND FAREWELL

After years of devoted service to Ducommun Incorporated, our Chairman Emeritus, Norman A. Barkeley, is retiring from the board of directors in May. Norm Barkeley joined the board in 1987. In July of 1988 he took over a Ducommun with \$59 million in sales and dismal prospects. With a one-word mission statement, "Survive," he put together and led a team which saved the Company. Over the years he has served as both mentor and role model for many of us. Today, we want to remember his accomplishments and thank him for his many contributions to our Company.

Likewise, Kevin Moore retired from the board of directors in February. Kevin joined the board in 1994, and has provided over the past ten years his valuable insights from the perspective of an institutional investor and financier. His leadership will be missed, and we thank him for his many contributions to our Company.

We also want to welcome to our board of directors, Robert D. Paulson. Bob served at McKinsey & Company for over 26 years, ultimately heading McKinsey's aerospace practice. Today Bob is a private investor through Aerostar Capital, LLC. He brings a wealth of experience and a special understanding of our markets to the board, and we look forward to his many future contributions to the continued growth of Ducommun Incorporated.

As noted earlier in this report, David H. Dittmore has joined our Company as President and Chief Operating Officer. An engineer by training, David spent 23 years in a number of management positions at Allied Signal (now Honeywell). David then was Executive Vice President and COO of CytecFiberite, Inc., a subsidiary of Cytec Industries. He brings a strong operations orientation and a passion for growth which will help Ducommun become an even better company.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K



ANNUAL REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

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 No. 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.)

111 West Ocean Boulevard, Suite 900, Long Beach, California

(Address of principal executive offices)

90802-7901

(Zip Code)

Registrant's telephone number, including area code: (562) 624-0800

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES ☒ NO ☐

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates as of the last business day of the registrant's most recently completed second fiscal quarter ended July 5, 2003 was approximately \$102 million.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

The number of shares of common stock outstanding on January 31, 2004 was 9,910,957.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference:

(a) Proxy Statement for the 2004 Annual Meeting of Shareholders (the "2004 Proxy Statement"), incorporated partially in Part III hereof.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

Certain statements in the Form 10-K and documents incorporated by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any such forward-looking statements 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, production rates for Boeing commercial aircraft, the C-17 aircraft and Apache helicopter rotor blade programs, the level of defense spending, competitive pricing pressures, manufacturing inefficiencies, start-up costs and possible overruns on new contracts, technology and product development risks and uncertainties, product performance, risks associated with acquisitions and dispositions of businesses by the Company, increasing consolidation of customers and suppliers in the aerospace industry, availability of raw materials and components from suppliers and other factors beyond the Company's control. See the "Management's Discussion and Analysis of Financial Condition and Results of Operations," including the "Additional Risk Factors," and other matters discussed in this Form 10-K.

PART I

ITEM 1. BUSINESS

GENERAL

Ducommun Incorporated ("Ducommun" or the "Company"), through its subsidiaries, designs, engineers and manufactures aerostructure and electromechanical components and subassemblies principally for domestic and foreign commercial aircraft, military and space programs. Domestic commercial aircraft programs include the Boeing 737NG, 747, 757, 767 and 777. Foreign commercial aircraft programs include the Airbus Industrie A330, A340 and A340-600 aircraft, Bombardier business and regional jets, and the Embraer 145 and 170/190. Major military programs include the Boeing C-17, F-15 and F-18, Lockheed Martin F-16, various Sikorsky, Bell, Boeing Apache and Augusta helicopter programs, and various aircraft and shipboard electronics upgrade programs. Space programs include the Space Shuttle external tank, and various commercial and military space launch and satellite programs. Ducommun is the successor to a business founded in California in 1849, first incorporated in California 1907, and reincorporated in Delaware in 1970.

In August 2003, the Company acquired the assets of DBP Microwave, Inc. ("DBP"), a privately held company based in Azusa, California for \$2,322,000 in cash and a \$400,000 nonnegotiable promissory note. DBP subsequently was merged into the Ducommun Technologies, Inc. subsidiary. In August 2001, the Company, acquired certain assets of the Fort Defiance, Arizona operation of Packard Hughes Interconnect Wiring Systems, a subsidiary of Delphi Automotive Systems Corp. ("Fort Defiance"), for \$4,590,000 in cash. In June 2001, Ducommun acquired all of the units of Composite Structures, LLC ("Composite Structures") for \$47,966,000 in cash and \$5,354,000 in nonnegotiable promissory notes.

In November 1999, the Company, through a wholly owned subsidiary, acquired the assets and assumed certain liabilities of Parsons Precision Products, Inc. ("Parsons") for \$22,073,000 in cash. In April 1999, the Company acquired the capital stock of Sheet Metal Specialties Company ("SMS") for \$10,096,000 in cash, net of cash acquired and payments of other liabilities of SMS, and a \$1,500,000 note. SMS subsequently became the Chatsworth, California operation of the Company's MechTronics subsidiary.

In October 2002, Ducommun sold the capital stock of its airline seating manufacturing subsidiary, Brice Manufacturing Company, Inc. ("Brice"), for \$1,300,000 in cash. Brice has been classified as a discontinued operation in the accompanying financial statements. In August 2002, Ducommun shut down its Chatsworth, California facility (which employed approximately 47 people at year-end 2001), and transferred a portion of the business to its MechTronics of Arizona Corp. subsidiary in Phoenix, Arizona.

On or about January 2, 2004, the Company formally combined several of its businesses. Ducommun AeroStructures, Inc., was formed through the merger of the Company's wholly owned subsidiaries, Aerochem, Inc., AHF-Ducommun Incorporated, CSD Holdings, Inc. and Parsons Precision Products, Inc., and the distribution of assets of Composite Structures, LLC. Ducommun Technologies, Inc., was formed through the merger of the Company's wholly-owned subsidiaries, Ducommun Technologies, Inc., and MechTronics of Arizona Corp.

PRODUCTS AND SERVICES

Ducommun operates in two business segments: Ducommun AeroStructures, Inc., ("DAS") engineers and manufactures aerospace structural components and subassemblies, and

Ducommun Technologies, Inc., ("DTI") designs, engineers and manufactures electromechanical components and subsystems principally for the aerospace and military markets. DAS provides aluminum stretch-forming, titanium hot-forming, machining, composite lay-up, metal bonding, and chemical milling services. DTI designs and manufactures illuminated push button switches and panels, microwave switches and filters, fractional horsepower motors and resolvers and mechanical and electromechanical subassemblies.

Business Segment Information

The Company supplies products and services to the aerospace industry. The Company's subsidiaries are organized into two strategic businesses (DAS and DTI), each of which is a reportable operating segment. The accounting policies of the segments are the same as those of the Company, as described in Note 1, Summary of Significant Accounting Policies.

Ducommun AeroStructures, Inc.: Aerostructure Products

Stretch-Forming, Hot Forming and Machining

DAS supplies the aerospace industry with engineering and manufacturing of complex components using stretch-forming and hot-forming processes and computer-controlled machining. Stretch-forming is a process for manufacturing large, complex structural shapes primarily from aluminum sheet metal extrusions. DAS has some of the largest and most sophisticated stretch-forming presses in the United States. Hot-forming is a metal working process conducted at high temperature for manufacturing close-tolerance titanium components. DAS designs and manufactures the tooling required for the production of parts in both forming processes. Certain components manufactured by DAS are machined with precision milling equipment, including three 5-axis gantry profile milling machines and five 5-axis numerically-controlled routers to provide computer-controlled machining and inspection of complex parts up to 100 feet long.

Composites and Metal Bonding

DAS engineers and manufactures metal, fiberglass and carbon composite aerostructures. DAS produces helicopter main and tail rotor blades, and adhesive bonded assemblies, including spoilers and fuselage structural panels for aircraft and jet engine fan containment rings.

Chemical Milling

DAS is a major supplier of close tolerance chemical milling services for the aerospace industry. Chemical milling removes material in specific patterns to reduce weight in areas where full material thickness is not required. This sophisticated etching process enables DAS to produce lightweight, high-strength designs that would be impractical to produce by conventional means. DAS offers production-scale chemical milling on aluminum, titanium, steel, nickel-base and super alloys. Jet engine components, wing leading edges and fuselage skins are examples of products that require chemical milling.

Ducommun Technologies, Inc.: Electromechanical Products

Switches and Related Components

DTI develops, designs and manufactures illuminated switches, switch assemblies and keyboard panels used in many military aircraft, helicopter, commercial aircraft and spacecraft

programs. DTI manufactures switches and panels where high reliability is a prerequisite. DTI also develops, designs and manufactures microwave switches, filters and other components used principally on commercial and military aircraft and satellites. In addition, DTI develops, designs and manufactures high precision actuators, stepper motors, fractional horsepower motors and resolvers principally for space applications.

Mechanical and Electromechanical Subassemblies

DTI is a leading manufacturer of mechanical and electromechanical assemblies for the defense electronics and commercial aircraft markets. DTI has a fully integrated manufacturing capability, including manufacturing engineering, fabrication, machining, assembly, electronic integration and related processes. DTI's products include sophisticated radar enclosures, gyroscopes and indicators, aircraft avionics racks, and shipboard communications and control enclosures.

SALES AND MARKETING

In 2003, the Company experienced a substantial shift in its business mix from commercial to military due to increased military procurement spending, as well as a difficult commercial aerospace environment.

The Company's commercial business is represented on virtually all of today's major commercial aircraft, including the Boeing 737NG, 747, 757, 767 and 777 and the Airbus A330/340. Sales related to commercial business were approximately 30% of total sales in 2003, compared to 38% of total sales in 2002. The Company's commercial sales depend substantially on aircraft manufacturers' production rates, which in turn depend upon deliveries of new aircraft. Deliveries of new aircraft by aircraft manufacturers are dependent on the financial capacity of the airlines and leasing companies to purchase the aircraft. Sales of commercial aircraft could be affected as a result of changes in new aircraft orders, or the cancellation or deferral by airlines of purchases of ordered aircraft. The Company's sales for commercial aircraft programs also could be affected by changes in its customers' inventory levels and changes in its customers' aircraft production build rates.

Military components manufactured by the Company are employed in many of the country's front-line fighters, bombers, helicopters and support aircraft, as well as many sea-based vehicles. The Company's defense business is widely diversified among military manufacturers and programs. Sales related to military programs were approximately 65% of total sales in 2003 compared to 58% of total sales in 2002. In the space sector, the Company produces components for the expendable fuel tanks which help boost the Space Shuttle vehicle into orbit. Components are also produced for a variety of unmanned launch vehicles and satellite programs. Sales related to space programs were approximately 5% of total sales in 2003 compared to 4% of total sales in 2002. Sales related to space programs were higher in 2003 due to higher sales for the Space Shuttle program partially offset by lower sales for other space launch vehicles.

A major portion of sales is derived from United States government defense programs and space programs, subjecting the Company to various laws and regulations that are more restrictive than those applicable to the private sector. These defense and space programs could be adversely affected by reductions in defense spending and other government budgetary pressures which would result in reductions, delays or stretch-outs of existing and future programs. Additionally, the Company's contracts may be subject to reductions or modifications in the event of changes in government requirements. Although the Company's fixed-price

contracts generally permit it to realize increased profits if costs are less than projected, the Company bears the risk that increased or unexpected costs may reduce profits or cause losses on the contracts. The accuracy and appropriateness of certain costs and expenses used to substantiate the Company's direct and indirect costs for the United States government are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the Department of Defense. In addition, many of the Company's contracts covering defense and space programs are subject to termination at the convenience of the customer (as well as for default). In the event of termination for convenience, the customer generally is required to pay the costs incurred by the Company and certain other fees through the date of termination.

MAJOR CUSTOMERS

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During 2003, sales to Boeing were \$113,071,000, or 50% of total sales; sales to Raytheon were \$29,755,000, or 13% of total sales; and sales to Lockheed Martin were \$16,509,000, or 7% of total sales. Sales to Boeing, Raytheon and Lockheed Martin are diversified over a number of different commercial, military and space programs.

INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

In 2003, 2002 and 2001, foreign sales to customers worldwide were \$12,280,000, \$14,509,000 and \$28,006,000, respectively. The amounts of profitability and identifiable assets attributable to foreign sales activity were not material when compared with the revenue, profitability and identifiable assets attributed to United States domestic operations during 2003, 2002 and 2001. The Company had no sales to a foreign country greater than 4% of total sales in 2003, 2002 and 2001. The Company is not subject to any significant foreign currency risks since all sales are made in United States dollars.

RESEARCH AND DEVELOPMENT

The Company performs concurrent engineering with its customers and product development activities under Company-funded programs and under contracts with others. Concurrent engineering and product development activities are performed for commercial, military and space applications.

RAW MATERIALS AND COMPONENTS

Due to the Company's diversification, the sources and availability of raw materials and components are not nearly as important as they would be for a company that manufactures a single product. Raw materials and components used in the manufacture of the Company's products, including aluminum, steel and carbon fibers, are available from a number of vendors and are generally in adequate supply. However, certain components, supplies and raw materials for the Company's operations are purchased from single sources. In such instances, the Company strives to develop alternative sources and design modifications to minimize the effect of business interruptions.

COMPETITION

The aerospace industry is highly competitive, and the Company's products and services are affected by varying degrees of competition. The Company competes worldwide with United States and international companies in most markets it services, some of which are substantially larger and have greater financial, sales, technical and personnel resources. Larger competitors

offering a wider array of products and services than those offered by the Company can have a competitive advantage by offering potential customers bundled products and services that the Company cannot match. The Company's ability to compete depends principally on the quality of its goods and services, competitive pricing, product performance, design and engineering capabilities, new product innovation and the ability to solve specific customer problems.

PATENTS AND LICENSES

The Company has several patents, but it does not believe that its operations are dependent on any single patent or group of patents. In general, the Company relies on technical superiority, continual product improvement, exclusive product features, superior lead time, on-time delivery performance, quality and customer relationships to maintain its competitive advantage.

