

Edgar Filing: LABARGE INC - Form 10-K

LABARGE INC  
Form 10-K  
September 13, 2002

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 30, 2002  
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:  
Title of Class: Common Stock, \$.01 par value  
Name of each exchange on which registered: American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:  
NONE  
(Title of Class)

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

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.

As of September 5, 2002, 15,773,253 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 \$48.0 million, based upon the closing price of the common stock on the American Stock Exchange on September 5,

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

2002.

### 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.

### 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 timing 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 cost of raw materials, labor and other resources;
- Increased competition in the Company's markets;
- The Company's ability to manage operating expenses;
- The ability of the Company to develop the Network Technologies Group so that it operates at a profit;
- The outcome of litigation to which the Company is 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

LaBarge, Inc. ("LaBarge" or the "Company") is a Delaware corporation. During fiscal 2002, the Company was engaged in the following primary business activities:

- \* The Manufacturing Services Group is the Company's core electronic

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

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 fiscal 2002, the Company derived approximately 98% of its total revenues from this group.

\* The Network Technologies Group became part of the Company in fiscal 1999 through the acquisition of Open Cellular Systems, Inc. ("OCS"). The group designs and markets proprietary cellular and network communication systems products and Internet services that provide monitoring and control of remote industrial equipment. The group sells its products and services in the railroad industry to monitor railroad-crossing equipment and in the oil and gas pipeline industry to monitor cathodic protection devices. In fiscal 2002, the Company derived approximately 2% of its total revenues from the Network Technologies Group.

### Strategy

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

### Information About Each Business Activity

#### Manufacturing Services Group

LaBarge designs and manufactures high-performance electronics and interconnect systems for customers in diverse technology-driven markets. The Company provides complete electronic systems solutions, including the design, engineering and manufacturing of interconnect systems, circuit card assemblies and high-level assemblies for our customers' specialized applications.

The group 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 group serves customers in a variety of markets with significant revenues from customers in the defense, government systems, aerospace, oil and gas, and other commercial markets. The group's engineering and manufacturing facilities are located in Arkansas, Missouri, Oklahoma and Texas. The group employs approximately 850 people.

Manufacturing Services Group sales were \$117.2 million for fiscal 2002, compared with \$116.7 million in fiscal 2001, and \$78.3 million in fiscal 2000.

The backlog for this group at June 30, 2002 was approximately \$98.0 million, compared with \$86.6 million at July 1, 2001, an increase of 13%. The growth in backlog is the result of a 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. Approximately \$21.0 million of the backlog at fiscal 2002 year end is not scheduled to ship within the next 12 months pursuant to the shipment schedules contained in those contracts. This compares with \$17.7 million at fiscal 2001 year end.

### Organization

The Company has organized the Manufacturing Services Group with a senior vice president with overall responsibility for the group. He reports to the Chief

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

Executive Officer and President of LaBarge.

### Sales and Marketing

During fiscal 2002, 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.

In the Manufacturing Services Group, there are currently 13 sales personnel, 29 engineers and 50 technicians who provide direct customer support as needed. The group's engineering and plant management employees are very involved in sales activities.

With few exceptions, the group's sales are made pursuant to fixed-price contracts. Larger, long-term government contracts generally have provisions for milestone or progress payments. This group 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 Manufacturing Services Group's targeted customers. While the group is not aware of another entity that competes in all of its capabilities, there are numerous companies, many larger than LaBarge, which compete in one or more of these capabilities. The group'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, order such products from the Company. The principal methods of competition are service, price, engineering expertise, technical and manufacturing capability, quality, reliability, and overall project management capability.

### Concentration of Business

Three customers of the Manufacturing Services Group, each with multiple operating units, together accounted for in excess of 50% of the Company's consolidated sales in fiscal 2002: Northrop Grumman accounted for 19% of total sales; Schlumberger accounted for 17% of total sales; and Lockheed Martin accounted for 14% of total sales. No other customer accounted for more than 6% of total sales. Sales to the largest 10 customers represented approximately 75% of the Company's total sales in both fiscal 2002 and 2001.

### Manufacturing Operations

The Manufacturing Services Group 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.

### Network Technologies Group

In fiscal 1999, the Company formed its Network Technologies Group by acquiring privately held Open Cellular Systems, Inc. ("OCS"). The group designs and

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

markets cellular and network communication system products and Internet services that provide monitoring and control of remote industrial equipment. The systems designed by the Network Technologies Group use existing cellular telephone infrastructure and Internet technologies to provide companies with low-cost, two-way data communication. The group has identified broad applications for its network communication system services, including systems designed to monitor and control railroad crossing equipment, oil and gas pipelines, industrial process equipment and power distribution networks.

### Organization

The Network Technologies Group is led by a vice president who reports to the Chief Executive Officer and President of LaBarge.

### Sales and Marketing

This group's first major market focus was the railroad industry, where the group's proprietary ScadaNET Network (TradeMark) product line is used to monitor railroad-crossing equipment. In addition, the group is marketing the ScadaNET Network to the oil and gas pipeline industry which uses the products to monitor cathodic protection devices and test points along pipelines.

The group has four full-time sales personnel and utilizes the services of independent representatives and distributors to market its products. In addition, the group employs seven engineers for product development.

Fiscal 2002 sales totaled \$2.9 million, compared with fiscal 2001 sales of \$2.6 million and fiscal 2000 sales of \$1.3 million. Sales backlog at June 30, 2002 was \$2.7 million, compared with \$1.2 million at July 1, 2001, an increase of 125%. Sales continued to be primarily to the railroad industry, accounting for \$2.5 million of the total. Major contributors to sales to the rail sector in 2002 were Union Pacific Railroad, Burlington Northern and Santa Fe Railway Company, and Wisconsin Central Division of Canadian National Railway Company. The Network Technologies Group continued to add new short-line railroad customers during the current year.

Sales to the cathodic protection market totaled \$400,000 in fiscal 2002, compared with fiscal 2001 sales of \$100,000. Approximately 40 oil and gas pipeline companies have conducted evaluation programs using the ScadaNET system and numerous companies have begun or are about to begin full-scale network deployment.

### Competition

The Company has various competitors who market devices to monitor remote industrial equipment. In the railroad market, none of the competitors is known to market products that provide a comprehensive service as cost effectively as the ScadaNET Network. The Company expects to release new products in the near future that are specifically intended to increase its competitive advantage in oil and gas pipeline applications, and to augment its railroad sector product line.

### Operations

The group has an engineering and operations center located in the metropolitan Kansas City area. The Company's Manufacturing Services Group is the manufacturer of the Network Technologies Group's products.

### Capital Structure

On February 1, 2002, the Company renewed its revolving credit agreement through May 2003. The credit agreement was reduced to \$15.0 million from \$18.0 million with substantially the same terms and conditions.

Also on this date, the balance of the senior secured term loan, \$1.6 million, was repaid in full.

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

On March 12, 2002, the Company entered into a new credit facility with another bank, replacing the credit facility renewed on February 1, 2002, and refinancing the mortgage loan of \$6.2 million used to finance the 1998 purchase of the Company's headquarters building in St. Louis, Missouri.

The following is a summary of the new 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 30, 2002, the maximum allowable was \$12.1 million, net of letters of credit outstanding of \$2.9 million. The revolver borrowing at quarter end was \$2.6 million. Unused revolving credit available at June 30, 2002 was \$9.5 million. This credit facility matures on September 30, 2004.
- \* A \$6.4 million term loan secured by the Company's headquarters building in St. Louis, Missouri. The loan payment schedule is based on a 25-year amortization and begins in December 2002 with a balloon final payment due in October 2009. Current balance at June 30, 2002 is \$6.4 million.
- \* Interest on the loans is at a percentage of prime or a stated rate over LIBOR based on certain ratios. For the period, the average rate was approximately 3.96%.
- \* Covenants and performance criteria consist of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in relation to debt, EBITDA in relation to interest, minimum levels of EBITDA and tangible net worth. The Company is in compliance with its borrowing agreement covenants as of June 30, 2002.

### Subordinated Convertible Notes:

In March 1999, the Company, through its subsidiary LaBarge-OCS, Inc., issued its Subordinated Convertible Notes ("Notes") due June 2003 in the aggregate principal amount of \$5.6 million for the acquisition of OCS. The Notes bear interest at 7.5% per annum payable quarterly, and noteholders are entitled to participation payments if LaBarge-OCS, Inc., operating as The Network Technologies Group, achieves certain levels of net earnings. No participation payments were earned in fiscal 2002. The Notes are convertible by the holders into LaBarge, Inc. Common Stock at \$8.00 per share at any time up to their maturity date.

### 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 30, 2002 was \$925,000.

### Other Long-Term Liabilities:

Other long-term liabilities include deferred revenues associated with the proprietary ScadaNET Network (TradeMark) (representing prepaid communication services) in the amount of \$1.4 million and other customer advances in the amount of \$2.1 million.

