

Edgar Filing: LABARGE INC - Form 10-Q

LABARGE INC
Form 10-Q
February 08, 2002

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

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

For the Quarter Ended December 30, 2001
Commission file number: 1-5761

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

DELAWARE

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

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

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

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

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

Indicate the number of shares outstanding of each of the Issuer's

Edgar Filing: LABARGE INC - Form 10-Q

classes of common stock
as of December 30, 2001. 14,971,398 shares of common stock.

LABARGE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(dollars in thousands except per share data)

Three Months Ended
Six Months Ended

December 30,
December 31,
December 30,
December 31,

2001
2000
2001
2000

Net sales	
\$	31,495
\$	26,923
\$	63,603
\$	51,207

Costs and expenses:

Cost of sales	
	24,825
	21,383
	50,713
	40,120
Selling and administrative expense	
	4,476
	4,052
	8,831
	8,240
Interest expense	
	336
	557
	652
	1,095
Other income, net	
	(102)

Edgar Filing: LABARGE INC - Form 10-Q

(327)
 (197)
 (606)

Income before income taxes

1,960
 1,258
 3,604
 2,358

Income tax expense

760
 532
 1,369
 997

Net earnings

\$ 1,200
 \$ 726
 \$ 2,235
 \$ 1,361

Basic net earnings per share

\$.08
 \$.05
 \$.15
 \$.09

Average common shares outstanding

14,961
 14,899
 14,971
 14,884

Diluted net earnings per share

\$.08
 \$.05
 \$.15
 \$.09

Average diluted common shares outstanding

15,364
 14,899
 15,254
 14,884

Edgar Filing: LABARGE INC - Form 10-Q

See accompanying notes to consolidated financial statements.

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

December 30,
July 1,

2001

2001

ASSETS

Current assets:

Cash and cash equivalents	
\$	2,322
\$	666
Accounts and notes receivable, net	
	11,888
	16,946
Inventories	
	22,666
	23,212
Prepaid expenses	
	700
	727
Deferred tax assets, net	
	923
	1,087

Total current assets	
\$	38,499
\$	42,638

Property, plant and equipment, net	
	13,231
	13,113
Deferred tax assets, net	
	1,039
	1,908
Intangible assets, net	
	4,927
	4,693
Other assets, net	
	5,339
	5,186

\$	63,035
----	--------

Edgar Filing: LABARGE INC - Form 10-Q

\$ 67,538
LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:
Short-term borrowings

\$ 2,650

\$ 2,500
Current maturities of long-term debt
1,758
1,779

Trade accounts payable
7,734

Accrued employee compensation
9,605
5,342
5,965

Other accrued liabilities
886
3,899

Total current liabilities
\$ 18,370
\$ 23,748

Other long-term liabilities
1,616
953

Long-term debt
5,621
7,500

Subordinated debt
5,621
5,621

Stockholders' equity:
Common stock, \$.01 par value. Authorized 40,000,000 shares; issued 15,773,253 shares at
December 30, 2001 and 15,773,253 at July 1, 2001, including shares in treasury

158

158
Additional paid-in capital
13,520
13,569

Retained earnings
21,041
18,806

Accumulated other comprehensive loss
(164)
(97)

Less cost of common stock in treasury, shares at 825,519 at
December 30, 2001 and 812,176 shares at July 1, 2001

Edgar Filing: LABARGE INC - Form 10-Q

(2,748)

(2,720)

Total stockholders' equity

31,807

29,716

\$ 63,035

\$ 67,538

See accompanying notes to consolidated financial statements.

