

Edgar Filing: LABARGE INC - Form 10-Q

LABARGE INC  
Form 10-Q  
February 11, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended                      Commission file number:  
December 29, 2002                              1-5761

LaBARGE, INC.  
(Exact Name of Registrant as specified in its charter)

DELAWARE                                      73-0574586  
(State or other jurisdiction                      (I.R.S. Employer  
    Identification No.)  
of  
incorporation or organization)

9900A Clayton Road,                                      63124  
St. Louis, Missouri                                      (Zip Code)  
(Address)

(314) 997-0800  
(Registrant's telephone number, including Area Code)

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

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of December 29, 2002. 15,773,253 shares of common stock.

LaBARGE, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

(dollars in thousands, except per-share data)

Three Months Ended                      Six Months Ended  
December      December      December      December

Edgar Filing: LABARGE INC - Form 10-Q

	29, 2002	30, 2001	29, 2002	30, 2001
Net sales	\$24,405	\$30,781	\$47,547	\$61,857
Costs and expenses:				
Cost of sales	19,694	24,490	38,239	49,939
Selling and administrative expense	4,272	4,170	8,530	8,195
Interest expense	202	336	425	652
Other income, net	(581)	(102)	(629)	(198)
Income before income taxes	818	1,887	982	3,269
Income tax expense	237	732	301	1,242
Net earnings from continuing operations	581	1,155	681	2,027
Discontinued operations:				
Income (loss) from discontinued operations, (less applicable income taxes of \$10, \$28, (\$2), \$127, respectively)				
Income on disposal of discontinued operations of \$2,222 (less applicable income tax expense of \$2,434)	14	45	(4)	208
	(212)	-	(212)	-
Net earnings	\$ 383	\$1,200	\$ 465	\$2,235
Basic net earnings per share:				
Net income from continuing operations	\$ 0.04	\$ 0.08	\$ 0.04	\$ 0.14
Net income from discontinued operations	(0.01)	-	(0.01)	0.01
Basic net earnings	\$ 0.03	\$ 0.08	\$ 0.03	\$ 0.15
Average common shares outstanding	15,017	14,961	15,016	14,971
Diluted net earnings per share:				
Net income from continuing operations	\$ 0.04	\$ 0.08	\$ 0.04	\$ 0.14
Net income from discontinued operations	(0.01)	-	(0.01)	0.01
Diluted net earnings	\$ 0.03	\$ 0.08	\$ 0.03	\$ 0.15
Average diluted common shares outstanding	15,199	15,364	15,227	15,254

See accompanying notes to consolidated financial statements.

Edgar Filing: LABARGE INC - Form 10-Q

LaBARGE, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)  
(dollars in thousands)

	December 29, 2002	June 30, 2002	
-----			
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,364	\$ 2,533	
Accounts and notes receivable, net	14,176	16,683	
Inventories	23,219	22,390	
Prepaid expenses	634	555	
Deferred tax assets, net	718	627	
Current assets of discontinued operations	-	460	
-----			
Total current assets	\$47,111	\$43,248	
-----			
Property, plant and equipment, net	14,072	13,956	
Deferred tax assets, net	246	937	
Intangible assets, net	769	801	
Other assets, net	6,300	4,989	
Non-current assets of discontinued operations		-	4,275
-----			
	\$68,498	\$68,206	
=====			
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	\$ -	\$2,583	
Current maturities of subordinated debt	5,621	5,621	
Current maturities of long-term debt	328	278	
Trade accounts payable	6,988	6,516	
Accrued employee compensation	5,175	5,470	
Other accrued liabilities	7,083	3,491	
Current liabilities of discontinued operations		-	52
-----			
Total current liabilities	\$25,195	\$24,011	
-----			
Customer advances	2,325	2,103	
Other long-term liabilities of discontinued operations		-	1,361
Long-term debt	6,869	7,047	
-----			
Stockholders' equity:			
Common stock, \$.01 par value. Authorized 40,000,000 shares; issued 15,773,253 at December 29, 2002 and 15,773,253 shares at June 30, 2002 including shares in treasury	158	158	
Additional paid-in capital	13,510	13,515	
Retained earnings	23,201	22,736	
Accumulated other comprehensive loss	(80)	(131)	
Less cost of common stock in treasury, shares of 814,333 at December 29, 2002			

Edgar Filing: LABARGE INC - Form 10-Q

and 806,956 at June 30, 2002	(2,680)	(2,594)
-----	-----	-----
Total stockholders' equity	34,109	33,684
-----	-----	-----
	\$68,498	\$68,206
=====	=====	=====

See accompanying notes to consolidated financial statements.