To mitigate the exposure to changes in interest rates, the Company entered into an interest rate swap agreement. This agreement, designated as a cash flow hedge, swaps a portion of the Company's exposure to three-month LIBOR rates with a fixed rate of 5.95%. The notional amount of the agreement is \$3.5 million and it expires in June 2003. In accordance

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

with SFAS 133, as amended by SFAS 138, the change in fair value of the swap during fiscal 2002, amounting to approximately \$34,000, was recorded to other comprehensive loss.

The ratio of debt-to-equity as of June 30, 2002 was .46 to 1, compared with .59 to 1 at July 1, 2001.

### 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 2002, fiscal 2001 and fiscal 2000 were less than 10% of the total Company revenue.

## ITEM 2. PROPERTIES

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

Location	Principal Use	Land (acres)	Buildings (square feet)	Calendar Year of Termination of Lease
Berryville, AR	Manufacturing & Offices	17.5	49,000	Owned
Houston, TX	Manufacturing & Offices	3	48,740	2002
Huntsville, AR	Manufacturing & Offices	6	48,000	2019
Joplin, MO	Manufacturing & Offices	5	50,400	Owned
Joplin, MO	Manufacturing	4	33,000	2002
Lenexa, KS	Offices	.5	4,137	2002
St. Louis, MO	Offices	8	65,176	Owned
Tulsa, OK	Manufacturing & Offices	3	55,000	2002
Tulsa, OK	Manufacturing	1	6,425	2003

## 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, to supply aircraft wire harnesses. The Company has alleged that MDC supplied a defective bid package in its request for proposal. Attempts to negotiate a settlement of the claim arising from this defective bid package have not been successful, and

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

the Company anticipates filing an action in circuit court to seek an equitable adjustment.

Under the contract through June 30, 2002, the Company has delivered 79 sets of the wire harnesses with a sales value of \$1.9 million. Included in the Accounts Receivable balance at June 30, 2002 is \$207,000 representing a portion of the Company's claim against MDC on these shipments. Included in the Company's work-in-process balance at June 30, 2002 is \$298,000, which will not be recovered at the current contract price and will be added to the Company's claim, plus lost profits.

In addition, MDC has exercised options under the contract, for an additional 102 sets of wire harnesses with a sales value of \$2.3 million. Based on current cost estimates, the Company would have an additional claim of \$743,000, plus lost profits, on these units. Sales taken on this contract are being recognized at zero gross profit.

MDC has options to purchase up to 150 additional sets of wire harnesses per year through calendar year 2006. Management's estimate, based upon forecasted information from MDC, is that the potential additional sales are 281 sets through fiscal year 2006. If these additional orders are placed at the current contract price, the additional sales would total \$6.4 million and the Company would incur an additional loss of \$2.2 million which would be added to the claim plus lost profit.

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

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

There were no items submitted to a vote of the security holders in the quarter ended June 30, 2002.

### 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 19 filed herewith.

The following table contains certain information as of June 30, 2002 with respect to options granted and outstanding under the Company's three stock option plans, share 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)



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

Equity compensation plans approved by security holders	1,532,863	\$2.94	570,362
--	-----------	--------	---------

### ITEM 6. SELECTED FINANCIAL DATA

Reference is made to the information contained in the section entitled "Selected Financial Data" on page 18 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 47 through 53 filed herewith.

### ITEM 7A. 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 2002, fiscal 2001 and fiscal 2000 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 30, 2002, the Company had \$15.5 million in total debt. \$6.5 million is made up of subordinated debt, and industrial revenue bonds. This debt has a fixed rate and is not subject to interest rate risk. The interest rate on the remaining \$9.0 million is subject to fluctuation. To mitigate the exposure to changes in interest rates, the Company entered into an interest rate swap agreement with a bank in fiscal 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. The additional interest cost to the Company if interest rates went up 1%, would be \$55,000 for one year.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the "Index to Consolidated Financial Statements and Schedule" contained on page 17 filed herewith.

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

Not applicable.

## 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

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

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.

## PART IV

### ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES AND REPORT ON FORM 8-K

- a. Consolidated Financial Statements.  
See "Index to Consolidated Financial Statements and Schedule" contained on page 17.
- b. Reports on Form 8-K.  
Reports on Form 8-K were filed by the Company with the Securities and Exchange Commission on October 9, 2001; November 9, 2001; December 13, 2001 and January 4, 2002.
- c. Exhibits.  
See "Exhibits" below.
- d. Consolidated Financial Statement Schedule.  
See "Index to Consolidated Financial Statements and Schedule" contained on page 17.

## 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

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

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 Form S-3 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 Form S-3 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 Form S-3 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 Form S-3 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 Form S-3 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 Form S-3 and incorporated herein by reference.
- 10.4 Management Retirement Savings Plan of LaBarge, Inc.

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

Previously filed with the Securities and Exchange Commission on July 23, 1996 with the Company's Form S-3 and incorporated herein by reference.

- 10.5 Asset Purchase Agreement dated May 15, 1996, among registrants, SOREP Technology Corporation and its shareholder, previously filed as Exhibit 10.i to the Company's report on Form 8-K filed with the Securities and Exchange Commission on May 28, 1996 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 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.
- 10.17 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.
- 10.18 Amended and Restated Loan Agreement by among LaBarge, Inc. and Bank of America, N.A. Previously filed with the Securities and Exchange Commission with the Company's Quarterly Report on Form 10-Q on May 14, 2002 and incorporated here in 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.
- 21\* Subsidiaries of the Company.
- 23(a)\* Independent Auditors' Consent.
- 24\* Power of Attorney (see signature page).

\* Document filed herewith.

# Edgar Filing: LABARGE INC - Form 10-K

## 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.

Dated: September 13, 2002

LaBarge, Inc.

By: /s/Donald H. Nonnenkamp  
Donald H. Nonnenkamp  
Vice President and 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 re-substitution, 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.

Pursuant to the requirements of the Securities Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dated indicated.

SIGNATURE	TITLE	DATE
	Chairman Emeritus & Director	
Pierre L. LaBarge, Jr.		
/s/Craig E. LaBarge	President, Chief Executive Officer	August 21, 2002
Craig E. LaBarge	and Director	
/s/Donald H. Nonnenkamp	Vice President, Chief Financial Officer	August 21, 2002
Donald H. Nonnenkamp	and Secretary	
/s/Robert H. Chapman	Director	August 21,

Edgar Filing: LABARGE INC - Form 10-K

Robert H. Chapman		2002
/s/Robert G. Clark	Director	August 21, 2002
Robert G. Clark		
/s/Richard P. Conerly	Director	August 21, 2002
Richard P. Conerly		
/s/John G. Helmkamp, Jr.	Director	August 21, 2002
John G. Helmkamp, Jr.		
/s/Lawrence J. LeGrand	Director	August 21, 2002
Lawrence J. LeGrand		
/s/James P. Shanahan, Jr.	Director	August 23, 2002
James P. Shanahan, Jr.		
/s/Jack E. Thomas, Jr.	Director	August 21, 2002
Jack E. Thomas, Jr.		

CERTIFICATIONS

I, Craig E. LaBarge, certify that:

1. I have reviewed this annual report on Form 10-K of LaBarge, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 13, 2002

Edgar Filing: LABARGE INC - Form 10-K

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

CERTIFICATIONS

I, Donald H. Nonnenkamp, certify that:

1. I have reviewed this annual report on Form 10-K of LaBarge, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 13, 2002

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

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

Consolidated Financial Statements	Page
Independent Auditor's Report	20
Consolidated Statements of Operations, Years Ended June 30, 2002, July 1, 2001 and July 2, 2000	21
Consolidated Balance Sheets, as of June 30, 2002 and July 1, 2001	22
Consolidated Statement of Cash Flows, Years Ended June 30, 2002, July 1, 2001 and July 2, 2000	23
Consolidated Statements of Stockholders' Equity Years Ended June 30, 2002, July 1, 2001	

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

and July 2, 2000	24
Notes to Consolidated Financial Statements	25-46
Management's Discussion and Analysis of Financial Condition and Results of Operations	47-53
Schedule II - Valuation and Qualifying Accounts	54

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 notes thereto.