LABARGE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(dollars in thousands)

Six Months Ended

December 30,

December 31,

2001

2000

Cash flows from operating activities:

Net earnings

\$ 2,235

\$ 1,361

Adjustments to reconcile net cash provided by
operating activities:

Depreciation and amortization

1,108

1,523

Deferred taxes

1,033

378

Other

23

3

Changes in assets and liabilities, net of acquisitions:

Accounts and notes receivable, net

5,057

3,802

Inventories

Edgar Filing: LABARGE INC - Form 10-Q

	546
	(2,790)
Prepaid expenses	
	27
	52
Trade accounts payable	
	(1,871)
	1,840
Accrued liabilities and other	
	(3,039)
	2,657
Net cash provided by operating activities	
	5,119
	8,826
Cash flows from investing activities:	
Additions to property, plant and equipment	
	(481)
	(851)
Additions to other assets	
	(1,154)
	(464)
Net cash used by investing activities	
	(1,635)
	(1,315)
Cash flows from financing activities:	
Repayments of long-term debt	
	(1,900)
	(905)
(Purchase) sale of common stock	
	(78)
	106
Net change in short-term borrowings	
	150
	(4,543)
Net cash used by financing activities	
	(1,828)
	(5,342)
Net increase in cash and cash equivalents	
Cash and cash equivalents at beginning of year	
	1,656
	666
	2,169
	734

Edgar Filing: LABARGE INC - Form 10-Q

Cash and cash equivalents at end of period

\$ 2,322

\$ 2,903

See accompanying notes to consolidated financial statements.

LABARGE, INC.
FORM 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS - BASIS OF PRESENTATION

The consolidated balance sheets at December 30, 2001 and July 1, 2001, the related consolidated statements of operations for the three and six months ended December 30, 2001 and December 31, 2000 and the consolidated statements of cash flows for the six months ended December 30, 2001 and December 31, 2000, have been prepared by LaBarge, Inc. (the "Company") without audit. In the opinion of management, adjustments, all of a normal and recurring nature, necessary to present fairly the financial position and the results of operations and cash flows for the aforementioned periods, have been made. Certain prior year amounts have been reclassified to conform with the current year's presentation.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2001.

2. GROSS AND NET SALES

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

Three Months Ended
Six Months Ended

December 30,

Edgar Filing: LABARGE INC - Form 10-Q

December 31,
December 30,
December 31,

2001
2000
2001
2000

Gross sales	
\$	31,923
\$	27,004
\$	65,041
\$	51,871
Less sales discounts and milestone liquidations	
	428
	81
	1,438
	664
Net sales	
\$	31,495
\$	26,923
\$	63,603
\$	51,207

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

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consist of the following:
(dollars in thousands)

December 30,
July 1,

2001
2001

Billed shipments, net of progress payments	
\$	12,016
\$	16,703
Less allowance for doubtful accounts	
	257
	289
Trade receivables, net	
	11,759
	16,414

Edgar Filing: LABARGE INC - Form 10-Q

Other current receivables

	129
	532
\$	11,888
\$	16,946

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

At December 30, 2001 and July 1, 2001, other current receivables include \$0 and \$346,000 of customer payments to be received as a settlement under a prior claim for material.

For the six months ending December 30, 2001 and twelve months ending at July 1, 2001, expense for doubtful accounts charged to income before income taxes was \$26,000 and \$324,000.

4. INVENTORIES

Inventories consist of the following:
(dollars in thousands)

	December 30,	July 1,
	2001	2001
Raw materials	\$ 12,460	
	\$ 11,554	
Work in progress	11,964	13,028
Less reserve for obsolescence	874	755
	23,550	23,827
Less progress payments	884	615
	\$ 22,666	\$ 23,212

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

Edgar Filing: LABARGE INC - Form 10-Q

payments have been received.

For the six months ending December 30, 2001 and the twelve months ending July 1, 2001, expense for inventory reserves charged to income before income taxes was \$312,000 and \$1.1 million.

5. INTANGIBLE ASSETS, NET

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

December 30,	July 1,
2001	2001
Software	
\$ 1,900	
\$ 1,598	
Patents	
110	
91	
Goodwill	
6,694	
6,694	
\$ 8,704	
\$ 8,383	
Less amortization	
3,777	
3,690	
\$ 4,927	
\$ 4,693	

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, "Goodwill and Other Intangible Assets." Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

The Company adopted the provisions of Statement 142 in the first quarter, ended September 30, 2001.

Edgar Filing: LABARGE INC - Form 10-Q

Goodwill amortization expense was \$0 for the three and six months ended December 30, 2001.

Goodwill amortization expense was \$226,000 for the second quarter and \$453,000 for the six months, ended December 31, 2000.

