

LABARGE INC  
Form 10-K/A  
September 11, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549  
**FORM 10-K/A**

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

FOR THE FISCAL YEAR ENDED  
JUNE 29, 2003

Commission File Number 1-5761

LaBARGE, INC.

(Exact name of registrant specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

73-0574586

(I.R.S. Employer Identification Number)

9900A CLAYTON ROAD, ST. LOUIS, MISSOURI 63124

(Address of principal executive offices) (ZIP Code)

Registrant's telephone number, including area code: (314) 997-0800

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

Common Stock, \$.01 par value

American Stock Exchange

Title of Class

Name of each exchange on which registered

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

Series C Junior Participating Preferred Stock Purchase Rights

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 requirement for the past 90 days. Yes [X] No [ ]

## Edgar Filing: LABARGE INC - Form 10-K/A

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K 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/A or any amendment to this Form 10-K/A.

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

As of June 29, 2003, 14,928,350 shares of common stock of the registrant were outstanding; the aggregate market value of the shares of common stock of the registrant held by non-affiliates was approximately \$36.6 million, based upon the closing price of the common stock on the American Stock Exchange on June 27, 2003.

### DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Company's definitive proxy materials to be filed within 120 days after the Company's fiscal year are incorporated in Part III herein.

LaBarge, Inc.

Form 10-K/A

### **For The Year Ended June 29, 2003**

#### Part I

- Item 1. Business Summary
- Item 2. Properties
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders

#### Part II

- Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters
- Item 6. Selected Financial Data
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 7a. Quantitative and Qualitative Disclosures about Market Risk
- Item 8. Consolidated Financial Statements and Supplementary Data
- Item 9. Changes in and Disagreements with Accountants on Auditing and Financial Disclosures
- Item 9a. Controls and Procedures

Part III

- Item 10. Directors and Executive Officers of the Registrant
- Item 11. Executive Compensation
- Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters
- Item 13. Certain Relationships and Related Transactions
- Item 14. Principal Accounting Fees and Services

Part IV

- Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Signatures

PART I

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.*

Actual results may differ from projections or estimates due to a variety of important factors, including the following:

- The Company  
*'s dependence on a few large customers;*
- The Company  
*'s dependence on government contracts, which are subject to cancellation;*
- The Company  
*'s ability to control costs, especially on fixed-price contracts;*
- The size and time of new contract awards to replace completed or expired contracts;
- Cutbacks in defense spending by the U.S. Government;
-

Dependence of the Company on U.S. economic conditions and economic conditions in the markets the Company serves;

- Availability and increases in the cost of raw materials, labor and other resources;
- Increased competition in the Company

*'s markets;*

- The Company

*'s ability to manage operating expenses;*

- The outcome of litigation to which the Company may become a party; and
- The availability, amount, type and cost of financing for the Company, and any change to that financing.

Given these uncertainties, undue reliance should not be placed on such forward-looking statements. Unless otherwise required by law, the Company disclaims an obligation to update any such factors or to publicly announce the results of any revisions to any forward-looking statements contained herein to reflect future events or developments.

## ITEM 1      BUSINESS

.

### General Development of Business and Information about Business Activity

LaBarge, Inc. ("LaBarge" or the "Company") is a Delaware corporation.

LaBarge manufactures and designs high-performance electronics and interconnect systems for customers in diverse technology-driven markets. The Company's core competencies are to provide complete electronic systems solutions, including the design, engineering and manufacturing of interconnect systems, circuit card assemblies and high-level assemblies for its customers' specialized applications. This has been the Company's principal business since 1985.

The Company markets its services to companies desiring an engineering and manufacturing partner capable of developing and providing high-reliability electronic equipment, including products capable of performing in harsh environmental conditions, such as high and low temperature, severe shock and vibration. The Company serves customers in a variety of markets with revenues from customers in the defense, government systems, aerospace, oil and gas, and other commercial markets. The Company's engineering and manufacturing facilities are located in Arkansas, Missouri, Oklahoma and Texas. The Company employs approximately 840 people including 15 sales personnel, 29 engineers and 50 technicians who provide direct customer support as needed, and 30 executive and corporate administrative support people.

Sales were \$102.9 million for fiscal 2003, compared with \$117.2 million in fiscal 2002, and \$116.7 million in fiscal 2001. The backlog for the Company at June 29, 2003 was approximately \$123.6 million, compared with \$98.0 million at June 30, 2002, an increase of 26%. The growth in backlog is the result of a sales and marketing effort that concentrate on the Company's core competencies and the application of those competencies to targeted large customers in a variety of industries. Approximately \$41.9 million of the backlog at fiscal 2003 year end is not scheduled to ship within the next 12 months pursuant to the shipment schedules contained in those contracts. This compares with \$21.0 million at fiscal 2002 year end.

### Sales and Marketing

During fiscal 2003, the Company generated significant revenues from customers in the defense, government systems, aerospace, oil and gas, and other commercial markets. The Company produces electronic equipment for use in a variety of high-technology applications, including military communication and radar systems, military and commercial aircraft, satellites, space launch vehicles, down-hole instrumentation in oil and gas wells, and mail sorting equipment. However, the Company's broad-based core competencies in electronics design and manufacturing allow it to pursue diverse opportunities with customers in many different markets. The diversification of the Company's customer base helps protect it from volatility in any one market segment.

With few exceptions, the Company's sales are made pursuant to fixed-price contracts. Larger, long-term government contracts generally have provisions for milestone or progress payments. The Company typically carries inventories only related to specific contracts, and title passes to the customer when products are shipped.

The Company seeks to develop strong, long-term relationships with its customers, which will provide the basis for future sales. These close relationships allow the Company to better understand the customers' business needs and identify ways to provide greater value to the customer.

### Competition

There is intense competition for all of the Company's targeted customers. While the Company is not aware of another entity that competes in all of its capabilities, there are numerous companies, many larger, which compete in one or more of these capabilities. The Company's customers frequently have the ability to produce internally the products contracted to the Company, but because of cost, capacity, engineering capability or other reasons, outsource production of such products to the Company. The principal bases of competition are service, price, engineering expertise, technical and manufacturing capability, quality, reliability, and overall project management capability.

### Concentration of Business

Three customers, each with multiple operating units, together accounted for in excess of 40% of the Company's consolidated sales in fiscal 2003: L3 Communications accounted for 15% of total sales; Schlumberger accounted for 14% of total sales; and Lockheed Martin accounted for 12% of total sales. No other customer accounted for more than 9% of total sales. Sales to the largest 10 customers represented approximately 82% of the Company's total sales in fiscal year 2003, and 75% in fiscal year 2002.

### Manufacturing Operations

The Company has organized its engineering and production to provide flexible independent plant locations with specific design and manufacturing capabilities. This approach allows local management at each facility to concentrate the necessary attention on specific customer needs and, at the same time, control all key aspects of the engineering and manufacturing processes.

### Strategy

The Company's strategy is to continue to focus on core competencies and grow its business through internal development and acquisition.

### Capital Structure

The Company has a bank credit facility that provides financing for the Company's headquarters building in St. Louis, Missouri, and provides working capital for its operations.

The following is a summary of the credit facility:

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 June 29, 2003, net of letters of credit outstanding of \$2.1 million, the maximum available was \$12.9 million. The revolver borrowing at June 29, 2003 was \$0. 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 repayment schedule is based on a 25-year amortization and began in December 2002 with a balloon final payment due in October 2009. The current balance at June 29, 2003 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 2.4%.

Covenants and performance criteria consist of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in relation to debt, EBITDA in relation to interest and tangible net worth. The Company is in compliance with its borrowing agreement covenants as of June 29, 2003.

**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 with an interest rate of 5.28%. This funding was used to expand the Berryville, Arkansas facility. The outstanding balance at June 29, 2003 was \$797,000.

Other Long-Term Liabilities:

Other long-term liabilities are advances from customers in the amount of \$2.8 million.

The ratio of debt-to-equity as of June 29, 2003 was .20 to 1, compared with .46 to 1 at June 30, 2002.

Environmental Compliance

Compliance with federal, state and local environmental laws is not expected to materially affect the capital expenditures, earnings or competitive position of any segment of the Company.

**Financial Information About Foreign and Domestic Operations and Export Sales**

No information has been included hereunder because the Company's foreign sales in each of fiscal 2003, fiscal 2002 and fiscal 2001 were less than 10% of the total Company revenue.

PROPERTIES

ITEM 2

The Company's principal facilities, which are deemed adequate and suitable for the Company's business, are as follows:

<u>Location</u>	<u>Principal Use</u>	<u>Land (acres)</u>	<u>Buildings (sq. ft.)</u>	<u>Calendar Year of Termination of Lease</u>
Berryville, AR	Manufacturing & Offices	17.5	49,000	Owned
Stafford, TX	Manufacturing & Offices	2	33,000	2013
Huntsville, AR	Manufacturing & Offices	6	48,000	2019
Joplin, MO	Manufacturing & Offices	5	50,400	Owned
Joplin, MO	Manufacturing	4	33,000	2005
Lenexa, KS	Offices	.5	4,137	2003
St. Louis, MO	Offices	8	65,176	Owned
Tulsa, OK	Manufacturing & Offices	3	55,000	2004
Tulsa, OK	Manufacturing	1	6,425	2004
Tulsa, OK	Offices	.5	3,235	2005

ITEM 3      LEGAL PROCEEDINGS

In June 2000, the Company entered into a contract with McDonnell Douglas Corporation ("MDC"), a wholly-owned subsidiary of The Boeing Company ("Boeing"), to supply aircraft wire harnesses. The Company claimed that MDC supplied a defective bid package in its request for proposal. During fiscal 2002, the Company submitted a claim to Boeing. As of June 30, 2002, the Company had amounts associated with this claim included in accounts receivable and work in process inventory of approximately \$207,000 and \$298,000, respectively. In fiscal year 2003, Boeing and the Company negotiated a settlement of the claim. As a result, the Company recorded additional sales revenue of \$900,000 and profit of \$205,000 in the fourth quarter due to a retroactive price adjustment on units shipped. The settlement also provides for revised unit pricing on future options.