LaBarge, Inc.  
SELECTED FINANCIAL DATA  
(dollars in thousands, except per share data)

	Year Ended				
	June 30, 2002	July 1, 2001	July 2, 2000	June 27, 1999	June 28, 1998
-----	-----	-----	-----	-----	-----
Net Sales	\$120,136	\$119,222	\$79,614	\$78,577	\$95,629
Pretax earnings (loss) from continuing operations	5,993	6,526	(1,880)	(3,909)	7,762
Net earnings (loss) from continuing operations	3,930	3,828	(1,551)	(3,280)	4,898
-----	-----	-----	-----	-----	-----
Discontinued operations: Income (loss) from operations, net of taxes	-	-	293	200	(134)
Gain on disposal, net of taxes	-	-	2,833	-	-
Net earnings (loss)	3,930	3,828	1,575	(3,080)	4,764
Basic earnings (loss) per share:					
Net income (loss) from continuing operations	\$ 0.26	\$ 0.26	\$ (0.11)	\$ (0.22)	\$ 0.32
Net income (loss) from discontinued operations	-	-	0.22	0.02	(0.01)
-----	-----	-----	-----	-----	-----
Basic net earnings (loss)	0.26	0.26	0.11	(0.20)	0.31
-----	-----	-----	-----	-----	-----
Diluted earnings (loss) per share:					
Net income (loss) from continuing operations	0.26	0.26	(0.11)	(0.22)	0.31
Net income (loss) from discontinued operations	-	-	0.22	0.02	(0.01)
-----	-----	-----	-----	-----	-----
Diluted net earnings (loss)	\$ 0.26	\$ 0.26	\$ 0.11	\$ (0.20)	\$ 0.30
-----	-----	-----	-----	-----	-----
Total assets	\$ 68,206	\$ 67,538	\$ 68,733	\$59,654	\$58,992
Long-term debt	\$ 7,047	\$ 13,121	\$ 15,025	\$20,290	\$10,163



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

=====  
=====

Certain events occurring during the above reporting periods involving acquisitions, divestitures, joint ventures, refinancings, 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, in fiscal year 2000, was reported as a discontinued operation. Accordingly, the operating results of LaBarge Clayco Wireless in fiscal years 1998, 1999 and 2000 are reported as discontinued operations.

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 19, 2002, there were approximately 3,075 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 2002 and 2001, as reported by the American Stock Exchange.

2001 - 2002	High	Low
July - September	3.29	2.77
October - December	4.43	2.87
January - March	5.00	3.39
April - June	5.60	3.85
2000 - 2001	High	Low
July - September	2.44	1.50
October - December	2.25	1.06
January - March	3.44	2.06
April - June	2.69	1.88

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

### Independent Auditors' Report

The Board of Directors and Stockholders  
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

Edgar Filing: LABARGE INC - Form 10-K

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 30, 2002 and July 1, 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2002, 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 21, 2002

LaBarge, Inc.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(dollars in thousands, except per-share data)

	Year Ended		
	June 30, 2002	July 1, 2001	July 2, 2000
Net sales	\$120,136	\$119,222	\$ 79,614
Costs and expenses:			
Cost of sales	96,656	94,386	61,666
Selling and administrative expense	16,964	17,142	16,196
Gain due to recovery of impaired assets	-	-	(2,300)
Loss from NotiCom	-	-	4,172
Interest expense	1,144	1,884	2,092
Other income, net	(621)	(716)	(332)
Earnings (loss) from continuing operations before income taxes	5,993	6,526	(1,880)
Income tax expense (benefit)	2,063	2,698	(329)
Net earnings (loss) from continuing operations	3,930	3,828	(1,551)
Discontinued operations:			
Income from operation (less applicable income taxes of \$172)	-	-	293
Gain on disposal (less applicable income taxes of \$406)	-	-	2,833
Net earnings	\$ 3,930	\$ 3,828	\$ 1,575

Edgar Filing: LABARGE INC - Form 10-K

Basic earnings (loss) per share:			
Net income (loss) from continuing operations	\$ 0.26	\$ 0.26	\$ (0.11)
Net income from discontinued operations	-	-	0.22
-----	-----	-----	-----
Basic net earnings (loss)	\$ 0.26	\$ 0.26	\$ 0.11
-----	-----	-----	-----
Average common shares outstanding	14,975	14,914	14,783
=====	=====	=====	=====
Diluted net earnings per share:			
Net income (loss) from continuing operations	\$ 0.26	\$ 0.26	\$ (0.11)
Net income from discontinued operations	-	-	\$ 0.22
-----	-----	-----	-----
Diluted net earnings	\$ 0.26	\$ 0.26	\$ 0.11
Average diluted common shares outstanding	15,404	14,914	14,783
=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

LaBarge, Inc.  
CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except per-share data)

-----	June 30, 2002	July 1, 2001
-----	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,532	\$ 666
Accounts and other receivables, net	17,024	16,946
Inventories	22,499	23,212
Prepaid expenses	566	727
Deferred tax assets, net	627	1,087
 Total current assets	 \$43,248	 \$42,638
Property, plant and equipment, net	13,956	13,113
Deferred tax assets, net	937	1,908
Intangible assets, net	5,076	4,693
Other assets, net	4,989	5,186
-----	-----	-----
	\$68,206	\$67,538
=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$2,583	\$ 2,500
Current maturities of subordinated debt	5,621	-
Current maturities of long-term debt	278	1,779
Trade accounts payable	6,521	9,605
Accrued employee compensation	5,488	5,965
Other accrued liabilities	3,520	3,899
-----	-----	-----
Total current liabilities	\$24,011	\$23,748
-----	-----	-----
Other long-term liabilities	3,464	953
Long-term debt	7,047	7,500

Edgar Filing: LABARGE INC - Form 10-K

Subordinated debt	-	5,621
-----	-----	-----
Stockholders' equity:		
Common stock, \$.01 par value. Authorized 40,000,000 shares; issued 15,773,253 shares at June 30, 2002 and 15,773,253 at July 1, 2001, including shares in treasury	158	158
Additional paid-in capital	13,515	13,569
Retained earnings	22,736	18,806
Accumulated other comprehensive loss	(131)	(97)
Less cost of common stock in treasury, shares of 779,143 at June 30, 2002 and 812,176 shares at July 1, 2001	(2,594)	(2,720)
-----	-----	-----
Total stockholders' equity	33,684	29,716
-----	-----	-----
	\$68,206	\$67,538
=====	=====	=====

See accompanying notes to consolidated financial statements.

LaBarge, Inc.  
CONSOLIDATED CASH FLOWS  
(dollars in thousands, except per-share data)

	Year Ended		
	June 30,	July 1,	July 2,
	2002	2001	2000
-----	-----	-----	-----
Cash flows from operating activities:			
Net earnings	\$3,930	\$3,828	\$1,575
Adjustments to reconcile net cash provided by operating activities:			
Depreciation and amortization	2,195	2,828	2,846
Deferred taxes	1,430	737	(1,249)
Gain due to impairment of assets	-	-	(100)
Gain on disposal of discontinued operations	-	-	(2,833)
Net earnings from discontinued operations	-	-	(293)
Loss from NotiCom and amortization of technology	-	-	4,172
Other	25	1	(38)
Changes in assets and liabilities, net of acquisitions:			
Accounts and notes receivable, net	(78)	868	(7,866)
Inventories	713	(979)	(7,152)
Prepaid expenses	162	136	(136)
Trade accounts payable	(3,084)	1,376	4,115
Accrued liabilities and other	1,620	2,550	1,535
-----	-----	-----	-----
Net cash provided (used) by operating activities	6,913	11,345	(5,424)
-----	-----	-----	-----
Net cash provided by discontinued operations	-	-	402
-----	-----	-----	-----
Net cash provided (used) by operating	6,913	11,345	(5,022)

Edgar Filing: LABARGE INC - Form 10-K

activities			
-----	-----	-----	-----
Cash flows from investing activities:			
Additions to property, plant and equipment	(2,870)	(2,192)	(1,428)
Additions to other assets	(378)	(271)	(307)
Investments in other companies	-	-	(1,392)
Cash used by investing activities-	-	-	(68)
discontinued operations			
Proceeds from disposal of discontinued	-	-	4,284
operations			
-----	-----	-----	-----
Net cash used (provided) by investing	(3,248)	(2,463)	1,089
activities			
-----	-----	-----	-----
Cash flows from financing activities:			
Borrowings of long-term senior debt	6,400	-	1,318
Repayments of long-term senior debt	(8,354)	(1,932)	(6,530)
Issuance of stock to employees	303	212	387
Purchase of treasury stock	(231)	-	(270)
Net change in short-term borrowings, net	83	(7,230)	9,600
of acquisitions			
Net change in short-term debt of	-	-	(300)
discontinued operations			
-----	-----	-----	-----
Net cash used by financing activities	(1,799)	(8,950)	4,205
Net increase in cash and cash equivalents	1,866	(68)	272
Cash and cash equivalents at beginning of	666	734	462
year			
-----	-----	-----	-----
Cash and cash equivalents at end of period	\$2,532	\$666	\$734
=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

LaBarge, Inc.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(dollars in thousands, except share data)

	Common Shares	Stock Par Value	Additional Paid-in Capital
-----	-----	-----	-----
Balance at June 27, 1999	15,711,395	\$157	\$13,615
Net earnings	-	-	-
Issued for the Employee Stock Purchase Plan	61,858	1	107
Exercise of stock options	-	-	-
Purchase of common stock to treasury	-	-	-
-----	-----	-----	-----
Balance at July 2, 2000	15,773,253	\$158	\$13,722
Comprehensive income:			
Net earnings	-	-	-
Change in fair value of interest rate hedge	-	-	-