6. OTHER ASSETS

Other assets is summarized as follows:

(dollars in thousands)

December 30,
July 1,

2001
2001

Cash value of life insurance

\$ 4,372

\$ 4,220

Deposits, licenses, and other

878

871

Investments in businesses

136

136

\$ 5,386

\$ 5,227

Less amortization

47

41

\$ 5,339

\$ 5,186

Investments in businesses primarily refers to securities of Norwood Abbey, Ltd., held by the Company.

7. SHORT- AND LONG-TERM OBLIGATIONS

Short-term borrowings, long-term debt and the current maturities of long-term debt consist of the following:

(dollars in thousands)

December 30,
July 1,

2001
2000

Edgar Filing: LABARGE INC - Form 10-Q

Short-term borrowings:

Revolving credit agreement:

Balance at period-end	
\$	2,650
\$	2,500
Interest rate at period-end	
	2.67%
	4.78%
Average amount of short-term borrowings outstanding during period	
\$	2,538
\$	7,275
Average interest rate for period	
	4.32%
	8.30%
Maximum short-term borrowings at any month-end	
\$	3,282
\$	13,302

Senior long-term debt:

Senior lender:

Term loan	
\$	1,551
\$	2,336
Mortgage loan	
	4,841
	5,895
Other	
	987
	1,048
Total senior long-term debt	
	7,379
	9,279
Less current maturities	
	1,758
	1,779
Long-term debt, less current maturities	
\$	5,621
\$	7,500
Subordinated debt	
\$	5,621
\$	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.

SENIOR LENDER:

The Company has a senior, secured loan agreement with a bank. The following is a summary of the agreement:

* A term loan, with a current balance of \$1.6 million, requiring

Edgar Filing: LABARGE INC - Form 10-Q

repayments of \$393,000 of principal quarterly.

* A revolving credit facility up to \$18.0 million based on a borrowing base formula equal to the sum of 85% of eligible receivables, 50% of eligible finished goods inventories, 30% of other eligible inventories, 50% of the net book value of equipment and 75% of the net book value of real property less the current term loan balance and outstanding letters of credit. As of December 30, 2001, the maximum allowable was \$14.9 million. The revolver borrowing at quarter-end was \$2.7 million, and letters of credit outstanding totaled \$2.0 million. Unused revolving credit available at December 30, 2001 was \$10.2 million. This credit facility matures in February 2002. It is the Company's intention to renew or replace this credit facility.

* Covenants and performance criteria which involve Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in relation to debt and, in addition, after June 30, 2000, EBITDA in relation to fixed charges. The Company is in compliance with its borrowing agreement covenants for the quarter ended December 2001.

* Interest on the loans at prime or a stated rate over LIBOR based on certain ratios. For the quarter, the average rate was approximately 4.32%.

* A \$6.2 million mortgage loan to finance the Company's fiscal 1998 purchase of its headquarters building in St. Louis, Missouri. The loan payment schedule is based on a 25-year amortization with a balloon final payment due in January 2008, and a 7.5% interest rate. The balance at quarter-end was \$4.8 million.

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 December 30, 2001 was \$987,000.

Subordinated Convertible Notes:

In March 1999, the Company, through its subsidiary LaBarge-OCS, Inc. issued its Subordinated Convertible Notes ("Notes") due June 2003 in the aggregate principal amount of \$5.6 million for the acquisition of OCS. The Notes bear interest at 7.5% per annum payable quarterly, and noteholders are entitled to participation payments if LaBarge-OCS, Inc. achieves certain levels of earnings before taxes. The Notes are convertible by the holders into LaBarge, Inc. Common Stock at \$8.00 per share at

Edgar Filing: LABARGE INC - Form 10-Q

any time up to their maturity date.

OTHER LONG-TERM LIABILITIES:

Other long-term liabilities include deferred revenues associated with the proprietary ScadaNET Network(tm) (representing prepaid communication services) in the amount of \$1.3 million and customer advances in the amount of \$160,000.