LaBARGE, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(dollars in thousands)

	Six Months Ended		
	December 29, 2002	December 30, 2001	
-----	-----	-----	
Cash flows from operating activities:			
Net earnings	\$ 465	\$2,235	
Adjustments to reconcile net cash provided by operating activities:			
(Gain) on disposal of discontinued operations		(2,222)	-
Taxes payable on gain from discontinued operations (included in other accrued liabilities)	2,434	-	
Net (earnings) loss from discontinued operations		4	(208)
Depreciation and amortization	1,237	1,104	
Loss on disposal of property, plant and equipment	13	23	
Deferred taxes	600	1,033	
Changes in assets and liabilities, net of acquisitions:			
Accounts and notes receivable, net	2,507	5,057	
Inventories	(829)	546	
Prepaid expenses	(79)	32	
Trade accounts payable	472	(1,895)	
Accrued liabilities and other	988	(3,458)	
-----	-----	-----	
Net cash provided by continuing activities		5,590	4,469
-----	-----	-----	
Net cash provided by discontinued operations		388	631
-----	-----	-----	
Net cash provided by operating activities		5,978	5,100
-----	-----	-----	
Cash flows from investing activities:			
Additions to property, plant and equipment	(1,221)	(481)	
Additions to other assets	(1,424)	(1,135)	

## Edgar Filing: LABARGE INC - Form 10-Q

Proceeds from disposal of discontinued operations		5,300	-
-----			
Net cash provided (used) by investing activities		2,655	(1,616)
-----			
Cash flows from financing activities:			
Additions to long-term debt	20	-	
Repayments of long-term senior debt	(148)	(1,900)	
Issuance of stock to employee benefit plan		164	153
Purchase of treasury stock	(255)	(231)	
Net change in short-term borrowings	(2,583)	150	
-----			
Net cash used by financing activities	(2,802)	(1,828)	
-----			
Net increase in cash and cash equivalents		5,831	1,656
Cash and cash equivalents at beginning of year	2,533		666
-----			
Cash and cash equivalents at end of period	\$8,364		\$2,322
=====			

See accompanying notes to consolidated financial statements.

LaBARGE, INC.  
FORM 10-Q

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### 1. CONSOLIDATED FINANCIAL STATEMENTS - BASIS OF PRESENTATION

The consolidated balance sheets at December 29, 2002 and June 30, 2002, the related consolidated statements of operations for the three and six months ended December 29, 2002 and December 30, 2001 and the consolidated statements of cash flows for the six months ended December 29, 2002 and December 30, 2001, have been prepared by LaBarge, Inc. (the "Company") without audit. In the opinion of management, adjustments, all of a normal and recurring nature, necessary to present fairly the financial position and the results of operations and cash flows for the aforementioned periods, have been made. Certain prior year amounts have been reclassified to conform with the current year's presentation.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

#### 2. GROSS AND NET SALES

Gross and net sales consist of the following:  
(dollars in thousands)

## Edgar Filing: LABARGE INC - Form 10-Q

	Three Months Ended		Six Months Ended	
	December 29, 2002	December 30, 2001	December 29, 2002	December 30, 2001
Gross sales	\$24,697	\$31,209	\$48,069	\$63,295
Less sales discounts		292	428	522
Net sales	\$24,405	\$30,781	\$47,547	\$61,857
				1,438

The Company accepts sales discounts from a number of customers in the normal course of business.

### 3. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consist of the following:  
(dollars in thousands)

	December 29, 2002	June 30, 2002
Billed shipments, net of progress payments	\$13,236	\$15,347
Less allowance for doubtful accounts	158	114
Trade receivables, net	13,078	15,233
Other current receivables	1,098	1,450
Total	\$14,176	\$16,683

Progress payments are payments from customers in accordance with contractual terms for contract costs incurred to date. Such payments are credited to the customer at the time of shipment.

At December 29, 2002 and June 30, 2002, other current receivables include \$510,000 and \$318,000 of customer payments, expected to be received as settlement for a prior claim for material under a long-term contract.

At December 29, 2002, the amounts due from the three largest accounts receivable debtors and the percentage of total accounts receivable those amounts represented were \$2.0 million (14.1%), \$1.8 million (12.7%) and \$1.6 million (11.3%), respectively. This compares with \$3.3 million (19.7%), \$2.0 million (12.0%) and \$1.6 million (9.6%) at June 30, 2002, respectively. The Company does not believe that concentration of accounts receivable is a significant credit risk due to the financial strength of the account debtors and collection experience. See "Results of Operations," under "Management's Discussion and Analysis."

### 4. INVENTORIES

Inventories consist of the following:

## Edgar Filing: LABARGE INC - Form 10-Q

(dollars in thousands)

	December 29, 2002	June 30, 2002
-----	-----	-----
Raw materials	\$15,552	\$13,883
Work in progress	9,602	9,936
Less reserve for obsolescence	612	318
-----	-----	-----
	24,542	23,501
Less progress payments	1,323	1,111
-----	-----	-----
	\$23,219	\$22,390
=====	=====	=====

In accordance with contractual agreements, the U.S. Government has a security interest in inventories identified with related contracts for which progress payments have been received.

### 5. INTANGIBLE ASSETS, NET

Intangible assets, net, is summarized as follows:  
(dollars in thousands)

	December 29, 2002	June 30, 2002
-----	-----	-----
Goodwill	\$ 406	\$ 406
Less amortization	200	200
-----	-----	-----
Net goodwill	206	206
Software	2,080	1,981
Less amortization	1,605	1,465
-----	-----	-----
Net software	475	516
Other, net	88	79
-----	-----	-----
Total intangible assets, net	\$ 769	\$ 801
=====	=====	=====

The Company adopted the provisions of Statement 142, "Goodwill and Other Intangible Assets," in the first quarter ended September 30, 2001. Goodwill amortization expense was \$0 for the three and six months ended December 29, 2002 and December 30, 2001, respectively. The net present value of the cash flow of the operation to which the goodwill relates generates sufficient cash flow to substantiate there is no impairment to the value of goodwill.

