

LABARGE INC
Form 10-Q
February 01, 2010

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

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended December 27, 2009

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

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Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of January 29, 2010: 15,889,054 shares of common stock.

LaBarge, Inc.

FORM 10-Q

For the Quarterly Period Ended December 27, 2009

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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LaBARGE, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(amounts in thousands, except per share amounts)

| | Three Months Ended | | Six Months Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 | December 27, 2009 | December 28, 2008 |
| Net sales | \$ 69,000 | \$ 68,207 | \$ 132,155 | \$ 136,399 |
| Costs and expenses: | | | | |
| Cost of sales | 55,300 | 57,955 | 106,225 | 111,884 |
| Selling and administrative expense | 8,858 | 9,642 | 16,948 | 17,912 |
| Interest expense | 421 | 145 | 929 | 303 |
| Other expense, net | 15 | 6 | 39 | 16 |
| Earnings before income taxes | 4,406 | 459 | 8,014 | 6,284 |
| Income tax expense | 1,569 | 210 | 2,074 | 2,366 |
| Net earnings | \$ 2,837 | \$ 249 | \$ 5,940 | \$ 3,918 |
| Basic net earnings per common share | \$ 0.18 | \$ 0.02 | \$ 0.38 | \$ 0.26 |
| Average common shares outstanding | 15,756 | 15,451 | 15,750 | 15,343 |
| Diluted net earnings per common share | \$ 0.18 | \$ 0.02 | \$ 0.37 | \$ 0.24 |
| Average diluted common shares outstanding | 16,041 | 16,059 | 16,047 | 16,070 |

See accompanying Notes to Consolidated Financial Statements.

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

| | December 27, 2009 | June 28, 2009 |
|-------------------------------------|----------------------|------------------|
| (Unaudited) | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,799 | \$ 4,297 |
| Accounts and other receivables, net | 34,841 | 37,573 |
| Inventories | 57,404 | 54,686 |
| Prepaid expenses | 1,169 | 1,090 |
| Deferred tax assets, net | 3,110 | 3,055 |
| Total current assets | 105,323 | 100,701 |

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Property, plant and equipment, net of accumulated depreciation
of \$33,350 at December 27, 2009 and \$30,823 at June 28,
2009

| | | | |
|------------------------|-------------------|-----------|----------------|
| | 30,348 | | 30,624 |
| Intangible assets, net | 10,187 | | 11,255 |
| Goodwill, net | 43,424 | | 43,457 |
| Other assets, net | 4,872 | | 4,798 |
| Total assets | \$ 194,154 | \$ | 190,835 |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | | |
|---|---------------|----|---------------|
| Current maturities of long-term debt | \$ 11,140 | \$ | 6,162 |
| Trade accounts payable | 22,021 | | 18,354 |
| Accrued employee compensation | 12,035 | | 10,957 |
| Other accrued liabilities | 3,344 | | 2,483 |
| Cash advances from customers | 2,802 | | 6,738 |
| Total current liabilities | 51,342 | | 44,694 |
| Long-term advances from customers for purchase of materials | 110 | | 47 |
| Deferred tax liabilities, net | 2,516 | | 1,885 |
| Deferred gain on sale of real estate and other liabilities | 1,614 | | 1,732 |
| Long-term debt | 30,269 | | 39,326 |

Stockholders' equity:

| | | | |
|---|-------------------|-----------|----------------|
| Common stock, \$0.01 par value. Authorized 40,000,000 shares; 15,958,839 issued at December 27, 2009 and June 28, 2009, including shares in treasury | 160 | | 160 |
| Additional paid-in capital | 14,432 | | 14,700 |
| Retained earnings | 94,879 | | 88,939 |
| Accumulated other comprehensive loss | (237) | | (141) |
| Less cost of common stock in treasury; 84,322 at December 27, 2009 and 56,765 at June 28, 2009 | (931) | | (507) |
| Total stockholders' equity | 108,303 | | 103,151 |
| Total liabilities and stockholders' equity | \$ 194,154 | \$ | 190,835 |

See accompanying Notes to Consolidated Financial Statements.