To mitigate the exposure to changes in interest rates, the Company entered into an interest rate swap agreement with a bank on February 26, 2001 as amended on November 6, 2001. This agreement, designated as a cash flow hedge, swaps a portion of the Company's exposure to three-month LIBOR rates with a fixed rate of 5.95%. The notional amount of the agreement is \$3.5 million and it expires in June 2003. In accordance with SFAS 133, as amended by SFAS 138, the change in fair value of the swap during the second quarter of fiscal 2002, amounting to approximately \$28,000, was recorded to other comprehensive loss.

SUBSEQUENT EVENTS:

Effective February 1, 2002, the Company's revolving credit agreement was renewed under substantially the same terms and conditions. The new revolving credit agreement amount is \$15.0 million and matures in May 2003.

Also, on February 1, 2002, the outstanding balance of the senior secured term loan, \$1.6 million, was repaid in full.

8. CASH FLOWS

Total cash payments for interest for the three and six months ended December 30, 2001 were \$237,000 and \$569,000, compared with \$456,000 and \$1.0 million for the three and six months ended December 31, 2000. Cash payments for federal and state income taxes were \$880,000 and \$1.2 million for the three and six months ended December 30, 2001, compared with \$845,00 and \$1.7 million for the three and six months ended December 31, 2000.

9. EARNINGS PER COMMON SHARE

Basic and diluted earnings per share are computed as follows and includes adjustments to prior period required by the adoption of FAS 142:

Three Months Ended
Six Months Ended

Edgar Filing: LABARGE INC - Form 10-Q

December 30,
2001
December 31,
2000
December 30,
2001
December 31,
2000

Numerator:

Reported net earnings		
	\$	1,200
	\$	726
	\$	2,235
	\$	1,361
Add back: Goodwill amortization expense		
		-
		226
		-
		453
Adjusted net earnings		
	\$	1,200
	\$	952
	\$	2,235
	\$	1,814

Denominator:

Denominator for basic net earnings per share		
		14,961
		14,899
		14,971
		14,884

Potential common shares:

Denominator for diluted net earnings per share - adjusted weighted-average shares and assumed conversions

		15,364
		14,899
		15,254
		14,884

Basic net earnings per share:

Edgar Filing: LABARGE INC - Form 10-Q

Reported net earnings	
\$	.08
\$	.05
\$	.15
\$	.09
Goodwill amortization expense	
-	
	.01
-	
	.03
Adjusted net earnings per share	
\$	.08
\$	.06
\$	.15
\$	.12
Diluted net earnings per share	

Reported net earnings	
\$	.08
\$	.05
\$	.15
\$	.09
Goodwill amortization expense	
-	
	.01
-	
	.03
Adjusted net earnings per share	
\$	.08
\$	.06
\$	.15
\$	.12

The effect of conversion of the Subordinated Convertible Notes into common stock is not considered in the calculations of diluted net earnings per common share because it would have an anti-dilutive effect on earnings per share.

10. BUSINESS SEGMENT INFORMATION

Business segments:
(dollars in thousands)

NET SALES TO CUSTOMERS:

Three Months Ended
Six Months Ended

December 30,
2001
December 31,
2000
December 30,
2001

Edgar Filing: LABARGE INC - Form 10-Q

December 31,
2000

Manufacturing Services Group

\$ 30,653

\$ 26,565

\$ 61,683

\$ 50,560

Network Technologies Group

842

358

1,920

647

\$ 31,495

\$ 26,923

\$ 63,603

\$ 51,207

EARNINGS:

Three Months Ended

Six Months Ended

December 30,

December 31,

December 30,

December 31,

2001

2000

2001

2000

Pretax earnings:

Manufacturing Services Group

\$ 2,419

\$ 2,349

\$ 4,345

\$ 4,657

Network Technologies Group

(212)

(560)

(289)

(1,159)

Corporate and other items

89

26

200

(45)

Interest expense

Edgar Filing: LABARGE INC - Form 10-Q

	(336)
	(557)
	(652)
	(1,095)
Net earnings before income taxes	
\$	1,960
\$	1,258
\$	3,604
\$	2,358
Income tax expense	
	760
	532
	1,369
	997
Net earnings	
	1,200
\$	726
\$	2,235
\$	1,361