ITEM 4      SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS

There were no items submitted to a vote of the security holders in the quarter ended June 29, 2003.

## PART II

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

Reference is made to the information contained in the section entitled "Stock Price and Cash Dividends" on page 39 filed herewith.

The following table contains certain information as of June 29, 2003 with respect to options granted and outstanding under the Company's three stock option plans, shares available for purchase as of that date under the Company's employee stock purchase plan, weighted average exercise price of outstanding options, warrants and rights, and number of securities remaining available for future issuance under these plans.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column 1)
Equity compensation plans approved by security holders	1,562,863	\$2.94	547,117

**ITEM 6 SELECTED FINANCIAL DATA**

Reference is made to the information contained in the section entitled "Selected Financial Data" on page 38 filed herewith.

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

Reference is made to the information contained in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 40 through 45 herewith.

**ITEM7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Foreign Currency Risk**

No information has been included hereunder because the Company's foreign sales in each of fiscal 2003, 2002 and 2001 were less than 10% of total Company revenue. All foreign contracts are paid in U.S. dollars and the Company is not significantly exposed to foreign currency translation. However, if the significance of foreign sales grows, management will continue to monitor whether it would be appropriate to use foreign currency risk management



instruments to mitigate any exposures.

#### Interest Rate Risk

As of June 29, 2003, the Company had \$7.1 million in total debt. Industrial revenue bonds totaling \$797,000 have a fixed rate and are not subject to interest rate risk. The interest rate on the remaining \$6.3 million is subject to fluctuation. The additional interest cost to the Company if interest rates went up 1%, would be approximately \$63,000 for one year. In the past, the Company has used interest rate swaps to mitigate the impact of increasing interest rates. The Company's interest rate swap expired in June 2003. The Company may elect to utilize similar interest rate swaps in the future.

#### ITEM 8      CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the "Index to Consolidated Financial Statements and Schedule" contained on page 15 filed herewith.

#### ITEM 9      CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON AUDITING AND FINANCIAL DISCLOSURE

Not applicable.

#### ITEM 9A     CONTROLS AND PROCEDURES

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

#### ITEM 10     DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

This information will be included in the Company's definitive proxy materials to be filed within 120 days after the end of the Company's fiscal year covered by this report and is incorporated by reference.

#### ITEM 11     EXECUTIVE COMPENSATION

This information will be included in the Company's definitive proxy materials to be filed within 120 days after the end of the Company's fiscal year covered by this report and is incorporated by reference.

ITEM 12      SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

.

This information will be included in the Company's definitive proxy materials to be filed within 120 days after the end of the Company's fiscal year covered by this report and is incorporated by reference.

ITEM 13      CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

.

This information will be included in the Company's definitive proxy materials to be filed within 120 days after the end of the Company's fiscal year covered by this report and is incorporated by reference.

ITEM 14      PRINCIPAL ACCOUNTING FEES AND SERVICES

.

This information will be included in the Company's definitive proxy materials to be filed within 120 days after the end of the Company's fiscal year covered by this report and is incorporated by reference.

PART IV

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

.

a. Consolidated Financial Statements.

See "Index to Consolidated Financial Statements and Schedule" contained on page 15.

b. Reports on Form 8-K.

The following Current Reports on Form 8-K were filed by the Company with the Securities and Exchange Commission during the fiscal quarter ended June 29, 2003:

1. May 14, 2003 to file Certifications by the Company's Chief Executive Officer and Chief Financial Officer of the Company Quarterly Report on Form 10-Q for its fiscal quarter ended March 30, 2003, pursuant to Section 906 of the Sarbanes-Oxley Act

of 2002.

2. May 7, 2003 to make certain Regulation FD disclosures.

3. May 1, 2003 to file as an exhibit the Company's press release announcing results of its fiscal 2003 third quarter and first nine months.

c. Exhibits.

See "Exhibits" below.

d. Consolidated Financial Statement Schedule.

See "Index to Consolidated Financial Statements and Schedule" contained on page 15.

## EXHIBITS

### Exhibit Number

### Description

3.1

Restated Certificate of Incorporation, dated October 26, 1995, previously filed as Exhibit 3.1(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 1995 and incorporated herein by reference.

3.1(a)

Certificate of Amendment to Restated Certificate of Incorporation, dated November 7, 1997, previously filed as Exhibit 3.1(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 28, 1997 and incorporated herein by reference.

3.2

By-Laws, as amended, previously filed as Exhibit 3.2(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 1995 and incorporated herein by reference.

3.3

Certificate of Designations for Series C Junior Participating Preferred Stock, previously filed as Exhibit 3 to the Company's Registration Statement on Form 8-A on September 11, 2001 and incorporated herein by reference.

4.1(a)

Form of Rights Agreement dated as of November 8, 2001 between the Company and UMB Bank, as Rights Agent, which includes as Exhibit B the form of Rights Certificate, previously filed as Exhibit 4 to the Company's Registration Statement on Form 8-A on September 11, 2001 and incorporated herein by reference.

4.1(b)\*\*

Edgar Filing: LABARGE INC - Form 10-K/A

Amendment dated December 5, 2001 to the Rights Agreement appointing Registrar and Transfer Company as successor Rights Agent with respect to Series C Junior Participating Preferred Stock Purchase Rights.

10.

First Amendment and Restatement to the LaBarge Employees Savings Plan executed on May 3, 1990 and First Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on June 5, 1990, previously filed as Exhibits (i) and (ii), respectively, to the LaBarge, Inc. Employees Savings Plan's Annual Report on Form 11-K for the year ended December 31, 1990 and incorporated herein by reference.

10.1(a)

Second Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on November 30, 1993. Previously filed with the Securities and Exchange Commission July 23, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.1(b)

Third Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on March 24, 1994. Previously filed with the Securities and Exchange Commission on July 23, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.1(c)

Fourth Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on January 3, 1995. Previously filed with the Securities and Exchange Commission on July 23, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.1(d)

Fifth Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on October 26, 1995. Previously filed with the Securities and Exchange Commission on July 23, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.1(e)

Sixth Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on January 9, 1998. Previously filed as Exhibit II, respectively, to the LaBarge, Inc. Employees Savings Plan's Annual Report on Form 11-K for the year ended December 31, 1997 and incorporated herein by reference.

10.1(f)

Seventh Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on August 11, 1999. Previously filed with the

Edgar Filing: LABARGE INC - Form 10-K/A

Securities and Exchange Commission with the Company Annual Report on Form 10-K on September 27, 1999 and incorporated herein by reference.

10.3

LaBarge, Inc. 1993 Incentive Stock Option Plan. Previously filed with the Securities and Exchange Commission on July 23, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.3(a)

First Amendment to the LaBarge, Inc. 1993 Incentive Stock Option Plan. Previously filed with the Securities and Exchange Commission on July 23, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.4

Management Retirement Savings Plan of LaBarge, Inc. Previously filed with the Securities and Exchange Commission on July 23, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.7

LaBarge, Inc. 1995 Incentive Stock Option Plan. Previously filed with the Securities and Exchange Commission with the Company's Annual Report on Form 10-K on September 19, 1996 and incorporated herein by reference.

10.10

LaBarge, Inc. Employee Stock Purchase Plan. Previously filed with the Securities and Exchange Commission with the Company's definitive Proxy Statement on Schedule 14A, filed on September 21, 1998, and incorporated herein by reference.

10.10(a)

First Amendment to the LaBarge, Inc. Employee Stock Purchase Plan. Previously filed with the Securities and Exchange Commission with the Company's Quarterly Report on Form 10-Q on May 12, 1999 and incorporated here in by reference.

10.15

Agreement and Plan of Merger dated February 9, 1999, among LaBarge, Inc., LaBarge-OCS, Inc. and Open Cellular Systems, Inc., with an Index of omitted exhibits and schedules and agreement by LaBarge to furnish such omitted exhibits and schedules upon request. Previously filed with the Securities and Exchange Commission with the Company Annual Report on Form 10-K on September 27, 1999, and incorporated herein by reference.

10.16

LaBarge, Inc. 1999 Non-Qualified Stock Option Plan. Previously filed with the Company's definitive Proxy Statement on Schedule 14A filed on October 8, 1999, and incorporated herein by reference.

10.17

Edgar Filing: LABARGE INC - Form 10-K/A

Executive Severance Agreement dated November 8, 1999, between Donald H. Nonnenkamp and LaBarge, Inc., previously filed with Securities and Exchange Commission with the Company's Current Report on Form 10-K on September 22, 2000, and incorporated herein by reference.

10.19

Loan Agreement by and among U.S. Bank, N.A., LaBarge, Inc. and LaBarge Properties, Inc. Previously filed with the Securities and Exchange Commission with the Company's Quarterly Report on Form 10-Q on May 14, 2002 and incorporated herein by reference.

10.19(a)\*

First Amendment to the Loan Agreement dated March 12, 2002, by and among U.S. Bank, N.A., LaBarge, Inc. and LaBarge Properties, Inc. previously filed with the Securities and Exchange Commission with the Current Report Form 10-K on September 5, 2003, and incorporated herein by reference.

10.19(b)\*

Second Amendment to the Loan Agreement dated March 12, 2002, by and among U.S. Bank, N.A., LaBarge, Inc. and LaBarge Properties, Inc. previously filed with the Securities and Exchange Commission with the Current Report Form 10-K on September 5, 2003, and incorporated herein by reference.