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

(amounts in thousands)

| | Six Months Ended | |
|--|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 5,940 | \$ 3,918 |
| Adjustments to reconcile net cash provided by operating activities: | | |
| Depreciation and amortization | 4,516 | 2,765 |
| Loss on disposal of property, plant and equipment | 44 | --- |
| Amortization of deferred gain on sale of real estate | (240) | (241) |
| Stock-based compensation | 703 | 575 |
| Other than temporary impairment of investment | --- | 19 |
| Deferred taxes | 576 | (3,120) |

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| | | |
|---|-----------------|-----------------|
| Changes in assets and liabilities: | | |
| Accounts and other receivables, net | 2,735 | 11,218 |
| Inventories | (2,698) | 11,200 |
| Prepaid expenses | (79) | 97 |
| Trade accounts payable | 3,472 | (7,477) |
| Accrued liabilities | 1,570 | (3,276) |
| Cash advances from customers | (3,872) | (2,391) |
| Net cash provided by operating activities | 12,667 | 13,287 |
| Cash flows from investing activities: | | |
| Acquisition of Pensar, net of cash acquired | --- | (44,802) |
| Additions to property, plant and equipment | (2,612) | (3,280) |
| Proceeds from disposal of property, equipment and other assets | 14 | 10 |
| Additions to other assets and intangibles | (487) | (592) |
| Net cash used by investing activities | (3,085) | (48,664) |
| Cash flows from financing activities: | | |
| Borrowings on revolving credit facility | 850 | 35,375 |
| Payments of revolving credit facility | (850) | (40,025) |
| Borrowings of long-term debt | --- | 42,014 |
| Repayments of long-term debt | (4,080) | (1,577) |
| Payment of debt issuance costs | --- | (274) |
| Excess tax benefits from stock option exercises | 387 | 3,029 |
| Remittance of minimum taxes withheld as part of net settlements of share-based payments | (841) | (3,566) |
| Issuance of treasury stock | 140 | 453 |
| Purchase of treasury stock | (686) | (3) |
| Net cash (used) provided by financing activities | (5,080) | 35,426 |
| Net increase in cash and cash equivalents | 4,502 | 49 |
| Cash and cash equivalents at beginning of period | 4,297 | 1,646 |
| Cash and cash equivalents at end of period | \$ 8,799 | \$ 1,695 |

See accompanying Notes to Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated balance sheet as of December 27, 2009, the related consolidated statements of income for the three and six months ended December 27, 2009 and December 28, 2008, and the related consolidated statements of cash flows for the six months ended December 27, 2009 and December 28, 2008, 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. The Company performed an evaluation of subsequent events through January 29, 2010, the date on which the financial statements were issued, and determined no subsequent events had occurred which would require changes to its accounting or disclosures. The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America ("GAAP") 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 its best estimates and judgment of certain amounts included in the financial statements. Areas involving significant judgments and estimates include revenue recognition and cost of sales, inventories, and goodwill and intangible assets. Actual results could differ from those estimates.

Certain items in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation. For the six months ended December 28, 2008, the Company revised its presentation of cash flows from the purchase of treasury stock, the issuance of treasury stock and the remittance of minimum taxes withheld as a part of net settlements of share-based payments. The total net cash flow provided by financing activities did not change nor did

this impact any other presented financial information. The impact of the revision was not considered material to the previously issued financial statements.

During the first quarter of fiscal year 2010, the Company recorded a \$795,000 reduction to income tax expense from a correction in the apportionment factor for state income tax returns for fiscal years 2006 through 2009 and an increase in other tax expense, included in selling and administrative expense, of \$193,000 (\$125,000 after-tax) for a gross receipts tax that relates to fiscal years 2005 through 2009. The Company determined that the amounts that related to prior fiscal years were immaterial to all prior fiscal years and, therefore, recognized the adjustments during the first quarter of fiscal year 2010. The net impact of both adjustments to net earnings was an increase of \$670,000 for the six-months ended December 27, 2009, which had a \$0.04 impact on basic and diluted earnings per share. The Company anticipates that the impact on full-year net earnings for fiscal year 2010 will be immaterial.