BACKLOG

The Company has a number of long-term agreements with several of its customers. These agreements generally describe the terms under which the customer may issue purchase orders to buy the Company's products and services during the term of the agreement. These terms typically include a list of the parts or services customers may purchase, pricing for these products and services, anticipated quantities to be purchased by the customers and, to the extent known, delivery dates. Backlog only includes amounts for which the Company has actual purchase orders with firm delivery dates, prices and quantities. Backlog does not include the total contract value for fixed-price multi-year contracts, except for the released portion. Backlog is subject to delivery delays or program cancellations, which are beyond the Company's control. As of December 31, 2003, backlog believed to be firm was approximately \$283,901,000, compared to \$289,857,000 at December 31, 2002. Approximately \$149,000,000 of total backlog is expected to be delivered during 2004.

ENVIRONMENTAL MATTERS AND LEGAL

The Company's business, operations and facilities are subject to numerous stringent federal, state and local environmental laws and regulations issued by government agencies, including the Environmental Protection Agency ("EPA"). Among other matters, these regulatory authorities impose requirements that regulate the emission, discharge, generation, management, transportation and disposal of hazardous materials, pollutants and contaminants. These regulations govern public and private response actions to hazardous or regulated substances that may be or have been released to the environment, and they require the Company to obtain and maintain licenses and permits in connection with its operations. The Company may also be required to investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. Additionally, this extensive regulatory framework imposes significant compliance burdens and risks on the Company. The Company anticipates that capital expenditures will continue to be required for the foreseeable future to upgrade and maintain its environmental compliance efforts. The Company does not expect to spend a material amount on capital expenditures for environmental compliance during 2004.

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

The DAS facility located in El Mirage, California has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination. Based upon currently available information, the Company has established a provision for the cost of such investigation and corrective action. DAS expects to spend approximately \$1 million for future investigation and corrective action for groundwater contamination at its El Mirage location. However, the Company's ultimate liability in connection with the contamination will depend upon a number of factors, including changes in existing laws and regulations, and the design and cost of the construction, operation and maintenance of the corrective action.

The Company's subsidiary, Composite Structures, LLC ("Composite"), and several other companies have been ordered by a California environmental agency to investigate and clean up soil and groundwater contamination at its Monrovia, California facility. Composite has filed a petition for review of the order.

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.

EMPLOYEES

At December 31, 2003 the Company employed 1,350 persons. The Company's DAS subsidiary is a party to collective bargaining agreements with labor unions at its Monrovia, California facility. Under these agreements, the Company currently employs 246 full-time employees, and 4 temporary employees, all of whom are members of labor unions. If the unionized workers were to engage in a strike or other work stoppage, if DAS is unable to negotiate acceptable collective bargaining agreements with the unions, or if other employees were to become unionized, the Company could experience a significant disruption of the Company's operations and higher ongoing labor costs, which could have an adverse effect on its business and results of operations. The Company has not experienced any material labor-related work stoppage and considers its relations with its employees to be good.

AVAILABLE INFORMATION

The Company's Internet website address is www.ducommun.com. The company makes available through its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after filing with the Securities and Exchange Commission.

ITEM 2. PROPERTIES

The Company occupies approximately 15 facilities with a total office and manufacturing area of over 1,266,000 square feet, including both owned and leased properties. At December 31, 2003, facilities which were in excess of 60,000 square feet each were occupied as follows:

<u>Location</u>	<u>Company</u>	<u>Square Feet</u>	<u>Expiration of Lease</u>
El Mirage, California	Ducommun AeroStructures, Inc.	74,000	Owned
Orange, California	Ducommun AeroStructures, Inc.	76,000	Owned
Carson, California	Ducommun AeroStructures, Inc.	76,000	2004
Carson, California	Ducommun AeroStructures, Inc.	286,000	Owned
Carson, California	Ducommun Technologies, Inc.	117,000	2005
Phoenix, Arizona	Ducommun Technologies, Inc.	100,000	2012
Parsons, Kansas	Ducommun AeroStructures, Inc.	120,000	Owned
Monrovia, California	Ducommun AeroStructures, Inc.	274,000	Owned

The Company's facilities are, for the most part, fully utilized, although excess capacity exists from time to time based on product mix and demand. Management believes that these properties are in good condition and suitable for their present use.

Although the Company maintains standard property casualty insurance covering its properties, the Company does not carry any earthquake insurance because of the cost of such insurance. Most of the Company's properties are located in Southern California, an area subject to frequent and sometimes severe earthquake activity.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of the Company (DCO) is listed on the New York Stock Exchange. On December 31, 2003, the Company had approximately 468 holders of record of common stock. No dividends were paid during 2003 or 2002. The following table sets forth the high and low closing sales prices per share for the Company's common stock as reported on the New York Stock Exchange for the fiscal periods indicated.

	2003		2002		2001	
	High	Low	High	Low	High	Low
First Quarter	\$16.40	\$ 9.80	\$19.70	\$11.00	\$15.02	\$11.06
Second Quarter	14.20	10.50	26.24	18.09	14.10	12.15
Third Quarter	17.50	13.80	24.10	16.19	14.10	8.80
Fourth Quarter	22.50	17.85	19.10	11.64	11.10	8.60

ITEM 6. SELECTED FINANCIAL DATA

Year ended December 31,	2003(a)	2002	2001(a)	2000	1999(a)
(In thousands, except per share amounts)					
Net Sales	\$225,906	\$212,446	\$212,744	\$152,273	\$132,438
Gross Profit as a Percentage of Sales	22.4%	19.5%	26.4%	29.6%	31.5%
Income from Continuing Operations					
Before Taxes	23,144	15,504	25,188	22,131	22,316
Income Tax Expense	(6,943)	(5,582)	(9,073)	(8,410)	(8,612)
Income from Continuing Operations	16,201	9,922	16,115	13,721	13,704
Loss from Discontinued Operation, Net of Tax	-	(1,092)	(1,512)	(1,001)	(260)
Cumulative Effect of Accounting Change, Net of Tax	-	(2,325)	-	-	-
Net Income	<u>\$ 16,201</u>	<u>\$ 6,505</u>	<u>\$ 14,603</u>	<u>\$ 12,720</u>	<u>\$ 13,444</u>
Earnings Per Share:					
Basic earnings per share					
Income from continuing operations	\$ 1.64	\$ 1.01	\$ 1.67	\$ 1.42	\$ 1.34
Loss from discontinued operation, net of tax	-	(0.11)	(0.16)	(0.10)	(0.02)
Cumulative Effect of Accounting Change, Net of Tax	-	(0.24)	-	-	-
Basic Earnings Per Share	<u>\$ 1.64</u>	<u>\$ 0.66</u>	<u>\$ 1.51</u>	<u>\$ 1.32</u>	<u>\$ 1.32</u>
Diluted earnings per share					
Income from continuing operations	\$ 1.63	\$ 0.99	\$ 1.66	\$ 1.40	\$ 1.30
Loss from discontinued operation, net of tax	-	(0.11)	(0.16)	(0.10)	(0.02)
Cumulative Effect of Accounting Change, Net of Tax	-	(0.23)	-	-	-
Diluted Earnings Per Share	<u>\$ 1.63</u>	<u>\$ 0.65</u>	<u>\$ 1.50</u>	<u>\$ 1.30</u>	<u>\$ 1.28</u>
Working Capital	\$ 29,660	\$ 33,986	\$ 45,819	\$ 31,403	\$ 29,862
Total Assets	198,041	197,610	216,075	150,364	141,802
Long-Term Debt, Including Current Portion	2,585	25,850	52,298	19,654	27,840
Total Shareholders' Equity	137,750	120,442	114,602	99,529	87,842

(a) In November 1999 and June 2001, the Company acquired Parsons and Composite Structures, respectively, which are now a part of DAS. In April 1999, August 2001 and August 2003 the Company acquired the SMS, Fort Defiance and DBP, respectively, which are now part of DTI. These transactions were accounted for as purchase business combinations. (See Note 2 to Consolidated Financial Statements for further discussion.)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Ducommun designs, engineers and manufactures aerostructure and electromechanical components and subassemblies principally for the aerospace industry. The Company manufactures components and assemblies principally for domestic and foreign commercial and military aircraft and space programs. Domestic commercial aircraft programs include the Boeing 737NG, 747, 757, 767 and 777. Foreign commercial aircraft programs include the Airbus Industrie A330, A340 and A340-600 aircraft, Bombardier business and regional jets, and the Embraer 145 and 170/190. Major military programs include the Boeing C-17, F-15 and F-18 and Lockheed Martin F-16, various Sikorsky, Bell, Boeing Apache and Augusta helicopter programs, and various aircraft and shipboard electronics upgrade programs. Space programs include the space shuttle external fuel tank, and various commercial and military space launch and satellite programs.

Critical Accounting Policies

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. The Company records provisions for estimated losses on contracts in the period in which such losses are identified.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses from the inability of customers to make required payments. The allowance for doubtful accounts is evaluated periodically based on the aging of accounts receivable, the financial condition of customers and their payment history, historical write-off experience and other assumptions.

Inventory Valuation

Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. The Company assesses the inventory carrying value and reduces it if necessary to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. The Company's customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the Company. The Company maintains an allowance for inventories for potentially excess and obsolete inventories and gross inventory levels that are carried at costs that are higher than their market values. If market conditions are less favorable than those projected by management, such as an unanticipated decline in demand not meeting expectations, inventory write-downs may be required.

Property and Depreciation

Property and equipment, including assets recorded under capital leases, are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives and, in the case of leasehold improvements, over the shorter of the lives of the improvements or the lease term. The Company evaluates long-lived assets for recoverability, when significant changes in conditions occur, and recognizes impairment losses, if any, based upon the fair value of the assets.

Goodwill

The Company's business acquisitions have typically resulted in goodwill, which affects the amount of possible impairment expense that the Company will incur. The determination of the value of goodwill requires management to make estimates and assumptions that affect the Company's consolidated financial statements. The Company performs a goodwill impairment test annually in its fourth quarter and between annual tests, in certain circumstances, whenever events may indicate an impairment may have occurred. In assessing the recoverability of the Company's goodwill, management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Standards, No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Acquisitions

In August 2003, the Company acquired the assets of DBP Microwave, Inc. ("DBP"), a privately held company based in Azusa, California for \$2,322,000 in cash and a \$400,000 nonnegotiable promissory note. DBP is a manufacturer of electromechanical RF and microwave switches for both aerospace and nonaerospace applications, and is now part of the Company's Ducommun Technologies, Inc. ("DTI"), subsidiary. In August 2001, the Company, acquired certain assets of the Fort Defiance, Arizona operation of Packard Hughes Interconnect Wiring Systems, a subsidiary of Delphi Automotive Systems Corp. ("Fort Defiance") for \$4,590,000 in cash. Fort Defiance supplies wiring harnesses and cable assemblies for use in commercial and military aerospace applications and other military applications, and is now part of the Company's DTI subsidiary. In June 2001, the Company acquired all of the units of Composite Structures, LLC ("Composite Structures"), for \$47,966,000 in cash and \$5,354,000 in nonnegotiable promissory notes. Composite Structures designs and manufactures metal, fiberglass and carbon composite aerostructures, and is now part of the Company's Ducommun AeroStructures, Inc., ("DAS") subsidiary. The acquisitions were accounted for under the purchase method of accounting and, accordingly, the operating results for these acquisitions have been included in the consolidated statements of income since the dates of the respective acquisitions. The cost of the acquisitions was allocated on the basis of the estimated fair value of the assets acquired and liabilities assumed. These acquisitions accounted for approximately \$25,627,000 and \$23,958,000 of the excess of cost over net assets acquired at December 31, 2003 and December 31, 2002, respectively. The acquisitions were funded from internally generated cash, notes and other accounts payable to sellers, and borrowings under the Company's credit agreement (see Financial Condition for additional information). These acquisitions strengthened the Company's position in the aerospace industry and added complementary lines of business.

Disposition

In October 2002, Ducommun sold the capital stock of its airline seating manufacturing subsidiary, Brice Manufacturing Company, Inc. ("Brice"), for \$1,300,000 in cash. Brice has been classified as a discontinued operation in the accompanying financial statements.

Results of Operations

2003 Compared to 2002

Net sales in 2003 were \$225,906,000, compared to net sales of \$212,446,000 for 2002. Net sales in 2003 benefited by approximately \$2,500,000 in sales from the August 2003 acquisition of DBP Microwave. The Company's mix of business in 2003 was approximately 65% military, 30% commercial, and 5% space, compared to 58% military, 38% commercial, and 4% space in 2002. Foreign sales decreased to 5% of sales in 2003 from 7% in 2002. The Company did not have sales to any foreign country greater than 4% of total sales in 2003 or 2002.

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During 2003 and 2002, sales to Boeing were \$113,071,000 and \$105,035,000, respectively; sales to Raytheon were \$29,755,000 and \$26,524,000, respectively; and sales to Lockheed Martin were \$16,509,000 and \$11,913,000, respectively. At December 31, 2003, trade receivables from Boeing, Raytheon and Lockheed Martin were \$11,405,000, \$3,073,000 and \$2,133,000, respectively. The sales and receivables relating to Boeing, Raytheon and Lockheed Martin are diversified over a number of different commercial, space and military programs.

The Company's commercial business is represented on virtually all of today's major commercial aircraft. During 2003, commercial sales for Boeing aircraft and various regional business aircraft were significantly lower, principally because of the decline in commercial jet aircraft deliveries. Sales related to commercial business were approximately \$67,532,000, or 30% of total sales in 2003. The Boeing 737/737NG program accounted for approximately \$26,396,000 in sales in 2003.

Military components manufactured by the Company are employed in many of the country's front-line fighters, bombers, helicopters and support aircraft, as well as many sea-based vehicles. The Company's defense business is widely diversified among military manufacturers and programs. Sales related to military programs were approximately \$147,954,000, or 65% of total sales in 2003. In 2003, the C-17 program accounted for approximately \$32,614,000 in sales and the Apache helicopter program accounted for approximately \$35,356,000 in sales.

In the space sector, the Company produces components for the expendable fuel tanks which help boost the Space Shuttle vehicle into orbit. Components are also produced for a variety of unmanned launch vehicles and satellite programs. During 2003, sales related to space programs were higher due to higher sales for the Space Shuttle program partially offset by lower sales to all other space programs. Sales related to space programs were approximately \$10,497,000, or 5% of total sales in 2003.