Edgar Filing: LABARGE INC - Form 10-K

Issued for the Employee Stock Purchase Plan	-	-	(153)
Purchase of common stock to treasury	-	-	-
Balance at July 1, 2001	15,773,253	\$158	\$13,569
-----			
Comprehensive income:			
Net earnings	-	-	-
Change in fair value of interest rate hedge	-	-	-
Issued for the Employee Stock Purchase Plan	-	-	(47)
Purchase of common stock to treasury	-	-	-
Exercise of stock options	-	-	(7)
-----			
Balance at June 30, 2002	15,773,253	\$158	\$13,515
=====			

	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Shares	Stock Cost
	-----	-----	-----	-----
Balance at June 27, 1999	\$13,403	-	(955,853)	\$(3,095)
Net earnings	1,575	-	-	-
Issued for the Employee Stock Purchase Plan	-	-	70,082	135
Exercise of stock options	-	-	70,000	145
Purchase of common stock to treasury	-	-	(105,428)	(270)
-----				
Balance at July 2, 2000	\$14,978	-	(921,199)	\$(3,085)
Comprehensive income:				
Net earnings	3,828	-	-	-
Change in fair value of interest rate hedge	-	(97)	-	-
Issued for the Employee Stock Purchase Plan	-	-	109,027	365
Purchase of common stock to treasury	-	-	(4)	-
Balance at July 1, 2001	\$18,806	(97)	(812,176)	\$(2,720)
-----				
Comprehensive income:				
Net earnings	3,930	-	-	-
Change in fair value of interest rate hedge	-	(34)	-	-
Issued for the Employee Stock Purchase Plan	-	-	87,163	290
Purchase of common stock to treasury	-	-	(74,130)	(231)
Exercise of stock options	-	-	20,000	67
-----				
Balance at June 30, 2002	\$22,736	\$(131)	(779,143)	\$(2,594)
=====				

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

For the fiscal years ended June 30, 2002, July 1, 2001 and July 2, 2000, total comprehensive income was \$3.9 million, \$3.7 million and \$1.6 million, respectively.

See accompanying notes to consolidated financial statements.

LaBarge, Inc.  
NOTES TO CONCOLIDATED FINANCIAL STATEMENTS  
June 30, 2002, July 1, 2001 and July 2, 2000

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

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

The Manufacturing Services Group is the Company's core electronics manufacturing 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 diverse markets. In fiscal 2002, the Company derived approximately 98% of its total revenue from this business activity.

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

The Network Technologies Group was started in fiscal 1999 with the acquisition of 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 and municipal utility equipment. This group's first major market focus was the railroad industry, where the group's proprietary ScadaNET Network(TradeMark) product line is used to monitor railroad-crossing equipment. In addition, the group is marketing the ScadaNET Network to the oil and gas pipeline industry which uses the products to monitor cathodic protection devices and test points along pipelines. In fiscal 2002, the Company derived approximately 2% of its total revenue from this business activity.

See Note 2, "Acquisitions, Discontinued Operations and Investments."

#### 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 their 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 an annual basis.

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

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

### Revenue Recognition and Cost of Sales

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

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

Certain sales in the Company's Network Technologies Group segment include prepayment of multi-year communication services. These revenues are deferred and recognized over the period of the service agreement.

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

### Accounts Receivable

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

### Inventory

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

### Income Taxes

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

### Goodwill and Other Long-Lived Assets

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



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

future operating cash flows to be generated from these assets throughout their estimated useful lives.

### Fair Value of Financial Instruments

The Company considers 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 fair value of the interest rate swap agreement is based upon market quotes from counter parties. In accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by FASB Statement No. 138, the change in fair value was recorded to other comprehensive loss.

The Company has examined amounts outstanding under the revolving credit agreement, the term loan, the Industrial Revenue Bonds and the Subordinated Convertible Notes and determined that carrying amounts recorded on the financial statement are consistent with the estimated fair value as of June 30, 2002.

### 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 in consolidation. Investments in 20%-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 2002 consisted of 52 weeks, as did fiscal 2001. Fiscal year 2000 consisted of 53 weeks.

### Inventories

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.

In accordance with industry practice, the Company's 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. Consistent with industry practice, 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.

### Property, Plant and Equipment

Property, plant and equipment are carried at cost and include 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's policy is to expense the savings plan costs as incurred.

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

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.

### Goodwill and Other Intangible Assets

Goodwill, representing the excess of the cost over the net tangible and identifiable intangible assets of acquired businesses, and investments in technologies, are stated at cost. The Company accounts for goodwill and other intangible assets as required by the Financial Accounting Standards Board ("FASB") Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets."

### Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed by the APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. The Company provides the financial statement disclosures required by SFAS No. 123, "Accounting for Stock-Based Compensation."

### Reclassifications of Prior Year Amounts

Certain prior year 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.

### New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard applies to legal obligations associated with the retirement of tangible long-lived assets. Management does not believe adoption of this standard will have a material impact on the Company's financial statements.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses the impairment or disposal of long-lived assets and the reporting of discontinued operations. Management does not believe adoption of this standard will have a material impact on the Company's financial statements.

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

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

### 2. ACQUISITIONS, DISCONTINUED OPERATIONS AND INVESTMENTS

#### Acquisitions

##### Open Cellular Systems, Inc.

In March 1999, the Company acquired the remaining 90% of the stock of privately held Open Cellular Systems, Inc. ("OCS") for approximately \$5.6 million. Prior to the acquisition, LaBarge held a 10% equity stake in OCS, which it acquired in October 1997 for \$500,000. The purchase price was paid by issuing Subordinated Convertible Notes (the "Notes") due in June 2003 and bearing interest of 7.5% per annum payable quarterly beginning June 29, 1999. Each share of OCS stock was valued at \$4.25 in the transaction. Under the terms of the Notes, each holder has the right to convert the Notes into LaBarge, Inc. Common Stock at a conversion price of \$8.00 per share at any time after the first anniversary of the Notes up to their maturity date. Further, the noteholders are entitled to receive for each fiscal year through 2003 participation payments from the Company equal to the amount by which 35% of the net income of OCS (as defined in the purchase agreement) exceeds the 7.5% interest paid on the Notes for the fiscal year. Since the date of the OCS acquisition, the Company has not been required to make participation payments.

The Company used the purchase-method of accounting to record this acquisition. The results of operations of LaBarge-OCS, Inc. have been included in the consolidated results of operations of LaBarge since the date of acquisition.

On March 2, 1999, 1,008,622 shares of OCS common stock were exchanged for \$4.3 million of Subordinated Convertible Notes. Options to acquire 310,000 shares of OCS common stock were converted to 310,000 shares of common stock of LaBarge-OCS, Inc., the acquiring subsidiary, and represent shares acquired by the holders through exercise of employee stock options. The value of 310,000 shares, \$1.3 million, was included in other current liabilities at June 27, 1999. On June 12, 2000, the Company called the 310,000 shares of LaBarge-OCS, Inc. stock per its Call Agreement and exchanged the shares for \$1.3 million of 7.5% Subordinated Convertible Notes.

The Company initially recorded goodwill of \$6.8 million in this transaction. During fiscal 2000, the Company determined it is more likely than not that the benefit of the deferred tax assets obtained in the OCS acquisition will be realized. Therefore, the Company reduced the deferred tax asset valuation allowance by \$517,000 during fiscal 2000, with a corresponding reduction in goodwill. Remaining goodwill, which is no longer being amortized, is \$4.1 million.

##### NotiCom L.L.C. Joint Venture

In the first quarter of fiscal 1999, LaBarge and Global Research Systems, Inc. ("Global") of Rome, Georgia, formed NotiCom L.L.C. ("NotiCom"), a Georgia limited liability company, to develop and market electronic systems providing advance notice of the impending arrival of passenger motor vehicles.

During the later part of fiscal 2000, it was determined that significant additional investment would be required to continue development of the NotiCom product. During the fourth quarter of fiscal 2000, the Company determined it would not provide such additional funding for NotiCom. Given these events the Company wrote down its remaining investment in NotiCom and the related technology to zero. The total loss to LaBarge, including its share of NotiCom's operations and the write-down was \$4.2 million in fiscal 2000. In fiscal 2001, NotiCom ceased all operations.

#### Discontinued Operations

##### LaBarge Clayco Wireless, L.L.C.

In fiscal 1996, LaBarge Clayco Wireless L.L.C. ("LaBarge Clayco Wireless"), a 50%/50% joint venture with Clayco Construction Company ("Clayco") of St. Louis, Missouri, was formed. In the second quarter of fiscal 1998, the Company

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

increased its ownership of LaBarge Clayco Wireless to 51%. In the second quarter of fiscal 1999, the Company purchased from Clayco an additional 39% of LaBarge Clayco Wireless for \$300,000 to increase its ownership to 90%.