10.19(c)

Third Amendment to the Loan Agreement dated March 12, 2002, by and among U.S. Bank, N.A., LaBarge, Inc. and LaBarge Properties, Inc. previously filed with the Securities and Exchange Commission with the Current Report Form 10-Q on May 14, 2003, and incorporated herein by reference.

10.20

Asset Purchase Agreement dated November 1, 2002, between G.E. Transportation Systems Global Signaling, LLC and the Company, previously filed with the Securities and Exchange Commission with the Current Report Form 8-K dated November 12, 2002 and incorporated herein by reference.

10.21

Manufacturing Agreement dated November 1, 2002, between G.E. Transportation Systems Global Signaling, LLC and the Company, previously filed with the Securities and Exchange Commission with the Current Report Form 8-K dated November 12, 2002 and incorporated herein by reference.

21\*

Subsidiaries of the Company.

23(a)\*\*

Independent Auditors' Consent.

24

Power of Attorney (see signature page).

31.1\*\*

Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a - 14(a).

31.2\*\*

Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a - 14(a).

32\*\*

Certification by Chief Executive Officer and Chief Financial Officer pursuant to Exchange Act Rule 13a - 14(b).

\* Document filed previously with initial Form 10-K on September 5, 2003.

\*\* Document filed herewith.

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to the Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 10, 2003  
LaBarge, Inc.

By: /s/DONALD H. NONNENKAMP  
Donald H. Nonnenkamp  
Vice President & Chief Financial Officer

#### POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1934, this Amendment No. 1 to the Report has been signed as of September 10, 2003 by the following persons on behalf of the Registrant and in the capacities indicated:

SIGNATURE

TITLE

DATE

/s/CRAIG E. LABARGE Chief Executive Officer, President and Director 9/10/2003  
Craig E. LaBarge

/s/DONALD H. NONNENKAMP Vice President, Chief Financial Officer 9/10/2003  
Donald H. Nonnenkamp and Secretary

\* Director 9/10/2003  
Robert H. Chapman

\* Director 9/10/2003  
Robert G. Clark

\* Director 9/10/2003  
Richard P. Conerly

\* Director 9/10/2003  
John G. Helmkamp, Jr.

\* Director 9/10/2003  
Lawrence J. LeGrand

\* Director 9/10/2003  
James P. Shanahan, Jr.

\* Director 9/10/2003  
Jack E. Thomas, Jr.

\*By: /s/DONALD H. NONNENKAMP  
Donald H. Nonnenkamp  
Attorney-in-fact



LABARGE, INC. AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

Consolidated Financial Statements and Schedule	Page
Independent Auditors' Report	16
Consolidated Statements of Income, Years Ended June 29, 2003, June 30, 2002 and July 1, 2001	17
Consolidated Balance Sheets, As of June 29, 2003, and June 30, 2002	18
Consolidated Statements of Cash Flows, Years Ended June 29, 2003, June 30, 2002 and July 1, 2001	19
Consolidated Statements of Stockholders' Equity, Years Ended June 29, 2003, June 30, 2002 and July 1, 2001	20
Notes to Consolidated Financial Statements	21 - 39
Schedule II - Valuation and Qualifying Accounts	46

All other schedules have been omitted as they are not applicable, not significant, or the required information is given in the consolidated financial statements or note thereto.

Independent Auditors' Report

The Board of Directors and Stockholders  
of LaBarge, Inc.:

We have audited the consolidated financial statements of LaBarge, Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of LaBarge, Inc. and subsidiaries as of June 29, 2003 and June 30, 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended June 29, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 7 to the consolidated financial statements, in fiscal year 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/KPMG LLP

St. Louis, Missouri  
August 15, 2003

LaBarge, Inc.  
CONSOLIDATED STATEMENTS OF INCOME

*(Amounts In Thousands -- Except Per Share Amounts)*

	Year Ended		
	June 29, 2003	June 30, 2002	July 1, 2001

Edgar Filing: LABARGE INC - Form 10-K/A

Net sales	\$ 102,901	\$17,190	\$16,655
Cost and expenses:			
Cost of sales	82,053	95,239	93,138
Selling and administrative expense	15,662	14,742	14,478
Interest expense	820	1,144	1,873
Other income, net	(710)	(622)	(714)
<b>Earnings from continuing operations</b>			
before income taxes	5,076	6,687	7,880
<b>Income tax expense</b>	<b>1,757</b>	<b>2,326</b>	<b>2,880</b>
<b>Net earnings from continuing operations</b>	<b>3,319</b>	<b>4,361</b>	<b>5,000</b>
Discontinued operations:			
Loss from discontinued operations, (less applicable income tax benefit of (\$519, \$263 and \$182, respectively)	(859)	(431)	(1,172)
Disposal of discontinued operations of \$2,222 (less applicable income tax expense of \$2,434)	(212)	---	---
<b>Net earnings</b>	<b>\$ 2,248</b>	<b>\$ 3,930</b>	<b>\$ 3,828</b>
Basic net earnings per common share:			
Net earnings from continuing operations	\$ 0.22	\$ 0.29	\$ 0.34
Net earnings from discontinued operations	(0.07)	(0.03)	(0.08)
<b>Basic net earnings</b>	<b>\$ 0.15</b>	<b>\$ 0.26</b>	<b>\$ 0.26</b>
<b>Average common shares outstanding</b>	<b>14,977</b>	<b>14,975</b>	<b>14,914</b>
Diluted net earnings per share:			
Net earnings from continuing operations	\$ 0.22	\$ 0.28	\$ 0.34
	(0.07)	(0.02)	(0.08)

Net earnings from  
discontinued operations

<u>Diluted net earnings</u>	<u>\$ 0.15</u>	<u>\$ 0.26</u>	<u>\$ 0.26</u>
<u>Average diluted common shares outstanding</u>	<u>15,101</u>	<u>15,404</u>	<u>14,914</u>

See accompanying notes to consolidated financial statements.

LaBarge, Inc.  
CONSOLIDATED BALANCE SHEETS

*(Amounts In Thousands -- Except Share Amounts)*

	June 29, 2003	June 30, 2002
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,030	\$ 2,533
Accounts and other receivables, net	15,653	16,569
Inventories	25,743	22,255
Prepaid expenses	956	537
Deferred tax assets, net	637	627
Current assets of discontinued operations	215	727
<b>Total current assets</b>	<b>47,234</b>	<b>43,248</b>
Property, plant and equipment, net	14,255	13,828
Deferred tax assets, net	299	937
Intangible assets, net	476	609
Other assets, net	4,727	4,980
Non-current assets of discontinued operations	171	4,604
	\$ 67,162	\$ 68,206

LIABILITIES AND STOCKHOLDERS

' EQUITY

Current liabilities:

Short-term borrowings	\$ ---	\$ 2,583
Current maturities of subordinated debt	---	5,621
Current maturities of long-term debt	395	278
Trade accounts payable	7,808	6,510
Accrued employee compensation	5,930	5,448
Other accrued liabilities	7,627	3,486
Current liabilities of discontinued operations	66	85

Total current liabilities	\$ 21,826	\$ 24,011
---------------------------	-----------	-----------

Other long-term liabilities	2,788	2,103
Other long-term liabilities of discontinued operations	---	1,361
Long-term debt	6,669	7,047

Stockholders

' equity:

Common stock, \$.01 par value. Authorized 40,000,000 shares; 15,773,253 issued at June 29, 2003, and 15,773,253 at June 30, 2002, including shares in treasury	158	158
Additional paid-in capital	13,486	13,515
Retained earnings	24,984	22,736
Accumulated other comprehensive loss	---	(131 )
Less cost of common stock in treasury, shares of 844,903 at June 29, 2003 and 779,143 at June 30, 2002	(2,749 )	(2,594 )

Total stockholders

' equity	35,879	33,684
----------	--------	--------

	\$ 67,162	\$ 68,206
--	-----------	-----------

See accompanying notes to consolidated financial statements.

LaBarge, Inc.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

*(Amounts In Thousands)*

	Year Ended		
	June 29, 2003	June 30, 2002	July 1, 2001
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 2,248	\$ 3,930	\$ 3,828
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 loss from discontinued operations	859	431	1,172
Depreciation and amortization	2,294	2,103	1,908
Deferred Taxes	628	1,430	737
Other	48	25	1
Changes in assets and liabilities, net of acquisitions:			
Accounts and notes receivable, net	916	(351 )	1,140
Inventories	(3,488 )	657	(945 )
Prepaid expenses	(419 )	170	153
Trade accounts payable	1,298	(3,093 )	1,382
Accrued liabilities and other	2,993	1,738	1,955
<b>Net cash provided by continuing operations</b>	<b>7,589</b>	<b>7,040</b>	<b>11,331</b>

Edgar Filing: LABARGE INC - Form 10-K/A

Net cash used by discontinued operations	(361 )	(414 )	(219 )
Net cash provided by operating activities	7,228	6,626	11,112
Cash flows from investing activities:			
Additions to property, plant and equipment	(2,579 )	(2,833 )	(2,121 )
Proceeds from disposal of plant and equipment	14	---	---
Disposition of (additions to) other assets	183	(130 )	(229 )
Proceeds from disposal of discontinued operations	5,300	---	---
Net cash provided (used) by investing activities	2,918	(2,963 )	(2,350 )
Cash flows from financing activities:			
Borrowings of long-term senior debt	20	6,400	---
Repayments of long-term senior debt	(281 )	(8,351 )	(1,812 )
Issuance of stock to employees	293	303	212
Purchase of treasury stock	(477 )	(231 )	---
Net change in short-term borrowings	(2,583 )	83	(7,230 )
Repayments of subordinated debt	(5,621 )	---	---
Net cash used by financing activities	(8,649 )	(1,796 )	(8,830 )
Net increase (decrease) in cash and cash equivalents	1,497	1,867	(68 )
Cash and cash equivalents at beginning of year	2,533	666	734
Cash and cash equivalents at end of period	\$ 4,030	\$ 2,533	\$ 666

See accompanying notes to consolidated financial statements.