Software amortization expense was \$71,000 and \$45,000 for the three months ended December 29, 2002 and December 30, 2001, respectively. Software amortization expense was \$140,000 and \$84,000 for the six months ended December 29, 2002 and December 30, 2001, respectively. Software is amortized over a three-year period.

## Edgar Filing: LABARGE INC - Form 10-Q

### 6. OTHER ASSETS

Other assets is summarized as follows:  
(dollars in thousands)

	December 29, 2002	June 30, 2002	
-----	-----	-----	
Cash value of life insurance	\$4,605	\$4,039	
Deposits, licenses and other, net	1,029	814	
Restricted cash	530	-	
Investments in businesses	136	136	
-----	-----	-----	
	\$6,300	\$4,989	
=====	=====	=====	

Investments in businesses primarily refers to the Company's securities in Norwood Abbey, Ltd. Please see Note 2, "Notes to Consolidated Financial Statements," for additional information.

Restricted cash refers to cash in an escrow account which is related to the sale of the railroad industry portion of its ScadaNET Network (Trade Mark) remote equipment monitoring business to GE Transportation Systems Global Signaling, LLC. See Note 8, "Discontinued Operations."

### 7. SHORT- AND LONG-TERM OBLIGATIONS

Short-term borrowings, long-term debt and the current maturities of long-term debt consist of the following:  
(dollars in thousands)

	December 29, 2002	June 30, 2002	
-----	-----	-----	
Short-term borrowings:			
Revolving credit agreement:			
Balance at period-end	\$ -	\$2,583	
Interest rate at period-end	-%	2.90%	
Average amount of short-term borrowings outstanding during period	\$ 512	\$2,548	
Average interest rate for period	3.38%	3.96%	
Maximum short-term borrowings at any month-end	\$2,389	\$6,320	
=====	=====	=====	
Senior long-term debt:			
Senior lender:			
Term loan	\$6,316	\$6,400	
Other	881	925	
Total senior long-term debt	7,197	7,325	
Less current maturities	328	278	
Long-term debt, less current maturities	\$6,869	\$7,047	
=====	=====	=====	
Subordinated debt:			
Current maturities of subordinated debt	\$5,621	\$5,621	



## Edgar Filing: LABARGE INC - Form 10-Q

=====

The average interest rate was computed by dividing the sum of daily interest costs by the sum of the daily borrowings for the respective periods.

### Senior Lender:

The Company has a senior, secured loan agreement with a bank.

The following is a summary of the agreement:

\* A revolving credit facility up to \$15.0 million, secured by substantially all the assets of the Company other than real estate, based on a borrowing base formula equal to the sum of 80% of eligible receivables and 40% of eligible inventories, less outstanding letters of credit. As of December 29, 2002, the maximum allowable was \$10.9 million, net of letters of credit outstanding of \$4.1 million. The revolver borrowing at December 29, 2002 was \$0. Unused revolving credit available at December 29, 2002 was \$10.9 million. This credit facility matures on September 30, 2004.

\* A \$6.4 million term loan secured by the Company's headquarters building in St. Louis, Missouri. The loan payment schedule is based on a 25-year amortization and began in December 2002 with a final balloon payment due in October 2009. The balance at December 29, 2002 was \$6.3 million.

\* Interest on the loans is at a percentage of prime or a stated rate over LIBOR based on certain ratios. For the period, the average rate was approximately 3.38%.

\* Covenants and performance criteria consist of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in relation to debt, EBITDA in relation to interest, minimum levels of EBITDA and tangible net worth. The Company is in compliance with its borrowing agreement covenants as of December 29, 2002.

### Subordinated Convertible Notes:

In March 1999, the Company, through its subsidiary LaBarge-OCS, Inc., issued its Subordinated Convertible Notes ("Notes") due June 2003 in the aggregate principal amount of \$5.6 million for the acquisition of OCS. The Notes bear interest at 7.5% per annum payable quarterly, and noteholders are entitled to participation payments if LaBarge-OCS, Inc., operating as the Network Technologies Group, achieves certain levels of net earnings. No participation payments were earned in the second quarter or first six months of fiscal 2003. The Notes are convertible by the holders into LaBarge, Inc. Common Stock at \$8.00 per share at any time up to their maturity date.

In December 2002, the Company offered to repay the subordinated notes at a 1% premium. In January 2003, \$1.3 million of the subordinated notes were tendered and repaid.

### Other long-term debt:

#### Industrial Revenue Bonds:

In July 1998, the Company acquired tax-exempt Industrial Revenue Bond financing in the amount of \$1.3 million. The debt is payable over 10 years

## Edgar Filing: LABARGE INC - Form 10-Q

with an interest rate of 5.28%. This funding was used to expand the Berryville, Arkansas facility. The outstanding balance at December 29, 2002 was \$861,000.