On June 30, 2000, LaBarge Clayco Wireless was sold to Evolution Holdings, Inc. of Phoenix, Arizona. For its 90% interest, the Company received \$4.6 million in cash and a three-year convertible note with an estimated fair value of \$115,000. The Company recognized a one-time gain on the sale of \$2.8 million, net of taxes.

In fiscal year 2001, Evolution Holdings ceased operations; consequently, additional amounts owed by Evolution Holdings to the Company, including the convertible note, were written off in the period to other income, net.

### Investments

In December 1999, the Company received \$2.2 million cash, plus stock and options of Norwood Abbey, Ltd. in settlement of certain claims against, and in exchange for its interest in Transmedica International, Inc. (a previous investment of the Company). The Company is carrying the stock and options at a value of \$100,000.

### 3. GROSS AND NET SALES

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

	June 30, 2002	Year Ended July 1, 2001	July 2, 2000
Gross sales	\$123,869	\$121,340	\$81,754
Less sales discounts	3,733	2,118	2,140
Net sales	\$120,136	\$119,222	\$79,614

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

### 4. ACCOUNTS AND OTHER RECEIVABLES

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

	June 30, 2002	July 1, 2001
Billed shipments, net of progress payments	\$15,719	\$16,703
Less allowance for doubtful accounts	145	289
Trade receivables, net	15,574	16,414
Other current receivables	1,450	532
	\$17,024	\$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.

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

At June 30, 2002 and July 1, 2001, other current receivables include \$318,000 and \$346,000 of customer payments to be received as a settlement under a prior claim for material. Also at June 30, 2002, \$964,000 was included in other current receivable for Federal and State overpayment of taxes. See Note 17, "Litigation and Contingencies."

For the fiscal years ended June 30, 2002, July 1, 2001 and July 2, 2000, expense for doubtful accounts charged to income before income taxes was \$(48,000), \$324,000 and \$335,000. The Company had significant improvement in the aging of accounts receivable during fiscal 2002, which directly impacted the expense for doubtful accounts as compared with prior years.

### 5. INVENTORIES

Inventories consist of the following:  
(dollars in thousands)

	June 30, 2002	July 1, 2001
Raw materials	\$13,992	\$11,554
Work in progress	9,936	13,028
Less reserve for obsolescence	318	755
	23,610	23,827
Less progress payments	1,111	615
	\$22,499	\$23,212
	=====	=====

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

For the fiscal years ended June 30, 2002, July 1, 2001 and July 2, 2000, expense for inventory reserves charged to income before income taxes was \$185,000 and \$1.1 million and \$593,000, respectively. Reduction in fiscal 2002 is the result of reduced levels of aged inventory as compared with prior years.

### 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows:  
(dollars in thousands)

	June 30, 2002	July 1, 2001	Estimated useful life in years
Land	\$ 2,458	\$ 2,458	-
Building and improvements	8,331	8,099	5-33
Leasehold improvements	2,716	2,282	2-10
Machinery and equipment	12,200	10,792	5-20
Furniture and fixtures	1,957	1,714	5-20
Computer equipment	2,598	2,335	3
Construction in progress	117	241	-
	30,377	27,921	
Less accumulated depreciation	16,421	14,808	

Edgar Filing: LABARGE INC - Form 10-K

-----	-----	-----
	\$13,956	\$13,113
=====	=====	=====

Depreciation expense was \$2.0 million, \$1.8 million and \$1.7 million for the fiscal years ended June 30, 2002, July 1, 2001 and July 2, 2000, respectively.

7. INTANGIBLE ASSETS, NET

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

	June 30, 2002	July 1, 2001
-----	-----	-----
Goodwill	\$6,694	\$6,694
Less amortization	2,378	2,378
-----	-----	-----
Net Goodwill	4,316	4,316
Software	2,136	1,598
Less amortization	1,494	1,312
-----	-----	-----
Net Software	642	286
Other, net	118	91
-----	-----	-----
Total intangible assets, net	\$5,076	\$4,693
=====	=====	=====

Total goodwill for the Manufacturing Services Group was \$402,825 and \$402,825 for the fiscal years June 30, 2002 and July 1, 2001, respectively. The total goodwill for the Network Technologies Group was \$6.3 million and \$6.3 million for the fiscal years June 30, 2002 and July 1, 2001, respectively.

Amortization expense was \$192,000, \$1.1 million and \$1.2 million for the fiscal years ended June 30, 2002, July 1, 2001 and July 2, 2000, respectively.

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 be 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. Goodwill amortization expense was \$0 for the year ended June 30, 2002 and \$927,000 for the year ended July 1, 2001 and \$1.1 million for the year ended July 2, 2000.

Basic and diluted earnings (loss) per share are computed as follows and include adjustment to prior periods required by the adoption of SFAS 142:

June 30, July 1, July 2,

Edgar Filing: LABARGE INC - Form 10-K

	2002	2001	2000
Net earnings	\$3,930	\$3,828	\$1,575
Add back: Goodwill amortization expense	-	927	1,100
Adjusted net earnings	\$3,930	\$4,755	\$2,675
Basic net earnings per share:			
Net earnings	\$ 0.26	\$ 0.26	\$ 0.11
Goodwill amortization	-	0.06	0.07
Adjusted basic net earnings per share	\$ 0.26	\$ 0.32	\$ 0.18
Diluted earnings per share:			
Net earnings	\$ 0.26	\$ 0.26	\$ 0.11
Goodwill amortization	-	0.06	0.07
Adjusted diluted net earnings per share	\$ 0.26	\$ 0.32	\$ 0.18

8. OTHER ASSETS

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

	June 30, 2002	July 1, 2001
Cash value of life insurance	\$4,039	\$4,220
Deposits, licenses and other, net	814	830
Investments in businesses	136	136
	\$4,989	\$5,186

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

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 30, 2002	July 1, 2001
Short-term borrowings:		
Revolving credit agreement:		
Balance at year-end	\$2,583	\$2,500
Interest rate at year-end	2.90%	4.78%

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

Average amount of short-term borrowings outstanding during period	\$2,548	\$7,275
Average interest rate for period	3.96%	8.30%
Maximum short-term borrowings at any month-end	\$6,320	\$13,302
=====		
Senior long-term debt:		
Senior lender:		
Term loan	\$6,400	\$2,336
Mortgage loan	-	5,895
Other	925	1,048
-----		
Total senior long-term debt	7,325	9,279
Less current maturities	278	1,779
Long-term debt, less current maturities	\$7,047	\$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.

Total cash payments for interest in fiscal years 2002, 2001 and 2000 were \$1.2 million, \$2.0 million and \$2.1 million, respectively.

#### Senior Lender:

On February 1, 2002, the Company renewed its revolving credit agreement through May 2003. The credit agreement was reduced to \$15.0 million from \$18.0 million with substantially the same terms and conditions.

Also on this date, the balance of the senior secured term loan, \$1.6 million, was repaid in full.

On March 12, 2002, the Company entered into a new credit facility with another bank, replacing the credit facility renewed on February 1, 2002, and refinancing the mortgage loan of \$6.2 million used to finance the 1998 purchase of the Company's headquarters building in St. Louis, Missouri.

The following is a summary of the new 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 30, 2002, the maximum allowable was \$12.1 million net of letters of credit outstanding of \$2.9 million. The revolver borrowing at fiscal year end was \$2.6 million. . Unused revolving credit available at June 30, 2002 was \$9.5 million. This credit facility matures on September 30, 2004.
  
- \* A \$6.4 million term loan secured by the Company's headquarters building in St. Louis, Missouri. The loan payment schedule is based on a 25-year amortization and begins in December 2002 with a final balloon payment due in October 2009. The balance at June 30, 2002 is \$6.4 million.
  
- \* Interest on the loans is at a percentage of prime or a stated rate over LIBOR based on certain ratios. For the period, the average rate was approximately 3.96%.
  
- \* Covenants and performance criteria consist of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in relation to debt, EBITDA in relation to interest, minimum levels of EBITDA and tangible net worth. The



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

Company is in compliance with its borrowing agreement covenants as of June 30, 2002.

### Subordinated Convertible Notes:

In March 1999, the Company, through its subsidiary LaBarge-OCS, Inc., issued its Subordinated Convertible Notes ("Notes") due June 2003 in the aggregate principal amount of \$5.6 million for the acquisition of OCS. The Notes bear interest at 7.5% per annum payable quarterly, and noteholders are entitled to participation payments if LaBarge-OCS, Inc., operating as The Network Technologies Group, achieves certain levels of net earnings. No participation payments were earned in fiscal 2002. The Notes are convertible by the holders into LaBarge, Inc. Common Stock at \$8.00 per share at any time up to their maturity date.

