LABARGE INC
Form 10-Q
November 07, 2007

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

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2007

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _________ to _________

Commission File Number: 1-5761

LaBarge, Inc.

(Exact name of registrant as specified in its charter)

Delaware	73-0574586
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
9900 Clayton Road, St. Louis, Missouri	63124
(Address of Principal Executive Offices)	(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 by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated Filer [ ] Accelerated filer [X] Non-Accelerated Filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of November 5, 2007: 15,391,348 shares of common stock.

LaBarge, Inc.

FORM 10-Q

For the Quarterly Period Ended September 30, 2007

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PART I

LaBARGE, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(amounts in thousands, except per-share amounts)

	Three Months Ended

	September 30, 2007	October 1, 2006
Net sales	**$ 59,190**	$ 49,900
Cost and expenses:		
Cost of sales	**47,818**	39,243
Selling and administrative expense	**6,947**	5,991
Interest expense	**427**	651
Other expense, net	**10**	44
Earnings before income taxes	**3,988**	3,971
Income tax expense	**1,468**	1,560
Net earnings	**$ 2,520**	$ 2,411
Basic net earnings per share:		
Basic net earnings	**$ 0.17**	$ 0.16
Average common shares outstanding	**15,200**	15,121
Diluted net earnings per share:		
Diluted net earnings	**$ 0.16**	$ 0.15
Average diluted common shares outstanding	**16,018**	15,984

See accompanying notes to consolidated financial statements.

LaBARGE, INC.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share amounts)

	September 30, 2007	July 1, 2007
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,896**	$ 392
Accounts and other receivables, net	**29,480**	30,204
Inventories	**61,314**	59,717
Prepaid expenses	**1,472**	2,333
Deferred tax assets, net	**1,628**	1,822
Total current assets	**95,790**	94,468
Property, plant and equipment, net	**16,881**	16,269
Intangible assets, net	**2,002**	2,282
Goodwill, net	**24,292**	24,292
Deferred tax asset, net	**622**	499
Other assets, net	**4,933**	4,772
Total assets	**$ 144,520**	$ 142,582
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	**$ 13,600**	$ 14,825

Current maturities of long-term debt	**6,305**	6,300
Trade accounts payable	**20,755**	18,643
Accrued employee compensation	**9,686**	10,837
Other accrued liabilities	**2,732**	2,321
Cash advances	**4,173**	3,613
Total current liabilities	**57,251**	56,539
Long-term advances from customers for purchase of materials	**1,285**	1,590
Deferred gain on sale of real estate and other liabilities	**2,809**	2,912
Long-term debt	**3,552**	5,131
Stockholders' equity:		
Common stock, $.01 par value. Authorized 40,000,000 shares; 15,773,253 issued at September 30, 2007 and July 1, 2007, including shares in treasury	**158**	158
Additional paid-in capital	**16,095**	16,174
Retained earnings	**66,294**	63,774
Less cost of common stock in treasury, shares of 389,298 at September 30, 2007 and 506,704 at July 1, 2007	**(2,924)**	(3,696)
Total stockholders' equity	**79,623**	76,410
Total liabilities and stockholders' equity	**$ 144,520**	$ 142,582

See accompanying notes to consolidated financial statements.

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

(amounts in thousands)

	Three Months Ended	
	September 30, 2007	October 1, 2006
Cash flows from operating activities:		
Net earnings	**$ 2,520**	$ 2,411
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	**1,260**	1,240
Amortization of deferred gain on sale of real estate	**(120)**	---
Stock-based compensation	**283**	332
Other than temporary impairment of investment	**13**	105
Deferred taxes	**71**	(164)
Other	**2**	(3)
Changes in assets and liabilities, net of acquisitions:		
Accounts and notes receivable, net	**724**	2,681
Inventories	**(1,597)**	(2,909)
Prepaid expenses	**861**	146

Trade accounts payable	**1,149**	936
Accrued liabilities	**(335)**	2,124
Advance payments	**255**	3,461
Net cash provided by operating activities	**5,086**	10,360
Cash flows from investing activities:		
Additions to property, plant and equipment	**(648)**	(1,229)
Proceeds from disposal of property and equipment	**18**	5
Additions to other assets and intangibles	**(175)**	(428)
Proceeds from sale of other assets and intangibles	**---**	20
Net cash (used) by investing activities	**(805)**	(1,632)
Cash flows from financing activities:		
Borrowings on revolving credit facility	**19,000**	13,450
Payments of revolving credit facility	**(20,225)**	(20,175)
Borrowings of long-term debt	**---**	250
Repayments of long-term senior debt	**(1,574)**	(1,384)
Issuance of treasury stock	**287**	381
Purchase of treasury stock	**(265)**	(597)
Net cash (used) by financing activities	**(2,777)**	(8,075)
Net increase in cash and cash equivalents	**1,504**	653
Cash and cash equivalents at beginning of period	**392**	947
Cash and cash equivalents at end of period	**$ 1,896**	$ 1,600

See accompanying notes to consolidated financial statements.