The remaining \$20,000 represents a long-term auto loan with a financial institution.

The loan is payable over five years with an interest rate of 0%.

To mitigate the exposure to changes in interest rates, the Company entered into an interest rate swap agreement. This agreement, designated as a cash flow hedge, swaps a portion of the Company's exposure to three-month LIBOR rates with a fixed rate of 5.95%. The notional amount of the agreement is \$3.5 million and it expires in June 2003. In accordance with SFAS 133, as amended by SFAS 138, the change in fair value of the swap amounting to approximately \$34,000 and \$51,000 for the three and six months ended December 29, 2002, respectively, was recorded to other comprehensive loss.

### Other Long-Term Liabilities:

Other long-term liabilities consist of customer advances in the amount of \$2.3 million.

The aggregate maturities of long-term obligations are as follows:  
(dollars in thousands)

Fiscal Year	
2003	\$5,754
2004	395
2005	403
2006	410
2007	418

## 8. DISCONTINUED OPERATIONS

On November 1, 2002, LaBarge, Inc. sold the railroad industry portion of its ScadaNET Network (Trade Mark) remote equipment monitoring business to GE Transportation Systems Global Signaling, LLC ("GETS Global Signaling"), Grain Valley, Missouri.

The sale is valued at approximately \$6.8 million, including \$5.3 million in cash and GETS Global Signaling's assumption of approximately \$1.5 million in certain liabilities. The \$5.3 million of cash includes \$795,000 held in an escrow account against any claims GETS Global Signaling has for breaches of representations and warranties. The unclaimed balance will be released in equal increments over the next three years on the anniversary date of the sale. LaBarge and GETS Global Signaling have entered into a manufacturing agreement under which LaBarge will continue to produce the ScadaNET hardware. The pricing and other terms of the manufacturing agreement were negotiated as an arms-length contract at market terms. Under a separate service agreement, LaBarge will also provide back-end network services to GETS Global Signaling through the earlier of June 2003 or such date as GETS Global Signaling integrates the service. The Company recognized a pre-tax gain of \$2.2 million and a book tax expense of (\$2.4 million), netting to a loss of \$212,000.

The Company has recorded a deferred tax asset of \$1.8 million related to the disposition of assets of the railroad business. Due to the uncertainty of realization of this asset, a reserve of \$1.8 million has also been established.

## 9. CASH FLOWS

## Edgar Filing: LABARGE INC - Form 10-Q

Total cash payments for interest for the three and six months ended December 29, 2002 were \$317,000 and \$446,000, respectively, compared with \$237,000 and \$569,000, for the three and six months ended December 30, 2001, respectively. Cash receipts for federal and state income taxes were (\$56,000) and (\$738,000) for the three and six months ended December 29, 2002, respectively, compared with cash payments of \$880,000 and \$1.2 million for the three and six months ended December 30, 2001, respectively. The cash receipts represent a refund of overpayments of estimated taxes in prior periods.

### 10. EARNINGS PER COMMON SHARE

Basic and diluted earnings per share are computed as follows:

	Three Months Ended		Six Months Ended		
	December 29, 2002	December 30, 2001	December 29, 2002	December 30, 2001	
-----					
Numerator:					
Net earnings (loss) from continuing operations	\$ 581	\$1,155	\$ 681	\$2,027	
-----					
Net (loss) from discontinued operations		(198)	45	(216)	208
-----					
Net earnings	\$ 383	\$1,200	\$ 465	\$2,235	
-----					
Denominator:					
Denominator for basic net earnings per share		15,017	14,961	15,016	14,971
-----					
Potential common shares:					
Denominator for diluted net earnings per share - adjusted weighted-average shares and assumed conversions	15,199	15,364	15,227	15,254	
-----					
Basic net earnings per share:					
Net income from continuing operations	\$ 0.04	\$ 0.08	\$ 0.04	\$ 0.14	
Net (loss) income from discontinued operations	(0.01)	-	(0.01)	0.01	
Basic net earnings	\$ 0.03	\$ 0.08	\$ 0.03	\$ 0.15	
-----					
Average common shares outstanding	15,017	14,961	15,016	14,971	
=====					
Diluted net earnings per share:					
Net income from continuing operations		\$ 0.04	\$ 0.08	\$ 0.04	\$ 0.14
Net (loss) income from discontinued operations	(0.01)	-	(0.01)	0.01	
Diluted net earnings	\$ 0.03	\$ 0.08	\$ 0.03	\$ 0.15	
-----					
Average diluted common shares outstanding	15,199	15,364	15,227	15,254	
=====					

Basic earnings per share is calculated using the weighted average number of

## Edgar Filing: LABARGE INC - Form 10-Q

common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options by using the treasury stock method.