### 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 30, 2002 was \$925,000.

### Other Long-Term Liabilities:

Other long-term liabilities include deferred revenues associated with the proprietary ScadaNET Network(TradeMark) (representing prepaid communication services) in the amount of \$1.4 million and customer advances in the amount of \$2.1 million.

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

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

Fiscal Year	
2003	\$5,899
2004	391
2005	399
2006	406
2007	414

## 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)

Edgar Filing: LABARGE INC - Form 10-K

	June 30, 2002	Year Ended July 1, 2001	July 2, 2000
Initial term of more than one year	\$1,851	\$1,061	\$1,207
Short-term rentals	250	758	201
	\$2,101	\$1,819	\$1,408

At June 30, 2002, 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	
2003	\$1,474
2004	942
2005	506
2006	316
2007	319

11. EMPLOYEE BENEFIT PLANS

The Company has a contributory savings plan which qualifies under Section 401(k) of the Internal Revenue Code for employees meeting certain service requirements. The plan allows eligible employees to contribute up to 15% 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 2002, 2001 and 2000, Company matching contributions were \$385,000, \$346,000 and \$264,000, 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 amended plan. There were no such contributions for 2002, 2001 and 2000.

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 costs associated with the plan have been decreased the last three years due to growth in cash value life insurance policies the Company purchased. The increase in the cash value of the life insurance policies exceeded the premiums paid by \$92,000, \$123,000 and \$221,000 in fiscal years 2002, 2001 and 2000, 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 \$1.3 million

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

at June 30, 2002 compared with \$1.7 million at July 1, 2001. The liability for the deferred compensation and interest thereon is in accrued employee compensation and was \$2.1 million at June 30, 2002

versus \$1.9 million at July 1, 2001.

The Company has an employee stock purchase plan that allows any eligible employee to purchase common stock at 15% below the market price as of the first or last day of the quarter, whichever is lower at the end of each quarter. In fiscal 2002, 87,163 shares were purchased by employees in the amount of \$243,836, which cost the Company approximately \$40,000. In fiscal 2001, 109,027 shares were purchased in the amount of \$215,686, which cost the Company approximately \$36,000.

### 12. OTHER INCOME, NET

The components of other income, net, are as follows:  
(dollars in thousands)

	June 30, 2002	Year Ended July 1, 2001	July 2, 2000
Interest income	\$ 48	\$175	\$ 43
Property rental income	1,008	900	871
Property rental expense	(404)	(649)	(549)
Other, net	(31)	290	(33)
	\$ 621	\$716	\$332
	=====	=====	=====

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 2002, Other, net includes revenue recognized in connection with the sale of certain technology totaling \$70,000. In fiscal 2001, Other, net includes revenue 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 30, 2002, the future minimum rental income under leases with tenants in excess of one year is as follows:

(dollars in thousands)

Fiscal Year	
2003	\$876
2004	874
2005	865
2006	520
2007	359

Edgar Filing: LABARGE INC - Form 10-K

13. INCOME TAXES

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

	Current	Deferred	Total
-----			
Year ended June 30, 2002:			
Total:			
U.S. Federal	\$ 421	\$1,256	\$1,677
State and Local	212	174	386
-----			
	\$ 633	\$1,430	\$2,063
=====	=====	=====	=====
Year ended July 1, 2001:			
Total:			
U.S. Federal	\$1,657	\$ 698	\$2,355
State and Local	304	39	343
-----			
	\$1,961	\$ 737	\$ 2,698
=====	=====	=====	=====
Year ended July 2, 2000:			
Continuing operations:			
U.S. Federal	\$ (23)	\$ (202)	\$ (225)
State and Local	(4)	(100)	(104)
-----			
	\$ (27)	\$ (302)	\$ (329)
=====	=====	=====	=====
Discontinued operations:			
U.S. Federal	\$ 837	\$ (348)	\$ 489
State and Local	171	(82)	89
-----			
	\$1,008	(430)	578
Total:			
U.S. Federal	\$ 814	\$ (550)	\$ 264
State and Local	167	(182)	(15)
-----			
	\$ 981	\$ (732)	\$ 249
=====	=====	=====	=====

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 30, 2002	July 1, 2001	July 2, 2000
-----			
Computed "expected" tax expense	\$2,038	\$2,219	\$(639)

Edgar Filing: LABARGE INC - Form 10-K

(benefit)			
Increase (reduction) in income taxes resulting from:			
Federal tax credits	(254)	-	-
State and local tax	255	226	(69)
Goodwill	-	294	333
Other	24	(41)	46
	-----	-----	-----
	\$2,063	\$2,698	\$(329)
	=====	=====	=====

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

	June 30, 2002	July 1, 2001
-----	-----	-----
Deferred tax assets:		
Inventories due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986 and inventory reserves	\$ 305	\$ 559
Deferred compensation	782	686
Investment in joint venture	-	457
Intangibles	13	528
Other	287	527
Deferred revenue	518	317
Net operating loss carryforwards	83	154
	-----	-----
Total gross deferred tax assets	\$ 1,988	\$ 3,228
Deferred tax liabilities:		
Property, plant and equipment, principally due to differences in depreciation	(424)	(234)
	-----	-----
Total gross deferred tax liabilities	(424)	(234)
	-----	-----
Net deferred tax assets	\$ 1,564	\$ 2,994
=====	=====	=====

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 operations will generate sufficient taxable income to realize the deferred tax assets.

Total cash payments (receipts) for federal and state income taxes in all years presented were \$1.8 million for fiscal 2002, \$2.3 million for fiscal 2001 and \$(863,000) for fiscal 2000.

14. EARNINGS PER COMMON SHARE

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

Edgar Filing: LABARGE INC - Form 10-K

	June 30, 2002	July 1, 2001	July 2, 2000
-----			
Numerator:			
Net earnings (loss) from continuing operations	\$ 3,930	\$ 3,828	\$ (1,551)
Discontinued operations	-	-	3,126
Net earnings	3,930	3,828	1,575
-----			
Denominator:			
Denominator for basic net earnings (loss) per share	14,975	14,914	14,783
-----			
Potential common shares:			
Denominator for diluted net earnings (loss) per share - adjusted weighted-average shares and assumed conversions	15,404	14,914	14,783
-----			
Basic net earnings (loss) per share:			
Net earnings (loss) from continuing operations	\$ 0.26	\$ 0.26	\$ (0.11)
Earnings from discontinued operations	-	-	0.22
-----			
Basic net earnings	\$ 0.26	\$ 0.26	\$ 0.11
=====			
Diluted earnings (loss) per share:			
Net earnings (loss) from continuing operations	\$ 0.26	\$ 0.26	\$ (0.11)
Earnings from discontinued operations	-	-	0.22
-----			
Diluted net earnings per share	\$ 0.26	\$ 0.26	\$ 0.11
=====			

15. BUSINESS SEGMENT INFORMATION

Business Segments:  
(dollars in thousands)

Net Sales to Customers:

	June 30, 2002	Year Ended July 1, 2001	July 2, 2000
-----			
Manufacturing Services Group	\$117,190	\$116,655	\$78,271
Network Technologies Group	2,946	2,567	1,343
	\$120,136	\$119,222	\$79,614
=====			

Edgar Filing: LABARGE INC - Form 10-K

Earnings (Loss):

	June 30, 2002	Year Ended July 1, 2001	July 2, 2000
	-----	-----	-----
Pretax earnings (loss) from continuing operations:			
Manufacturing Services Group	\$ 8,043	\$ 10,234	\$ 5,432
Gain due to recovery of impaired assets	-	-	2,300
	-----	-----	-----
Total Manufacturing Services Group	\$ 8,043	\$ 10,234	\$ 7,732
Network Technologies Group	\$ (1,017)	\$ (1,858)	\$ (1,966)
NotiCom	-	-	(4,172)
Corporate and other items	111	34	(1,382)
Interest expense	(1,144)	(1,884)	(2,092)
	-----	-----	-----
Net earnings (loss) from continuing operations before income taxes	\$ 5,993	\$ 6,526	\$ (1,880)
Income tax expense (benefit)	2,063	2,698	(329)
Net earnings (loss) from continuing operations	3,930	3,828	(1,551)
	-----	-----	-----
Discontinued operations:			
Income from operations, net of taxes	\$ -	\$ -	\$ 293
Gain on disposal, net of taxes	-	-	2,833
	-----	-----	-----
	\$ 3,930	\$ 3,828	\$ 1,575
	=====	=====	=====

Depreciation & Amortization  
Expense

	June 30, 2002	Year Ended July 1, 2001	July 2, 2000
	-----	-----	-----
Manufacturing Services Group	\$1,653	\$1,478	\$1,378
Network Technologies Group	26	920	1,011
Investment in NotiCom	-	-	1,449
Corporate and other items	516	430	457
	-----	-----	-----
	\$2,195	\$2,828	\$4,295
	=====	=====	=====

Investments &  
Capital Expenditures

	June 30, 2002	Year Ended July 1, 2001	July 2, 2000
	-----	-----	-----

Edgar Filing: LABARGE INC - Form 10-K

Manufacturing Services Group	\$2,627	\$2,026	\$1,048
Network Technologies Group	320	177	139
Investment in NotiCom	-	-	1,392
Corporate and other items	301	260	548
-----	-----	-----	-----
	\$3,248	\$2,463	\$3,127
=====	=====	=====	=====

	Total Assets	
	Year Ended	
	June 30,	July 1,
	2002	2001
-----	-----	-----
Manufacturing Services Group	\$45,860	\$46,150
Network Technologies Group	5,332	5,459
Corporate and other items	17,014	15,929
-----	-----	-----
	\$68,206	\$67,538
=====	=====	=====

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 30, 2002, July 1, 2001 and July 2, 2000:

Customer	2002	2001	2000
1	19%	27%	18%
2	17	17	13
3	14	10	12

For the year ended June 30, 2002, the Company's three largest customers were Northrop Grumman, Schlumberger and Lockheed Martin.