LaBarge, Inc.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts In Thousands -- Except Share Amounts)

Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	SH
Shares	Par Value				
15,773,253	\$ 158	13\$722	14\$978	\$ ---	(921,19

Edgar Filing: LABARGE INC - Form 10-K/A

Balance at July 2,  
2000

Comprehensive income:						
Net earnings	---	---	---	3,828	---	---
Change in fair value of interest rate hedge	---	---	---	---	(97)	---
Issued for the Employee Stock Purchase Plan	---	---	(153)	---	---	109,02
Purchase of common stock to treasury	---	---	---	---	---	(
Balance at July 1, 2000	5,773,253	\$ 158	13,569	18,806	\$(97)	(812,17

Comprehensive income:

Net earnings	---	---	---	3,930	---	---
Change in fair value of interest rate hedge	---	---	---	---	(34)	---
Issued for the Employee Stock Purchase Plan	---	---	(47)	---	---	87,16
Purchase of common stock to treasury	---	---	---	---	---	(74,130
Exercise of stock options	---	---	(7)	---	---	20,000
Balance at June 30, 2000	5,773,253	\$ 158	13,515	22,736	(\$31)	(779,143

Comprehensive income:

Net earnings	---	---	---	2,248	---	---
--------------	-----	-----	-----	-------	-----	-----



Change in fair value of interest rate hedge	---	---	---	---	131	--
Issued for the Employee Stock Purchase Plan	---	---	(21 )	---	---	87,64
Purchase of common stock to treasury	---	---	---	---	---	(163,40
Exercise of stock options	---	---	(8 )	---	---	10,00
Balance at June 29, 2003	15,773,253	\$ 158	13,486	24,984	\$ ---	(844,90

For the fiscal years ended June 29, 2003, June 30, 2002, and July 1, 2001, total comprehensive income was \$2.4 million, \$3.9 million and \$3.7 million, respectively.

See accompanying notes to consolidated financial statements.

LaBarge, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company's financial results reflect the following primary business activities:

The Company's electronics manufacturing 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 in diverse markets.

Services are marketed to companies desiring an engineering and manufacturing partner capable of developing and providing high-reliability electronic equipment, including products capable of performing in harsh environmental conditions, such as high and low temperature, severe shock and vibration. The Company serves customers in the

defense, aerospace, oil and gas, and other commercial markets. The group's engineering and manufacturing facilities are located in Arkansas, Missouri, Oklahoma and Texas.

On November 1, 2002, LaBarge, Inc. sold the railroad industry portion of its ScadaNET Network(TradeMark) remote equipment monitoring business to GE Transportation Systems Global Signaling, LLC ("GETS Global Signaling"), Grain Valley, Missouri. See Note 2, "Acquisitions, Discontinued Operations and Investments."

#### Principles of Consolidation

The consolidated financial statements include the accounts of LaBarge, Inc. and its wholly-owned subsidiaries, and joint ventures in which LaBarge has an interest greater than 50%. Significant intercompany accounts and transactions have been eliminated. Investments in 20% to .50%-owned companies are accounted for on the equity method. Investments in less than 20%-owned companies are accounted for at cost.

#### Accounting Period

The Company uses a fiscal year ending the Sunday closest to June 30. Fiscal year 2003 consisted of 52 weeks, as did fiscal years 2002 and 2001.

#### Reclassifications of Prior Year Amounts

Certain prior period amounts have been reclassified to conform to the current year's presentation.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles, generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

#### 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 with 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.

#### Accounts Receivable

Accounts receivable 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.

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.

#### Inventories

Inventories are valued at the lower of cost or market and have been reduced by an allowance for excess and obsolete inventories. The Company adjusts the value of its allowance based upon assumptions of future usage and market conditions. If actual demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

The Company procures materials and manufactures products to customer requirements.

Raw materials are stated at the lower of cost or market as determined by the weighted average cost method.

Work in process consists of actual production costs, including factory overhead and tooling costs, reduced by costs attributable to units for which sales have been recognized. Such costs under contracts are determined by the average cost method based on the estimated average cost of all units expected to be produced under the contract. Amounts relating to long-term contracts are classified as current assets although a portion of these amounts is not expected to be realized within one year.

#### 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, any adjustment to the carrying value of the deferred tax assets would be charged to income in the period such determination was made.

#### Goodwill and Other Long-Lived Assets

The Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" and has reassessed the useful lives and residual values of all recorded intangible assets. Goodwill and other long-lived assets with indefinite useful lives are 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.

#### Fair Value of Financial Instruments

The Company considered the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable to approximate fair value because of the short maturity of these financial instruments.

The Company has considered amounts outstanding under the term loan, and the Industrial Revenue Bonds and determined that carrying amounts recorded on the financial statement are consistent with the estimated fair value as of June 29, 2003.

#### Property, Plant and Equipment

Property, plant and equipment is carried at cost and includes additions and improvement which extend the remaining useful life of the assets. Depreciation is computed on the straight-line method.

#### Cash Equivalents

The Company considers cash equivalents to be temporary investments which are readily convertible to cash, such as certificates of deposit, commercial paper and treasury bills with original maturities of less than three months.

#### Employee Benefit Plans

The Company has a contributory savings plan covering certain employees. The Company expenses all plan costs as incurred.

The Company offers a non-qualified deferred compensation program to certain key employees whereby they may defer a portion of annual compensation for payment upon retirement plus a guaranteed return. The program is unfunded; however, the Company purchases Company-owned life insurance contracts through which the Company will recover a portion of its cost upon the death of the employee.

The Company also offers an employee stock purchase plan that allows any eligible employee to purchase common stock at the end of each quarter at 15% below the market price as of the first or last day of the quarter, whichever is lower.

#### Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148 "Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement 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 Company previously adopted the disclosure-only provisions of SFAS No. 123. Under APB No. 25, no compensation expense was recognized for the Company's stock option plans. The following table illustrates the effect on net earnings and net earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Fiscal Year Ended		
	June 29 2003	June 30, 2002	July 1, 2001
Net earnings, as reported	\$ 2,248	\$ 3,930	\$ 3,828
Pro forma net earnings	2,134	3,751	3,559
Net earnings per share:			
Basic -- as reported	\$ 0.15	\$ 0.26	\$ 0.26
Basic -- pro forma	0.14	0.25	0.24
Diluted -- as reported	\$ 0.15	\$ 0.26	\$ 0.26
Diluted -- pro forma	0.14	0.24	0.24

The fair market value of stock options granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 3.3%; expected dividend yield of 0%; expected life of six years and, expected volatility of 48%. The expected life of stock options for fiscal 2002 and fiscal 2001 was six and three years, respectively.

#### New Accounting Standards

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45," "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others.") FIN No. 45 expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. FIN No. 45 will affect leasing transactions involving residual guarantees, vendor and manufacturer guarantees, and tax and environmental indemnities. All such guarantees will need to be disclosed in the notes to the financial statements starting with the period ending after December 15, 2002. For guarantees issued after December 31, 2002, the fair value of the obligation must be reported on the balance sheet. Existing guarantees will be grandfathered and will not be recognized on the balance sheet. Management does not believe adoption of this interpretation will have a material impact on the Company's financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," which provide guidance on when certain entities should be consolidated or the interest in those entities should be disclosed by enterprises that do not control them through majority voting interest. Management does not believe adoption of this interpretation will have a material impact on the Company's financial statements.

In May of 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Management does not believe adoption of this statement will have a material impact on the Company's financial statements.

## 2. ACQUISITIONS, DISCONTINUED OPERATIONS AND INVESTMENTS

### **Discontinued Operations**

On November 1, 2002, LaBarge, Inc. sold the railroad industry portion of its ScadaNET Network(TradeMark) remote equipment monitoring business to GE Transportation Systems Global Signaling, LLC ("GETS Global Signaling"), Grain Valley, Missouri. The ScadaNET Network remote equipment monitoring business had been operated as the Network Technologies Group.

The sale was 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 Company expects the escrowed balance to be released in equal installments 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 continues 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 agreed to provide support services to GETS Global Signaling through the earlier of June 2003 or such date as GETS Global Signaling integrates the service. This agreement was terminated by GETS Global Signaling in May 2003. 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.

On March 28, 2003, the Company committed to exit the non-railroad ScadaNET Network(TradeMark) business. As a

result, the non-railroad assets and liabilities are classified as discontinued operations. The loss from discontinued operations is divided as follows between the railroad business, sold on November 1, 2002, and other ScadaNET Network business:

	Fiscal Year Ended		
	June 29, 2003	June 30, 2002	July 1, 2001
Railroad ScadaNET Network business	\$ (4 )	\$ 125	\$1,172 )
Other ScadaNET Network business	(855 )	(556 )	---
Loss on discontinued operations, net of tax	\$ (859 )	\$ (431 )	\$1,172 )

Subsequent to year-end, on August 7, 2003, the Company sold the non-railroad ScadaNET Network business for \$225,000. This amount approximated the book value of the assets sold.

### 3. GROSS AND NET SALES

Gross and net sales consist of the following:

(dollars in thousands)

	Fiscal Year Ended		
	June 29, 2003	June 30, 2002	July 1, 2001
Gross sales	\$ 104,443	\$ 120,923	\$ 118,773
Less sales discounts	1,542	3,733	2,118
Net sales	\$ 102,901	\$ 117,190	\$ 116,655

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

#### 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 in any fiscal year.

Customers accounting for more than 10% of net sales for the years ended June 29, 2003, June 30, 2002 and July 1, 2001 were as follows:

Customer	2003	2002	2001
1	15%	19%	27%
2	14%	17%	17%

3

12%

14%

10%

#### 4. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consist of the following:

(dollars in thousands)

	June 29, 2003	June 30, 2002
Billed shipments, net of progress payments	\$ 15,324	\$ 15,233
Less allowance for doubtful accounts	100	114
Trade receivables, net	15,224	15,119
Other current receivables	429	1,450
	<u>\$ 15,653</u>	<u>\$ 16,569</u>

Progress payments are 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 June 29, 2003 and June 30, 2002, other current receivables include \$0 and \$318,000, respectively, of customer payments to be received as a settlement under a prior claim for material.