The number of shares used in the calculation of earnings per share for each period presented is as follows:

	Three Months Ended		Six Months Ended	
	December	December	December	December
	29,	30,	29,	30,
	2002	2001	2002	2001
Average common shares outstanding - Basic	15,017	14,961	15,016	14,971
Dilutive options	182	403	211	283
Adjusted average common shares outstanding - Diluted	15,199	15,364	15,227	15,254
	=====	=====	=====	=====

Options to purchase 260,000 shares (at a per-share price of \$7.24 - \$3.03) and 178,000 shares (at a per-share price of \$7.24 - \$4.38) were outstanding during the three months ended December 29, 2002 and December 30, 2001, respectively. Options to purchase 183,000 shares (at a per-share price of \$7.24 - \$3.43) and 242,000 shares (at per-share prices of \$7.24 - \$3.43) were outstanding during the six months ended December 29, 2002 and December 30, 2001, respectively. These options amounts were not included in the respective computations of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. These options expire in various periods through 2011. In addition, there are 703,000 shares reserved for issuance upon conversion of the Company's Subordinated Convertible Notes, at a conversion price of \$8.00 per share, where not included because the conversion price was greater than the average market price of the common shares.

### 11. LITIGATION AND CONTINGENCIES

In June 2000, the Company entered into a contract with McDonnell Douglas Corporation ("MDC"), a wholly-owned subsidiary of The Boeing Company to supply aircraft wire harnesses. The Company has alleged that MDC supplied a defective bid package in its request for proposal. To date, attempts to negotiate a settlement of the claim arising from this defective bid package have not been successful. If a negotiated settlement is not reached, the Company anticipates filing an action in circuit court to seek an equitable adjustment.

Under the contract through December 29, 2002, the Company has delivered 126 sets of the wire harnesses with a sales value of \$3.0 million. Included in the Accounts Receivable balance at December 29, 2002 is \$510,000 representing a portion of the Company's claim against MDC on these shipments. Included in the Company's work-in-process balance at December 29, 2002 is \$150,000, which will not be recovered at the current contract price and will be added to the Company's claim, plus lost profits.

In addition, MDC has exercised options under the contract, for an additional 52 sets of wire harnesses with a sales value of \$1.2 million. Based on current cost estimates, the Company would have an additional claim of \$290,000, plus lost profits, on these units. Sales taken on this contract are being recognized at zero gross profit.

## Edgar Filing: LABARGE INC - Form 10-Q

MDC has options to purchase up to 150 additional sets of wire harnesses per year through calendar year 2006. Management's estimate, based upon forecasted information from MDC, is that the potential additional sales are 248 sets through fiscal year 2006. If these additional orders are placed at the current contract price, the additional sales would total \$5.6 million and the Company would incur an additional loss of \$1.5 million which would be added to the claim, plus lost profits.

The Company has consulted with legal counsel, and believes that it will recover these contract costs.

### Geographic Information

The Company has no sales offices or facilities outside of the United States. Sales for exports did not exceed 10% of total sales for the three months and six months ended December 29, 2002.

For the three and six months ended December 29, 2002, the Company's three largest customers were L-3 Communications, Schlumberger and Lockheed Martin.

LaBARGE, INC.  
FORM 10-Q

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

#### FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that relate to future events or our future financial performance. We have attempted to identify these statements by terminology including "believe," "anticipate," "plan," "expect," "estimate," "intend," "seek," "goal," "may," "will," "should," "can," "continue," or the negative of these terms or other comparable terminology. These statements include statements about our market opportunity, our growth strategy, competition, expected activities, and the adequacy of our available cash resources. These statements may be found in the sections of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Readers are cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, regulatory, competitive and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These statements are not guarantees of future performance and are subject to the risks, uncertainties and assumptions.

LaBarge, Inc. ("LaBarge" or the "Company") is a Delaware Corporation. The Company is engaged in the following business activities:

The Company's electronics manufacturing services business has been its principal business since 1985. The Company designs, engineers and produces sophisticated electronic systems and devices, and complex interconnect systems on a contract basis for its customers.

The Company markets its services to companies in technology-driven industries desiring an engineering and manufacturing partner capable of developing and providing high-reliability electronic equipment, including products capable of

## Edgar Filing: LABARGE INC - Form 10-Q

performing in harsh environmental conditions, such as high and low temperature, severe shock and vibration. Customers are served in a variety of markets with significant revenues from customers in the government systems, defense, aerospace, oil and gas, and other commercial markets. Engineering and manufacturing facilities are located in Arkansas, Missouri, Oklahoma and Texas.

The sales backlog increased to \$104.4 million at December 29, 2002, compared with \$98.0 million at December 30, 2001. The growth in backlog is the result of an improved and reorganized sales and marketing effort that concentrates on the Company's core competencies and the application of those competencies to targeted large customers in a variety of industries. The diversification of the Company's customer base helps to protect it from volatility in any one market segment.

### SIGNIFICANT EVENTS

Recent significant events include:

\* On November 1, 2002, LaBarge, Inc. sold the railroad industry portion of its ScadaNET Network(Trade Mark) remote equipment monitoring business to GE Transportation System Global Signaling, LLC ("GETS Global Signaling"), Grain Valley, Missouri.

