LABARGE INC
Form 10-Q
November 13, 2002
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

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

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

DELAWARE
(State or other jurisdiction of incorporation or organization)

73-0574586
(I.R.S. Employer Identification No.)

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

63124
(Zip Code)

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

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

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of September 29, 2002. 15,021,116 shares of common stock.

LaBARGE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(dollars in thousands except per share data)

| | Three Months Ended | |
|---|---|---|
| | September 29, 2002 | September 30, 2001 |

| | | |
|---|---|---|
| Net sales | $ 23,591 | $32,108 |
| Costs and expenses: | | |
| Cost of sales | 18,755 | 25,888 |
| Selling and administrative expense | 4,526 | 4,355 |
| Interest expense | 223 | 316 |
| Other income, net | (49) | (96) |
| Income before income taxes | 136 | 1,645 |
| Income tax expense | 53 | 609 |
| Net earnings | $ 83 | $ 1,036 |
| Basic net earnings per share | $ 0.01 | $ 0.07 |
| Average common shares outstanding | 15,015 | 14,981 |
| Diluted net earnings per share | $ 0.01 | $ 0.07 |
| Average diluted common shares outstanding | 15,272 | 15,147 |

See accompanying notes to consolidated financial statements.

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

| | September 29, 2002 | June 30, 2002 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,892 | $ 2,532 |
| Accounts and notes receivable, net | 13,546 | 17,024 |
| Inventories | 23,923 | 22,499 |
| Prepaid expenses | 923 | 566 |
| Deferred tax assets, net | 677 | 627 |
| Total current assets | $41,961 | $43,248 |
| Property, plant and equipment, net | 14,111 | 13,956 |
| Deferred tax assets, net | 700 | 937 |
| Intangible assets, net | 5,096 | 5,076 |
| Other assets, net | 4,888 | 4,989 |
| | $66,756 | $68,206 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term borrowings | $ - | $ 2,583 |
| Current maturities of subordinated debt | 5,621 | 5,621 |
| Current maturities of long-term debt | 343 | 278 |

| | | |
|---|---|---|
| Trade accounts payable | 6,846 | 6,521 |
| Accrued employee compensation | 4,936 | 5,488 |
| Other accrued liabilities | 4,672 | 3,520 |
| Total current liabilities | $22,418 | $24,011 |
| Other long-term liabilities | 3,511 | 3,464 |
| Long-term debt | 6,950 | 7,047 |
| Stockholders' equity: | | |
| Common stock, $.01 par value. Authorized 40,000,000 shares; issued 15,773,253 at September 29, 2002 and 15,773,253 shares at June 30, 2002 including shares in treasury | 158 | 158 |
| Additional paid-in capital | 13,518 | 13,515 |
| Retained earnings | 22,819 | 22,736 |
| Accumulated other comprehensive loss | (114) | (131) |
| Less cost of common stock in treasury, 752,137 shares at September 29, 2002 and 779,143 at June 30, 2002 | (2,504) | (2,594) |
| Total stockholders' equity | 33,877 | 33,684 |
| | $66,756 | $68,206 |

See accompanying notes to consolidated financial statements.

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

(dollars in thousands)

| | Three Months Ended | |
|---|---|---|
| | September 29, 2002 | September 30, 2001 |
| Cash flows from operating activities: | | |
| Net earnings | $ 83 | $ 1,036 |
| Adjustments to reconcile net cash provided by operating activities: | | |
| Depreciation and amortization | 612 | 543 |
| Gain on disposal of property, plant and equipment | 16 | - |
| Deferred taxes | 187 | 266 |
| Changes in assets and liabilities: | | |
| Accounts and notes receivable, net | 3,478 | 2,186 |
| Inventories | (1,424) | 484 |
| Prepaid expenses | (357) | (7) |
| Trade accounts payable | 325 | (729) |
| Accrued liabilities and other | 666 | (1,612) |
| Net cash provided by operating | 3,586 | 2,167 |

| | | |
|---|---|---|
| activities | | |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (711) | (612) |
| Other | 10 | (54) |
| Net cash used (provided) by investing activities | (701) | (666) |
| Cash flows from financing activities: | | |
| Repayments of long-term senior debt | (32) | (450) |
| Issuance of stock to employee benefit plan | 90 | - |
| Purchase of treasury stock | - | (64) |
| Net change in short-term borrowings | (2,583) | (250) |
| Net cash used by financing activities | (2,525) | (764) |
| Net increase in cash and cash equivalents | 360 | 737 |
| Cash and cash equivalents at beginning of period | 2,532 | 666 |
| Cash and cash equivalents at end of period | $ 2,892 | $ 1,403 |

See accompanying notes to consolidated financial statements.