For the fiscal years ended June 29, 2003, June 30, 2002 and July 1, 2001, expense for doubtful accounts charged to income before income taxes was \$26,000, \$(83,000) and \$324,000, respectively.

#### 5. INVENTORIES

Inventories consist of the following:

(dollars in thousands)

	June 29, 2003	June 30, 2002
Raw materials	\$ 15,618	\$ 13,444
Work in progress	10,275	9,921
	<u>\$ 25,893</u>	<u>\$ 23,365</u>
Less progress payments	150	1,110
	<u>\$ 25,743</u>	<u>\$ 22,255</u>

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

For the fiscal years ended June 29, 2003, June 30, 2002 and July 1, 2001, expense for obsolete or slow moving inventory charged to income before income taxes was \$581,000, \$185,000 and \$1.1 million, respectively.

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows:

(dollars in thousands)

	June 29, 2003	June 30, 2002	Estimated useful life in years
Land	\$ 2,458	\$ 2,458	-
Building and improvements	8,669	8,331	5-33
Leasehold improvements	2,923	2,716	2-10
Machinery and equipment	13,384	12,122	2-12
Furniture and fixtures	1,994	1,927	5-20
Computer equipment	2,528	2,413	3
Construction in progress	52	117	-
	<u>\$ 32,008</u>	<u>\$ 30,084</u>	
Less accumulated depreciation	<u>17,753</u>	<u>16,256</u>	
	<u>\$ 14,255</u>	<u>\$ 13,828</u>	

Depreciation expense was \$2.1 million, \$1.9 million and \$1.7 million for the fiscal years ended June 29, 2003, June 30, 2002 and July 1, 2001, respectively.

## 7. INTANGIBLE ASSETS, NET

Intangible assets, net, are summarized as follows:

(dollars in thousands)

	June 29, 2003	June 30, 2002
Goodwill	\$ 406	\$ 406
Less amortization	200	200
Net goodwill	<u>\$ 206</u>	<u>\$ 206</u>
Software	1,900	1,814
Less amortization	1,634	1,450
Net software	<u>\$ 266</u>	<u>\$ 364</u>
Other, net	4	39
Total intangible assets, net	<u>\$ 476</u>	<u>\$ 609</u>



The Company adopted the provisions of SFAS No. 142 in the first quarter ended September 30, 2001. Goodwill amortization expense was \$0, \$0 and \$927,000 for the fiscal years ended June 29, 2003, June 30, 2002 and July 1, 2001, respectively. The net present value of the cash flow of the operation to which the goodwill relates is sufficient to substantiate that there is no impairment to the value of goodwill.

Software is amortized over a three-year period. Software amortization expense was \$204,000, \$192,000 and \$144,000 for the fiscal years ended June 29, 2003, June 30, 2002 and July 1, 2001, respectively.

The Company anticipates that amortization expense will approximate \$250,000 per year for the next five years.

Basic and diluted earnings (loss) per share are computed as follows and include adjustment to prior periods required by the adoption of SFAS No. 142:

	June 29, 2003	June 30, 2002	July 1, 2001
Net earnings	\$ 2,248	\$ 3,930	\$ 3,828
Add back:			
Goodwill amortization expense	---	---	927
Adjusted net earnings	\$ 2,248	\$ 3,930	\$ 4,755
Basic net earnings per share:			
Net earnings	0.15	0.26	0.26
Goodwill amortization	---	---	0.06
Adjusted basic net earnings per share	\$ 0.15	\$ 0.26	\$ 0.32
Diluted net earnings per share:			
Net earnings	0.15	0.26	0.26
Goodwill amortization	---	---	0.06
Adjusted diluted net earnings per share	\$ 0.15	\$ 0.26	\$ 0.32

#### 8. OTHER ASSETS

Other assets is summarized as follows:

(dollars in thousands)

	June 29, 2003	June 30, 2002
Cash value of life insurance	\$ 3,551	\$ 4,039
Deposits, licenses and other, net	510	805

Restricted cash	530	---
Other	136	136
	<u>\$ 4,727</u>	<u>\$ 4,980</u>

Restricted cash refers to cash in an escrow account which is related to the sale of the railroad industry portion of the Company's ScadaNET Network(TradeMark) remote equipment monitoring business to GE Transportation Systems Global Signaling, LLC. See Note 2, "Discontinued Operations."

#### 9. 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)

	June 29, 2003	June 30, 2002
Short-term borrowings:		
Revolving credit agreement:		
Balance at year-end	\$ ---	\$ 2,583
Interest rate at year-end		2.90 %
Average amount of short-term borrowings outstanding during period	\$ 256	\$ 2,548
Average interest rate for fiscal year	3.38 %	3.96 %
Maximum short-term borrowings at any month-end	2,389	6,320
Senior long-term debt:		
Senior lender:		
Term loan	\$ 6,251	\$ 6,400
Other	813	925
Total senior long-term debt	7,064	7,325
Less current maturities	395	278
Long-term debt, less current maturities	\$ 6,669	\$ 7,047
Subordinated debt	\$ ---	\$ 5,621

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.

Total cash payments for the interest in fiscal years 2003, 2002 and 2001 were \$0.8 million, \$1.2 million and \$2.0 million, respectively.

Senior Lender:

The Company has a credit facility with a bank that provides financing for the Company's headquarters building in St. Louis, Missouri, and provides working capital for its operations.

The following is a summary of the credit facility:

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 June 29, 2003, net of letters of credit outstanding of \$2.1 million, the maximum available was \$12.9 million. The revolver borrowing at June 29, 2003 was \$0. 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 repayment schedule is based on a 25-year amortization and began in December 2002 with a balloon final payment due in October 2009. The current balance at June 29, 2003 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 fiscal 2003, the average rate was approximately 2.4%.

Covenants and performance criteria consist of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in relation to debt, EBITDA in relation to interest and tangible net worth. The Company is in compliance with its borrowing agreement covenants as of June 29, 2003.

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 with an interest rate of 5.28%. This funding was used to expand the Berryville, Arkansas facility. The outstanding balance at June 29, 2003 was \$797,000.

The aggregate maturities of long-term obligations are as follows:

(dollars in thousands)

Fiscal Year		
2004	\$	395
2005		403
2006		410
2007		418
2008		423
Thereafter		5,015
Total	\$	7,064

Subordinated Convertible Notes:

In March 1999, the Company, through its subsidiary LaBarge-OCS, Inc., issued Subordinated Convertible Notes ("Notes") due June 2003 in the aggregate principal amount of \$5.6 million for the acquisition of OCS. The Notes bore interest at 7.5% per annum payable quarterly, and noteholders were entitled to participation payments if LaBarge-OCS, Inc., operating as the Network Technologies Group, achieved certain levels of net earnings. No participation payments were earned in fiscal 2003. The Notes were convertible by the holders into LaBarge, Inc. common stock at \$8.00 per share at any time up to their maturity date. In January 2003, \$1.3 million of the Notes were repaid. In June 2003, the remaining \$4.3 million of Notes were repaid.

## Other Long-Term Liabilities:

Other long-term liabilities consist of customer advances in the amount of \$2.8 million at June 29, 2003, and \$2.1 million at June 30, 2002.

## 10. OPERATING LEASES

The Company operates certain of its manufacturing facilities in leased premises and with leased equipment under noncancellable operating lease agreements having an initial term of more than one year and expiring at various dates through 2019. The real property leases require the Company to pay maintenance, insurance and real estate taxes.

Rental expense under operating leases is as follows:

(dollars in thousands)

	Fiscal Year Ended		
	June 29, 2003	June 30, 2002	July 1, 2001
Initial term of more than one year	\$ 1,791	\$ 1,851	\$ 1,061
Short-term rentals	345	250	758
	\$ 2,136	\$ 2,101	\$ 1,819

At June 29, 2003, the future minimum lease payments under operating leases with initial noncancellable terms in excess of one year are as follows:

(dollars in thousands)

Fiscal Year	
2004	\$ 1,388
2005	832
2006	545
2007 .	458
2008 .	443

## 11. EMPLOYEE BENEFIT PLANS

The Company has a qualified contributory savings plan under Section 401(k) of the Internal Revenue Code for employees meeting certain service requirements. The plan allows eligible employees to contribute up to 60% of their compensation, with the Company matching 50% of the first \$25 per month and 25% of the excess of the first 8% of this contribution. During 2003, 2002 and 2001, Company matching contributions were \$358,000, \$385,000 and \$346,000, respectively.

At the discretion of the Board of Directors, the Company may also make contributions dependent on profits each year for the benefit of all eligible employees under the plan. There were no such contributions for 2003, 2002 and 2001.

The Company has a deferred compensation plan for selected employees who, due to Internal Revenue Service guidelines, cannot take full advantage of the contributory savings plan. This plan, which is not required to be funded,

allows eligible employees to defer portions of their current compensation and the Company guarantees an interest rate of between prime and prime plus 2%. To support the deferred compensation plan, the Company has elected to purchase Company-owned life insurance. The increase in the cash value of the life insurance policies exceeded the premiums paid by \$115,000, \$92,000 and \$123,000 in fiscal years 2003, 2002 and 2001, respectively. The cash surrender value of the Company-owned life insurance related to deferred compensation is included in other assets along with other policies owned by the Company, and was \$1.2 million, at June 29, 2003, compared with \$1.3 million at June 30, 2002. The liability for the deferred compensation and interest thereon is in accrued employee compensation and was \$2.4 million at June 29, 2003 versus \$2.1 million at June 30, 2002.