LaBarge, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS -- BASIS OF PRESENTATION

The consolidated balance sheet at September 30, 2007, the related consolidated statements of income for the three months ended September 30, 2007 and October 1, 2006, and the consolidated statements of cash flows for the three months ended September 30, 2007 and October 1, 2006, 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 information and footnote disclosures normally included in consolidated financial statements prepared in conformity with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2007.

Stock-Based Compensation

For the three months ended September 30, 2007, total stock-based compensation was $0.3 million ($0.2 million after tax), equivalent to earnings per basic and diluted share of $.01. For the three months ended October 1, 2006, total stock-based compensation was $0.3 million ($0.2 million after tax), equivalent to earnings per basic and dilutive share of $.01.

As of September 30, 2007, the total unrecognized compensation expense related to nonvested awards was $1.0 million pretax, and the period over which it is expected to be recognized is approximately 1.5 years. At October 1, 2006, the total unrecognized compensation expense, including stock options and performance units, was $0.9 million pretax, and the period over which it was expected to be recognized was 1.4 years.

No stock options were issued in the fiscal quarters ended September 30, 2007 and October 1, 2006, respectively. On August 24, 2005 and January 11, 2005, the Company entered into long-term incentive plan agreements with certain key executives tied to fiscal years 2008 and 2007 financial performance. Compensation expense related to these awards was recognized in the 2008 and 2007 first fiscal quarters, but no shares are included in the dilutive shares, as the performance conditions had not been met at September 30, 2007 and October 1, 2006.

All stock options outstanding at September 30, 2007 and October 1, 2006 were dilutive and included in the computation of diluted earnings per share. These options expire in various periods through 2014.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS No. 157”), to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures on fair value measurements. SFAS No. 157 becomes effective for the Company in its fiscal year ending June 28, 2009. The Company believes that adopting the provisions of SFAS No. 157 will not have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities:” (“SFAS No. 159”), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The Company believes that the adoption of the provisions of SFAS No. 159 on its consolidated financial statements, if any, will not be material when it becomes effective for the fiscal year ending June 28, 2009.

In September 2006, the FASB’s Emerging Issues Task Force (“EITF”) reached a consensus on EITF Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefits Aspects of Endorsement Split-Dollar Life Insurance Arrangements” (“EITF 06-4”). This addresses only endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. EITF 06-04 becomes effective for the Company in its fiscal year ending June 28, 2009. The Company is believes that adopting the provisions of EITF 06-4 will not have a material impact on its consolidated financial statements.

Recently Adopted Accounting Standards

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes as Interpretation of FASB Statement No. 109” (“FIN 48”) on July 2, 2007. The implementation of FIN 48 did not result in an adjustment to the liability for unrecognized income tax benefits. At the adoption date of July 2, 2007, there was approximately $740,000 of unrecognized tax benefits, all of which would affect the Company’s effective tax rate if recognized. At September 30, 2007, there was approximately $756,000 of unrecognized tax benefits. In the short term, management of the Company does not reasonably expect any significant changes.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2007, there was approximately $101,000 of accrued interest related to uncertain tax positions, $19,000 of which was recognized in the three months ended September 30, 2007.

The Company’s federal income tax returns for fiscal years 2004 through 2006 are open tax years. We file in numerous state jurisdictions with varying statutes of limitation open from 2003 through 2006, depending on each jurisdiction’s unique tax laws. The Company’s federal returns for fiscal year 2005 and fiscal year 2006 are currently being examined by the Internal Revenue Service.

In September 2006, the FASB’s EITF reached a consensus on EITF Issue No. 06-5, “Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance”* (“EITF 06-5”). This consensus explains how to determine the amount that could be realized from a life insurance contract, which is the measurement amount for the asset in accordance with Technical Bulletin 85-4.

EITF 06-5 became effective for the Company in the current fiscal year. Adopting the provisions of EITF 06-5 did not have a material impact on its consolidated financial statements.

2. GROSS AND NET SALES

Gross and net sales consist of the following:

(in thousands)

	Three Months Ended	
	September 30, 2007	October 1, 2006
Gross sales	**$ 59,349**	$ 50,046
Less sales discounts	**159**	146
Net sales	**$ 59,190**	$ 49,900

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.

ACCOUNTS AND OTHER RECEIVABLES

3.

Accounts and other receivables consist of the following:

(in thousands)