At December 31, 2003, backlog believed to be firm was approximately \$283,901,000, compared to \$289,857,000 at December 31, 2002. The backlog decrease from December 31, 2002 was primarily due to lower bookings for commercial programs. Approximately \$149,000,000 of the total backlog is expected to be delivered during 2004.

Gross profit, as a percentage of sales, increased to 22.4% in 2003 from 19.5% in 2002. This increase was primarily the result of lower production cost overruns and warranty reserve expenses in 2003 compared to 2002, as well as changes in sales mix and lower overhead expenses as a percentage of sales due to higher sales in 2003 compared to 2002. During the year ended December 31, 2002, the Company established a \$2,100,000 provision for estimated cost overruns related to the A330/340 program, and increased its provisions for warranty reserves by \$1,605,000 and additional inventory reserves by \$1,402,000 for main rotor blades and related parts in inventory for the Apache helicopter. During the year ended December 31, 2003, the Company increased its provision for warranty reserves by \$184,000 for main and tail rotor blades for the Apache helicopter. The Company and its customer are in the process of determining the exact number of these main and tail rotor blades that must be repaired or scrapped. Gross profit in 2003 benefited from a \$763,000 reduction in the provision for contract cost overruns as a result of shipments and improved contract performance.

Selling, general and administrative expenses, as a percentage of sales, were 12.4% in 2003, compared to 11.5% in 2002. Selling, general and administrative expenses in 2003 included accrued bonuses of approximately \$2,358,000. Selling, general and administrative expenses in 2002 included \$1,358,000 of consulting and severance costs, and \$323,000 of accrued bonuses.

Effective January 1, 2002, the Company adopted, Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). As a result of the adoption of SFAS No. 141 and SFAS No. 142, goodwill and intangible assets with indefinite useful lives are no longer amortized but rather tested at least annually for impairment. In the first quarter of 2002, the Company recorded a non-cash, pre-tax charge of \$3,633,000 for goodwill impairment at its Brice reporting unit in accordance with SFAS No. 142. This charge was reflected as a cumulative effect of accounting change, net of taxes, of \$2,325,000, or \$0.23 per diluted share in 2002.

Gain on sale of real estate was \$1,260,000 in 2003. In December 2003, the Company sold real estate, that was not needed for the Company's operations for \$4,825,000 in cash.

Interest expense decreased to \$753,000 in 2003 compared to \$1,632,000 for 2002. The decrease in interest expense was primarily due to lower debt levels and lower interest rates in 2003 compared to 2002.

Income tax expense increased to \$6,968,000 in 2003, compared to \$5,582,000 in 2002. The increase in income tax expense was primarily due to the increase in income before taxes partially offset by a lower effective income tax rate. The Company's effective tax rate for 2003 was 30.0%, compared to 35.6% in 2002, primarily due to higher research and development tax credits that became available in 2003. The Company currently expects the effective tax rate to be higher in 2004 than in 2003. Cash expended to pay income taxes decreased to \$5,026,000 in 2003, compared to \$5,822,000 in 2002.

Net income for 2003 was \$16,201,000, or \$1.63 diluted earnings per share, compared to \$6,505,000, or \$0.65 diluted earnings per share in 2002. Net income for 2003 included a tax benefit of \$1,301,000, or \$0.13 per diluted share, from research and development credits which lowered the Company's effective tax rate, and an after tax gain of \$882,000, or \$0.09 per diluted share, on the sale of real property not needed for the Company's operations. Net income for 2002 included a charge of \$2,325,000, or \$0.23 per diluted share, for goodwill impairment at Brice, and a loss from discontinued operation of \$1,092,000, or \$0.11 per diluted share, for Brice.

2002 Compared to 2001

Net sales in 2002 of \$212,446,000 were flat compared to net sales for 2001. Net sales in 2002 benefited from full year sales from the Fort Defiance and Composite Structures acquisitions completed in 2001. These two acquisitions had sales of \$63,539,000 in 2002 compared to sales of \$43,351,000 in 2001. Excluding the Fort Defiance and Composite Structures acquisitions, sales decreased 12% in 2002 compared to 2001. The Company's mix of business was approximately 58% military, 38% commercial, and 4% space in 2002, compared to 44% military, 51% commercial, and 5% space in 2001. Foreign sales decreased to 7% of sales in 2002 from 10% in 2001. The Company did not have sales to any foreign country greater than 4% of total sales in 2002 or 2001.

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During 2002 and 2001, sales to Boeing were \$105,035,000 and \$106,106,000, respectively; sales to Raytheon were \$26,524,000 and \$16,571,000, respectively; and sales to Lockheed Martin were \$11,913,000 and \$9,556,000, respectively. At December 31, 2002, trade receivables from Boeing, Raytheon and Lockheed Martin were \$11,667,000, \$1,563,000 and \$982,000, respectively.

During 2002, commercial sales for Boeing aircraft and various regional business aircraft were significantly lower, principally because of the dramatic decline in commercial jet aircraft deliveries. Sales related to commercial business were approximately \$79,960,000, or 38% of total sales in 2002. The Boeing 737/737NG program accounted for approximately \$29,937,000 in sales in 2002.

Sales related to military programs were approximately \$123,606,000, or 58% of total sales in 2002. In 2002, the C-17 program accounted for approximately \$34,706,000 in sales and the Apache helicopter program accounted for approximately \$22,818,000 in sales.

During 2002, sales related to space programs were lower due to timing differences in production scheduling for the Space Shuttle program. Sales related to space programs were approximately \$8,880,000, or 4% of total sales in 2002.

Gross profit, as a percentage of sales, decreased to 19.5% in 2002 from 26.4% in 2001. This decrease was primarily the result of a 12% drop in sales (adjusted for acquisitions), the impact of spreading fixed overhead costs over a smaller sales volume, and increasing pricing pressures on both new contracts and renewals of existing contracts. In addition, gross profit margins declined due to several factors including additional provisions at Ducommun AeroStructures for estimated future losses on new contracts placed into production during 2002, and quality issues with the Company's Apache helicopter blade program, for which an increase in the warranty reserve and an increase in inventory reserves were recorded. Estimates of overrun provisions are subject to customers' future production rates and delivery schedules as well as the Company's future cost structure and learning curve assumptions. During 2002, the Company started production on a contract related to the A330/340 program and experienced significant production cost overruns. Based on currently available information and various assumptions during the second half of 2002, the Company established a \$2,100,000 provision for estimated cost overruns on this contract. In addition, the Company manufactures main and tail rotor blades for the Apache helicopter. Approximately 59 of the main rotor blades manufactured by the Company for the Apache helicopter were identified as potentially nonconforming to specifications. The Company and its customer have developed a testing method to determine which, if any, of these main rotor blades must be repaired or scrapped. Based on currently available information, the Company increased its provision for warranty reserve by \$1,605,000 and recorded an additional inventory reserve of \$1,402,000 for main rotor blades and related parts included in inventory.

Selling, general and administrative expenses, as a percentage of sales, were 11.5% in 2002, compared to 11.9% in 2001. Selling, general and administrative expenses in 2002 included \$1,358,000 of consulting and severance costs and \$323,000 of accrued bonuses. Selling, general and administrative expenses in 2001 included \$3,677,000 of accrued bonuses and an \$808,000 charge for the settlement of a lawsuit brought by Com Dev Consulting Ltd.

Goodwill amortization expense decreased to \$0 in 2002 compared to \$3,220,000 in 2001. Effective January 1, 2002, the Company adopted, Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). As a result of the adoption of SFAS No. 141 and SFAS No. 142, goodwill and intangible assets with indefinite useful lives are no longer amortized but rather tested at least annually for impairment. In the first quarter of 2002, the Company recorded a non-cash, pre-tax charge of \$3,633,000 for goodwill impairment at its Brice reporting unit in accordance with SFAS No. 142. This charge is reflected as a cumulative effect of accounting change, net of taxes, of \$2,325,000, or \$0.23 per diluted share.

Interest expense decreased to \$1,632,000 in 2002 compared to \$2,369,000 for 2001. The decrease in interest expense was primarily due to lower debt levels and lower interest rates in 2002 compared to 2001.

Income tax expense decreased to \$5,582,000 in 2002, compared to \$9,073,000 in 2001. The decrease in income tax expense was primarily due to the decrease in income before taxes. Cash expended to pay income taxes decreased to \$5,822,000 in 2002, compared to \$8,454,000 in 2001.

Net income for 2002 was \$6,505,000, or \$0.65 diluted earnings per share, compared to \$14,603,000, or \$1.50 diluted earnings per share in 2001. Net income for 2002 included a charge of \$2,325,000, or \$0.23 per diluted share, for goodwill impairment at Brice and a loss from discontinued operation of \$1,092,000, or \$0.11 per diluted share, for Brice. Net income for 2002 decreased 55% compared to 2001. Net income for 2001 included a loss from discontinued operation of \$1,512,000, or \$0.16 per diluted share, for Brice and an after-tax charge of \$517,000, or \$0.05 per diluted share, for the Com Dev lawsuit settlement, partially offset by a tax benefit of \$450,000, or \$0.04 per diluted share, for research and development credits used to lower the Company's effective tax rate.

Financial Condition

Liquidity and Capital Resources

Net cash provided by operating activities for 2003, 2002 and 2001 was \$30,457,000, \$25,263,000 and \$33,321,000, respectively. Net cash provided by operating activities for 2003 included \$16,201,000 of net income, an increase in accrued and other liabilities of \$7,480,000 (consisting primarily of an increase of \$5,275,000 for accrued bonuses and incentives, an increase in customers cash deposit received of \$1,828,000 and an increase in accrued workers' compensation insurance expenses of \$1,208,000), \$7,569,000 of depreciation, an increase of \$3,734,000 in deferred income tax expense, and a \$1,714,000 decrease in inventory, partially offset by a gain of \$1,260,000 resulting from the sale of real estate not needed for the Company's operation, a reduction of \$2,151,000 in accounts payable due to timing of payments of vendors invoices, a \$1,716,000 increase in accounts receivable due to timing in shipments and billings to customers, a \$1,453,000 increase in prepaid income taxes and a reduction of \$763,000 in the provision for contract cost overruns.

Net cash used in investing activities for 2003 consisted primarily of \$5,767,000 of capital expenditures and \$2,322,000 of cash paid for the acquisition of DBP, partially offset by the net proceeds of \$4,593,000 from the sale of real estate not needed for the Company's operations.

Net cash used in financing activities in 2003 of \$23,303,000 included \$23,666,000 of net repayments by the Company of principal on outstanding borrowings, partially offset by \$363,000 of net cash received from the exercise of common stock options.

In August 2003, the Company acquired the assets of DBP Microwave, Inc. ("DBP"), a privately held company based in Azusa, California for \$2,322,000 in cash and a \$400,000 nonnegotiable promissory note. DBP is a manufacturer of electromechanical RF and microwave switches for both aerospace and nonaerospace applications, and is now part of the Company's Ducommun Technologies, Inc., subsidiary.

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 2003. In December 2002, the Company and its lenders amended the Company's credit agreement. The amended credit agreement provides for a \$75,000,000 unsecured revolving credit line gradually declining to \$60,000,000 at maturity on September 30, 2005. Interest is payable monthly on the outstanding borrowings based on the bank's prime rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter (4.25% at December 31, 2003). A Eurodollar pricing option is also available to the Company for terms of up to six months at the Eurodollar rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter (2.60% at December 31, 2003). At December 31, 2003, the Company had \$73,578,000 of unused lines of credit, after deducting \$1,422,000 for outstanding standby letters of credit. The credit agreement includes minimum interest coverage, maximum leverage, minimum EBITDA (earnings before interest, taxes, depreciation and amortization) and minimum net worth covenants, an unused commitment fee based on the leverage ratio (0.40% per annum at December 31, 2003), and limitations on future dispositions of property, repurchases of common stock, outside indebtedness, capital expenditures and acquisitions.

The weighted average interest rate on borrowings outstanding was 5.69% and 3.81% at December 31, 2003 and 2002, respectively.

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

Aggregate maturities of long-term debt during the next five years are as follows: 2004, \$2,185,000; 2005, \$400,000; 2006, \$0; 2007, \$0; 2008, \$0.

As part of the acquisition of Composite Structures, described in Note 2, in June 2001, the Company assumed the assets and liabilities of a defined benefit plan covering certain hourly employees at the Monrovia facility of Ducommun AeroStructures, Inc. Pension plan benefits are generally determined on the basis of the retiree's age and length of service. Assets of the defined benefit plan are composed primarily of fixed income and equity securities. On December 31, 2003, the Company's annual measurement date, the accumulated benefit obligation, related to the Company's defined benefit plan, exceeded the fair value of the pension plan assets. Such excess is referred to as an unfunded accumulated benefit obligation. In accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting

for Pensions," the Company recognized minimum pension liability of \$2,041,000, net of tax and \$2,679,000, net of taxes at December 31, 2003 and December 31, 2002, respectively, which decreased shareholders' equity and is included in other long-term liabilities. This charge to shareholders' equity represents a net loss not yet recognized as pension expense. This charge did not affect reported earnings, and would be reversible if either interest rates increase or market performance and plan returns improve or contributions cause the pension plan to return to fully funded status. During the year ended December 31, 2003, the capital market performance improved resulting in a reduction of the minimum pension liability by \$638,000, net of tax. Pension expense will be approximately \$562,000 in 2004 compared to \$598,000 in 2003. The Company was not required to make any contributions to the pension plan in 2003, but plans to contribute as much as \$1,300,000 in 2004.

The Company expects to spend less than \$10,000,000 for capital expenditures in 2004. The Company believes that the ongoing subcontractor consolidation makes acquisitions an increasingly important component of the Company's future growth. Accordingly, the Company plans to continue to seek attractive acquisition opportunities and to make substantial capital expenditures for manufacturing equipment and facilities to support long-term contracts for both commercial and military aircraft and space programs.