\* The sale is valued at approximately \$6.8 million, including \$5.3 million in cash and GETS Global Signaling's assumption of approximately \$1.5 million in certain liabilities. The \$5.3 million of cash includes \$795,000 held in an escrow account against any claims GETS Global Signaling has for breaches of representations and warranties. The unclaimed balance will be released in equal increments over the next three years on the anniversary date of the sale. LaBarge and GETS Global Signaling have entered into a manufacturing agreement under which LaBarge will continue to produce the ScadaNET hardware. The pricing and other terms of the manufacturing agreement were negotiated as an arms-length contract at market terms. Under a separate service agreement, LaBarge will also provide back-end network services to GETS Global Signaling through the earlier of June 2003 or such date as GETS Global Signaling integrates the service. The Company recognized a pre-tax gain of \$2.2 million and a book tax expense of (\$2.4 million), netting to a loss of \$212,000.

\* As a result of the November 2002 sale of the railroad portion of the Company's ScadaNET Network(Trade Mark) business, the Network Technologies Group will no longer be reported as a segment, since the remaining business accounts for less than one-half percent of total sales. See Note 8, "Discontinued Operations," and "Significant Events," below.

\* In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, "Goodwill and Other Intangible Assets." Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual

## Edgar Filing: LABARGE INC - Form 10-Q

values, and

reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

The Company has adopted the provisions of Statement 142 with the first fiscal quarter ended September 30, 2001. At that time, an independent appraisal of the value of the assets of the former Network Technologies Group of the Company was obtained. That independent appraisal indicated that the fair market value of the assets exceeded book value; therefore, there was no impairment at that date. As discussed above, a portion of these assets, including all the goodwill, was sold in November 2002 for a pretax gain of \$2.2 million.

### RESULTS OF OPERATIONS - Three and Six Months Ended December 29, 2002

#### Net Sales

(dollars in thousands)

	Three Months Ended		Six Months Ended	
	December 29, 2002	December 30, 2001	December 29, 2002	December 30, 2001
Net sales	\$24,405	\$30,781	\$47,547	\$61,857
	=====	=====	=====	=====

For the fiscal 2003 second quarter ended December 29, 2002, net sales were \$24.4 million compared with \$30.8 million for the same period of fiscal 2002. Prior year sales included \$8.8 million of postal sorting equipment. This contract has been completed. Partially offsetting this was a \$4.0 million increase in sales of airport security equipment. Customer-requested delays in shipment schedules also contributed to the sales decline.

Sales to the Company's 10 largest customers represented 83.4% of total revenue in the second quarter of fiscal 2003 versus 80.5% for the same period of fiscal 2002. The Company's top three customers and the portion of total second-quarter sales they represented were as follows: Schlumberger, 19%; L-3 Communications, 16%; and Lockheed Martin, 13%.

#### Gross Profit

(dollars in thousands)

	Three Months Ended		Six Months Ended	
	December 29, 2002	December 30, 2001	December 29, 2002	December 30, 2001
Gross profit	\$4,711	\$6,291	\$9,308	\$11,918
Gross margin	19.3%	20.4%	19.6%	19.3%
	=====	=====	=====	=====

The lower product margin in the fiscal 2003 second quarter, compared with the year-ago period is primarily a result of product mix. The margins are comparable for the first six months of fiscal years 2003 and 2002.

#### Selling and Administrative Expenses

(dollars in thousands)

	Three Months Ended		Six Months Ended	
	December 29, 2002	December 30, 2001	December 29, 2002	December 30, 2001
Selling and administrative expenses	\$4,272	\$4,170	\$8,530	\$8,195

## Edgar Filing: LABARGE INC - Form 10-Q

Percent of sales	17.5%	13.5%	17.9%	13.2%
=====	=====	=====	=====	=====

Selling and administrative expenses as a percent of sales increased in the fiscal 2003 periods due to the relatively fixed component of these costs as a percentage of reduced sales volume. Higher medical costs of approximately \$275,000 also contributed to the higher selling and administrative expenses.

### Interest Expense

(dollars in thousands)

	Three Months Ended		Six Months Ended	
	December 29, 2002	December 30, 2001	December 29, 2002	December 30, 2001
Interest expense	\$202	\$336	\$425	\$652
=====	=====	=====	=====	=====

Interest expense decreased for the quarter ended December 29, 2002, primarily due to lower debt levels. Average short-term borrowings for the three- and six-month period ended December 29, 2002 were \$1.5 million and \$2.0 million lower than the same periods of fiscal 2002, respectively. Average interest rates declined 159 basis points for the three months ended December 29, 2002, as compared with the previous year.

### Pretax Earnings from Continuing Operations

(dollars in thousands)

	Three Months Ended		Six Months Ended	
	December 29, 2002	December 30, 2001	December 29, 2002	December 30, 2001
Pretax earnings from continuing operations	\$818	\$1,887	\$982	\$3,269
=====	=====	=====	=====	=====

The decrease in pretax earnings for the quarter ended December 29, 2002, compared with the same period of fiscal 2002, is primarily attributable to lower gross profit (\$1.6 million) on a sales decrease of \$6.4 million, an increase in selling and administration of \$102,000, offset by a \$134,000 reduction in interest expense. In addition, the Company recorded other income of \$436,000 in the quarter ended December 29, 2002, representing a return of premiums under a split-dollar insurance benefit program.