DEPRECIATION & AMORTIZATION EXPENSE:

Three Months Ended

Six Months Ended

December 30,
2001

December 31,
2000

December 30,
2001

December 31,
2000

Manufacturing Services Group

\$ 419

\$ 375

\$ 824

\$ 784

Network Technologies Group

24

229

44

463

Corporate and other items

122

135

240

276

\$ 565

\$ 739

\$ 1,108

\$ 1,523

INVESTMENTS & CAPITAL EXPENDITURES:

Three Months Ended
Six Months Ended

December 30,
2001
December 31,
2000
December 30,
2001
December 31,
2000

Manufacturing Services Group

\$ 477
\$ 356
\$ 1,208
\$ 1,024

Network Technologies Group

81
212
160
248

Corporate and other items

411
(180)
267
43

\$ 969
\$ 388
\$ 1,635
\$ 1,315

TOTAL ASSETS:

December 30,
2001
July 1,
2001

Manufacturing Services Group

\$ 40,873

Edgar Filing: LABARGE INC - Form 10-Q

\$	46,150
Network Technologies Group	5,612
	5,459
Corporate and other items	16,550
	15,929
\$	63,035
\$	67,538

GEOGRAPHIC INFORMATION:

The Company has no sales offices or facilities outside of the United States. Sales for export did not exceed 10% of total sales for the three months and six months ended December 30, 2001.

LABARGE, INC.
FORM 10-Q

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

FORWARD-LOOKING STATEMENTS

Statements contained in this Report which are not historical facts are forward-looking statements within the meaning of the federal securities laws. Forward-looking statements involve risks and uncertainties. Future events and the Company's actual results could differ materially from those contemplated by those forward-looking statements. Important factors which could cause the Company's actual results to differ materially from those projected in, or inferred by, forward-looking statements are (but are not necessarily limited to) the following: the impact of increasing competition or deterioration of economic conditions in the Company's markets; cutbacks in defense spending by the U.S. Government; unexpected increases in the cost of raw materials, labor and other resources necessary to operate the Company's business; the availability, amount, type and cost of financing for the Company and any changes to that financing.

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

* The Manufacturing Services Group is the Company's core electronics manufacturing services business, which has been its principal business since 1985. This group designs, engineers and produces sophisticated electronic systems and devices and complex interconnect systems on a contract basis for its customers. In the fiscal 2002 second quarter, the Company derived approximately 97% of its total revenues from this group.

Edgar Filing: LABARGE INC - Form 10-Q

The group 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, severe shock and vibration. The group serves customers in a variety of markets with significant revenues from customers in the government systems, defense, aerospace, oil and gas, and other commercial markets. The group's engineering and manufacturing facilities are located in Arkansas, Missouri, Oklahoma and Texas.

The backlog of unshipped orders in the Manufacturing Services Group increased to \$94.6 million at December 30, 2001 compared with \$89.5 million at December 31, 2000. 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 Network Technologies Group was started in fiscal 1999 through the acquisition of privately held Open Cellular Systems, Inc. ("OCS"). The group designs and markets proprietary cellular and network communication system products and Internet services that provide monitoring and control

of remote industrial equipment. Results of the group are included in the consolidated results of the Company since the date of the OCS acquisition, March 2, 1999. This group is initially focusing its marketing efforts on the railroad industry to monitor railroad crossing equipment, and on the oil and gas pipeline industry to monitor cathodic protection devices. The Company derived 3% of its total revenues from this group for the three months and six months ended December 30, 2001.

The backlog of unshipped orders in the Network Technologies Group is \$540,000 at December 30, 2001, compared with \$860,000 at December 31, 2000.

SIGNIFICANT EVENTS

Recent significant events include:

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

Edgar Filing: LABARGE INC - Form 10-Q

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

The Company has adopted the provisions of Statement 142 with the first fiscal quarter ended September 30, 2001.

Goodwill amortization expense was \$0 for the quarter ended December 30, 2001 and \$226,000 for the quarter ended December 31, 2000.