LaBARGE, INC.
FORM 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS - BASIS OF PRESENTATION

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

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

2. GROSS AND NET SALES

Gross and net sales consist of the following:

(dollars in thousands)

| | Three Months Ended September 29, 2002 | Three Months Ended September 30, 2001 |
|---|---|---|
| Gross sales | $23,821 | $33,118 |
| Less sales discounts | 230 | 1,010 |
| Net sales | $23,591 | $32,108 |

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

3. ACCOUNTS AND OTHER RECEIVABLES

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

| | September 29, 2002 | June 30, 2002 |
|---|---|---|
| Billed shipments, net of progress payments | $12,901 | $15,719 |
| Less allowance for doubtful accounts | 150 | 145 |
| Trade receivables, net | 12,751 | 15,574 |
| Other current receivables | 795 | 1,450 |
| | $13,546 | $17,024 |

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

At both September 29, 2002 and June 30, 2002, other current receivables include $318,000 of customer payments to be received as settlements under prior claims.

For the three months ended September 29, 2002 and September 30, 2001, expense for doubtful accounts charged to income before income taxes was $0. The increase in the allowance for doubtful accounts between September 29, 2002 and June 30, 2002 is related to recovery of previously written-off receivables.

4. INVENTORIES

Inventories consist of the following:
(dollars in thousands)

| | September 29, 2002 | June 30, 2002 |
|---|---|---|
| Raw materials | $14,175 | $13,992 |
| Work in progress | 11,127 | 9,936 |
| Less reserve for obsolescence | 483 | 318 |

| | | |
|---|---|---|
| | 24,819 | 23,610 |
| Less progress payments | 896 | 1,111 |
| | $23,923 | $22,499 |

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 three months ended September 29, 2002 and September 30, 2001, expense for inventory reserves charged to income before taxes was $165,000 and $226,000, respectively.

5. INTANGIBLE ASSETS, NET

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

| | September 29, 2002 | June 30, 2002 |
|---|---|---|
| Goodwill | $6,694 | $6,694 |
| Less amortization | 2,378 | 2,378 |
| Net Goodwill | 4,316 | 4,316 |
| Software | 2,224 | 2,136 |
| Less amortization | 1,563 | 1,494 |
| Net Software | 661 | 642 |
| Other, net | 119 | 118 |
| Total intangible assets, net | $5,096 | $5,076 |

The Company adopted the provisions of Statement No. 142, "Goodwill and Other Intangible Assets" in the first quarter ended September 30, 2001. Accordingly, goodwill is not amortized by the Company but rather tested for impairment at least annually in accordance with this Standard.

6. OTHER ASSETS

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

| | September 29, 2002 | June 30, 2002 |
|---|---|---|
| Cash value of life insurance | $3,887 | $4,039 |
| Deposits, licenses and other, net | 865 | 814 |
| Investments in businesses | 136 | 136 |
| | $4,888 | $4,989 |

Investments in businesses primarily refers to the Company's securities in Norwood Abbey, Ltd.

7. SHORT- AND LONG-TERM OBLIGATIONS

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

| | September 29, 2002 | June 30, 2002 |
|---|---|---|
| Short-term borrowings: | | |
| Revolving credit agreement: | | |
| Balance at period end | $ - | $ 2,583 |
| Interest rate at period-end | -% | 2.90% |
| Average amount of short-term borrowings outstanding during period | $ 1,024 | $ 2,548 |
| Average interest rate for period | 3.38% | 3.96% |
| Maximum short-term borrowings at any month-end | $ 2,389 | $ 6,320 |
| Subordinated debt | $5,621 | $5,621 |
| Senior long-term debt: | | |
| Senior lender: | | |
| Term loan | $ 6,400 | $ 6,400 |
| Other | 893 | 925 |
| Total senior long-term debt | 7,293 | 7,325 |
| Less current maturities | 343 | 278 |
| Long-term debt, less current maturities | $ 6,950 | $ 7,047 |