16. 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.

Information regarding these option plans for fiscal years 2002, 2001 and 2000 follows:

Number of Shares	Weighted-Average Exercise Price	Number of Shares Exercisable
-----	-----	-----



Edgar Filing: LABARGE INC - Form 10-K

Outstanding at June 27, 1999	430,288	\$4.22	231,775
Canceled	(130,015)	3.97	-
Granted	689,355	2.50	-
Exercised	(70,000)	1.35	-
-----	-----	-----	-----
Outstanding at July 2, 2000	919,628	\$3.16	160,788
Canceled	(74,515)	4.77	-
Granted	388,475	2.62	-
Exercised	-	-	-
-----	-----	-----	-----
Outstanding at July 1, 2001	1,233,588	\$2.96	308,651
Canceled	(16,775)	7.24	-
Granted	336,050	3.07	-
Exercised	(20,000)	3.30	-
-----	-----	-----	-----
Outstanding at June 30, 2002	1,532,863	\$2.94	565,010
=====	=====	=====	=====

	Weighted- Average Exercise Price	Weighted- Average Fair Value Granted Option
-----	-----	-----
Outstanding at June 27, 1999	\$4.03	
Canceled	-	
Granted	-	\$.80
Exercised	-	
-----	-----	-----
Outstanding at July 2, 2000	\$5.86	
Canceled	-	
Granted	-	\$.76
Exercised	-	
-----	-----	-----
Outstanding at July 1, 2001	\$4.20	
Canceled	-	
Granted	-	\$1.89
Exercised	-	
-----	-----	-----
Outstanding at June 30, 2002	\$3.41	
=====	=====	=====

The following table summarizes information about stock options outstanding:

Options Outstanding		
Range of	Number Outstanding	Weighted- Average Remaining Contractual
-----	-----	-----

Edgar Filing: LABARGE INC - Form 10-K

Exercise Prices	at June 30, 2002	Life (Years)
-----	-----	-----
\$2.50 - 3.425	1,372,075	7.84
3.768 - 5.86	86,000	3.38
5.97 - 7.24	74,788	3.32
-----	-----	-----
\$2.50 - 7.24	1,532,863	
=====	=====	=====

Options Exercisable

Weighted-Average Exercise Price	Number Exercisable at June 30, 2002	Weighted-Average Exercise Price
-----	-----	-----
\$2.62	429,222	\$2.63
4.82	61,000	5.00
6.64	74,788	6.64
-----	-----	-----
	565,010	
=====	=====	=====

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 provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans.

Had compensation cost for the Company's three stock option plans been determined based on the fair value at the grant date consistent with the provision of SFAS No. 123, the Company's pro forma net earnings and diluted earnings per share for fiscal 2002 would have been \$3.7 million and \$.24 per share basic and \$.24 per diluted share; for fiscal 2001, \$3.6 million and \$.24 per diluted share; and for fiscal 2000, \$1.5 million and \$.11 per diluted share, respectively.

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 1.7%; expected dividend yield of 0%; expected life of six years and, expected volatility of 76%. The expected life of stock options for fiscal 2001 and 2000 was three years.

17. LITIGATION AND CONTINGENCIES

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

Under the contract through June 30, 2002, the Company has delivered 79 sets of the

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

wire harnesses with a sales value of \$1.9 million. Included in the Accounts Receivable balance at June 30, 2002 is \$207,000 representing a portion of the Company's claim against MDC on these shipments.

Included in the Company's work-in-process balance at June 30, 2002 is \$298,000, which will not be recovered at the current contract price and will be added to the Company's claim, plus lost profits.

In addition, MDC has exercised options under the contract, for an additional 102 sets of wire harnesses with a sales value of \$2.3 million.

Based on current cost estimates, the Company would have an additional claim of \$743,000, plus lost profits, on these units. Sales taken on this contract are being recognized at zero gross profit.

MDC has options to purchase up to 150 additional sets of wire harnesses per year through calendar year 2006. Management's estimate, based upon forecasted information from MDC, is that the potential additional sales are 281 sets through fiscal year 2006. If these additional orders are placed at the current contract price, the additional sales would total \$6.4 million and the Company would incur an additional loss of \$2.2 million which would be added to the claim, plus lost profits.

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

### 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data is set forth below:  
(dollars in thousands, except per-share data)

2002	First	Second	Third	Fourth
Net sales	\$32,108	\$31,495	\$30,159	\$26,374
Cost of sales	25,888	24,825	24,036	21,907
Selling and administrative expense	4,355	4,476	4,118	4,015
Interest expense	316	336	269	223
Other (income) expense, net	(96)	(102)	(239)	(184)
Net earnings before income taxes	1,645	1,960	1,975	413
Income tax expense (benefit)	609	760	730	(36)
Net earnings	\$ 1,036	\$ 1,200	\$ 1,245	\$ 449
Basic earnings per share:				
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	\$ 0.07	\$ 0.08	\$ 0.08	\$ 0.03
Average diluted common shares outstanding	15,147	15,364	15,499	15,550

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

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.

### 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) (continued)

2001	First	Second	Third	Fourth
-----	-----	-----	-----	-----
Net sales	\$24,284	\$26,923	\$32,428	\$35,587
Cost of sales	18,737	21,383	25,153	29,113
-----	-----	-----	-----	-----
Selling and administrative expense	4,188	4,052	5,010	3,892
Interest expense	537	557	433	357
Other (income) expense, net	(277)	(327)	(221)	109
Net earnings before income taxes	1,099	1,258	2,053	2,116
Income tax expense	465	532	838	863
-----	-----	-----	-----	-----
Net earnings	\$634	\$ 726	\$ 1,215	\$ 1,253
Basic earnings per share:				
Net earnings	\$ 0.04	\$ 0.05	\$ 0.08	\$ 0.08
-----	-----	-----	-----	-----
Average common shares outstanding	14,868	14,899	14,928	14,958
=====	=====	=====	=====	=====
Diluted earnings per share:				
Net earnings	\$ 0.04	\$ 0.05	\$ 0.08	\$ 0.08
=====	=====	=====	=====	=====
Average diluted common shares outstanding	14,868	14,899	14,928	15,032
=====	=====	=====	=====	=====

The Company adopted SFAS No. 142 on July 2, 2001; therefore, the fiscal 2001 amounts above include goodwill amortization and the fiscal 2002 amounts exclude goodwill amortization. For fiscal 2001, goodwill amortization for the first, second, third and fourth quarter was \$233,000, \$233,000, \$229,000 and \$232,000, respectively.

### 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

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

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 timing 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 cost of raw materials, labor and other resources;
- Increased competition in the Company's markets;
- The Company's ability to manage operating expenses;
- The ability of the Company to develop the Network Technologies Group so that it operates at a profit;
- The outcome of litigation to which the Company is 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 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 fiscal 2002, the Company derived approximately 98% of its total revenues from this group.

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

The sales backlog in the Manufacturing Services Group increased to \$98.0 million at fiscal 2002 year end, compared with \$86.6 million at fiscal 2001 year end. The growth in backlog is the result of an effective marketing effort that concentrates on the Company's core competencies and the application of those competencies to targeted large customers in a variety of industries. The diversification of the Company's customer base helps to protect it from volatility in any one market segment.

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

\* 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 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. In fiscal 2002, the Company derived 2% of its total revenues from this group.

The Network Technologies Group, as a relatively new operation, has used cash during its 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, if any, to future earnings and cash flow.

Sales backlog at June 30, 2002 was \$2.7 million, compared with \$1.2 million at July 1, 2001, an increase of 125%.