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 December 31, 2003 the Company had the following categories of contractual obligations (in thousands):

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$ 2,585	\$2,185	\$ 400	\$ -	\$ -
Operating leases	8,038	2,323	2,533	1,579	1,603
Other long-term liabilities	2,041	1,306	735	-	-
Total	<u>\$12,664</u>	<u>\$5,814</u>	<u>\$3,668</u>	<u>\$1,579</u>	<u>\$1,603</u>

The DAS facility located in El Mirage, California has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination. Based upon currently available information, the Company has established a provision for the cost of such investigation and corrective action. DAS expects to spend approximately \$1 million for future investigation and corrective action for groundwater contamination at its El Mirage location. However, the Company's ultimate liability in connection with the contamination will depend upon a number of factors, including changes in existing laws and regulations, and the design and cost of the construction, operation and maintenance of the corrective action.

The Company's subsidiary, Composite Structures, LLC ("Composite"), and several other companies have been ordered by a California environmental agency to investigate and clean up soil and groundwater contamination at its Monrovia, California facility. Composite has filed a petition for review of the order.

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

Off-Balance Arrangements

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

Recent Accounting Pronouncements

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN No. 46"), was issued. This Interpretation requires an investor with a majority of the variable interests (primary beneficiary) in a variable interest entity ("VIE") to consolidate the entity. It also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the voting equity investors do not have a controlling interest, or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from other parties. FIN No. 46 is generally effective for the Company in fiscal 2004 and is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In May 2003, Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"), was issued. SFAS No. 150 requires that the following financial instruments be classified as liabilities, or assets in some circumstances: (1) mandatorily redeemable shares that represent an unconditional obligation requiring the issuer to redeem those shares by transferring its assets at a specified or determinable date (or dates), or upon an event that is certain to occur, (2) outstanding shares, that, at inception, represent an obligation to repurchase the issuer's equity shares, or are indexed to such an obligation, and that require or may require the issuer to settle the obligation by transferring assets, and (3) unconditional obligations, or financial instruments other than outstanding shares, that represents a conditional obligation that the issuer must or may settle by issuing a variable number of its equity shares, if at inception, the monetary value of the obligation is based solely or predominantly on any of the following: (a) a fixed monetary amount known at inception, (b) variations in something other than the fair value

of the issuer's equity shares, or (c) variations inversely related to changes in the fair value of the issuer's equity shares. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, with certain exceptions. The adoption of SFAS No. 150 did not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2003, Statement of Financial Accounting Standards No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106, and a revision of FASB Statement No. 132" ("SFAS No. 132 (revised 2003)"), was issued. SFAS No. 132 (revised 2003) revises employers' disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 (revised 2003) requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The required information should be provided separately for pension plans and for other postretirement benefit plans. This Statement is effective for fiscal years ended after December 15, 2003. The Company has adopted the provisions of SFAS No. 132 (revised 2003).

Additional Risk Factors

The Company's business, financial condition, results of operations and cash flows may be affected by known and unknown risks, uncertainties and other factors. Any of these risks, uncertainties and other factors could cause the Company's future financial results to differ materially from recent financial results or from currently anticipated future financial results. In addition to those noted elsewhere in this report, the Company is subject to the following risks and uncertainties:

Aerospace Markets Are Cyclical

The aerospace markets in which the Company sells its products are cyclical and have experienced periodic declines. The market for the Company's products sold for new commercial aircraft production is currently experiencing a decline, the depth and duration of which is unknown. The Company's sales are, therefore, unpredictable and tend to fluctuate based on a number of factors, including economic conditions and developments affecting the aerospace industry and the customers served. If the current downturn in commercial aircraft production were to continue for an extended period or if conditions in the commercial aircraft market were to worsen, the negative impact on the Company's business, financial condition and operating results could be further exacerbated.

Commercial Aircraft Production Rates Are Declining

The Company estimates that, in 2003, approximately 18% of its sales were for Boeing commercial aircraft and approximately 12% of its sales were for other commercial aircraft and miscellaneous nonaerospace commercial applications. The production rate for new commercial aircraft is expected to decline at least through 2004, and the timing of any rebound in new commercial aircraft production is unknown. These reductions in commercial aircraft production are expected to affect adversely the Company's result of operations and cash flows.

Military and Space-Related Products Are Dependent Upon Government Spending

The Company estimates that, in 2003, approximately 70% of its sales were derived from military and space markets. These military and space markets are largely dependent upon government spending, particularly by the United States government. Changes in the levels of spending for military and space could improve or negatively impact the Company's prospects in

its military and space markets. The tragedy involving the Space Shuttle Columbia may further affect government spending for space programs, which could adversely affect the Company.

The Company Is Dependent on Boeing Commercial Aircraft, the C-17 Aircraft and Apache Helicopter Programs

The Company estimates that, in 2003, approximately 18% of its sales were for Boeing commercial aircraft, 14% of its sales were for the C-17 aircraft, and 16% of its sales were for the Apache helicopter. The Company's sales for Boeing commercial aircraft and the C-17 aircraft are principally for new aircraft production; and the Company's sales for the Apache helicopter program are principally for replacement rotor blades. Any significant change in production rates for these programs would have a material effect on the Company's results of operations and cash flows. In addition, there is no guarantee that the Company's current significant customers will continue to buy products from the Company at current levels. The loss of a key customer could have a material adverse effect on the Company. For example, the Company manufactures the spoilers for the Boeing 737NG aircraft (the "737 Spoilers"), which contributed approximately \$12,062,000 to sales in 2003. The Company has been informed that a competitor has been awarded a contract to produce the 737 Spoilers. Although the precise timing and amount of any transition of work to the competitor is presently unknown, such a transition of work may occur as early as late 2004.

Terrorist Attacks, Such As Those That Occurred on September 11, 2001, Have Adversely Impacted the Company's Operations and May Do So Again in the Future

The terrorist attacks that occurred on September 11, 2001 have had a negative impact on commercial air travel and, consequently, on the manufacture of commercial aircraft and the demand for the Company's commercial aircraft products. There can be no assurance that the current world political and military tensions, or the United States military actions, will not lead to further acts of terrorism and civil disturbances in the United States or elsewhere. These attacks may strike directly at the physical facilities of the Company, its suppliers or its customers. Such attacks could have an adverse impact on the Company's domestic and international sales, supply chain, production capabilities, insurance premiums or ability to purchase insurance, thereby adversely affecting the Company's financial position, results of operations and cash flows. In addition, the consequences of terrorist attacks and armed conflicts are unpredictable, and their long-term effects upon the Company are uncertain.

The Company Is Experiencing Competitive Pricing Pressures

The aerospace industry is highly competitive and competitive pressures may adversely affect the Company. The Company competes worldwide with a number of United States and international companies that are larger than it in terms of resources and market share. The Company is experiencing competitive pricing pressures, particularly in its Ducommun AeroStructures business. These competitive pricing pressures have had, and are expected to continue to have, a material adverse effect on the Company's business, financial condition and operating results.

The Company Faces Risks of Cost Overruns and Losses on Fixed-Price Contracts

The Company sells its products under firm, fixed-price contracts providing for a fixed price for the products regardless of the production costs incurred by the Company. As a result, manufacturing inefficiencies, start-up costs and other factors may result in cost overruns and losses on contracts. The cost of producing products also may be adversely affected by increases

in the cost of labor, materials, outside processing, overhead and other factors. In many cases, the Company makes multiyear firm, fixed-price commitments to its customers, without assurance that the Company's anticipated production costs will be achieved.

The Company's Products and Processes Are Subject to Risks from Changes in Technology

The Company's products and processes are subject to risks of obsolescence as a result of changes in technology. To address this risk, the Company invests in product design and development, and for capital expenditures. There can be no guarantee that the Company's product design and development efforts will be successful, or that the amounts of money required to be invested for product design and development and capital expenditures will not increase materially in the future.

The Company Faces Risks Associated with Acquisitions and Dispositions of Businesses

A key element of the Company's long-term strategy has been growth through acquisitions. The Company is continuously reviewing and actively pursuing acquisitions, including acquisitions outside of its current aerospace markets. Acquisitions may require the Company to incur additional indebtedness, resulting in increased leverage. Any significant acquisition may result in a material weakening of the Company's financial position and a material increase in the Company's cost of borrowings. Acquisitions also may require the Company to issue additional equity, resulting in dilution to existing stockholders. This additional financing for acquisitions and capital expenditures may not be available on terms acceptable or favorable to the Company. Acquired businesses may not achieve anticipated results, and could result in a material adverse effect on the Company's financial condition, results of operations and cash flows. The Company also periodically reviews its existing businesses to determine if they are consistent with the Company's strategy. The Company has sold, and may sell in the future, business units and product lines, which may result in either a gain or loss on disposition.

The Company's acquisition strategy exposes it to risks, including the risk that the Company may not be able to successfully integrate acquired businesses. The Company's ability to grow by acquisition is dependent upon, among other factors, the availability of suitable acquisition candidates. Growth by acquisition involves risks that could have a material adverse effect on the Company's business, financial condition and operating results, including difficulties in integrating the operations and personnel of acquired companies, the potential amortization of acquired intangible assets, the potential impairment of goodwill and the potential loss of key employees of acquired companies. The Company may not be able to consummate acquisitions on satisfactory terms or, if any acquisitions are consummated, to satisfactorily integrate these acquired businesses.

Goodwill Could Be Impaired in the Future

In assessing the recoverability of the Company's goodwill at December 31, 2003, management was required to make certain critical estimates and assumptions. These estimates and assumptions, with respect to the Company's Ducommun AeroStructures, Inc. ("DAS"), reporting unit, included that during the next several years DAS will make improvements in manufacturing efficiency, achieve reductions in operating costs, and obtain increases in sales and backlog. If any of these or other estimates and assumptions are not realized in the future, the Company may be required to record an impairment charge for the goodwill of DAS. The goodwill of DAS was \$36,785,000 at December 31, 2003.

Significant Consolidation in the Aerospace Industry Could Adversely Affect the Company's Business and Financial Results

The aerospace industry is experiencing significant consolidation, including among the Company's customers, competitors and suppliers. Consolidation among the Company's customers may result in delays in the award of new contracts and losses of existing business. Consolidation among the Company's competitors may result in larger competitors with greater resources and market share, which could adversely affect the Company's ability to compete successfully. Consolidation among the Company's suppliers may result in fewer sources of supply and increased cost to the Company.

The Company's Manufacturing Operations May Be Adversely Affected by the Availability of Raw Materials and Components from Suppliers

In some cases, the Company's customers supply raw materials and components to the Company. In other cases, the Company's customers designate specific suppliers from which the Company is directed to purchase raw materials and components. As a result, the Company may have limited control over the selection of suppliers and the timing of receipt and cost of raw materials and components from suppliers. The failure of customers and suppliers to deliver on a timely basis raw materials and components to the Company may adversely affect the Company's results of operations and cash flows.

Environmental Liabilities Could Adversely Affect the Company's Financial Results

The Company is subject to various environmental laws and regulations. The Company is investigating and taking corrective action for groundwater contamination at its DAS subsidiary's El Mirage, California site. The Company is also a potentially responsible party at certain sites at which it previously disposed of hazardous wastes. There can be no assurance that future developments, lawsuits and administrative actions, and liabilities relating to environmental matters will not have a material adverse effect on the Company's results of operations or cash flows.

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

The DAS facility located in El Mirage, California has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination. Based upon currently available information, the Company has established a provision for the cost of such investigation and corrective action. DAS expects to spend approximately \$1 million for future investigation and corrective action for groundwater contamination at its El Mirage location. However, the Company's ultimate liability in connection with the contamination will depend upon a number of factors, including changes in existing laws and regulations, and the design and cost of the construction, operation and maintenance of the corrective action.

The Company's subsidiary, Composite Structures, LLC ("Composite"), and several other companies have been ordered by a California environmental agency to investigate and clean up soil and groundwater contamination at its Monrovia, California facility. Composite has filed a petition for review of the order.

Product Liability Claims in Excess of Insurance Could Adversely Affect the Company's Financial Results and Financial Condition

The Company faces potential liability for personal injury or death as a result of the failure of products designed or manufactured by the Company. Although the Company maintains product liability insurance, any material product liability not covered by insurance could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

Damage or Destruction of the Company's Facilities Caused by Earthquake or Other Causes Could Adversely Affect the Company's Financial Results and Financial Condition

Although the Company maintains standard property casualty insurance covering its properties, the Company does not carry any earthquake insurance because of the cost of such insurance. Most of the Company's properties are located in Southern California, an area subject to frequent and sometimes severe earthquake activity. Even if covered by insurance, any significant damage or destruction of the Company's facilities could result in the inability to meet customer delivery schedules and may result in the loss of customers and significant additional costs to the Company. As a result, any significant damage or destruction of the Company's properties could have a material adverse effect on the Company's business, financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data under the captions "Consolidated Statements of Income," "Consolidated Balance Sheets," "Consolidated Statements of Cash Flows," "Consolidated Statements of Changes in Shareholders' Equity," and "Notes to Consolidated Financial Statements," together with the report thereon of PricewaterhouseCoopers LLP dated March 1, 2004, appearing on pages 29 through 54 are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure and Procedures

As of December 31, 2003 (the "Evaluation Date") the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the Evaluation Date.

(b) Changes in Internal Controls

No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors of the Registrant

The information under the caption "Election of Directors" in the 2004 Proxy Statement is incorporated herein by reference.

Executive Officers of the Registrant

The following table sets forth the names and ages of all executive officers of the Company, all positions and offices held with the Company and brief accounts of business experience during the past five years. Executive officers do not serve for any specified terms, but are typically elected annually by the Board of Directors of the Company or, in the case of subsidiary presidents, by the Board of Directors of the respective subsidiaries.