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

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

The following is a summary of the agreement:

* A revolving credit facility up to $15.0 million, secured by substantially all the assets of the Company other than real estate, based on a borrowing base formula equal to the sum of 80% of eligible receivables, and 40% of eligible inventories, less outstanding letters of credit. As of September 29, 2002, the maximum allowable was $12.1 million net of letters of credit outstanding of $2.9 million. The revolver borrowing at September 29, 2002 was $0. Unused revolving credit available at September 29, 2002 was $12.1 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 September 29, 2002 was $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 3.38%.

* Covenants and performance criteria consist of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in relation to debt, EBITDA in relation to interest, minimum levels of EBITDA and tangible net worth. The Company violated its minimum EBITDA requirement for the twelve-month trailing average ended September 29, 2002. Subsequent to period end, the Company and its financial institution executed an amendment which (i) waived the first quarter covenant violation, and (ii) revised the required trailing twelve-month EBITDA amounts for the remainder of the fiscal year. Management expects to achieve the revised covenants throughout fiscal 2003 and beyond.

Subordinated Convertible Notes:

In March 1999, the Company, through its subsidiary LaBarge-OCS, Inc., issued its Subordinated Convertible Notes ("Notes") due June 2003 in the aggregate principal amount of $5.6 million for the acquisition of OCS. The Notes bear interest at 7.5% per annum payable quarterly, and noteholders are entitled to participation payments if LaBarge-OCS, Inc., operating as the Network Technologies Group, achieves certain levels of net earnings. No participation payments were earned in the fiscal 2003 first quarter. 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 September 29, 2002 was $893,000.

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 $17,000, was recorded to other comprehensive loss.

Other Long-Term Liabilities:

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

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

| Fiscal Year | |
|---|---|
| 2003 | $5,804 |
| 2004 | 295 |
| 2005 | 309 |
| 2006 | 280 |

| 2007 | 272 |
|---|---|

8. CASH FLOWS

Total cash payments for interest for the three months ended September 29, 2002 were $129,000, compared with $332,000 for the three months ended September 30, 2001. Cash payments for federal and state income taxes were $118,500 for the three months ended September 29, 2002, compared with $345,000 for the three months ended September 30, 2001.

9. EARNINGS PER COMMON SHARE

Basic and diluted earnings per share are computed as follows:

| | Three Months Ended September 29, 2002 | Three Months Ended September 30, 2001 |
|---|---|---|
| Numerator: | | |
| Net earnings | $ 83 | $ 1,036 |
| Denominator: | | |
| Denominator for basic net earnings per share | 15,015 | 14,981 |
| Potential common shares: | | |
| Denominator for diluted net earnings per share - adjusted weighted-average shares and assumed conversions | 15,272 | 15,147 |
| Basic net earnings per share | $ 0.01 | $ 0.07 |
| Diluted net earnings per share | $ 0.01 | $ 0.07 |

10. 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 military aircraft wire harnesses, under a contract for which MDC is a prime contractor with the U.S. Government. The Company has alleged that MDC supplied a defective bid package in its request for proposal. Attempts to negotiate a settlement of the claim for additional contract revenue 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 September 30, 2002, the Company has delivered 103 sets of the wire harnesses with a sales value of $2.4 million. Included in the Accounts Receivable balance at September 30, 2002 is $207,280 representing a portion of the Company's claim against MDC on these shipments. Included in the Company's work-in-process balance at September 30, 2002 is $355,000, 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 78 sets of wire harnesses with a sales value of $1.7 million. Based on current cost estimates, the Company would have an additional claim of $433,000, 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 $1.7 million, which would be added to the claim, plus lost profits.

Accounting for the recognition of claim revenues is appropriate provided it is probable that the claim will result in additional contract revenue and the amount can be reliably estimated. The Company, based upon analysis performed and consultation with legal counsel, believes that it will recover these contract costs.