Recently Adopted Accounting Standards

In August 2009, the Financial Accounting Standards Board (“FASB”) issued guidance which states companies determining the fair value of a liability may use the perspective of an investor that holds the related obligation as an asset. This guidance addresses practice difficulties caused by the tension between fair-value measurements based on the price that would be paid to transfer a liability to a new obligor and contractual or legal requirements that prevent such transfers from taking place. This guidance is effective for interim and annual periods beginning after August 27, 2009, and applies to all fair-value measurements of liabilities required by GAAP. No new fair-value measurements are required by this guidance. The Company adopted this guidance effective September 28, 2009. The adoption of this guidance did not have a material impact on its consolidated financial statements.

In December 2007, the FASB issued authoritative guidance regarding business combinations, which provides guidance on the accounting and reporting for business combinations. The guidance is effective for fiscal years beginning after December 15, 2008 and was adopted by the Company on June 29, 2009. Adoption did not have a material impact on the Company’s consolidated financial statements.

In June 2009, the FASB issued authoritative guidance titled, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162.” The guidance provides for the FASB Accounting Standards Codification (the “Codification”) to become the single official source of authoritative, nongovernmental GAAP. The Codification did not change U.S. GAAP but reorganizes the accounting literature and was effective for the Company’s interim and annual periods ending after September 15, 2009. Adoption did not have a material impact on the Company’s consolidated financial statements.

In April 2009, the FASB issued guidance, which requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies, as well as in annual financial statements. This guidance also requires those disclosures in summarized financial information at interim reporting periods. This guidance is effective for reporting periods ending after June 15, 2009. The Company adopted this guidance effective June 29, 2009. The adoption of this guidance did not have a material impact on its consolidated financial statements.

In June 2008, the FASB issued guidance that addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. The adoption of this guidance in the first quarter of fiscal year 2010 did not have a material impact on the Company’s consolidated financial statements.

Recently Issued Accounting Standards

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In October 2009, the FASB issued guidance, which requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. This guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company will adopt this guidance effective June 28, 2010. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

2. ACQUISITION

On December 22, 2008, the Company acquired substantially all of the assets of Pensar Electronic Solutions, LLC ("Pensar"). The acquisition of Pensar, located in Appleton, Wisconsin, provided the Company with a presence in the Upper Midwest, and added significant new medical, natural resources and industrial accounts to the Company's customer mix. Pensar is a contract electronics manufacturer that designs, engineers and manufactures low-to-medium volume, high-mix, complex printed circuit board assemblies and higher-level electronic assemblies for customers in a variety of end markets.

The purchase price for the net assets acquired was \$45.4 million. The purchase agreement includes an earn-out provision based on Pensar attaining certain financial targets for the periods ending June 28, 2009, and June 27, 2010. The financial targets for the period ended June 28, 2009, were not met and no additional consideration has been paid. If the financial targets are met for the 18 months ending June 27, 2010, the sellers would receive additional consideration of \$2.2 million.

For the three and six months ended December 27, 2009, Pensar's sales were \$15.7 million and \$25.9 million, respectively. Net earnings attributable to Pensar for the three and six months ended December 27, 2009 were \$372,000 (\$0.02 per share) and \$289,000 (\$0.02 per share), respectively.

3. SALES AND NET SALES

Sales and net sales consist of the following:

(in thousands)

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|----------------------|---------------------------|------------------|-------------------------|-------------------|
| | <u>December</u> | <u>December</u> | <u>December</u> | <u>December</u> |
| | <u>27,</u> | <u>28,</u> | <u>27,</u> | <u>28,</u> |
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Sales | \$69,103 | \$ 68,361 | \$132,397 | \$ 136,831 |
| Less sales discounts | 103 | 154 | 242 | 432 |
| Net sales | <u>\$69,000</u> | <u>\$ 68,207</u> | <u>\$132,155</u> | <u>\$ 136,399</u> |

Geographic Information

The Company has no sales offices or facilities outside of the United States. Sales for exports exceeded 10% of total sales in the quarter ended December 27, 2009, for the first time. This was due to a large contract related to wind power generation equipment. This contract is denominated in U.S. dollars; and therefore, the Company does not have foreign currency risk associated with the related accounts receivable.

Customer Information

The Company's top three customers and their relative contributions to net sales for the fiscal quarter ended December 27, 2009, were as follows: Owens-Illinois, Inc., \$10.0 million (14.5%); American Superconductor Corporation, \$7.1 million (10.3%); and Raytheon Company, \$6.4 million (9.2%). This compares with Owens-Illinois, Inc., \$10.1 million (14.8%); Schlumberger Ltd., \$8.0 million (11.7%); and Northrop Grumman, \$6.8 million (9.9%); for the fiscal quarter ended December 28, 2008.

4. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consist of the following:

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(in thousands)

| | December 27, 2009 | June 28, 2009 |
|--------------------------------------|----------------------|------------------|
| Billed shipments | \$ 32,462 | \$ 35,269 |
| Less allowance for doubtful accounts | 360 | 350 |
| Trade receivables, net | 32,102 | 34,919 |
| Other current receivables | 2,739 | 2,654 |
| Total | \$ 34,841 | \$ 37,573 |

Included in accounts receivable at December 27, 2009, and June 28, 2009, was \$386,000 and \$791,000, respectively, of receivables due directly from the U.S. Government and \$15.8 million and \$13.8 million, respectively, due from customers related to contracts with the U.S. Government.

At December 27, 2009, the amounts due from the three largest accounts receivable debtors and the percentage of total accounts receivable represented by those amounts were \$4.7 million (14.4%), \$4.4 million (13.6%), and \$2.9 million (8.9%). This compares with \$6.2 million (17.5%), \$3.4 million (9.7%), and \$2.6 million (7.3%) at June 28, 2009.

Other current receivables for the fiscal quarters ended December 27, 2009, and June 28, 2009, included an income tax receivable of \$2.7 million and \$2.2 million, respectively. Included in the income tax receivable at December 27, 2009, was \$1.2 million due from state income tax refunds for fiscal year 2006 through fiscal year 2009. Please refer to Note 1 to the Consolidated Financial Statements.

5. INVENTORIES

Inventories consist of the following:

(in thousands)

| | December 27, 2009 | June 28, 2009 |
|---|-------------------------|---------------------|
| Raw materials | \$ 37,143 | \$ 38,902 |
| Work in progress | 5,274 | 3,768 |
| Inventoried costs relating to long-term contracts, net of amounts attributable to revenues recognized to date | 11,896 | 9,296 |
| Finished goods | 3,091 | 2,720 |
| Total | \$ 57,404 | \$ 54,686 |

For the quarters ended December 27, 2009, and December 28, 2008, expense for obsolete or slow-moving inventory charged to income before income taxes was \$296,000 and \$260,000, respectively. For the six months ended December 27, 2009, and December 28, 2008, expense for obsolete or slow-moving inventory charged to income before income taxes was \$551,000 and \$857,000, respectively. This expense does not include the \$4.2 million charge related to the Eclipse bankruptcy recognized in the second quarter of fiscal 2009 as discussed in the Overview section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table shows the cost elements included in the inventoried costs related to long-term contracts:

(in thousands)

| | December 27, 2009 | June 28, 2009 |
|--|-------------------------|---------------------|
| | | |

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| | | |
|---|------------------|----------------|
| Production costs of goods currently in process ⁽¹⁾ | \$ 11,622 | \$9,115 |
| Excess of production costs of delivered units over the estimated average cost of all units expected to be produced, including tooling and non-recurring costs | 369 | 621 |
| Unrecovered costs subject to future negotiation | 199 | 69 |
| Reserve for contracts with estimated costs in excess of contract revenues | (294) | (509) |
| Total inventoried costs | \$ 11,896 | \$9,296 |

(1) Selling and administrative expenses are not included in inventory costs.

Deferred production costs generally tend to be significant on large multi-year contracts for which the Company has not previously produced the product.

The inventoried costs relating to long-term contracts includes unrecovered costs of \$199,000 and \$69,000 at December 27, 2009, and June 28, 2009, respectively, which are subject to future determination through negotiation or other procedures not complete at December 27, 2009. In the opinion of management, these costs will be recovered by contract modification.

The Company records a loss reserve when the estimated costs of a contract exceed the net realizable value of such contract. The Company currently has two contracts that generate the majority of the loss reserves. Both contracts are fixed-price contracts where the Company underestimated the materials cost and the inflation in commodity prices when the contracts were bid. The Company has recorded a reserve equal to the amount that estimated costs are expected to exceed the net realizable revenue over the term of the contract. The decrease in the reserves from June 28, 2009, to December 27, 2009, is a result of shipments on the two contracts described above.