RESULTS OF OPERATIONS - THREE MONTHS ENDED DECEMBER 30, 2001

Net Sales
(dollars in thousands)

Three Months Ended
Six Months Ended

December 30,
2001
December 31,
2000
December 30,
2001
December 31,
2000

Net Sales

\$	31,495
\$	26,923
\$	63,603
\$	51,207

For the fiscal 2002 second quarter, ended December 30, 2001, net sales from continuing operations were \$31.5 million compared with \$26.9 million for the same period of fiscal 2001. Sales to top 10 customers represented 79% of total revenue in the second quarter of fiscal 2002 versus 71% for the

Edgar Filing: LABARGE INC - Form 10-Q

same period of fiscal 2001. The Company's top three customers and the portion of total second-quarter sales they represented were as follows: Northrop Grumman, 28%; Schlumberger, 17%; and Lockheed Martin, 13%.

The Manufacturing Services Group. Sales in the manufacturing services segment of the business were \$30.7 million, accounting for 97% of total sales for the quarter ended December 30, 2001, up \$4.1 million, or 15%, over the same period of fiscal 2001.

The significant sales growth came from both government systems and defense customers. Sales to the defense industry grew 30%, primarily consisting of components of land-based and ship-borne radar systems. Sales of electro-mechanical assemblies for mail sorting equipment used by the U.S. Postal Service was the most significant contributor to the growth in government systems, increasing 43% year over year.

Network Technologies Group. Sales of the Network Technologies Group were 3% of total sales for the quarter and six months ended December 30, 2001.

The Group generated second-quarter sales of \$842,000 million versus \$358,000 for the second quarter of fiscal 2001. Sales were primarily to the railroad industry where the Company's ScadaNET Network(tm) product is used primarily to monitor railroad crossing equipment. The major contributor to second-quarter sales growth was increased shipments to the Union Pacific Railroad.

The Company also began shipping small numbers of units to targeted customers in the pipeline market where the ScadaNET Network(tm) is used to monitor the performance of cathodic protection devices on petroleum and natural gas pipelines.

Gross Profit
(dollars in thousands)

Three Months Ended
Six Months Ended

December 30,
2001
December 31,
2000
December 30,
2001
December 31,
2000

Gross profit
Gross margin

\$ 6,670

Edgar Filing: LABARGE INC - Form 10-Q

	21.2%
\$	5,540
	20.6%
\$	12,890
	20.3%
\$	11,087
	21.7%

A breakdown of margins by group shows the following:

Manufacturing Services Group. This group's gross profit margin was 20.3% for the quarter ended December 30, 2001, compared with 20.2% for the quarter ended December 31, 2000.

Network Technologies Group. This group's gross profit margin was 54.0% for the quarter ended December 30, 2001, compared with 49.3% for the quarter ended December 31, 2000.

Selling and Administrative Expenses
(dollars in thousands)

Three Months Ended
Six Months Ended

December 30,
2001
December 31,
2000
December 30,
2001
December 31,
2000

Selling and administrative expenses
Percent of sales

\$	4,476
	14.2%
\$	4,052
	15.1%
\$	8,831
	13.9%
\$	8,240
	16.1%

Selling and administrative expenses rose for the three and six months ended December 30, 2001, compared with the prior year's periods, as a

Edgar Filing: LABARGE INC - Form 10-Q

result of increased sales. However, selling and administrative expenses declined as a percentage of sales reflecting the accompanying higher sales levels.

Manufacturing Services Group. Selling and administrative expenses for this group were \$3.8 million (12.3% of sales) for the quarter ended December 30, 2001 and \$3.2 million (12.1% of sales) for the same period of fiscal 2001.

Network Technologies Group. Selling and administrative expenses for the quarter ended December 30, 2001 for this group were \$667,000 and included no goodwill amortization. For the same period of fiscal 2001, these expenses totaled \$736,000, including \$217,000 in amortization of goodwill. Selling and administrative expenses increased in the fiscal 2002 period due to additional selling and development activity, larger sales volume and greater allocation of corporate expenses.