11. BUSINESS SEGMENT INFORMATION

Business Segments:
(dollars in thousands)

Net Sales to Customers:

| | Three Months Ended | |
|---|---|---|
| | September 29, 2002 | September 30, 2001 |
| Manufacturing Services Group | $23,070 | $31,030 |
| Network Technologies Group | 521 | 1,078 |
| | $23,591 | $32,108 |

Earnings:

| | Three Months Ended | |
|---|---|---|
| | September 29, 2002 | September 30, 2001 |
| Pretax earnings: | | |

| | | |
|---|---|---|
| Manufacturing Services Group | $ 641 | $ 1,926 |
| Network Technologies Group | (392) | $ (77) |
| Corporate and other items | 110 | 112 |
| Interest expense | (223) | (316) |
| Net earnings before income taxes | $ 136 | $ 1,645 |
| Income tax expense | 53 | 609 |
| Net earnings | $ 83 | $ 1,036 |

| | Depreciation & Amortization Expense Three Months Ended | | Investments & Capital Expenditures Three Months Ended | |
|---|---|---|---|---|
| | September 29, 2002 | September 30, 2001 | September 29, 2002 | September 30, 2001 |
| Manufacturing Services Group | $449 | $405 | $495 | $731 |
| Network Technologies Group | 39 | 21 | 56 | 79 |
| Corporate and other items | 124 | 117 | 150 | (144) |
| | $612 | $543 | $701 | $666 |

| | Total Assets | |
|---|---|---|
| | September 29, 2002 | June 30, 2002 |
| Manufacturing Services Group | $44,832 | $45,860 |
| Network Technologies Group | 5,097 | 5,332 |
| Corporate and other items | 16,827 | 17,014 |
| | $66,756 | $68,206 |

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

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

comprised approximately 21%, 14% and 13% of first quarter sales, respectively.

12. SUBSEQUENT EVENT

On November 1, 2002, the Company sold the railroad business of its Network Technologies Group to GE Transportation Systems Global Signaling, LLC, a unit of General Electric Company for $5.3 million in cash and assumption of approximately $1.5 million of liabilities. The transaction resulted in a pretax gain of approximately $2.3 million. However, as the Company had minimal tax basis in the assets sold to GE, the sale will result in a loss, net of taxes, of approximately $160,000. This sale will be accounted for as discontinued operations under SFAS No. 144.

LaBARGE, INC.
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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND
FINANCIAL CONDITION

FORWARD-LOOKING STATEMENTS

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

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

* The Manufacturing Services Group is the Company's core electronics manufacturing services business, which has been its principal business since 1985. This group designs, engineers and produces sophisticated electronic systems and devices and complex interconnect systems on a contract basis for its customers. In the fiscal 2003 first quarter, 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 government systems, defense, aerospace, oil and gas, and other commercial markets. The group's engineering and manufacturing facilities are located in Arkansas, Missouri, Oklahoma and Texas.

The sales backlog in the Manufacturing Services Group increased to $94.9 million at September 29, 2002, compared with $94.1 million at September 30, 2001. The diversification of the Company's customer base helps to protect it from volatility in any one market segment, and has proved valuable in maintaining backlog in the current soft economic environment.

* The Network Technologies Group was started in fiscal 1999 through the acquisition of privately held Open Cellular Systems, Inc. ("OCS"). The group designs and markets proprietary cellular and network communication system products and Internet services that provide monitoring and control of remote industrial equipment. Results of the group are included in the consolidated results of the Company since the date of the OCS acquisition, March 2, 1999. This group is initially focusing its marketing efforts
on the railroad industry
to monitor railroad crossing equipment, and on the
oil and gas pipeline industry
to monitor cathodic protection devices. The Company derived 2% and 3%, respectively, of its total revenues from this group for the three months ended September 29, 2002 and September 30, 2001.

On November 1, 2002, the Company sold the railroad business of its Network Technologies Group to GE Transportation Systems Global Signaling, a unit of General Electric Company for $5.3 million in cash and assumption of approximately $1.5 million of liabilities. In connection with the sale, the Company and GE Transportation Systems Global Signaling have entered into a Manufacturing Agreement under which the Company will continue to produce the hardware used in the railroad business. The sale will be reflected in the Company's fiscal 2003 second quarter and the Company will realize $3.2 million in cash after taxes on the transaction. On a book basis, the Company will record a pretax gain of $2.3 million. Because the transaction reflects the sale of assets with a low tax basis, it will result in an after-tax book loss of approximately $.01 per share, and will be treated as discontinued operations

The sales backlog in the Network Technologies Group was $2.6 million at September 29, 2002, compared with $1.7 million at September 30, 2001.