6. INTANGIBLE ASSETS, NET

Intangible assets, net, consist of the following:

(in thousands)

| | December 27, 2009 | June 28, 2009 |
|-------------------------------------|-------------------------|---------------------|
| Software | \$ 5,502 | \$ 5,133 |
| Less accumulated amortization | 4,284 | 3,972 |
| Net software | 1,218 | 1,161 |
| Customer list | 13,070 | 13,070 |
| Less accumulated amortization | 4,567 | 3,679 |
| Net customer list | 8,503 | 9,391 |
| Employee agreements | 950 | 950 |
| Less accumulated amortization | 484 | 247 |
| Net employee agreements | 466 | 703 |
| Total intangible assets, net | \$ 10,187 | \$11,255 |

Intangible assets are amortized over a period ranging from two to eight years. Amortization expense for intangible assets was \$737,000 for the three months ended December 27, 2009, compared with \$292,000 for the three months ended December 28, 2008. The increase is attributable to the amortization of the customer list and employee agreements associated with the Pensar Acquisition. Amortization expense for the six months ended December 27, 2009, and December 28, 2008, were \$1.4 million and \$527,000, respectively.

The Company anticipates that amortization expense will approximate \$2.8 million for fiscal year 2010, \$2.2 million for fiscal year 2011, \$2.0 million for fiscal year 2012, \$1.7 million for fiscal year 2013 and \$1.7 million for fiscal year 2014.

7. GOODWILL

Goodwill is summarized as follows:

(in thousands)

Total inventoried costs

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| | December 27, 2009 | June 28, 2009 |
|-------------------------------------|-------------------------|---------------------|
| Goodwill | \$ 43,624 | \$43,657 |
| Less accumulated amortization | 200 | 200 |
| Net goodwill | <u>\$ 43,424</u> | <u>\$43,457</u> |

Impairment is tested annually in the fourth quarter of each fiscal year, or more frequently if events or circumstances change. The purchase price allocation related to the Pensar acquisition was revised during the six months ended December 27, 2009 by \$33,000, primarily for a change in estimated fair value of inventory acquired.

8. OTHER ASSETS

Other assets consist of the following:

(in thousands)

| | December 27, 2009 | June 28, 2009 |
|--------------------------------------|-------------------------|---------------------|
| Cash value of life insurance | \$ 4,642 | \$4,482 |
| Deposits, licenses and other, net | 6 | 47 |
| Deferred financing costs, net | 188 | 233 |
| Other | 36 | 36 |
| Total | <u>\$ 4,872</u> | <u>\$4,798</u> |

The cash value of life insurance relates to Company-owned life insurance policies on certain current and retired key employees.

9. SHORT- AND LONG-TERM OBLIGATIONS

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

(dollars in thousands)

| | December 27, 2009 | June 28, 2009 |
|--|-------------------------|------------------|
| Short-term borrowings: | | |
| Revolving credit agreement: | | |
| Balance at period-end | \$ --- | \$ --- |
| Interest rate at period-end | 3.75% | 4.0% |
| Average amount of short-term borrowings outstanding during period | \$ 5 | \$ 2,206 |
| Average interest rate for period | 3.79% | 4.10% |
| Maximum short-term borrowings at any month-end | <u>\$ ---</u> | <u>\$ 5,875</u> |
| Senior long-term debt: | | |
| Term loan | \$ 41,000 | \$ 45,000 |

Total inventoried costs

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| | | |
|---|-----------|-----------|
| Other | 409 | 488 |
| Total senior long-term debt | 41,409 | 45,488 |
| Less current maturities | 11,140 | 6,162 |
| Long-term debt, less current maturities | \$ 30,269 | \$ 39,326 |

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 entered into a senior secured loan agreement on December 22, 2008, which was amended on January 30, 2009. The following is a summary of certain provisions of the agreement:

- The agreement provides for a revolving credit facility, up to \$30.0 million, which is available for direct borrowings or letters of credit. The facility is based on a borrowing base formula equal to the sum of 85% of eligible receivables and 35% of eligible inventories. As of December 27, 2009, there were no outstanding loans under the revolving credit facility. As of December 27, 2009, letters of credit issued were \$1.1 million, leaving an aggregate of \$28.9 million available under the revolving credit facility. This credit facility matures on December 22, 2011.
- The agreement provides for an aggregate \$45.0 million term loan, with quarterly principal payments beginning in September 2009 of \$2.0 million, increasing to \$2.5 million in September 2010 and increasing to \$2.7 million in September 2011. The balance is due on December 22, 2011.
- Interest on the revolving facility and the term loan is calculated at a base rate or LIBOR plus a stated spread based on certain ratios. For the fiscal quarter ended December 27, 2009, the average rate was approximately 3.6%.
- All loans are secured by substantially all the assets of the Company other than real estate.
- The Company must comply with covenants and certain financial performance criteria consisting of Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) in relation to debt, minimum net worth and operating cash flow in relation to fixed charges. The Company was in compliance with its borrowing agreement covenants as of and during the fiscal quarter ended December 27, 2009.
- The Company’s exposure to variable interest rates has increased. This variability and market volatility creates a level of uncertainty in interest payments on a period-to-period basis.

Interest Rate Swap:

To mitigate the risk associated with interest rate volatility, the Company entered into an interest rate swap agreement. This pay-fixed, receive-floating rate swap limits the Company’s exposure to interest rate variability and allows for better cash flow control. The swap is not used for speculative purposes.

Under the original agreement, the Company fixed the interest payments to a base rate of 1.89% plus a stated spread based on certain ratios. The beginning notional amount is \$35.0 million, which will amortize simultaneously with the term loan schedule in the associated loan agreement and will mature on December 22, 2011.

On September 30, 2009 the Company made an additional payment in conjunction with the first principal payment under the loan agreement dated December 22, 2008. This additional payment required a restructuring of the interest rate swap agreement. As a result, the fixed base rate under the revised agreement increased to 1.92%. This rate will apply until the swap matures on December 22, 2011.

The interest rate swap agreement has been designated as a cash flow hedging instrument, and the Company has formally documented, designated and assessed the effectiveness of the interest rate swap. The financial statement impact of ineffectiveness for the three and six months ended December 27, 2009 was immaterial.

Fair Value:

The Company considered the carrying amounts of cash and cash equivalents, securities and other current assets and liabilities, including accounts receivable and accounts payable, to approximate fair value because of the short maturity of these financial instruments.

The Company has considered amounts outstanding under the long-term debt agreements and determined that carrying amounts recorded in the

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financial statements are consistent with the estimated fair value as of December 27, 2009.

Additionally, the interest rate swap agreement, further described above, has been recorded by the Company based on the estimated fair value as of December 27, 2009.

At December 27, 2009, the Company recorded a liability of \$353,000 classified within other long-term liabilities in the consolidated balance sheet, and accumulated other comprehensive loss of \$237,000 (net of deferred income tax effects of \$116,000) relating to the fair value of the interest rate swap contract.

The Company adopted new authoritative guidance for its financial assets and liabilities effective June 30, 2008 that establishes a three-level hierarchy for disclosure of fair value measurements, based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company's interest rate swap is valued using a present value calculation based on an implied forward LIBOR curve (adjusted for the Company's credit risk) and is classified within Level 2 of the valuation hierarchy, as presented below:

(in thousands)

| | Fair Value as of December 27, 2009 | | | |
|-------------------------------|---|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | Total |
| Other long-term liabilities: | | | | |
| Interest rate swap derivative | \$ --- | \$ 353 | \$ --- | \$ 353 |
| | \$ --- | \$ 353 | \$ --- | \$ 353 |

Other Long-Term Debt:

Other long-term debt includes capital lease agreements with outstanding balances totaling \$159,000 at December 27, 2009, and \$238,000 at June 28, 2009.

The aggregate maturities of long-term obligations are as follows:

(in thousands)

| Fiscal Year | |
|--------------------|----------|
| 2010 | \$ 4,082 |
| 2011 | 12,069 |
| 2012 | 25,258 |
| 2013 | --- |
| 2014 | --- |
| Total | \$41,409 |

10. CASH FLOWS

Total cash payments for interest for the three months ended December 27, 2009, and December 28, 2008, amounted to \$452,000 and \$130,000, respectively. Total cash payments for interest for the six months ended December 27, 2009 and December 28, 2008, amounted to \$927,000 and \$262,000, respectively. Total cash payments for federal and state income taxes for the three months ended December 27, 2009, and December 28, 2008, amounted to \$1.5 million and \$3.1 million,

Total inventoried costs

respectively. Total cash payments for federal and state income taxes for the six months ended December 27, 2009, and December 28, 2008, amounted to \$1.5 million and \$3.1 million, respectively.