Name (Age)	Positions and Offices Held With Company (Year Elected)	Other Business Experience (Past Five Years)
Joseph C. Berenato (57)	Chief Executive Officer (1997) and Chairman of the Board (1999)	–
David H. Dittermore (50)	President and Chief Operating Officer (2003)	Independent Business Consultant (2001-2003), Executive Vice President and Chief Operating Officer of Cytex Fiberite, Inc. (1998-2001)
James S. Heiser (47)	Vice President (1990), Chief Financial Officer (1996), General Counsel (1988), Secretary (1987), and Treasurer (1995)	–
Michael W. Williams (49)	Vice President, Corporate Development (1998)	–
Samuel D. Williams (55)	Vice President (1991) and Controller (1988)	–
Paul L. Graham (59)	President of Ducommun Technologies, Inc. (following the merger of Ducommun Technologies, Inc. and MechTronics of Arizona Corp.) (2004)	President of Ducommun Technologies group (2002- 2003); President of Ducommun Technologies, Inc. (1999- present)
Anthony Reardon (53)	President of Ducommun AeroStructures, Inc. (following the merger of Aerochem, Inc., AHF- Ducommun Incorporated, Parsons Precision Products, Inc. and CSD Holdings, Inc.) (2004)	President of Ducommun AeroStructures group (2003); Vice President of Business Management of Ducommun Aerostructures group (2001- 2002); Vice President of Business Management of Composite Structures, LLC (1997-2001)

Audit Committee and Audit Committee Financial Expert

The information under the caption “Committees of the Board of Directors” relating to the Audit Committee of the Board of Directors in the 2004 Proxy Statement is incorporated herein by reference.

Compliance With Section 16(a) of the Exchange Act

The information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2004 Proxy Statement is incorporated herein by reference.

Code of Ethics

The information under the caption “Code of Ethics” in the 2004 Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information under the caption “Compensation of Executive Officers” in the 2004 Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information under the caption “Security Ownership of Certain Beneficial Owners and Management” in the 2004 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information under the caption “Principal Accountant Fees and Services” contained in the 2004 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The following consolidated financial statements of Ducommun Incorporated and subsidiaries, are incorporated by reference in Item 8 of this report.

	<u>Page</u>
Report of Independent Auditors	29
Consolidated Statements of Income—Years ended December 31, 2003, 2002 and 2001	30
Consolidated Balance Sheets—December 31, 2003 and 2002	31
Consolidated Statements of Cash Flows—Years ended December 31, 2003, 2002 and 2001	32
Consolidated Statements of Changes in Shareholders' Equity—Years ended December 31, 2003, 2002 and 2001	33
Notes to Consolidated Financial Statements	34-53

2. Financial Statement Schedule

The following schedule for the years ended December 31, 2003, 2002 and 2001 is filed herewith:

Report of Independent Auditors on Financial Statement Schedule	54
Schedule II—Valuation and Qualifying Accounts and Reserves	55

All other schedules have been omitted because they are not applicable, not required, or the information has been otherwise supplied in the financial statements or notes thereto.

3. Exhibits

See Item 15(c) for a list of exhibits. 56-58

Report of Independent Auditors

To the Board of Directors and Shareholders of Ducommun Incorporated:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) on page 28 present fairly, in all material respects, the financial position of Ducommun Incorporated and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 5 to the consolidated financial statements, the Company changed its method of accounting for goodwill in 2002.

PricewaterhouseCoopers LLP

*Los Angeles, California
March 1, 2004*

Consolidated Statements of Income

Year ended December 31,	2003	2002	2001
(In thousands, except per share amounts)			
Net Sales	\$225,906	\$212,446	\$212,744
Operating Costs and Expenses:			
Cost of goods sold	175,325	170,913	156,548
Selling, general and administrative expenses	27,944	24,397	25,419
Goodwill amortization expense	-	-	3,220
Total Operating Costs and Expenses	203,269	195,310	185,187
Operating Income from Continuing Operations	22,637	17,136	27,557
Gain on Sale of Real Estate	1,260	-	-
Interest Expense	(753)	(1,632)	(2,369)
Income from Continuing Operations Before Taxes	23,144	15,504	25,188
Income Tax Expense	(6,943)	(5,582)	(9,073)
Income from Continuing Operations	16,201	9,922	16,115
Loss from Discontinued Operation, Net of Tax	-	(1,092)	(1,512)
Cumulative Effect of Accounting Change, Net of Tax	-	(2,325)	-
Net Income	\$ 16,201	\$ 6,505	\$ 14,603
Earnings Per Share:			
Basic earnings per share			
Income from continuing operations	\$ 1.64	\$ 1.01	\$ 1.67
Loss from discontinued operation, net of tax	-	(.11)	(.16)
Cumulative effect of accounting change, net of tax	-	(.24)	-
Basic Earnings Per Share	\$ 1.64	\$.66	\$ 1.51
Diluted earnings per share			
Income from continuing operations	\$ 1.63	\$.99	\$ 1.66
Loss from discontinued operation, net of tax	-	(.11)	(.16)
Cumulative effect of accounting change, net of tax	-	(.23)	-
Diluted Earnings Per Share	\$ 1.63	\$.65	\$ 1.50

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

December 31,	2003	2002
(In thousands, except share data)		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,832	\$ 174
Accounts receivable (less allowance for doubtful accounts of \$503 and \$534)	26,275	23,968
Inventories	40,003	41,336
Deferred income taxes	6,217	6,711
Prepaid income taxes	1,593	140
Other current assets	4,277	4,400
Total Current Assets	82,197	76,729
Property and Equipment, Net	56,929	61,936
Deferred Income Taxes	-	1,049
Goodwill (Net of Accumulated Amortization of \$10,996 and \$10,996)	57,201	55,532
Other Assets	1,714	2,364
	<u>\$198,041</u>	<u>\$197,610</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ 2,185	\$ 1,501
Accounts payable	14,200	16,203
Accrued liabilities	36,152	25,039
Total Current Liabilities	52,537	42,743
Long-Term Debt, Less Current Portion	400	24,349
Deferred Income Taxes	5,313	3,122
Other Long-Term Liabilities	2,041	6,954
Total Liabilities	60,291	77,168
Commitments and Contingencies		
Shareholders' Equity:		
Common stock — \$.01 par value; authorized 35,000,000 shares; issued 9,901,965 shares in 2003 and 9,863,985 shares in 2002	99	99
Additional paid-in capital	38,394	37,925
Retained earnings	101,298	85,097
Accumulated other comprehensive loss	(2,041)	(2,679)
Total Shareholders' Equity	137,750	120,442
	<u>\$198,041</u>	<u>\$197,610</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended December 31,	2003	2002	2001
(In thousands)			
Cash Flows from Operating Activities:			
Net Income	\$ 16,201	\$ 6,505	\$ 14,603
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	7,569	8,018	11,080
Deferred income tax provision (benefit)	3,734	485	(1,909)
Income tax benefit related to the exercise of nonqualified stock options	106	761	184
Provision for (recovery of) doubtful accounts	(31)	216	-
Gain on sale of assets	(1,218)	(279)	-
Charge related to the sale of Brice	-	861	-
Provision for warranty and other inventory reserves	62	2,731	105
Provision for (recovery of) contract cost overruns	(763)	1,819	407
Cumulative effect of accounting change, net of tax	-	2,325	-
Changes in Assets and Liabilities, Net of Effects from Acquisitions and Disposition:			
Accounts receivable	(1,716)	3,791	(546)
Inventories	1,714	699	435
Prepaid income taxes	(1,453)	(6)	-
Other assets	923	(282)	72
Accounts payable	(2,151)	(820)	3,244
Accrued and other liabilities	7,480	(2,884)	6,189
Net Cash Provided by Operating Activities from Continuing Operations	30,457	23,940	33,864
Net Cash Provided by (Used in) Operating Activities from Discontinued Operation	-	1,323	(543)
Net Cash Provided by Operating Activities	30,457	25,263	33,321
Cash Flows from Investing Activities:			
Purchase of Property and Equipment	(5,767)	(3,608)	(6,013)
Proceeds from Sale of Brice	-	1,300	-
Proceeds from Sale of Assets	4,593	-	-
Acquisition of Businesses	(2,322)	-	(52,556)
Net Cash Used in Investing Activities	(3,496)	(2,308)	(58,569)
Cash Flows from Financing Activities:			
Net (Repayment) Borrowings of Long-Term Debt	(23,666)	(26,448)	27,290
Net Cash Effect of Exercise Related to Stock Options	363	1,253	286
Net Cash (Used in) Provided by Financing Activities	(23,303)	(25,195)	27,576
Net (Decrease) Increase in Cash and Cash Equivalents	3,658	(2,240)	2,328
Cash and Cash Equivalents—Beginning of Year	174	2,414	86
Cash and Cash Equivalents—End of Year	\$ 3,832	\$ 174	\$ 2,414
Supplemental Disclosures of Cash Flow Information:			
Interest Paid	\$ 802	\$ 1,726	\$ 2,522
Income Taxes Paid	\$ 5,026	\$ 5,822	\$ 8,454

Supplemental information for Non-Cash Investing and Financing Activities:

See Note 2 for non-cash investing activities related to the acquisition and the disposition of businesses.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
(In thousands, except share data)							
Balance at December 31, 2000	9,604,457	\$97	\$36,673	\$ 63,989	\$(1,230)	\$ -	\$ 99,529
Stock options exercised	146,750	2	1,088	-	-	-	1,090
Stock repurchased related to the exercise of stock options	(55,749)	(1)	(803)	-	-	-	(804)
Income tax benefit related to the exercise of nonqualified stock options	-	-	184	-	-	-	184
Treasury stock retired	-	(1)	(1,229)	-	1,230	-	-
Net Income	-	-	-	14,603	-	-	14,603
Balance at December 31, 2001	9,695,458	97	35,913	78,592	-	-	114,602
Stock options exercised	267,797	3	3,357	-	-	-	3,360
Stock repurchased related to the exercise of stock options	(99,270)	(1)	(2,106)	-	-	-	(2,107)
Income tax benefit related to the exercise of nonqualified stock options	-	-	761	-	-	-	761
Minimum pension liability adjustment	-	-	-	-	-	(2,679)	(2,679)
Net Income	-	-	-	6,505	-	-	6,505
Balance at December 31, 2002	9,863,985	99	37,925	85,097	-	(2,679)	120,442
Stock options exercised	49,712	-	620	-	-	-	620
Stock repurchased related to the exercise of stock options	(11,732)	-	(257)	-	-	-	(257)
Income tax benefit related to the exercise of nonqualified stock options	-	-	106	-	-	-	106
Minimum pension liability adjustment	-	-	-	-	-	638	638
Net Income	-	-	-	16,201	-	-	16,201
Balance at December 31, 2003	9,901,965	\$99	\$38,394	\$101,298	\$ -	\$(2,041)	\$137,750

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, after eliminating intercompany balances and transactions.

Cash Equivalents

Cash equivalents consist of highly liquid instruments purchased with original maturities of three months or less. The cost of these investments approximates fair value.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exist, the price is fixed or determinable, collection is reasonable assured and delivery of products has occurred or services have been rendered. The Company records provisions for estimated losses on contracts in the period in which such losses are identified.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses from the inability of customers to make required payments. The allowance for doubtful accounts is evaluated periodically based on the aging of accounts receivable, the financial condition of customers and their payment history, historical write-off experience and other assumptions.

Inventory Valuation

Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. The Company assesses the inventory carrying value and reduces it if necessary to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. The Company's customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the Company. The Company maintains an allowance for inventories for potentially excess and obsolete inventories and gross inventory levels that are carried at costs that are higher than their market values. If market conditions are less favorable than those projected by management, such as an unanticipated decline in demand not meeting expectations, inventory write-downs may be required.

Property and Depreciation

Property and equipment, including assets recorded under capital leases, are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives and, in the case of leasehold improvements, over the shorter of the lives of the improvements or the lease term. The Company evaluates long-lived assets for recoverability, when significant changes in conditions occur, and recognizes impairment losses, if any, based upon the fair value of the assets.

Goodwill

The Company's business acquisitions have typically resulted in goodwill, which affects the amount of possible impairment expense that the Company will incur. The determination of the value of goodwill requires management to make estimates and assumptions that affect the Company's consolidated financial statements. The Company performs goodwill impairment tests on an annual basis in the fourth quarter and between annual tests, in certain circumstances, whenever events may indicate an impairment may have occurred. In assessing the recoverability of the Company's goodwill, management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets.

Warranty Liability

The Company quantifies and records an estimate for warranty related costs based on the Company's actual historical and projected return and failure rates and the current repair costs. Should the Company experience actual return and failure rates, or repair costs that are higher than the estimates used to calculate the provision, the Company's operating results for the period or periods in which such returns or additional costs materialize will be adversely impacted.

Income Taxes

The Company accounts for income taxes in accordance with Statements of Financial Standards, No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Litigation and Commitments

In the normal course of business, the Company and its subsidiaries are defendants in certain litigation, claims and inquiries, including matters relating to environmental laws. In addition, the Company makes various commitments and incurs contingent liabilities. Management's estimates regarding contingent liabilities could differ from actual results.

Environmental Liabilities

Environmental liabilities are recorded when environmental assessments and/or remedial efforts are probable and costs can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or the Company's commitment to a formal plan of action.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in each year. Diluted earnings per share is computed by dividing income available to common shareholders plus income associated with dilutive securities by the weighted average number of common shares outstanding plus any potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock in each year. In 2003, 2002 and 2001, income available to common shareholders was \$16,201,000, \$6,505,000 and

\$14,603,000, respectively. In 2003, 2002 and 2001, the weighted average number of common shares outstanding was 9,876,000, 9,806,000 and 9,662,000, respectively, and the dilutive shares associated with stock options were 83,000, 148,000 and 64,000, respectively.

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"), requires that certain items such as foreign currency translation adjustments, unrealized gains and losses on certain investments in debt and equity securities and minimum pension liability adjustments be presented as separate components of shareholders' equity. SFAS No. 130 defines these as items of other comprehensive income and as such must be reported in a financial statement that is displayed with the same prominence as other financial statements. Accumulated other comprehensive income, as reflected in the Consolidated Statements of Shareholders' Equity, was comprised of a minimum pension liability adjustment of \$2,041,000 and \$2,679,000, net of tax, at December 31, 2003 and December 31, 2002, respectively.

