

LABARGE INC  
Form 10-K  
September 05, 2003

SECURITIES AND EXCHANGE COMMISSION

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

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

FOR THE FISCAL YEAR ENDED  
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:

NONE

Title of Class

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

Edgar Filing: LABARGE INC - Form 10-K

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 or any amendment to this Form 10-K.

Indicate by check mark whether the registrant

's 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

**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.

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

Edgar Filing: LABARGE INC - Form 10-K

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 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

Edgar Filing: LABARGE INC - Form 10-K

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

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.

10.19(b)\*

Edgar Filing: LABARGE INC - Form 10-K

Second Amendment to the Loan Agreement dated March 12, 2002, by and among U.S. Bank, N.A., LaBarge, Inc. and LaBarge Properties, Inc.

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 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 Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date:

LaBarge, Inc.

By: /s/Donald H. Nonnenkamp

Donald H. Nonnenkamp  
Vice President & Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Craig E. LaBarge and Donald H. Nonnenkamp and each of them, and substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign this Report, any and all amendments to this Report, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereto.

SIGNATURE

TITLE

DATE

/s/Craig E. LaBarge

Chief Executive Officer, President and Director

August 20, 2003

Craig E. LaBarge

/s/Donald H. Nonnenkamp

Vice President, Chief Financial Officer  
and Secretary

August 20, 2003

Donald H. Nonnenkamp

/s/Robert H. Chapman

Director

August 20, 2003

Robert H. Chapman

<u>/s/Robert G. Clark</u> Robert G. Clark	Director	<u>August 20, 2003</u>
<u>/s/Richard P. Conerly</u> Richard P. Conerly	Director	<u>August 20, 2003</u>
<u>/s/John G. Helmkamp, Jr.</u> John G. Helmkamp, Jr.	Director	<u>August 20, 2003</u>
<u>/s/Lawrence J. LeGrand</u> Lawrence J. LeGrand	Director	<u>August 20, 2003</u>
<u>/s/James P. Shanahan, Jr.</u> James P. Shanahan, Jr.	Director	<u>August 20, 2003</u>
<u>/s/Jack E. Thomas, Jr.</u> Jack E. Thomas, Jr.	Director	<u>August 20, 2003</u>

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

<u>Consolidated Financial Statements and Schedule</u>	<u>Page</u>
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
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 )
Earnings from continuing operations			
before income taxes	5,076	6,687	7,880
Income tax expense	1,757	2,326	2,880
Net earnings from continuing operations	3,319	4,361	5,000
Discontinued operations:			
Loss from discontinued operations, (less			
applicable income tax benefit of (\$519, \$263 and	)	)	

Edgar Filing: LABARGE INC - Form 10-K

\$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>	
Average common shares outstanding	14,977	14,975	14,914	
Diluted net earnings per share:				
Net earnings from continuing operations	\$ 0.22	\$ 0.28	\$ 0.34	
Net earnings from discontinued operations	(0.07 )	(0.02 )	(0.08 )	
<b>Diluted net earnings</b>	<b>\$ 0.15</b>	<b>\$ 0.26</b>	<b>\$ 0.26</b>	
Average diluted common shares outstanding	15,101	15,404	14,914	
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:		

Edgar Filing: LABARGE INC - Form 10-K

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
Total current assets	47,234	43,248
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
<b>LIABILITIES AND STOCKHOLDERS</b>		
<b>' EQUITY</b>		
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
Cash flows from operating activities:			
Net earnings	\$ 2,248	\$ 3,930	\$ 3,828
Adjustments to reconcile net cash provided by operating activities:			
	(2,222 )	---	---

Edgar Filing: LABARGE INC - Form 10-K

Gain on disposal of discontinued operations			
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
Net cash provided by continuing operations	7,589	7,040	11,331
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				
Balance at July 2, 2000	15,773,253	\$ 158	13\$722	14\$978	\$ ---	(921,19
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, 2005	15,773,253	\$ 158	13\$569	18\$806	\$(97 )	(812,17

Comprehensive income:

Edgar Filing: LABARGE INC - Form 10-K

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, 2002	1,300	23,253	\$ 158	13,15	22,36	(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™ 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™ 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.