11. COMPREHENSIVE INCOME

Comprehensive income consists of the following:

(in thousands)

| | Three Months Ended | | Six Months Ended | |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 | December 27, 2009 | December 28, 2008 |
| Net earnings | \$ 2,837 | \$ 249 | \$ 5,940 | \$ 3,918 |
| Other comprehensive loss | 23 | --- | 96 | --- |
| Comprehensive income | \$ 2,814 | \$ 249 | \$ 5,844 | \$ 3,918 |

The other comprehensive loss of \$23,000 and \$96,000 recognized in the three and six months ended December 27, 2009, represents the result of the changes in the fair value of the interest rate swap agreement described in Note 9 to the Consolidated Financial Statements. The agreement has been designated as a hedge of the variability of cash flows associated with the floating rate debt and has met current effectiveness criteria.

12. EARNINGS PER COMMON SHARE

Basic and diluted earnings per common share are computed as follows:

(amounts in thousands, except earnings per-share amounts)

| | Three Months Ended | | Six Months Ended | |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 | December 27, 2009 | December 28, 2008 |
| Net earnings | \$ 2,837 | \$ 249 | \$ 5,940 | \$ 3,918 |
| Basic net earnings per common share | \$ 0.18 | \$ 0.02 | \$ 0.38 | \$ 0.26 |
| Diluted net earnings per common share | \$ 0.18 | \$ 0.02 | \$ 0.37 | \$ 0.24 |

Basic earnings per share are calculated using the weighted-average number of common shares outstanding during the period. Diluted earnings per share are calculated under the treasury stock method using the weighted-average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options.

Basic and diluted shares are computed as follows:

(in thousands)

| | Three Months Ended | | Six Months Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 | December 27, 2009 | December 28, 2008 |
| Average common shares outstanding - basic | 15,756 | 15,451 | 15,750 | 15,343 |
| Dilutive options and nonvested shares | 285 | 608 | 297 | 727 |
| Adjusted average common shares outstanding - diluted | 16,041 | 16,059 | 16,047 | 16,070 |

All stock options outstanding and nonvested shares at December 27, 2009, and December 28, 2008, were dilutive and included in the computation of diluted earnings per share. These options expire in various periods through 2014. The Company had awarded certain key executives nonvested shares tied to the Company's fiscal year 2008 financial performance. The compensation expense related to these awards is recognized quarterly. The nonvested shares vest at the end of the current fiscal year.

13. STOCK-BASED COMPENSATION

The Company has established the 1993 Incentive Stock Option Plan, the 1995 Incentive Stock Option Plan and the 1999 Non-Qualified Stock Option Plan (collectively, the "Plans"). The Plans provide for the issuance of up to 2.2 million shares to be granted in the form of stock-based awards to key employees of the Company. In addition, pursuant to the 2004 Long Term Incentive Plan ("LTIP"), the Company provides for the issuance of up to 850,000 shares to be granted in the form of stock-based awards to certain key employees and nonemployee directors. The Company may satisfy the awards upon exercise with either new or treasury shares. The Company's stock compensation awards outstanding at December 27, 2009, include stock options, restricted stock and performance units.

For the three months ended December 27, 2009, total stock-based compensation was \$395,000 (\$248,000 after-tax), equivalent to earnings per basic and diluted shares of \$0.02. For the six months ended December 27, 2009, total stock-based compensation was \$703,000 (\$444,000 after-tax), equivalent to earnings per basic and diluted shares of \$0.03. For the three and six months ended December 28, 2008, total stock-based compensation was \$3,000 (\$2,000 after-tax), and \$575,000 (\$355,000 after-tax), respectively, and was equivalent to earnings per basic and diluted share of \$0.00 and \$0.02, respectively. Stock-based compensation was lower for the three and six months ended December 28, 2008, as the Company did not achieve the financial goals tied to fiscal year 2009 performance units.