RESULTS OF OPERATIONS -Three Months Ended September 29, 2002
Net Sales
(dollars in thousands)

| | | Three Months Ended | |
|---|---|---|---|
| | Change | September 29, 2002 | September 30, 2001 |
| Net Sales | -26.5% | $23,591 | $32,108 |

For the fiscal 2003 first quarter ended September 29, 2002, net sales were $23.6 million compared with $32.1 million for the same period of fiscal 2002. Sales to top 10 customers represented 81.5% of total revenue in the first quarter of fiscal 2003 versus 77.3% for the same period of fiscal 2002. The Company's top three customers and the portion of total first-quarter sales they represented were as follows: L-3 Communications, 21%; Schlumberger, 14%; and Lockheed Martin, 13%.

The Manufacturing Services Group. Sales in the manufacturing services segment of the business were
$23.1 million, accounting for 98% of total sales for the quarter ended September 29, 2002, down 25.8% or $7.9 million over the same period of fiscal 2002. Prior year sales included $9.3 million of postal sorting equipment. This contract has been completed. Offsetting this was this was a $4.7 million increase in sales of airport security equipment. In addition, revenues from the oil and gas sector were down $1.1 million in the quarter, compared to the same period one year ago.

Network Technologies Group. Sales of the Network Technologies Group were 2% of total sales for the quarter ended September 29, 2002.
The Group generated first-
quarter sales of $521,000 versus $1.1 million for the first quarter of fiscal 2002. Sales were primarily to the railroad industry where the Company's ScadaNET NetworkT product is used primarily to monitor railroad crossing equipment. The Company also shipped a small number of units to targeted customers in the pipeline market where the ScadaNET NetworkT is used to monitor the performance of cathodic protection devices on petroleum and natural gas pipelines.

Gross Profit
(dollars in thousands)

| | | Three Months Ended | |
|---|---|---|---|
| | Change | September 29, 2002 | September 30, 2001 |
| Gross profit | $(1,384) | $4,836 | $6,220 |
| Gross margin | + 1.1 pts. | 20.5% | 19.4% |

A breakdown of margins by group shows the following:

Manufacturing Services Group. This group's gross profit margin was 19.8% for the quarter ended September 29, 2002, compared with 18.2% for the quarter ended September 30, 2001. The improvement in margins is due primarily to changes in sales mix and, in the prior year first quarter, margins were adversely impacted by certain disruptions related to September 11.

Network Technologies Group. This group's gross profit margin was 53.2% for the quarter ended September 29, 2002, compared with 52.8% for the quarter ended September 30, 2001.

Selling and Administrative Expenses
(dollars in thousands)

| | | Three Months Ended | |
|---|---|---|---|
| | Change | September 29, 2002 | September 30, 2001 |
| Selling and administrative expenses | $171 | $4,526 | $4,355 |
| Percent of sales | + 5.6 pts. | 19.2% | 13.6% |

Selling and administrative expenses as a percent of sales increased due to the relatively fixed component of these costs as a percentage of reduced sales volume.

Manufacturing Services Group. Selling and administrative expenses for this group were $3.9 million (16.9% of sales) for the quarter ended September 29, 2002 and $3.7 million (12.0% of sales) for the same period of fiscal 2002.

Higher medical costs contributed $170,000 to the fiscal 2003 first-quarter selling and administrative expenses.

Network Technologies Group. Selling and administrative expenses for the quarter ended September 29, 2002 and September 30, 2001 for this group were $669,000 and $646,000, respectively. Selling and administrative expenses increased in the fiscal 2003 period due primarily to additional selling and development activity in the pipeline cathodic protection market.

Interest Expense
(dollars in thousands)

| | Change | Three Months Ended September 29, 2002 | September 30, 2001 |
|---|---|---|---|
| Interest expense | $(93) | $223 | $316 |

Interest expense decreased for the quarter ended September 29, 2002, primarily due to lower debt levels and lower interest rates on short-term borrowings. Average short-term borrowings for the three-month period ended September 29, 2002 were approximately $1.5 million lower than the same periods of fiscal 2002. Average interest rates declined 58 basis points for the three months ended September 29, 2002, compared with the previous year.