### Tax Expense from Continuing Operations

(dollars in thousands)

	Three Months Ended		Six Months Ended	
	December 29, 2002	December 30, 2001	December 29, 2002	December 30, 2001
Tax expense from continuing operations	\$237	\$732	\$301	\$1,242
=====	=====	=====	=====	=====

The effective income tax rate for the three months ended December 29, 2002 was 29%, compared with 39% for the three months ended December 30, 2001. The decrease in the effective income tax rate is primarily due to the non-taxable \$436,000 of other income received in the quarter. See "Pretax Earnings from Continuing Operations," above.



## Edgar Filing: LABARGE INC - Form 10-Q

Discontinued Operations, Net of Tax  
(dollars in thousands)

	Three Months Ended		Six Months Ended	
	December 29, 2002	December 30, 2001	December 29, 2002	December 30, 2001
Income (loss) from discontinued operations, (less applicable income taxes of \$10, \$28, (\$2), \$127, respectively	\$ 14	\$ 45	\$ (4)	\$ 208
Income on disposal of discontinued operations of \$2,222 (less applicable income tax expense of \$2,434)	\$ (212)	\$ -	\$ (212)	\$ -
=====	=====	=====	=====	=====

Discontinued operations arose from the sale of the railroad industry portion of the Company's ScadaNET Network (Trade Mark) remote equipment monitoring business. See Note 8, "Discontinued Operations."

### FINANCIAL CONDITION AND LIQUIDITY

The following table shows LaBarge's equity and total debt positions:

Stockholders' Equity and Debt  
(dollars in thousands)

	December 29, 2002	June 30, 2002
Stockholders' equity	\$34,109	\$33,684
Debt	\$12,818	\$15,529
=====	=====	=====

The Company's continuing operations provided \$5.6 million of net cash for the six months ended December 29, 2002.

A revolving credit facility up to \$15.0 million, secured by substantially all the assets of the Company other than real estate, based on a borrowing base formula equal to the sum of 80% of eligible receivables and 40% of eligible inventories, less outstanding letters of credit. As of December 29, 2002, the maximum allowable was \$10.9 million, net of letters of credit outstanding of \$4.1 million. The revolver borrowing at December 29, 2002 was \$0. Unused revolving credit available at December 29, 2002 was \$10.9 million. This credit facility matures on September 30, 2004.

The aggregate maturities of long-term obligations are as follows:  
(dollars in thousands)

Fiscal Year	
2003	\$5,754
2004	395
2005	403
2006	410

Current cash balances will be sufficient to retire the remainder of the Subordinated Conversion Notes outstanding on their maturity date, June 29, 2003.

Overall, management believes our availability of funds going forward from cash generated from operations and available bank credit should be sufficient to support the planned operations and capital expenditures of the Company's business for the next two fiscal years.

Currently, the total debt-to-equity ratio for the Company is .38 to 1, versus .46 to 1 at the end of fiscal 2002.

#### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made its best estimates and judgment of certain amounts included in the financial statements. The Company believes there is a likelihood that materially different amounts would be reported under different conditions or using different assumptions related to the accounting policies described below. Application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Company's senior management discusses the accounting policies described below with the audit committee of the Company's board of directors on a periodic basis.

The following discussion of critical accounting policies is intended to bring to the attention of readers those accounting policies that we believe are critical to our consolidated financial statements and other financial disclosures.

#### Revenue Recognition and Cost of Sales

Revenue on production contracts is recorded when specific contract terms are fulfilled, usually upon delivery (the delivery method). Under long-term contracts for which the delivery method is an inappropriate measure of performance, revenue is recognized on the percentage-of-completion method based upon incurred costs compared to total estimated costs under the contract. The percentage-of-completion method gives effect to the most recent contract value and estimates of cost at completion. When appropriate, contract prices are adjusted for increased scope and other changes ordered or caused by the customer.

Since some contracts extend over a long period of time, revisions in cost and contract price during the progress of work have the effect of adjusting current period earnings applicable to performance in prior periods. When the current contract cost estimate indicates a loss, provision is made for the total anticipated loss.

The SEC's Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition," provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. The Company's revenue recognition policy is in accordance with generally accepted accounting principles and SAB No. 101.

#### Accounts Receivable

Accounts receivables have been reduced by an allowance for amounts that may become uncollectable in the future. This estimated allowance is based primarily on management's evaluation of the financial condition of the Company's customers.

## Edgar Filing: LABARGE INC - Form 10-Q

The Company does not believe that concentration of accounts receivable is a significant credit risk due to the financial strength of the account debtors and collection experience.

### Inventory

Inventories are valued at the lower of cost or market and have been reduced by a reserve for excess and obsolete inventories. The Company adjusts the value of its reserve based upon assumptions for future usage and market conditions.

### Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company has considered future taxable income analyses and feasible tax planning strategies in assessing the need for the valuation allowance. Should the Company determine that it would not be able to recognize all or part of its net deferred tax assets in the future, an adjustment to the carrying value of the deferred tax assets would be charged to income in the period in which such determination is made.