Recent Accounting Pronouncements

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN No. 46"), was issued. This Interpretation requires an investor with a majority of the variable interests (primary beneficiary) in a variable interest entity ("VIE") to consolidate the entity. It also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the voting equity investors do not have a controlling interest, or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from other parties. FIN No. 46 is generally effective for the Company in fiscal 2004 and is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In May 2003, Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"), was issued. SFAS No. 150 requires that the following financial instruments be classified as liabilities, or assets in some circumstances: (1) mandatorily redeemable shares that represent an unconditional obligation requiring the issuer to redeem those shares by transferring its assets at a specified or determinable date (or dates), or upon an event that is certain to occur, (2) outstanding shares, that, at inception, represent an obligation to repurchase the issuer's equity shares, or are indexed to such an obligation, and that require or may require the issuer to settle the obligation by transferring assets, and (3) unconditional obligations, or financial instruments other than outstanding shares, that represents a conditional obligation that the issuer must or may settle by issuing a variable number of its equity shares, if at inception, the monetary value of the obligation is based solely or predominantly on any of the following: (a) a fixed monetary amount known at inception, (b) variations in something other than the fair value of the issuer's equity shares, or (c) variations inversely related to changes in the fair value of the issuer's equity shares. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, with certain exceptions. The adoption of SFAS No. 150 did not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2003, Statement of Financial Accounting Standards No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106, and a revision of FASB Statement No. 132" ("SFAS No. 132 (revised 2003)"), was issued. SFAS No. 132 (revised 2003) revises employers' disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 (revised 2003)

require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The required information should be provided separately for pension plans and for other postretirement benefit plans. This Statement is effective for fiscal years ended after December 15, 2003. The Company has adopted the provisions of SFAS No. 132 (revised 2003).

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.

Note 2. Acquisitions and Disposition

In August 2003, the Company acquired the assets of DBP Microwave, Inc. ("DBP"), a privately held company based in Azusa, California for \$2,322,000 in cash and a \$400,000 nonnegotiable promissory note. DBP is a manufacturer of electromechanical RF and microwave switches for both aerospace and nonaerospace applications, and is now part of the Company's Ducommun Technologies, Inc. ("DTI"), subsidiary. In August 2001, the Company, acquired certain assets of the Fort Defiance, Arizona operation of Packard Hughes Interconnect Wiring Systems, a subsidiary of Delphi Automotive Systems Corp. ("Fort Defiance") for \$4,590,000 in cash. Fort Defiance supplies wiring harnesses and cable assemblies for use in commercial and military aerospace applications and other military applications, and is now part of the Company's DTI subsidiary. In June 2001, the Company acquired all of the units of Composite Structures, LLC ("Composite Structures"), for \$47,966,000 in cash and \$5,354,000 in nonnegotiable promissory notes. Composite Structures designs and manufactures metal, fiberglass and carbon composite aerostructures, and is now part of the Company's Ducommun AeroStructures, Inc., subsidiary. The acquisitions were accounted for under the purchase method of accounting and, accordingly, the operating results for these acquisitions have been included in the consolidated statements of income since the dates of the respective acquisitions. The cost of the acquisitions was allocated on the basis of the estimated fair value of the assets acquired and liabilities assumed. These acquisitions accounted for approximately \$25,627,000 and \$23,958,000 of the excess of cost over net assets acquired at December 31, 2003 and December 31, 2002, respectively. The acquisitions were funded from internally generated cash, notes and other accounts payable to sellers, and borrowings under the Company's credit agreement (see Note 7 for additional information). These acquisitions strengthened the Company's position in the aerospace industry and added complementary lines of business.

The following table presents unaudited pro forma consolidated operating results for the Company for the year ended December 31, 2001 as if the Fort Defiance and Composite Structures acquisitions had occurred as of the beginning of the period presented. Pro forma results for 2003, assuming the acquisition of DBP at the beginning of the period, would not have been materially different from the Company's historical results for the period presented.

	<u>2001</u>
(In thousands, except per share amounts)	
Net sales	\$258,960
Net earnings	14,460
Basic earnings per share	1.50
Diluted earnings per share	1.49

The unaudited pro forma consolidated operating results of the Company are not necessarily indicative of the operating results that would have been achieved had the Fort Defiance and Composite Structures acquisitions been consummated at the beginning of the period presented, and should not be construed as representative of future operating results.

In October 2002, the Company sold the capital stock of its airline seating manufacturing subsidiary, Brice, for \$1,300,000 in cash. The Company recorded a charge of \$861,000 (\$510,000, net of taxes, or \$0.05 per diluted share), in 2002 for the loss on the sale. The Company's financial statements for the years ended December 31, 2002 and December 31, 2001, respectively, have been reclassified to reflect Brice as a discontinued operation. Accordingly, the revenues, costs and expenses, and cash flows of Brice have been condensed in the accompanying consolidated statements of income and of cash flows.

Summarized financial information for the discontinued operation is as follows:

	<u>2002</u>	<u>2001</u>
(In thousands)		
Net Sales	\$ 6,099	\$12,161
Cost of Sales	5,226	10,402
Gross Profit	873	1,759
Selling, General & Administrative Expenses	1,783	3,494
Goodwill Amortization Expense	-	628
Operating Loss	(910)	(2,363)
Income Tax Benefit	328	851
Net Loss From Operation	(582)	(1,512)
Loss on Sale, Net of Tax	(510)	-
	<u><u>\$(1,092)</u></u>	<u><u>\$(1,512)</u></u>

Note 3. Inventories

Inventories consist of the following:

December 31,	2003	2002
(In thousands)		
Raw materials and supplies	\$10,994	\$12,469
Work in process	36,794	31,555
Finished goods	1,484	1,766
	<u>49,272</u>	<u>45,790</u>
Less progress payments	9,269	4,454
Total	<u>\$40,003</u>	<u>\$41,336</u>

Work in process inventories include amounts under long-term fixed price contracts aggregating \$25,342,000 and \$23,658,000 at December 31, 2003 and 2002, respectively.

Note 4. Property and Equipment

Property and equipment consist of the following:

December 31,	2003	2002	Range of Estimated Useful Lives
(In thousands)			
Land	\$ 11,333	\$ 14,487	
Buildings and improvements	27,872	28,242	5 - 40 Years
Machinery and equipment	69,676	66,583	2 - 20 Years
Furniture and equipment	10,312	9,636	2 - 10 Years
Construction in progress	1,972	602	
	<u>121,165</u>	<u>119,550</u>	
Less accumulated depreciation and amortization	64,236	57,614	
Total	<u>\$ 56,929</u>	<u>\$ 61,936</u>	

Depreciation expense was \$7,569,000, \$8,018,000 and \$7,229,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 5. Goodwill

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Pursuant to the impairment recognition provisions of SFAS No. 142, a pre-tax goodwill impairment loss of \$3,633,000 (\$2,325,000 after-tax) was recognized related to the Brice reporting unit during the first quarter of 2002. The fair value of the Brice reporting unit was estimated by an independent valuation expert using the expected present value of future cash flows in accordance with SFAS No. 142.

The following sets forth a reconciliation of net income and earnings per share information for the years ended December 31, 2003, 2002 and 2001 as adjusted for the nonamortization provisions of SFAS No. 142:

Year Ended December 31,	2003	2002	2001
(In thousands, except per share amounts)			
Reported net income	\$16,201	\$6,505	\$14,603
Add back: Goodwill amortization	-	-	3,220
Adjusted net income	<u>\$16,201</u>	<u>\$6,505</u>	<u>\$17,823</u>
Basic earnings per share:			
Reported net income	\$ 1.64	\$ 0.66	\$ 1.51
Goodwill amortization	-	-	0.33
Adjusted net income	<u>\$ 1.64</u>	<u>\$ 0.66</u>	<u>\$ 1.84</u>
Diluted earnings per share:			
Reported net income	\$ 1.63	\$ 0.65	\$ 1.50
Goodwill amortization	-	-	0.33
Adjusted net income	<u>\$ 1.63</u>	<u>\$ 0.65</u>	<u>\$ 1.83</u>

Changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2002 are as follows:

December 31,	2003	2002
(In thousands)		
Balance at beginning of year	\$55,532	\$59,165
Goodwill additions due to the DBP acquisition	1,669	-
Transitional impairment charge	-	(3,633)
Balance at end of year	<u>\$57,201</u>	<u>\$55,532</u>

Note 6. Accrued Liabilities

Accrued liabilities consist of the following:

December 31,	2003	2002
(In thousands)		
Accrued compensation	\$15,698	\$10,636
Provision for environmental costs	4,030	4,056
Customer deposits	3,884	2,056
Accrued insurance costs	2,847	1,709
Accrued contract loss provisions	1,828	2,591
Accrued warranty reserves	1,759	1,697
Accrued state franchise and sales tax	4,326	343
Other	1,780	1,951
Total	<u>\$36,152</u>	<u>\$25,039</u>

Note 7. Long-Term Debt

Long-term debt is summarized as follows:

December 31,	2003	2002
(In thousands)		
Bank credit agreement	\$ -	\$20,300
Term and real estate loans	-	1,981
Notes and other liabilities for acquisitions	2,585	3,569
Total debt	2,585	25,850
Less current portion	2,185	1,501
Total long-term debt	<u>\$ 400</u>	<u>\$24,349</u>

In December 2002, the Company and its lenders amended the Company's credit agreement. The amended credit agreement provides for a \$75,000,000 unsecured revolving credit line gradually declining to \$60,000,000 at maturity on September 30, 2005. Interest is payable monthly on the outstanding borrowings based on the bank's prime rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter (4.25% at December 31, 2003). A Eurodollar pricing option is also available to the Company for terms of up to six months at the Eurodollar rate plus a spread based on the leverage ratio of the Company calculated at the end of each fiscal quarter (2.60% at December 31, 2003). At December 31, 2003, the Company had \$73,578,000 of unused lines of credit, after deducting \$1,422,000 for outstanding standby letters of credit. The credit agreement includes minimum interest coverage, maximum leverage, minimum EBITDA (earnings before interest, taxes, depreciation and amortization) and minimum net worth covenants, an unused commitment fee based on the leverage ratio (0.40% per annum at December 31, 2003), and limitations on future dispositions of property, repurchases of common stock, outside indebtedness, capital expenditures and acquisitions.

The weighted average interest rate on borrowings outstanding was 5.69% and 3.81% at December 31, 2003 and 2002, respectively.

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

Aggregate maturities of long-term debt during the next five years are as follows: 2004, \$2,185,000; 2005, \$400,000; 2006, \$0; 2007, \$0; 2008, \$0.

Note 8. Shareholders' Equity

At December 31, 2003 and 2002, no preferred shares were issued or outstanding.

Since 1998, the Company's Board of Directors has authorized the repurchase of up to \$30,000,000 of its common stock. From 1998 to 2001, the Company repurchased in the open market 1,918,962 shares of its common stock for a total of \$25,296,000 and cancelled 1,918,962 shares of treasury stock. The Company did not repurchase any of its common stock during 2003 and 2002.

Note 9. Stock Options

The Company has three stock option or incentive plans. Stock awards may be made to directors, officers and key employees under the stock plans on terms determined by the Compensation Committee of the Board of Directors or, with respect to directors, on terms determined by the Board of Directors. Stock options have been and may be granted to directors, officers and key employees under the stock plans at prices not less than 100% of the market value on the date of grant, and expire not more than ten years from the date of grant. The option price and number of shares are subject to adjustment under certain dilutive circumstances. At December 31, 2003 and 2002, options for 248,401 and 310,498 shares of common stock were exercisable, respectively.

In accordance with the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans based on the fair value method. If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed by SFAS No. 123, the Company's net income and earnings per share would be reduced to the pro forma amounts indicated below:

Year ended December 31,	2003	2002	2001
(In thousands, except per share amounts)			
Net Income:			
As reported	\$16,201	\$6,505	\$14,603
Less: Total expense determined under fair value accounting for all awards	(588)	(302)	(522)
Pro forma	<u>\$15,613</u>	<u>\$6,203</u>	<u>\$14,081</u>
Earnings per common share:			
As reported:			
Basic	\$ 1.64	\$.66	\$ 1.51
Diluted	1.63	.65	1.50
Pro forma:			
Basic	\$ 1.58	\$.63	\$ 1.46
Diluted	1.57	.62	1.45

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2003, 2002 and 2001, respectively: dividend yields of zero percent; expected monthly volatility of 53.14, 44.64 and 37.77 percent, respectively; risk-free interest rates of 2.52, 4.21 and 4.65 percent, respectively, and expected option life of four years for 2003, 2002 and 2001. The weighted average fair value of options granted during 2003, 2002, and 2001, for which the exercise price equals the market price on the grant date, was \$6.72, \$5.50 and \$4.77, respectively.

At December 31, 2003, 92,564 common shares were available for future grants and 796,326 common shares were reserved for the exercise of outstanding options. Option activity during the three years ended December 31, 2003 was as follows:

	Number Of Shares	Weighted Average Exercise Price of Options Outstanding
Outstanding at December 31, 2000	776,850	\$12.755
Granted	414,000	13.188
Exercised	(146,750)	7.424
Forfeited	(42,950)	13.098
Outstanding at December 31, 2001	1,001,150	13.701
Granted	84,000	13.613
Exercised	(267,797)	12.547
Forfeited	(149,538)	14.643
Outstanding at December 31, 2002	667,815	13.942
Granted	379,000	15.503
Exercised	(49,712)	12.427
Forfeited	(200,777)	16.573
Outstanding at December 31, 2003	<u>796,326</u>	\$14.116

The following table summarizes information concerning outstanding and exercisable stock options at December 31, 2003:

Range of Exercise Prices	Number of Outstanding Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 8.000 - \$11.999	132,375	3.57	\$10.918	65,225	\$10.878
\$12.000 - \$17.999	642,951	5.28	14.583	162,176	13.020
\$18.000 - \$23.210	21,000	3.33	19.950	21,000	19.950
Total	<u>796,326</u>	4.94	\$14.116	<u>248,401</u>	\$13.044

Note 10. Employee Benefit Plans

The Company has an unfunded supplemental retirement plan that was suspended in 1986, but which continues to cover certain former executives. The accumulated benefit obligations under the plan at December 31, 2003 and December 31, 2002 were \$516,000 and \$536,000, respectively, which are included in accrued liabilities.

The Company sponsors for all of its employees, a 401(k) defined contribution plan under which employees can make annual voluntary contributions not to exceed the lesser of an amount equal 25% of their compensation or limits established by the Internal Revenue Code. The Company generally provides a match equal to 50 percent of the employees' contributions up to the first 4 percent of compensation, except for union employees who are not eligible to receive the match. The Company matching contributions for the years ended December 31, 2003, 2002 and 2001 were approximately \$714,000, \$1,148,000 and \$1,045,000, respectively.