Pretax Earnings
(dollars in thousands)

| | Change | Three Months Ended September 29, 2002 | September 30, 2001 |
|---|---|---|---|
| Pretax earnings | $(1,509) | $136 | $1,645 |

The decrease in pretax earnings for the quarter ended September 29, 2002, compared with the same period of fiscal 2002, is primarily attributable to lower gross profit of $1.4 million on a sales decrease of $8.5 million and an increase in selling and administrative expense of $171,000, offset by a $93,000 reduction in interest expense.

Tax Expense
(dollars in thousands)

| | Change | Three Months Ended September 29, 2002 | September 30, 2001 |
|---|---|---|---|
| Tax Expense | $(556) | $53 | $609 |

The reduction in tax expense is the result of lower pretax earnings.

FINANCIAL CONDITION AND LIQUIDITY

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

Stockholders' Equity and Debt
(dollars in thousands)

| | September 29, 2002 | June 30, 2002 |
|---|---|---|
| Stockholders' | $33,877 | $33,684 |

| | | |
|---|---|---|
| equity | | |
| Debt | 12,914 | $15,529 |
| ============== | ======== | ========== |

The Company's operations provided $3.6 million of net cash for the three months ended September 29, 2002.

At September 30, 2002, the total debt-to-equity ratio for the Company is .38 to 1, versus .46 to 1 at the end of fiscal 2002.

Critical Accounting Policies
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made 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.

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 of products (the delivery method). Under long-term contracts for which the delivery method is an inappropriate measure of performance, revenue is recognized on the percentage-of-completion method based upon incurred costs compared to total estimated costs under the contract. The percentage-of-completion method gives effect to the most recent contract value and estimates of cost at completion. When appropriate, contract prices are adjusted for changes in 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 accounting principles generally accepted in the United States of America ("GAAP") to selected revenue recognition issues. The Company's revenue recognition policy is in accordance with GAAP 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. 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 discounted future operating cash flows to be generated from these assets throughout their estimated useful lives.

New Accounting Standards
IN JUNE 2002, THE FINANCIAL ACCOUNTING STANDARDS BOARD ISSUED SFAS NO. 146, "ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES." THIS STATEMENT REQUIRES THAT A LIABILITY FOR A COST ASSOCIATED WITH AN EXIT OR DISPOSAL ACTIVITY BE RECOGNIZED AND MEASURED INITIALLY AT FAIR VALUE ONLY WHEN THE LIABILITY IS INCURRED. THE PROVISIONS OF THIS STATEMENT ARE EFFECTIVE FOR EXIT OR DISPOSAL ACTIVITIES THAT ARE INITIATED AFTER DECEMBER 31, 2002.

## PART II

### ITEM 4. Controls and Procedures

The Company's President and Chief Executive Officer, Craig E. LaBarge, and the Company's Vice President, Chief Financial Officer and Secretary, Donald H. Nonnenkamp, have evaluated the Company's internal controls and disclosure controls systems within 90 days of the filing of this report.

Messrs. LaBarge and Nonnenkamp have concluded that the Company's disclosure controls systems are functioning effectively to provide reasonable assurance that the Company can meet its disclosure

obligations. The Company's disclosure controls system is based upon a chain of financial and general business reporting lines that converge in the headquarters of the Company in St. Louis, Missouri. The reporting process is designed to ensure that information required to be disclosed by the Company in the reports that it files or submits with the Commission is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

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

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

(a) Reports on Form 8-K: Current reports on From 8-K were filed on September 13, 2002 and September 26, 2002, in accordance with Regulation FD to report certain information the Registrant intended to present to certain institutional investors.

SIGNATURE

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

LaBARGE, INC.

Date: November 13, 2002

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

I, Craig E. LaBarge, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LaBarge, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a
material fact necessary to make

the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

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

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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

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

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

Date: November 13, 2002

I, Donald H. Nonnenkamp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LaBarge, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

4. The registrant's other certifying officer and I are responsible for

establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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

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

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

Date: November 13, 2002