Interest Expense
(dollars in thousands)

Three Months Ended
Six Months Ended

December 30,
2001
December 31,
2000
December 30,
2001
December 31,
2000

Interest expense

\$	336
\$	557
\$	652
\$	1,095

Interest expense decreased for the quarter ended December 30, 2001, primarily due to lower debt levels and lower interest rates on short-term borrowings. Average short-term borrowings for the three- and six-month period ended December 30, 2001 were \$7.8 million lower than the same periods of fiscal 2001. Average interest rates declined 450 basis points for the six months ended December 30, 2001.

Edgar Filing: LABARGE INC - Form 10-Q

Pretax Earnings
(dollars in thousands)

Three Months Ended
Six Months Ended

December 30,
2001
December 31,
2000
December 30,
2001
December 31,
2000

Pretax earnings

\$	1,960
\$	1,258
\$	3,604
\$	2,358

The increase in pretax earnings for the quarter ended December 30, 2001, compared with the same period of fiscal 2001, is primarily attributable to significantly higher gross profit (\$1.1 million) on higher sales (\$4.6 million), a reduction in goodwill amortization expense of \$226,000 and a \$221,000 reduction in interest expense.

Tax Expense
(dollars in thousands)

Three Months Ended
Six Months Ended

December 30,
2001
December 31,
2000
December 30,
2001
December 31,
2000

Tax Expense

\$	760
\$	532
\$	1,369

Edgar Filing: LABARGE INC - Form 10-Q

\$ 997

The tax rate for the quarter ended December 30, 2001, was lower than the prior year's fiscal second quarter due to the elimination of the non-deductible goodwill amortization expense of \$226,000.

FINANCIAL CONDITION AND LIQUIDITY

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

Stockholders' Equity and Debt
(dollars in thousands)

December 30,
July 1,

2001
2001

Stockholders' equity

\$ 31,807

\$ 29,716

Debt

\$ 15,650

\$ 17,400

The Company's operations provided \$3.0 million and \$5.1 million of net cash for the three and six months ended December 30, 2001.

Currently, total debt-to-equity ratio for the Company is .49 to 1 versus .59 to 1 at the end of fiscal 2001.

Risk Factors

The Company operates in a competitive marketplace and is exposed to risks associated with economic conditions.

The Network Technologies Group, as a relatively new operation, has used cash during its first two years of operation. It is too early to predict the timing and the extent of the potential widespread acceptance of this segment's products and its contribution to future earnings and cash flow.

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 years.

Edgar Filing: LABARGE INC - Form 10-Q

New Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." Statement 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

The Company has adopted the provisions of Statement 142 and has reassessed the useful lives and residual values of all recorded intangible assets. No change in amortization periods was made. The Company has received third party expert advice as to the evaluation of goodwill and intangible assets value. No impairment was required to be recorded.

Subsequent Events:

Effective February 1, 2002, the Company's revolving credit agreement was renewed under substantially the same terms and conditions. The new revolving credit agreement amount is \$15.0 million and matures in May 2003.

Also, on February 1, 2002, the outstanding balance of the Company's senior secured term loan, \$1.6 million, was repaid in full.

PART II

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

On November 14, 2001, at the Company's Annual Meeting of Stockholders, stockholders took the following actions:

Edgar Filing: LABARGE INC - Form 10-Q

a) Elected three Class C Directors for a term ending in 2004 and one Class B Director for a term ending in 2003.

Class C:
Votes FOR
Votes ABSTAINING

Robert H. Chapman

13,704,324

94,934

Richard P. Conerly

13,699,864

99,394

Pierre L. LaBarge, Jr.

13,665,225

134,033

Class B:

Robert G. Clark

13,706,463

92,795

b) Ratified the selection of KPMG LLP as independent accountants for the fiscal year 2002, with 13,729,677 FOR votes, 46,820 AGAINST votes, and 22,761 votes ABSTAINED.

ITEM 6. Exhibits and Reports on Form 8-K

Reports on Form 8-K: Current reports on Form 8-K were filed on the dates that follow in accordance with Regulation FD to report certain information the Registrant intended to present to certain institutional investors:

- i. October 8, 2001
- ii. November 8, 2001
- iii. December 13, 2001.

SIGNATURE

Edgar Filing: LABARGE INC - Form 10-Q

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

LABARGE, INC.

Date: February 7, 2002

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