The Company has an employee stock purchase plan that allows any eligible employee to purchase common stock at the end of each quarter at 15% below the market price as of the first or last day of the quarter, whichever is lower. In fiscal 2003, 87,640 shares were purchased in the amount of \$268,500, of which the Company recognized expense of approximately \$36,000. In fiscal 2002, 87,163 shares were purchased by employees in the amount of \$243,836, of which the Company recognized expense of approximately \$40,000.

## 12. OTHER INCOME, NET

The components of other income, net, are as follows:

*(dollars in thousands)*

	Fiscal Year Ended		
	June 29, 2003	June 30, 2002	July 1, 2001
Interest income	\$ 71	\$ 48	\$ 175
Property rental income	937	1,008	900
Property rental expense	(592 )	(404 )	(649 )
Other, net	294	(30 )	288
	<u>\$ 710</u>	<u>\$ 622</u>	<u>\$ 714</u>

In fiscal 1998, the Company purchased its headquarters building in St. Louis, Missouri, and leases a significant portion of the facilities to third parties. Rental income represents rent receipts from these third parties.

In fiscal 2003, Other, net includes \$436,000, representing a return of premiums under a split-dollar insurance benefit program. In fiscal 2002, Other, net includes income recognized in connection with the sale of certain technology totaling \$70,000. In fiscal 2001, Other, net includes income recognized in connection with the sale of certain technology totaling \$513,000 net of related expenses, and expenses incurred associated with the sale of LaBarge Clayco Wireless in June 2000, totaling \$262,000.

At June 29, 2003, the future minimum rental income under leases with tenants in excess of one year is as follows:

*(dollars in thousands)*

Fiscal Year

2004 .	\$	919
2005		902
2006		555
2007		428
2008		423

13. INCOME TAXES

Total income tax expense (benefit) was allocated as follows:

	June 29, 2003	June 30, 2002	July 1, 2001
<b>Current:</b>			
U.S. Federal	\$ 1,391	\$ 519	\$ 1,540
State and Local	265	231	281
<b>Total</b>	<b>\$ 1,656</b>	<b>\$ 750</b>	<b>\$ 1,821</b>
<b>Deferred:</b>			
U.S. Federal	\$ 92	\$ 1,377	\$ 967
State and Local	9	199	92
<b>Total</b>	<b>\$ 101</b>	<b>\$ 1,576</b>	<b>\$ 1,059</b>
<b>Discontinued operations:</b>			
U.S. Federal	\$ (434 )	\$ (219 )	\$ (152 )
State and Local	(85 )	(44 )	(30 )
<b>Total</b>	<b>\$ (519 )</b>	<b>\$ (263 )</b>	<b>\$ (182 )</b>

Income tax expense (benefit) from continuing operations differed from the amounts computed by applying the U.S. Federal income tax rate of 34% as a result of the following:

(dollars in thousands)

	June 29, 2003	June 30, 2002	July 1, 2001
Computed "expected" tax expense (benefit)	\$ 1,726	\$ 2,274	\$ 2,679
Increase (reduction) in income taxes resulting from:			

Edgar Filing: LABARGE INC - Form 10-K/A

Federal tax credit	\$ (76 )	\$ (254 )	\$ ---
State and local tax	163	283	246
Other	(56 )	23	(45 )
<b>Total</b>	<b>\$ 1,757</b>	<b>\$ 2,326</b>	<b>\$ 2,880</b>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	June 29, 2003	June 30, 2002
<b>Deferred tax assets:</b>		
Inventories due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986 and inventory reserves	\$ 379	\$ 305
Deferred compensation	902	782
Intangibles	3	13
Other	225	287
Deferred revenue	---	518
Net operating loss carryforwards	---	83
<b>Total gross deferred tax assets</b>	<b>\$ 1,509</b>	<b>\$ 1,988</b>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment, principally due to differences in depreciation	\$ (573 )	\$ (424 )
<b>Total gross deferred tax liabilities</b>	<b>\$ (573 )</b>	<b>\$ (424 )</b>
<b>Net deferred tax assets</b>	<b>\$ 936</b>	<b>\$ 1,564</b>

A valuation allowance is provided, if necessary, to reduce the deferred tax assets to a level, which, more likely than not, will be realized. The net deferred tax assets reflect management's belief that it is more likely than not that the results of future operation will generate sufficient taxable income to realize the deferred tax assets.

Total cash payments for federal and state income taxes were \$1.8 million for fiscal 2003, \$1.8 million for fiscal 2002 and \$2.3 million for fiscal 2001.

#### 14. EARNINGS PER COMMON SHARE

Basic and diluted earnings (loss) per share are computed as follows:

*(amounts in thousands, except earnings per-share amounts)*

Edgar Filing: LABARGE INC - Form 10-K/A

	June 29, 2003	June 30, 2002	July 1, 2001
<b>Numerator:</b>			
Net earnings from continuing operations	\$ 3,319	\$ 4,361	\$ 5,000
Net loss from discontinued operations	(859 )	(431 )	(1,172 )
Loss on disposal, net of tax	(212 )	---	---
<b>Net earnings</b>	<b>\$ 2,248</b>	<b>\$ 3,930</b>	<b>\$ 3,828</b>
<b>Denominator:</b>			
Denominator for basic net earnings per share	14,977	14,975	14,914
<b>Potential common shares:</b>			
Denominator for diluted net earnings per share -- adjusted weighted-average shares and assumed conversions	15,101	15,404	14,914
<b>Basic net earnings (loss) per share:</b>			
Net earnings (loss) from continuing operations	\$ 0.22	\$ 0.29	\$ 0.34
Net loss from discontinued operations	(0.06 )	(0.03 )	(0.08 )
Loss on disposal, net of tax	(0.01 )	---	---
<b>Basic net earnings</b>	<b>\$ 0.15</b>	<b>\$ 0.26</b>	<b>\$ 0.26</b>
<b>Diluted earnings (loss) per share:</b>			
Net earnings (loss) from continuing operations	\$ 0.22	\$ 0.28	\$ 0.34
Net loss from discontinued operations	(0.06 )	(0.02 )	(0.08 )
Loss on disposal, net of tax	(0.01 )	---	---
<b>Diluted net earnings per share</b>	<b>\$ 0.15</b>	<b>\$ 0.26</b>	<b>\$ 0.26</b>

Basic earnings per share are calculated using the weighted average number of 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.

Twelve Months Ended

	June 29, 2003	June 30, 2002



Edgar Filing: LABARGE INC - Form 10-K/A

Average common shares outstanding -- basic	14,977	14,975
Dilutive options	124	429
Adjusted average common shares outstanding -- diluted	15,101	15,404

Options to purchase 270,000 shares (at a per-share price of \$3.03 to \$7.24) and 132,000 shares (at a per-share price of \$4.38 to \$7.24) were outstanding during the twelve months ended June 29, 2003, and June 30, 2002, 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.

15. STOCK OPTION PLANS

The Company has three stock option plans for key management personnel. Under the 1993 Incentive Stock Option Plan, the Company was authorized to grant options for up to 300,000 shares of common stock. The 1995 Incentive Stock Option Plan authorized 400,000 shares to be granted. The 1999 Non-Qualified Stock Option Plan authorized 1,520,000 shares to be granted.

	Number of Shares	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price	Weighted Average Fair Value Granted Option
Outstanding at July 2, 2000	919,628	\$ 3.16	160,788	\$ 5.86	
Canceled	(74,515 )	4.77	---	---	
Granted	388,475	2.62	---	---	\$ 0.76
Exercised	---	---	---	---	
Outstanding at July 1, 2001	1,233,588	\$ 2.96	308,651	\$ 4.20	
Canceled	(16,775 )	7.24	---	---	
Granted	336,050	3.07	---	---	\$ 1.89
Exercised	(20,000 )	3.30	---	---	
Outstanding at June 30, 2002	1,532,863	\$ 2.94	565,010	\$ 3.41	
Canceled	(35,513 )	4.48	---	---	
Granted	75,513	3.61	---	---	\$ 1.51
Exercised	(10,000 )	2.50	---	---	
	1,562,863	\$ 2.94	791,840	\$ 3.05	

Outstanding at June 29,  
2003


The following table summarizes information about stock options outstanding:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number Outstanding at June 29, 2003	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Number Exercisable at June 29, 2003	Weighted Average Exercise Price
\$2.50 - \$3.76	1,402,075	7.00	\$ 2.63	663,340	\$ 2.60
\$3.77 - \$5.96	101,513	2.67	\$ 4.98	86,000	\$ 4.82
\$5.97 - \$7.24	59,275	3.14	\$ 6.69	42,500	\$ 6.47
<u>\$2.50 - \$7.24</u>	<u>1,562,863</u>			<u>791,840</u>	

All stock options are granted at prices not less than fair market value of the common stock at the grant date. The Company has adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation expense has been recognized for the stock option plans.

#### 16. 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 ("Boeing"), to supply aircraft wire harnesses. The Company claimed that MDC supplied a defective bid package in its request for proposal. During fiscal 2002, the Company submitted a claim to Boeing. As of June 30, 2002, the Company had amounts associated with this claim included in accounts receivable and work in process inventory of approximately \$207,000 and \$298,000, respectively. In fiscal year 2003, Boeing and the Company negotiated a settlement of the claim. As a result, the Company recorded additional sales revenue of \$900,000 and profit of \$205,000 in the fourth quarter due to a retroactive price adjustment on units shipped. The settlement also provides for revised unit pricing on future options.

#### 17. SUBSEQUENT EVENT

On August 7, 2003, the Company sold the remainder of its ScadaNET Network(TradeMark) business for \$225,000 cash. This amount approximates the book value of the assets sold.

#### SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

18.

Summarized quarterly financial data is set forth below:

*(dollars in thousands, except per share amounts)*

FY2003	September 29, 2002	December 29, 2002	March 30, 2003	June 29, 2003
Net sales	\$ 23,070	\$ 24,302	\$ 25,794	\$ 29,735
Cost of sales	18,511	19,633	20,447	23,462
Selling and administrative expense	3,965	3,916	3,660	4,121
Interest expense	223	202	197	198
Other (income) expense, net	(48 )	(580 )	(37 )	(45 )
Net earnings before income taxes	\$ 419	\$ 1,131	\$ 1,527	\$ 1,999
Income tax expense	162	355	535	705
Net earnings from continuing operations	257	776	992	1,294
Discontinued operations:				
Loss from discontinued operations	(174 )	(181 )	(276 )	(228 )
Disposal of discontinued operations	---	(212 )	---	---
Net earnings	\$ 83	\$ 383	\$ 716	\$ 1,066
Basic net earnings per share:				
Net earnings from continuing operations	\$ 0.02	\$ 0.05	\$ 0.07	\$ 0.09
Net earnings from discontinued operations	(0.01 )	(0.02 )	(0.02 )	(0.02 )
Basic net earnings	0.01	0.03	0.05	0.07
Average common shares outstanding	15,015	15,017	14,950	14,927
Diluted earnings per share:				
Net earnings from continuing operations	\$ 0.02	\$ 0.05	\$ 0.07	\$ 0.09

Edgar Filing: LABARGE INC - Form 10-K/A

Net earnings from discontinued operations	(0.01 )	(0.02 )	(0.02 )	(0.02 )
Diluted net earnings	0.01	0.03	0.05	0.07
Average diluted common shares outstanding	15,272	15,199	15,053	15,072

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

18.  
(continued)

FY2002	September 30, 2001	December 30, 2001	March 31, 2002	June 30, 2002
Net sales	\$ 31,029	\$ 30,653	\$ 29,552	\$ 25,955
Cost of sales	25,379	24,438	23,710	21,712
Selling and administrative expense	3,809	3,901	3,551	3,481
Interest expense	315	336	269	223
Other (income) expense, net	(95 )	(102 )	(240 )	(185 )
Net earnings before income taxes	\$ 1,621	\$ 2,080	\$ 2,262	\$ 724
Income tax expense	599	807	836	84
Net earnings from continuing operations	1,022	1,273	1,426	640
Discontinued operations:				
Income (loss) from discontinued	14	(73 )	(181 )	(191 )

operations				
Net earnings	\$ 1,036	\$ 1,200	\$ 1,245	\$ 449
Basic net earnings per share:				
Net earnings from continuing operations	\$ 0.07	\$ 0.09	\$ 0.10	\$ 0.04
Net earnings from discontinued operations	---	(0.01 )	(0.02 )	(0.01 )
Basic net earnings	0.07	0.08	0.08	0.03
Average common shares outstanding	14,981	14,961	14,964	14,991
Diluted earnings per share:				
Net earnings from continuing operations	\$ 0.07	\$ 0.08	\$ 0.09	\$ 0.04
Net earnings from discontinued operations	---	---	(0.01 )	(0.01 )
Diluted net earnings	0.07	0.08	0.08	0.03
Average diluted common shares outstanding	15,147	15,364	15,499	15,550

In the fourth quarter of fiscal 2002, the Company recognized a \$925,000 charge resulting from a change in an estimate on long-running customer contracts.

Edgar Filing: LABARGE INC - Form 10-K/A

(Dollars In Thousands -- Except Per Share Amounts)

	Year Ended				
	June 29, 2003	June 30, 2002	July 1, 2001	July 2, 2000	June 27, 1999
Net sales	\$02,901	\$17,190	\$ 116,655	\$ 78,271	\$ 78,519
Pretax earnings (loss) from					
continuing operations	5,076	6,687	7,880	(32 )	(3,280 )
Net earnings (loss) from					
continuing operations	3,319	4,361	5,000	(27 )	(2,753 )
Discontinued operations:					
Income (loss) from operations, net of taxes	(859 )	(431 )	(1,172 )	(1,231 )	(327 )
Gain (loss) on disposal, net of taxes	(212 )	---	---	2,833	---
Net earnings (loss)	\$ 2,248	\$ 3,930	\$ 3,828	\$ 1,575	\$ (3,080 )
Basic earnings (loss) per share:					
Net earnings (loss) from					
continuing operations	\$ 0.22	\$ 0.29	\$ 0.34	\$ ---	\$ (0.18 )
Net earnings (loss) from					
discontinued operations	(0.07 )	(0.03 )	(0.08 )	0.11	(0.02 )
Basic net earnings (loss)	\$ 0.15	\$ 0.26	\$ 0.26	\$ 0.11	\$ (0.20 )

Diluted earnings (loss) per share:

Net earnings (loss) from

continuing operations	\$ 0.22	\$ 0.28	\$ 0.34	\$ ---	\$ (0.18 )
-----------------------	---------	---------	---------	--------	------------

Net earnings (loss) from

discontinued operations	(0.07 )	(0.02 )	(0.08 )	0.11	(0.02 )
-------------------------	---------	---------	---------	------	---------

--	--	--	--	--	--

Diluted net earnings (loss)	\$ 0.15	\$ 0.26	\$ 0.26	\$ 0.11	\$ (0.20 )
-----------------------------	---------	---------	---------	---------	------------

--	--	--	--	--	--

Total assets	\$ 67,162	\$68,206	\$ 67,538	\$ 68,733	\$ 59,654
--------------	-----------	----------	-----------	-----------	-----------

Long-term debt	\$ 6,669	\$ 7,047	\$ 13,121	\$ 15,025	\$ 20,290
----------------	----------	----------	-----------	-----------	-----------

--	--	--	--	--	--

Certain events occurring during the above reporting periods involving acquisitions, divestitures, joint ventures, and deferred tax valuation adjustments affect the comparability of financial data presented on a year-to-year basis. No cash dividends have been paid during the aforementioned periods.

The disposal of the Company's interest in LaBarge Clayco Wireless was reported as a discontinued operation. Accordingly, the operating results of LaBarge Clayco Wireless in fiscal years 1999 and 2000 are reported as discontinued operations. The Company's interest in the Network Technologies Group was reported as a discontinued operation (see Note 2). Accordingly, the operating results of Network Technologies Group for fiscal years 1999, 2000, 2001, 2002 and 2003 are reported as discontinued operations.

The results of discontinued operations, net of taxes is divided between LaBarge Clayco Wireless and Network Technologies Group as follows:

	Year Ended				
	June 29, 2003	June 30, 2002	July 1, 2001	July 2, 2000	June 27, 1999
LaBarge Clayco Wireless	\$ ---	\$ ---	\$ ---	\$ 293	\$ 200
Network Technologies Group	(859 )	(431 )	(1,172 )	(1,524 )	(527 )
	\$ (859 )	\$ (431 )	\$ (1,172 )	\$ (1,231 )	\$ (327 )

## Stock Price and Cash Dividends:

LaBarge, Inc.'s Common Stock is listed on the American Stock Exchange, under the trading symbol of LB. As of August 21, 2003, there were approximately 3,017 holders of record of LaBarge, Inc.'s Common Stock. The following table indicates the quarterly high and low closing prices for the stock for the fiscal years 2003 and 2002, as reported by the American Stock Exchange.

<u>2002-2003</u>	<u>High</u>	<u>Low</u>
July - September	\$4.00	\$2.80
October - December	\$3.32	\$2.60
January - March	\$3.04	\$2.54
April - June	\$3.60	\$2.69

<u>2001 - 2002</u>	<u>High</u>	<u>Low</u>
July - September	\$3.29	\$2.77
October - December	\$4.43	\$2.87
January - March	\$5.09	\$3.39
April - June	\$5.60	\$3.85

The Company has paid no cash dividends on its common stock.

LaBarge, Inc.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**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.*

Actual results may differ from projections or estimates due to a variety of important factors, including the following:

- The Company

  - 's dependence on a few large customers;*

- The Company

  - 's dependence on government contracts, which are subject to cancellation;*

- The Company's ability to control costs, especially on fixed-price contracts;
- The size and time of new contract awards to replace completed or expired contracts;
- Cutbacks in defense spending by the U.S. Government;
- Dependence of the Company on U.S. economic conditions and economic conditions in the markets the Company serves;
- Availability and increases in the cost of raw materials, labor and other resources;
- Increased competition in the Company

  - 's markets;*

- The Company

  - 's ability to manage operating expenses;*

- The outcome of litigation to which the Company may become a party; and
- The availability, amount, type and cost of financing for the Company, and any change to that financing.

Given these uncertainties, undue reliance should not be placed on such forward-looking statements. Unless otherwise required by law, the Company disclaims an obligation to update any such factors or to publicly announce the results of any revisions to any forward-looking statements contained herein to reflect future events or developments.

## Overview

LaBarge, Inc. ("LaBarge or the "Company") is a Delaware corporation.

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. During fiscal year 2003, the Company exited its ScadaNET Network(TradeMark) businesses.

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 performing in harsh environmental conditions, such as high and low temperature, and 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.

## Edgar Filing: LABARGE INC - Form 10-K/A

The sales backlog increased to \$123.6 million at June 29, 2003, compared with \$98.0 million at June 30, 2002. 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 protect it from volatility in any one market segment.

### Results of Operations - Fiscal 2003 - 2002 - 2001

#### Net Sales

(dollars in thousands)

	Change 2003 vs. 2002	Fiscal Year Ended		
		2003	2002	2001
Net sales	(12.2 )%	\$ 102,901	\$ 117,190	\$ 116,655

Sales declined from 2002 to 2003 primarily as a result of: the completion in March 2002 of a large contract for postal sorting equipment that contributed \$21.4 million in sales in fiscal 2002; and a \$7.6 million reduction in oil and gas industry sales attributable to weak economic conditions. These declines were partially offset by an increase of \$8.4 million in airport security equipment sales and a \$4.1 million increase in defense sales.