### Results of Operations - Fiscal 2002 - 2001- 2000

Net Sales  
(dollars in thousands)

	Change 2002 vs. 2001	2002	Year Ended	
	-----	-----	2001	2000
	-----	-----	-----	-----
Net sales	+0.8%	\$120,136	\$119,222	\$79,614
	=====	=====	=====	=====

During fiscal 2002, net sales were \$120.1 million compared with \$119.2 million in fiscal 2001 and \$79.6 million in fiscal 2000. Sales to our top 10 customers represented 75% of total revenue in fiscal 2002 and 2001; and 74% in fiscal 2000. Sales to our top three customers and the percent of total sales they represent were: Northrop Grumman, 19% in fiscal 2002, 27% in fiscal 2001 and 12% in fiscal 2000; Schlumberger, 17% in fiscal 2002, 17% in fiscal 2001 and 13% in fiscal 2000, and Lockheed Martin, 14% in fiscal 2002, 10% in fiscal 2001 and 18% in fiscal 2000.

Manufacturing Services Group. Sales in the manufacturing services segment of the business accounted for 98% of total sales in fiscal 2002 and 2001.

In fiscal 2002, sales totaled \$117.2 million, \$535,000 over fiscal 2001 sales of \$116.7 million. Sales to defense customers in fiscal 2002 improved 39.5% to \$46.0 million. Sales of land-based and ship-borne radar systems, missile and aircraft cables, and various electronic equipment on land-based vehicles were the significant drivers in defense sales increases. The Company's sales of baggage screening equipment increased 46.7% to \$6.6 million.

These sales increases were offset by declining sales in the commercial aerospace

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

and government systems markets. The sales of electro-mechanical assemblies for mail sorting equipment used by the U.S. Postal Service declined 28.9%, to \$23.6 million, as the Company completed its contract. Sales to the commercial aerospace market declined 31.3% to \$10.2 million. Oil & gas sales declined modestly to \$24.5 million.

Network Technologies Group. Sales by this segment of the Company were 2% of total sales in both fiscal 2002 and 2001.

Fiscal 2002 sales totaled \$2.9 million, up 12%, compared with fiscal 2001 sales of \$2.6 million. Sales continued to be primarily to the railroad industry - accounting for \$2.5 million of the total. Major contributors to sales to the rail sector in 2002 were Union Pacific Railroad, Burlington Northern and Santa Fe Railway Company, and Wisconsin Central Division of Canadian National Railway Company. The Network Technologies Group continued to add new short-line railroad customers during the year.

Sales to the cathodic protection market totaled \$400,000 in fiscal 2002, compared with fiscal 2001 sales of \$100,000. Approximately 40 oil and gas pipeline companies have conducted evaluation programs using the ScadaNET(TradeMark) system and numerous companies have begun or are about to begin deployment.

Gross Profit  
(dollars in thousands)

	Change 2002 vs. 2001	Year Ended		
		2002	2001	2000
Gross profit	-1,356	\$23,480	\$24,836	\$17,948
Gross margin	-1.3%	19.5%	20.8%	22.5%
	=====	=====	=====	=====

A breakdown of margins by group shows the following:

Manufacturing Services Group. This group's gross profit margin was 18.7 % in fiscal 2002, compared with 20.2% in fiscal 2001 and 22.3% in fiscal 2000. In fiscal 2002, margins declined due to a \$925,000 charge recognized in the fourth quarter resulting from a change in an estimate at completion on a long-running customer contracts. Absent this charge, gross profit margin would have been 19.5%. In addition, gross profit was impacted by a \$600,000 increase in medical benefit costs.

Network Technologies Group. This group's gross profit margin was 51.2% for fiscal 2002, compared with 51.3% for fiscal 2001.

Selling and Administrative Expenses  
(dollars in thousands)

	Change 2002 vs. 2001	Year Ended		
		2002	2001	2000
Selling and administrative expenses	-178	\$16,964	\$17,142	\$16,196

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

Percent of sales	-0.3%	14.1%	14.4%	20.3%
=====	=====	=====	=====	=====

Selling and administrative expenses declined modestly due to the discontinuation of goodwill amortization (\$1.0 million), offset in part by higher salary and wages (\$500,000), general insurance (\$300,000) and medical benefit costs (\$200,000).

Manufacturing Services Group. Selling and administrative expenses for this group were \$14.3 million (12.2% of sales) in fiscal 2002, \$13.8 million (11.8% of sales) in fiscal 2001 and \$12.9 million (16.4% of sales) in fiscal 2000.

Network Technologies Group. This group accounted for \$2.6 million of selling and administrative expenses in fiscal 2002 and \$3.2 million in fiscal 2001. Higher product development expenses were incurred in fiscal 2002, but were offset by the absence of \$905,000 of goodwill amortization that was expensed in fiscal 2001.

Interest Expense  
(dollars in thousands)

	2002	Year Ended 2001	2000
Interest expense	\$1,144	\$1,884	\$2,092
=====	=====	=====	=====

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

Pretax Earnings (Loss) from Continuing Operations  
(dollars in thousands)

	2002	Year Ended 2001	2000
Pretax earnings (loss)	\$5,993	\$6,526	\$(1,880)
=====	=====	=====	=====

The \$533,000 decline in pretax earnings in fiscal 2002 compared with fiscal 2001 was attributable to: 1) a \$2.2 million decline in the pretax profits from the Manufacturing Services Group; 2) a \$841,000 reduction in the pretax loss of the Network Technologies Group, primarily the result of elimination of goodwill amortization expense; and 3) a \$740,000 decline in interest expense.

Tax Expense (Benefit) from Continuing Operations  
(dollars in thousands)

	2002	Year Ended 2001	2000
Tax expense (benefit) from continuing operations	\$2,063	\$2,698	\$(329)
=====	=====	=====	=====

Tax expense was impacted in fiscal year 2002 by application of federal research and experimentation credits of \$254,000.



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

Net Earnings and Earnings Per Share  
(dollars in thousands, except per-share data)

	2002	Year Ended 2001	2000
-----	-----	-----	-----
Net earnings	\$3,930	\$3,828	\$1,575
Basic earnings per share:			
Net earnings (loss) from			
continuing operations	\$ 0.26	\$ 0.26	\$ (0.11)
Income from discontinued operations	-	-	0.22
Basic net earnings	\$ 0.26	\$ 0.26	\$ 0.11
Diluted earnings per share:			
Net earnings (loss) from			
continuing operations	\$ 0.26	\$ 0.26	\$ (0.11)
Income from discontinued operations	-	-	0.22
Diluted net earnings	\$ 0.26	\$ 0.26	\$ 0.11
=====	=====	=====	=====

### Financial Condition and Liquidity

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

Stockholders' Equity and Debt  
(dollars in thousands)

	Year Ended	
	2002	2001
Stockholders' equity	\$33,684	\$29,716
Debt	\$15,529	\$17,400
=====	=====	=====

The Company's continuing operations provided \$6.9 million of cash in fiscal 2002 compared with \$11.3 million of cash in fiscal year 2001. The decline is due primarily to changes in net working capital.

Investing activities, primarily capital expenditures, used \$3.2 million of the operating cash generated. The remainder was used to repay debt and increase cash balances.

Currently, our total debt-to-equity ratio is .46 to 1 versus .59 to 1 versus at the end of fiscal 2001.

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.

### 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 their best estimates and judgment of

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

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 an annual basis.

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

### Revenue Recognition and Cost of Sales

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

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

Certain sales in the Company's Network Technologies Group include prepayment of multi-year communication services. These revenues are deferred and recognized over the period of the service agreement.

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

### Accounts Receivable

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

### Inventory

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

### Income Taxes

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

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

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 discontinued future operating cash flows to be generated from these assets throughout their estimated useful lives.

### New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard applies to legal obligations associated with the retirement of tangible long-lived assets. Management does not believe adoption of this standard will have a material impact on the Company's financial statements.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses the impairment or disposal of long-lived assets and the reporting of discontinued operations. Management does not believe adoption of this standard will have a material impact on the Company's financial statements.

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

## Schedule II

### LaBARGE, INC. Valuation and Qualifying Accounts (dollars in thousands)

Years ended June 30, 2002,  
July 1, 2001 and July 2, 2000

### Allowance for Doubtful Accounts

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

Year	Balance Beginning of Period	Additions Charged to Expense	Deductions	Balance End of Period
2000	2,347	335	2,510	172
2001	172	324	207	289
2002	\$ 289	\$ (48)	\$ 96	\$145

### Inventory Reserve

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

This account represents amounts in inventory that may become valueless in future periods, but as of the balance sheet date, are included at cost.

Year	Balance Beginning of Period	Additions Charged to Expense	Deductions From Reserve For Write- offs	Balance End of Period
2000	869	593	710	752
2001	752	1,121	1,118	755
2002	\$755	\$ 185	\$ 622	\$318

### Deferred Tax Asset Valuation Allowance

This account represents the value of the Company's deferred tax asset as a result of net loss carryforwards from prior periods that might not be realized in future periods.

Year	Balance Beginning of Period	Decrease Attributable to Acquisition	Decrease	Balance End of Period
2000	1,368	(517)	(851)	-
2001	-	-	-	-
2002	-	-	-	-

PART II