The Company provides certain health care benefits for retired employees. Eligibility for additional employees to become covered by retiree health benefits was terminated in 1988. Employees became eligible for these benefits if they met minimum age and service requirements and were eligible for retirement benefits. As of December 31, 2003, there were 96 current and retired employees and dependents eligible for such benefits. The Company accrues postretirement health care benefits over the period in which active employees become eligible for such benefits. The accrued postretirement benefit cost under these plans is included in accrued liabilities. The components of net periodic post retirement benefits cost for these plans are as follows:

Year ended December 31,	2003	2002	2001
(In thousands)			
Service cost	\$ -	\$ -	\$ -
Interest cost	70	80	95
Expected return on plan assets	-	-	-
Amortization of net transition obligation	84	84	84
Amortization of actuarial gain	(21)	(22)	(19)
Net periodic post retirement benefits cost	<u>\$133</u>	<u>\$142</u>	<u>\$160</u>

The Company uses a January 1 measurement date for these plans. The obligations and funded status for these plans are as follows:

December 31, (In thousands)	2003	2002
<u>Change in benefit obligation</u>		
Beginning benefit obligation (January 1)	\$ 1,182	\$ 1,267
Service cost	-	-
Interest cost	70	80
Actuarial loss (gain)	132	(5)
Benefits paid	(155)	(160)
Benefit obligation (December 31)	<u>\$ 1,229</u>	<u>\$ 1,182</u>
<u>Change in plan assets</u>		
Fair value of plan assets (January 1)	\$ -	\$ -
Actual return on plan assets	-	-
Employer contributions	155	160
Benefits paid	(155)	(160)
Fair value of plan assets (December 31)	<u>\$ -</u>	<u>\$ -</u>
Funded status	<u>\$(1,229)</u>	<u>\$(1,182)</u>
Unrecognized transition obligation	151	235
Unrecognized net actuarial gain	(178)	(332)
Net amount recognized	<u>\$(1,256)</u>	<u>\$(1,279)</u>

The accumulated postretirement benefit obligations at December 31, 2003 and 2002 were determined using an assumed discount rate of 6.00% and 6.50%, respectively. For measurement purposes, an 11.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003; the rate was assumed to decrease gradually to 5.5% in the year 2010 and remain at that level thereafter over the projected payout period of the benefits.

A 1.0% increase or decrease in the assumed annual health care cost trend rate would not increase the present value of the accumulated postretirement benefit obligation at December 31, 2003 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended December 31, 2003.

As part of the acquisition of Composite Structures, described in Note 2, in June 2001, the Company assumed the assets and liabilities of a defined benefit plan covering certain hourly employees of Composite Structures. Pension plan benefits are generally determined on the basis of the retiree's age and length of service. Assets of the defined benefit plan are composed primarily of fixed income and equity securities.

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

Year ended December 31, (In thousands)	2003	2002	2001
Service cost	\$ 447	\$ 403	\$ 333
Interest cost	536	536	506
Expected return on plan assets	(560)	(696)	(803)
Amortized losses	175	42	-
Net periodic pension cost	<u>\$ 598</u>	<u>\$ 285</u>	<u>\$ 36</u>

The obligations and funded status of this plan is as follows:

<u>Change in benefit obligation</u>		
Beginning benefit obligation (January 1)	\$ 8,427	\$ 7,822
Service cost	447	403
Interest cost	536	536
Actuarial loss (gain)	953	(17)
Benefits paid	(350)	(317)
Benefit obligation (December 31)	<u>\$10,013</u>	<u>\$ 8,427</u>
<u>Change in plan assets</u>		
Beginning fair value of plan assets (January 1)	\$ 6,399	\$ 7,898
Return on assets	1,632	(1,119)
Benefits paid	(350)	(317)
Other	(37)	(64)
Fair value of plan assets (December 31)	<u>\$ 7,644</u>	<u>\$ 6,398</u>
Funded status	\$ (2,369)	\$ (2,028)
Unrecognized net actuarial gain	2,916	3,173
Net amount recognized	<u>\$ 547</u>	<u>\$ 1,145</u>

On December 31, 2003, the Company's annual measurement date, the accumulated benefit obligation, related to the Company's Composite Structures subsidiary pension plan, exceeded the fair value of the pension plan assets. Such excess is referred to as an unfunded accumulated benefit obligation. In accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," the Company recognized a minimum pension liability at December 31, 2003 and December 31, 2002 of \$2,041,000, net of tax, and \$2,679,000, net of tax, respectively, which decreased shareholders' equity and is included in other long-term liabilities. This charge to shareholders' equity represents a net loss not yet recognized as pension expense. This charge did not affect reported earnings, and would be reversible if either interest rates increase or market performance and plan returns improved or contributions cause the pension plan to return to fully funded status. During the year ended, December 31, 2003, the capital market performance improved resulting in a reduction of the minimum liability by \$638,000, net of tax.

Information related to the accumulated benefit obligation in excess of the fair value of plan assets and the minimum liability included in other comprehensive income is noted below:

December 31,	2003	2002
(In thousands)		
Projected benefit obligation	\$10,013	\$8,427
Accumulated benefit obligation	10,013	8,427
Fair value of plan assets	7,644	6,398
(Decrease) increase in minimum liability included in other comprehensive income, net of tax	(638)	2,679

Amounts recognized in the statement of financial position consist of:

	Pension Benefits		Other Benefits	
December 31,	2003	2002	2003	2002
(In thousands)				
Prepaid benefit cost	\$ 547	\$ 1,145	\$ -	\$ -
Accrued benefit cost	638	(2,679)	(1,256)	(1,279)
Accumulated other comprehensive income, net of tax	(638)	2,679	-	-
Net amount recognized	<u>\$ 547</u>	<u>\$ 1,145</u>	<u>\$(1,256)</u>	<u>\$(1,279)</u>

The Company's pension plan weighted-average asset allocations by asset category are as follows:

December 31,	2003	2002
Equity securities	78%	71%
Debt securities	22	29
Total	<u>100%</u>	<u>100%</u>

Plan assets consist primarily of listed stocks and bonds. The Company's funding policy is to contribute cash to its pension plans so that the minimum contribution requirements established by government funding and taxing authorities are met.

The following weighted-average assumptions were used to determine the benefit obligations at:

	Pension Benefits		Other Benefits	
December 31,	2003	2002	2003	2002
Discount rate	6.0%	6.5%	6.0%	6.5%

The following weighted average assumptions were used to determine the net periodic benefit cost for:

	Pension Benefits		Other Benefits	
Year ended December 31,	2003	2002	2003	2002
Discount rate	6.5%	6.5%	6.5%	6.5%
Expected long-term return on plan assets	9.0%	9.0%	-	-

Note 11. Indemnifications and Warranty Liability

Indemnifications

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

Warranty Liability

The Company quantifies and records an estimate for warranty related costs based on the Company's actual historical and projected return and failure rates and the current repair costs. Should the Company experience actual return and failure rates, or repair costs that are higher than the estimates used to calculate the provision, the Company's operating results for the period or periods in which such returns or additional costs materialize will be adversely impacted.

Information regarding the changes in the Company's aggregate warranty liability is as follows for the year ended December 31, 2003 (in thousands):

Warranty liability at December 31, 2002	\$1,697
Accruals for warranties during the year	184
Adjustments relating to pre-existing warranties	(122)
Warranty liability at December 31, 2003	<u>\$1,759</u>

Note 12. Leases

The Company leases certain facilities and equipment for periods ranging from 1 to 9 years. The leases generally are renewable and provide for the payment of property taxes, insurance and other costs relative to the property. Rental expense in 2003, 2002 and 2001, was \$3,083,000, \$3,429,000 and \$3,296,000, respectively. Future minimum rental payments under operating leases having initial or remaining noncancelable terms in excess of one year at December 31, 2003 are as follows:

	Lease Commitments
(In thousands)	
2004	\$2,323
2005	1,647
2006	887
2007	883
2008	696
Thereafter	1,603
Total	<u>\$8,039</u>

Note 13. Income Taxes

The provision for income tax expense consists of the following:

Year ended December 31,	2003	2002	2001
(In thousands)			
Current tax expense:			
Federal	\$2,583	\$ 4,351	\$ 9,416
State	626	746	1,566
	<u>3,209</u>	<u>5,097</u>	<u>10,982</u>
Deferred tax expense/(benefit):			
Federal	3,202	323	(1,702)
State	532	162	(207)
	<u>3,734</u>	<u>485</u>	<u>(1,909)</u>
Income tax expense from continuing operations	6,943	5,582	9,073
Income tax benefit from:			
Loss from discontinued operation	-	(679)	(851)
Change in accounting principle—FAS No. 142	-	(1,308)	-
Income Tax Expense	<u>\$6,943</u>	<u>\$ 3,595</u>	<u>\$ 8,222</u>

Deferred tax assets (liabilities) are comprised of the following:

December 31, (In thousands)	2003	2002
Allowance for doubtful accounts	\$ 244	\$ 286
Capital loss carryforwards	763	-
Contract cost overrun reserves	742	1,045
Employment-related reserves	1,528	1,946
Environmental reserves	676	686
Inventory reserves	2,069	2,188
Minimum pension liability	841	494
State tax credit carryforwards	333	395
Warranty reserves	702	730
Other	610	1,684
	<u>8,508</u>	<u>9,454</u>
Depreciation	(4,445)	(3,942)
Goodwill	(1,555)	(380)
Valuation allowance	(1,604)	(494)
Net deferred tax assets	<u>\$ 904</u>	<u>\$ 4,638</u>

The principal reasons for the variation from the customary relationship between income taxes and income from continuing operations before income taxes are as follows:

Year ended December 31,	2003	2002	2001
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes (net of federal benefit)	3.4	4.0	3.6
Goodwill amortization	-	-	2.6
Benefit of research and development tax credits	(8.7)	(2.9)	(4.0)
Benefit of foreign sales corporation	(0.4)	(2.5)	(0.5)
Benefit of state tax credit carryforwards	-	-	(0.7)
Other	0.7	2.0	-
Effective Income Tax Rate	<u>30.0%</u>	<u>35.6%</u>	<u>36.0%</u>

Note 14. Contingencies

The Ducommun AeroStructures, Inc. ("DAS") facility located in El Mirage, California has been directed by California environmental agencies to investigate and take corrective action for groundwater contamination. Based upon currently available information, the Company has established a provision for the cost of such investigation and corrective action. DAS expects to spend approximately \$1 million for future investigation and corrective action for groundwater contamination at its El Mirage location. However, the Company's ultimate liability in connection with the contamination will depend upon a number of factors, including changes in existing laws and regulations, and the design and cost of the construction, operation and maintenance of the corrective action.

The Company's subsidiary, Composite Structures, LLC ("Composite"), and several other companies have been ordered by a California environmental agency to investigate and clean up soil and groundwater contamination at its Monrovia, California facility. Composite has filed a petition for review of the order.

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

Note 15. Major Customers and Concentrations of Credit Risk

The Company provides proprietary products and services to most of the prime aerospace and aircraft manufacturers. As a result, the Company's sales and trade receivables are concentrated principally in the aerospace industry.

The Company had substantial sales to Boeing, Raytheon and Lockheed Martin. During 2003, 2002 and 2001, sales to Boeing were \$113,071,000, \$105,035,000 and \$106,106,000, respectively; sales to Raytheon were \$29,755,000, \$26,524,000 and \$16,571,000, respectively; and sales to Lockheed Martin were \$16,509,000, \$11,913,000 and \$9,556,000, respectively. At December 31, 2003, trade receivables from Boeing, Raytheon and Lockheed Martin were \$11,405,000, \$3,073,000 and \$2,133,000, respectively. The sales and receivables relating to Boeing, Raytheon and Lockheed Martin are diversified over a number of different commercial, space and military programs.

In 2003, 2002 and 2001, foreign sales to manufacturers worldwide were \$12,280,000, \$14,509,000 and \$28,006,000, respectively. The Company had no sales to a foreign country greater than 4% of total sales in 2003, 2002 and 2001, respectively. The amounts of profitability and identifiable assets attributable to foreign sales activity are not material when compared with revenue, profitability and identifiable assets attributed to United States domestic operations during 2003, 2002 and 2001.

Note 16. Business Segment Information

The Company supplies products and services to the aerospace industry. The Company's subsidiaries are organized into two strategic businesses, each of which is a reportable operating segment. Ducommun AeroStructures, Inc., manufactures aerospace structural components and subassemblies. Ducommun Technologies, Inc., manufactures aerospace electromechanical components and subsystems. The accounting policies of the segments are the same as those of the Company, as described in Note 1, Summary of Significant Accounting Policies.

Financial Accounting Standards Board Statement No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS No. 131") establishes standards for reporting information about segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Financial information by operating segment is set forth below:

Year Ended December 31,	2003	2002	2001
(In thousands)			
Net Revenue:			
Ducommun AeroStructures, Inc.	\$143,682	\$136,747	\$146,876
Ducommun Technologies, Inc.	82,224	75,703	65,904
Intercompany	-	(4)	(36)
Total Net Sales	<u>\$225,906</u>	<u>\$212,446</u>	<u>\$212,744</u>
Segment Income before Interest and Taxes (1):			
Ducommun AeroStructures, Inc.	\$ 15,263	\$ 9,133	\$ 23,390
Ducommun Technologies, Inc.	15,813	13,733	10,632
	31,076	22,866	34,022
Corporate General and Administrative Expenses	(7,179)	(5,730)	(6,465)
Total Income Before Interest and taxes	<u>\$ 23,897</u>	<u>\$ 17,136</u>	<u>\$ 27,557</u>
Depreciation and Amortization Expenses:			
Ducommun AeroStructures, Inc.	\$ 6,170	\$ 6,127	\$ 6,955
Ducommun Technologies, Inc.	1,293	1,477	3,093
Discontinued Operation	-	258	980
Corporate Administration	106	156	52
Total Depreciation and Amortization Expenses	<u>\$ 7,569</u>	<u>\$ 8,018</u>	<u>\$ 11,080</u>
Capital Expenditures:			
Ducommun AeroStructures, Inc.	\$ 3,919	\$ 2,508	\$ 4,491
Ducommun Technologies, Inc.	1,839	1,014	1,284
Discontinued Operation	-	29	221
Corporate Administration	9	3	17
Total Capital Expenditures	<u>\$ 5,767</u>	<u>\$ 3,554</u>	<u>\$ 6,013</u>

(1) Before certain allocated corporate overhead.