Sales to the Company's 10 largest customers represented 82% of total revenue in fiscal 2003 versus 75% for fiscal 2002 and 75% for fiscal 2001. The Company's top three customers for fiscal 2003 and the portion of total sales they represented were as follows: L-3 Communications, 15%; Schlumberger, 14%; and Lockheed Martin, 12%.

Sales increased slightly from 2001 to 2002. Defense sales increased 39.5% to \$46.0 million. Offsetting this increase were reductions in sales of mail sorting equipment and sales to commercial aerospace markets.

#### Gross Profit

(dollars in thousands)

	Change 2003 vs. 2002	Fiscal Year Ended		
		2003	2002	2001
Gross profit	\$(1,103 )	\$20,848	\$ 21,951	\$ 23,517
Gross margin	1.6 %	20.3 %	18.7 %	20.2 %

The higher gross margin percentage in fiscal 2003, compared with the year-ago period, is primarily a result of favorable product mix and the absence of the \$925,000 charge resulting from a change in an estimate on long-running customer contracts in 2002. This 2002 charge also accounts for the change between gross margins in fiscal 2002 and 2001. These items were partially offset by higher medical expenses and an increase in the provision for obsolete and slow moving inventory in fiscal 2003.

## Selling and Administrative Expense

(dollars in thousands)

	Change 2003 vs. 2002	Fiscal Year Ended		
		2003	2002	2001
Selling and administrative expenses	\$920	\$ 15,662	\$ 14,742	\$ 14,478
Percent of sales	2.6 %	15.2 %	12.6 %	12.4 %

Selling and administrative expense, as a percent of sales, increased in the fiscal 2003 period due to the relatively fixed component of these costs as a percentage of reduced sales volume. The Company incurred higher commission expenses of approximately \$360,000 relating to specific contracts subject to commissions. In addition, higher medical costs of approximately \$168,000 and general insurance costs of approximately \$162,000, contributed to the increase in selling and administrative expenses in fiscal 2003 over fiscal 2002.

Selling and administrative expense in total increased modestly from 2001 to 2002 primarily as a result of higher compensation expense of approximately \$500,000, offset by lower legal expense of approximately \$240,000.

## Interest Expense

(dollars in thousands)

	Change 2003 vs. 2002	Fiscal Year Ended		
		2003	2002	2001
Interest expense	\$(324 )	\$ 820	\$ 1,144	\$ 1,873

Interest expense decreased in fiscal 2003 and fiscal 2002 due to lower average debt levels and lower interest rates on borrowing. For further discussion of our capital structure, see "Financial Condition and Liquidity" below.

## Pretax Earnings from Continuing Operations

(dollars in thousands)

	Change 2003 vs. 2002	Fiscal Year Ended		
		2003	2002	2001
Pretax earnings	\$(1,611 )	\$ 5,076	\$ 6,687	\$ 7,880

Comparing fiscal 2003 to fiscal 2002, the \$1.6 million decline in pretax earnings from continuing operations is attributable to: 1) a \$1.1 million decline in gross profit on lower sales volume; 2) a \$900,000 increase in selling and general administrative expense; 3) a \$324,000 decline in interest expense; and 4) \$436,000 of other income representing the return of premiums under a split-dollar insurance benefit program.

The \$1.2 million decline in pretax earnings from continuing operations in fiscal 2002 compared with 2001 is attributable to: 1) a \$1.6 million decline in gross profit, 2) a \$264,000 increase in selling and general administrative expense and 3) a \$729,000 decline in interest expense.

### Tax Expense from Continuing Operations

(dollars in thousands)

	Change 2003 vs. 2002	Fiscal Year Ended		
		2003	2002	2001
Tax expense (benefit) from continuing operations	\$(569 )	\$ 1,757	\$ 2,326	\$ 2,880

Tax expense was impacted in fiscal year 2003 by lower pretax earnings and the application of federal research and experimentation credits of \$76,000. Fiscal year 2002 tax expense was impacted by \$254,000 of research and experimentation credits.

### Discontinued Operations, Net of Tax

(dollars in thousands)

	Fiscal Year Ended		
	2003	2002	2001
Loss from discontinued operations, (less applicable income tax benefit of \$519, \$263 and \$182, respectively)	\$ (859 )	\$ (431 )	\$ (1,172 )
Income on disposal of discontinued operations of \$2,222 (less applicable income tax expense of \$2,434)	\$ (212 )	\$ ---	\$ ---

Discontinued operations arose from the sale of the railroad industry portion of the Company's ScadaNET Network(TradeMark) remote equipment monitoring business on November 1, 2002, and the decision of March 28, 2003 to seek a buyer for the non-railroad ScadaNET Network business. See Note 2, "Discontinued Operations."

## Net Earnings and Earnings Per Share

(dollars in thousands, except per-share data)

	Fiscal Year Ended		
	2003	2002	2001
Net earnings	\$ 2,248	\$ 3,930	\$ 3,828
Basic net earnings per share:			
Net earnings from continuing operations	0.22	0.29	0.34
Loss from discontinued operations	(0.07 )	(0.03 )	(0.08 )
Basic net earnings	\$ 0.15	\$ 0.26	\$ 0.26
Diluted earnings per share:			
Net earnings from continuing operations	0.22	0.28	0.34
Loss from discontinued operations	(0.07 )	(0.02 )	(0.08 )
Diluted net earnings	\$ 0.15	\$ 0.26	\$ 0.26

Financial Condition and Liquidity

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

***Stockholders' Equity and Debt***

(dollars in thousands)

	Fiscal Year Ended	
	2003	2002
Stockholders' equity	\$ 35,879	\$ 33,684
Debt	7,064	15,529

The Company's continuing operations provided \$7.6 million of cash in fiscal 2003 compared with \$7.1 million in fiscal 2002.

Investing activities, primarily the proceeds from the sale of a discontinued operation offset by capital expenditures, provided an additional \$2.9 million. These funds were used to repay debt and increase cash balances.

Currently, our total debt-to-equity ratio is .20 to 1 versus .46 to 1 at the end of fiscal 2002.

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.

The following show LaBarge's contractual obligations as of June 29, 2003:

## Payments due by period

Contractual Obligations	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
██████████	██████████	██████████	██████████	██████████	██████████
Long-term debt	7\$064	\$95	\$13	\$841	5\$015
Operating lease obligations	7,725	1,388	1,377	901	4,059
██████████	██████████	██████████	██████████	██████████	██████████
Total	14\$789	\$,783	\$,190	1\$742	9\$074
██████████	██████████	██████████	██████████	██████████	██████████
██████████	██████████	██████████	██████████	██████████	██████████

## 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. It is not intended to be a comprehensive list of all of our significant accounting policies that are more fully described in Note 1 of the Notes to the Consolidated Financial Statements included in our 2003 Annual Report on Form 10-K.

## 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 with 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.

Management estimates of material, labor and overhead costs on long-term contracts are critical to the Company. 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.

## 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.

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.

#### Inventories

Inventories are valued at the lower of cost or market and have been reduced by an allowance for excess and obsolete inventories. The Company adjusts the value of its allowance based upon assumptions of future usage and market conditions. If actual demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

The Company procures materials and manufactures products to customer requirements.

Raw materials are stated at the lower of cost or market as determined by the weighted average cost method.

Work in process consists of actual production costs, including factory overhead and tooling costs, reduced by costs attributable to units for which sales have been recognized. Such costs under contracts are determined by the average cost method based on the estimated average cost of all units expected to be produced under the contract. Amounts relating to long-term contracts are classified as current assets although a portion of these amounts is not expected to be realized within one year. Revenues to be realized on delivery of products against existing unfilled orders, contract modifications and estimated additional orders will be sufficient to absorb inventoried costs.

#### 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.

#### New Accounting Standards

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45," "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others.") FIN No. 45 expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. FIN No. 45 will affect leasing transactions involving residual guarantees, vendor and manufacturer guarantees, and tax and environmental indemnities. All such guarantees will need to be disclosed in the notes to the financial statements starting with the period ending after December 15, 2002.

For guarantees issued after December 31, 2002, the fair value of the obligation must be reported on the balance sheet. Existing guarantees will be grandfathered and will not be recognized on the balance sheet. Management does not believe adoption of this interpretation will have a material impact on the Company's financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," which provide guidance on when certain entities should be consolidated or the interest in those entities should be disclosed by enterprises that do not control them through majority voting interest. Management does not believe adoption of this interpretation will have a material impact on the Company's financial statements.

In May of 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Management does not believe adoption of this statement will have a material impact on the Company's financial statements.

Schedule II

**LaBarge, Inc.**  
**Valuation and Qualifying Accounts**

*(dollars in thousands)*

Years ended June 29, 2003, June 30, 2002  
and July 1, 2001

Allowance for Doubtful Accounts

This account represents amounts that may be uncollectible in future periods.

Year	Balance Beginning of Period	Additions Charged to Expense	Deductions	Balance End of Period
2001	168	324	203	289
2002	289	(83 )	92	114
2003	\$ 114	\$ 26	\$ 40	\$ 100

Provision for Slow-Moving and Obsolete Inventory

This account represents the Company's provision for obsolete or slow-moving inventories.



Edgar Filing: LABARGE INC - Form 10-K/A

Year	Balance Beginning of Period	Additions Charged to Expense	Deductions from Reserve for Write-offs	Balance End of Period
2001	747	1,121	1,118	750
2002	750	185	622	313
2003	\$ 313	\$ 581	\$ 164	\$ 730