### Goodwill and Other Long-Lived Assets

The Company has adopted the provisions of SFAS No. 142 on July 2, 2001, and has reassessed the useful lives and residual values of all recorded intangible assets. Goodwill is reviewed by management for impairment annually or whenever events or changes in circumstance indicate the carrying amount may not be recoverable. If indicators of impairment are present, the determination of the amount of impairment is based on the Company's judgment as to the future operating cash flows to be generated from these assets throughout their estimated useful lives.

### Net Accounting Standards

In June 2002, the financial accounting standards board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123," that provides alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148 are effective for interim periods beginning after December 15, 2002.

## PART I

### ITEM 4 Controls and Procedures

The Company's President and Chief Executive Officer, Craig E. LaBarge, and the Company's Vice President, Chief Financial Officer and Secretary, Donald H. Nonnenkamp, have evaluated the Company's internal

## Edgar Filing: LABARGE INC - Form 10-Q

controls and disclosure controls systems within 90 days of the filing of this report.

Messrs. LaBarge and Nonnenkamp have concluded that the Company's disclosure controls systems are functioning effectively to provide reasonable assurance that the Company can meet its disclosure obligations. The Company's disclosure controls system is based upon a chain of financial and general business reporting lines that converge in the headquarters of the Company in St. Louis, Missouri. The reporting process is designed to ensure that information required to be disclosed by the Company in the reports that it files or submits with the Commission is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Since Messrs. LaBarge's and Nonnenkamp's most recent review of the Company's internal controls systems, there have been no significant changes in internal controls or in other factors that could significantly affect these controls.

### PART II

#### ITEM 4. Submission of Matter to a Vote of Security Holders

On November 20, 2002, at the Company's Annual Meeting of Stockholders, stockholders took the following actions:

a) We conducted the election for directors, received the votes of the stockholders, canvassed the votes cast, and the following persons received the number of votes set opposite their respective names:

Name	Number of Votes FOR	Withheld Authority to Vote
Class A:		
Craig E. LaBarge	13,756,665	112,534
James P. Shanahan, Jr.	13,806,654	62,545
Jack E. Thomas, Jr.	13,804,554	64,645

b) We conducted the balloting upon the proposed ratification of the selection of KPMG LLP as independent accountants for the fiscal year ending June 29, 2003, received the votes of the stockholders, canvassed the votes cast, and said proposal received 13,718,710 FOR votes, 115,666 AGAINST votes, and 34,823 votes ABSTAINED. Said proposal was therefore adopted.

#### ITEM 6. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Reports on Form 8-K: Current reports on Form 8-K were filed:

(a) on November 12, 2002, reporting the disposition of the railroad industry

## Edgar Filing: LABARGE INC - Form 10-Q

portion of its ScadaNET Network(Trade Mark) remote  
equipment monitoring  
business

to GE Transportation Systems Global Signaling, LLC  
("GETS Global Signaling"),  
Grain Valley, Missouri; and

(b) on November 13, 2002, in accordance with Regulation FD to report certain  
information the Registrant intended to present to certain institutional  
investors.

### SIGNATURE

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

LaBARGE, INC.

Date: February 11, 2003

/S/Donald H. Nonnenkamp  
Donald H. Nonnenkamp  
Vice President  
and Chief Financial Officer

I, Craig E. LaBarge, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LaBarge, Inc.;
2. Based on my knowledge, this quarterly report does not contain  
any untrue  
statement of a material fact or omit to state a material fact  
necessary to make  
the statements made, in light of the circumstances under which such  
statements  
were made, not misleading with respect to the period covered by this  
quarterly  
report;
3. Based on my knowledge, the financial statements, and other financial  
information included in this quarterly report, fairly present in all material  
respects the financial condition, results of operations and cash flows of the  
registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for  
establishing and maintaining disclosure controls and procedures (as defined in  
Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure

## Edgar Filing: LABARGE INC - Form 10-Q

that material

information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the

period in which this quarterly report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on

our most recent evaluation, to the registrant's auditors and the audit committee

of registrant's board of directors (or persons performing the equivalent

function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal

controls subsequent to the date of our most recent evaluation, including any corrective

actions with regard to significant deficiencies and material weaknesses.

/s/Craig E. LaBarge  
President and Chief Executive Officer

Date: February 11, 2003

I, Donald H. Nonnenkamp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LaBarge, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this

Edgar Filing: LABARGE INC - Form 10-Q

quarterly

report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material

information relating to the registrant, including its

consolidated subsidiaries,

is made known to us by others within those entities,

particularly during the

period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on

our most recent evaluation, to the registrant's auditors and the audit committee

of registrant's board of directors (or persons performing the equivalent

function):

a) all significant deficiencies in the design or operation of internal

controls which could adversely affect the registrant's ability

to record,

process, summarize and report financial data and have identified

for the

registrant's auditors any material weaknesses in internal

controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal

controls or in other factors that could significantly affect

internal controls

subsequent to the date of our most recent evaluation, including any corrective

actions with regard to significant deficiencies and material weaknesses.

/s/Donald H. Nonnenkamp  
Vice President, Chief Financial  
Officer and Secretary

Date: February 11, 2003