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

As of December 31,	2003	2002
(In thousands)		
Total Assets		
Ducommun AeroStructures, Inc.	\$135,257	\$135,374
Ducommun Technologies, Inc.	46,603	46,961
Corporate Administration	16,181	15,275
Total Assets	<u>\$198,041</u>	<u>\$197,610</u>
Goodwill		
Ducommun AeroStructures, Inc.	\$ 36,785	\$ 36,785
Ducommun Technologies, Inc.	20,416	18,747
Total Goodwill	<u>\$ 57,201</u>	<u>\$ 55,532</u>

Note 17. Quarterly Financial Data (Unaudited)

Three months ended (in thousands, except per share amounts)	2003				2002			
	Dec 31	Oct 4	Jul 5	Apr 5	Dec 31	Sep 28	Jun 29	Mar 30
Sales and Earnings								
Net Sales	\$58,250	\$56,404	\$56,211	\$55,041	\$50,263	\$51,403	\$56,148	\$54,632
Gross Profit	13,055	12,584	12,929	12,013	6,570	9,153	12,921	12,889
Operating Income from Continuing Operations	7,122	5,733	5,580	4,709	936	4,204	4,449	5,915
Income Tax Expense	(1,976)	(1,777)	(1,589)	(1,601)	(337)	(1,514)	(1,601)	(2,130)
Income from Continuing Operations	5,146	3,956	3,991	3,108	599	2,690	2,848	3,785
Loss from Discontinued Operation, Net of Tax	-	-	-	-	(58)	(603)	(201)	(230)
Cumulative Effect of Accounting Change, Net of Tax	-	-	-	-	-	-	-	(2,325)
Net Income	<u>\$ 5,146</u>	<u>\$ 3,956</u>	<u>\$ 3,991</u>	<u>\$ 3,108</u>	<u>\$ 541</u>	<u>\$ 2,087</u>	<u>\$ 2,647</u>	<u>\$ 1,230</u>
Earnings Per Share:								
Basic earnings per share								
Income from continuing operations before	\$.52	\$.40	\$.40	\$.31	\$.06	\$.27	\$.29	\$.39
Income from discontinued operations, net of tax	-	-	-	-	(.01)	(.06)	(.02)	(.02)
Cumulative effect of accounting change, net of tax	-	-	-	-	-	-	-	(.24)
Basic Earnings Per Share	<u>\$.52</u>	<u>\$.40</u>	<u>\$.40</u>	<u>\$.31</u>	<u>\$.05</u>	<u>\$.21</u>	<u>\$.27</u>	<u>\$.13</u>
Diluted earnings per share								
Income from continuing operations	\$.51	\$.40	\$.40	\$.31	\$.06	\$.27	\$.28	\$.39
Income from discontinued operations, net of tax	-	-	-	-	(.01)	(.06)	(.02)	(.02)
Cumulative effect of accounting change, net of tax	-	-	-	-	-	-	-	(.24)
Diluted Earnings Per Share	<u>\$.51</u>	<u>\$.40</u>	<u>\$.40</u>	<u>\$.31</u>	<u>\$.05</u>	<u>\$.21</u>	<u>\$.26</u>	<u>\$.13</u>

**Report of Independent Accountants on
Financial Statement Schedule**

To the Board of Directors and Shareholders
of Ducommun Incorporated:

Our audits of the consolidated financial statements referred to in our report dated March 1, 2004 on page 29 of this Form 10-K also included an audit of the financial statement schedule listed in the index appearing under Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers, LLP

Los Angeles, California
March 1, 2004

DUCOMMUN INCORPORATED AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

SCHEDULE II

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning Of Period	Additions		Deductions	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
FOR THE YEAR ENDED DECEMBER 31, 2003					
Allowance for Doubtful Accounts	\$ 534,000	\$113,000		\$144,000(a)	\$ 503,000
FOR THE YEAR ENDED DECEMBER 31, 2002					
Allowance for Doubtful Accounts	\$1,243,000	\$191,000		\$ 23,000(b) \$877,000(d)	\$ 534,000
FOR THE YEAR ENDED DECEMBER 31, 2001					
Allowance for Doubtful Accounts	\$1,161,000	\$253,000	\$50,000(c)	\$221,000(b)	\$1,243,000

(a) Collections on previously written off accounts.

(b) Write-offs on uncollectible accounts.

(c) Changes in allowance for doubtful accounts related to acquisitions.

(d) Changes in allowance for doubtful accounts related to sale of subsidiary

(b) Reports on Form 8-K

None

(c) Exhibits

3.1 Restated Certificate of Incorporation filed with the Delaware Secretary of State on May 29, 1990. Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 1990.

3.2 Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on May 27, 1998. Incorporated by reference to Exhibit 3.2 to Form 10-K for the year ended December 31, 1998.

3.3 Bylaws as amended and restated on May 3, 2000. Incorporated by reference to Exhibit 3.3 to Form 10-K for the year ended December 31, 2000.

4.1 Credit Agreement dated as of September 29, 2000 among Ducommun Incorporated and the lenders referred to therein. Incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarter ended September 30, 2000.

4.2 Amendment No. 1 to Credit Agreement dated as of May 2, 2001 among Ducommun Incorporated and the lenders referred to therein. Incorporated by reference to Exhibit 4.2 to Form 10-K for the year ended December 31, 2002.

4.3 Rights Agreement dated as of February 17, 1999 by and between Ducommun Incorporated and Harris Trust Company of California as Rights Agent. Incorporated by reference to Exhibit 4.2 to Form 8-K dated February 17, 1999.

4.4 Conversion Agreement dated July 22, 1992 between Ducommun Incorporated and the holders of the 9% Convertible Subordinated Notes due 1998. Incorporated by reference to Exhibit 1 to Form 8-K dated July 29, 1992.

4.5 Amendment No. 2 to Credit Agreement dated as of December 23, 2002 among Ducommun Incorporated and the lenders referred to therein. Incorporated by reference to Exhibit 4.5 to Form 10-K for the year ended December 31, 2002.

* 10.1 1990 Stock Option Plan. Incorporated by reference to Exhibit 10.4 to Form 10-K for the year ended December 31, 1990.

* 10.2 1994 Stock Incentive Plan, as amended May 7, 1998. Incorporated by reference to Exhibit 10.3 to Form 10-K for the year ended December 31, 1997.

* 10.3 2001 Stock Incentive Plan. Incorporated by reference to Appendix B of Definitive Proxy Statement on Schedule 14a, filed on March 26, 2001.

* 10.4 Form of Nonqualified Stock Option Agreement, for grants to employees prior to January 1, 1999, under the 1994 Stock Incentive Plan and the 1990 Stock Option Plan. Incorporated by reference to Exhibit 10.5 to Form 10-K for the year ended December 31, 1990.

* 10.5 Form of Nonqualified Stock Option Agreement, for grants to employees between January 1, 1999 and June 30, 2003, under the 2001 Stock Incentive Plan, the 1994 Stock Incentive Plan and the 1990 Stock Option Plan. Incorporated by reference to Exhibit 10.5 to Form 10-K for the year ended December 31, 1999.

* 10.6 Form of Incentive Stock Option Agreement under the 2001 Stock Incentive Plan, and the 1994 Stock Incentive Plan. Incorporated by reference to Exhibit 10.5 to Form 10-K for the year ended December 31, 1996.

- * 10.7 Form of Nonqualified Stock Option Agreement, for for nonemployee directors under the 2001 Stock Incentive Plan and the 1994 Stock Incentive Plan. Incorporated by reference to Exhibit 10.7 to Form 10-K for the year ended December 31, 1999.
- * 10.8 Form of Nonqualified Stock Option Agreement, for grants to employees after July 1, 2003, under the 2001 Stock Incentive Plan and the 1994 Stock Incentive Plan.
- * 10.9 Form Memorandum Amendment to Existing Stock Option Agreements dated August 25, 2003.
- * 10.10 Form of Key Executive Severance Agreement entered with five current executive officers of Ducommun or its subsidiaries. Incorporated by reference to Exhibit 10.7 to Form 10-K for the year ended December 31, 1999. All of the Key Executive Severance Agreements are identical except for the name of the executive officer and the date of the Agreement:

<u>Executive Officer</u>	<u>Date of Agreement</u>
Joseph C. Berenato	November 4, 1991
Paul L. Graham	April 10, 2000
James S. Heiser	July 27, 1988
Michael W. Williams	October 25, 1999
Samuel D. Williams	June 21, 1989
- * 10.11 Form of Indemnity Agreement entered with all directors and officers of Ducommun. Incorporated by reference to Exhibit 10.8 to Form 10-K for the year ended December 31, 1990. All of the Indemnity Agreements are identical except for the name of the director or officer and the date of the Agreement:

<u>Director/Officer</u>	<u>Date of Agreement</u>
Norman A. Barkeley	July 29, 1987
Joseph C. Berenato	November 4, 1991
H. Frederick Christie	October 23, 1985
Eugene P. Conese, Jr.	January 26, 2000
Ralph D. Crosby, Jr.	January 26, 2000
David H. Dittermore	September 15, 2003
Robert C. Ducommun	December 31, 1985
James S. Heiser	May 6, 1987
Thomas P. Mullaney	April 8, 1987
Michael W. Williams	October 25, 1999
Samuel D. Williams	November 11, 1988
- * 10.12 Offer Letter of Employment dated September 10, 2003 between Ducommun Incorporated and David H. Dittermore.
- * 10.13 Ducommun Incorporated 2004 Bonus Plan Summary.
- * 10.14 Directors' Deferred Compensation and Retirement Plan, as amended October 29, 1993. Incorporated by reference to Exhibit 10.9 to Form 10-K for the year ended December 31, 1993.
- * 10.15 Ducommun Incorporated Executive Retirement Plan dated May 5, 1993. Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended July 3, 1993.
- * 10.16 Ducommun Incorporated Executive Compensation Deferral Plan dated May 5, 1993. Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended July 3, 1993.

- * 10.17 Ducommun Incorporated Executive Compensation Deferral Plan No. 2 dated October 15, 1994. Incorporated by reference to Exhibit 10.12 to Form 10-K for the year ended December 31, 1994.

10.18 Unit and Stock Purchase Agreement by and among Composite Structures, LLC, its Members and Optionholders, CSD Holdings Corporation, the Shareholders of CSD Holdings Corporation, and Ducommun Incorporated, dated as of May 16, 2001. Incorporated by reference to Exhibit 99.1 to Form 8-K dated June 19, 2001.

11 Reconciliation of the Numerators and Denominators of the Basic and Diluted Earnings Per Share Computations

21 Subsidiaries of registrant

23 Consent of PricewaterhouseCoopers LLP

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. Sections 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Indicates an executive compensation plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 1, 2004

DUCOMMUN INCORPORATED

By: /s/ Joseph C. Berenato
Joseph C. Berenato
Chairman of the Board and Chief
Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been duly signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 1, 2004

By: /s/ Joseph C. Berenato
Joseph C. Berenato
Chairman of the Board and Chief
Executive Officer
(Principal Executive Officer)

Date: March 1, 2004

By: /s/ James S. Heiser
James S. Heiser
Vice President, Chief Financial Officer, General
Counsel, Secretary and Treasurer
(Principal Financial Officer)

Date: March 1, 2004

By: /s/ Samuel D. Williams
Samuel D. Williams
Vice President, Controller and Assistant Treasurer
(Principal Accounting Officer)

DIRECTORS

By: /s/ Norman A. Barkeley
Norman A. Barkeley

Date: March 1, 2004

By: /s/ Joseph C. Berenato
Joseph C. Berenato

Date: March 1, 2004

By: /s/ Eugene P. Conese, Jr.
Eugene P. Conese, Jr.

Date: March 1, 2004

By: /s/ Ralph D. Crosby, Jr.
Ralph D. Crosby, Jr.

Date: March 1, 2004

By: /s/ H. Frederick Christie
H. Frederick Christie

Date: March 1, 2004

By: /s/ Robert C. Ducommun
Robert C. Ducommun

Date: March 1, 2004

By: /s/ Thomas P. Mullaney
Thomas P. Mullaney

Date: March 1, 2004

By: /s/ Robert D. Paulson
Robert D. Paulson

Date: March 1, 2004

CORPORATE INFORMATION

Board of Directors

Joseph C. Berenato

Chairman of the Board and
Chief Executive Officer,
Ducommun Incorporated

H. Frederick Christie

Consultant; Retired President
and Chief Executive Officer,
The Mission Group
(subsidiary of SCEcorp)

Eugene P. Conese, Jr.

President and Chief
Executive Officer,
Aero Capital LLC

Ralph D. Crosby, Jr.

Chairman and Chief
Executive Officer,
EADS North America

Robert C. Ducommun

Management Consultant

Thomas P. Mullaney

Business Advisor

Robert D. Paulson

Chief Executive Officer,
Aerostar Capital LLC

Officers

Joseph C. Berenato

Chairman of the Board and
Chief Executive Officer

David H. Dittimore

President and
Chief Operating Officer

James S. Heiser

Vice President, Chief Financial
Officer, General Counsel,
Secretary and Treasurer

Michael W. Williams

Vice President,
Corporate Development

Samuel D. Williams

Vice President and Controller

Subsidiaries

Paul L. Graham

President,
Ducommun Technologies, Inc.

Anthony J. Reardon

President,
Ducommun AeroStructures, Inc.

Common Stock

Ducommun Incorporated common
stock is listed on the New York
Stock Exchange (Symbol DCO)



Registrar & Transfer Agent

Mellon Investor Services LLC
Overpeck Centre
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Ridgefield Park, NJ 07660
800.522.6645
www.melloninvestor.com

On the Web

www.ducommun.com