As of December 27, 2009, the total unrecognized compensation expense related to nonvested shares and performance units was \$307,000 pretax, to be recognized over the remainder of the fiscal year. At December 28, 2008, the total unrecognized compensation expense related to nonvested awards, including stock options, performance units and nonvested shares, was \$1.1 million pretax, and the period over which it was expected to be recognized was 1.3 years.

Stock Options

A summary of the activity in the Company's Plans during the six months ended December 27, 2009, is presented below:

| | Number of Shares | Weighted- Average Exercise Price | Number of Shares Exercisable | Weighted- Average Exercise Price | Weighted- Average Fair Value of Granted Options |
|---|---------------------|--|------------------------------------|--|---|
| Outstanding at June 28, 2009 | 584,539 | \$ 4.97 | 584,539 | \$ 4.97 | |
| Exercised | 140,687 | \$ 2.85 | | | |
| Outstanding at September 27, 2009 | 443,852 | 5.64 | 443,852 | \$ 5.64 | --- |
| Exercised | 9,000 | 8.54 | --- | --- | |
| Outstanding at December 27, 2009 | 434,852 | \$ 5.58 | 434,852 | \$ 5.58 | --- |

The following table summarizes information about stock options outstanding and exercisable as of December 27, 2009:

| Range of Exercise Prices | Number Outstanding | Weighted- Average Remaining Contractual Life (In Years) | Weighted- Average Exercise Price | Aggregate Intrinsic Value (1) (in millions) |
|-----------------------------|-----------------------|---|---|---|
| \$2.50 – 3.00 | 113,400 | 1.9 | \$ 2.85 | \$ 1,004 |
| \$3.01 – 5.96 | 127,800 | 3.8 | 3.52 | 1,045 |
| \$5.97 – 8.54 | 193,652 | 4.9 | 8.54 | 612 |
| | 434,852 | 3.8 | \$ 5.58 | \$ 2,661 |

The intrinsic value of a stock option is the amount by which the December 27, 2009 market value of the underlying stock exceeds the exercise price of the option.

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The total intrinsic value of stock options exercised during the three months ended December 27, 2009 and December 28, 2008 was \$18,000 and \$8.2 million respectively. For the six months ended December 27, 2009 and December 28, 2008, the total intrinsic value of stock options exercised was \$1.1 million and \$8.2 million, respectively. The exercise period for all stock options generally may not exceed 10 years from the date of grant. Stock option grants to individuals generally become exercisable over a service period of one to five years. There were no stock options granted in the three and six months ended December 27, 2009.

Performance Units and Nonvested Stock

The Company's LTIP provides for the issuance of performance units, which will be settled in stock subject to the achievement of the Company's financial goals. Settlement will be made pursuant to a range of opportunities relative to net earnings. No settlement will occur for results below the minimum threshold and additional shares shall be issued if the performance exceeds the targeted goals. The compensation cost of performance units is subject to adjustment based upon the attainability of the target goals.

Upon achievement of the performance goals, shares are awarded in the employee's name but are still subject to a two-year vesting condition. If employment is terminated (other than due to death or disability) prior to the vesting period, the shares are forfeited. Compensation expense is recognized over the performance period plus vesting period. The awards are treated as a liability award during the performance period and as an equity award once the performance targets are settled. Awards vest on the last day of the second fiscal year following the end of the performance period.

A summary of the activity of the Company's nonvested shares during the three and six months ended December 27, 2009, is presented below:

| | Number of Nonvested Shares | Weighted- Average Grant Price |
|--|----------------------------------|-------------------------------------|
| Nonvested shares at June 28, 2009 | 141,923 | \$ 13.00 |
| Issued | --- | --- |
| Vested | --- | --- |
| Forfeited | --- | --- |
| Nonvested shares at December 27, 2009 | 141,923 | \$ 13.00 |

For the quarters ended December 27, 2009, and December 28, 2008, compensation expense related to the LTIP was \$395,000, and \$(22,000), respectively.

For the six months ended December 27, 2009, and December 28, 2008, compensation expense related to the LTIP was \$703,000 and \$529,000, respectively.

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Item 2. 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 throughout the report, including in the section of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Readers are cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including those described in our most recent Annual Report on Form 10-K and as may be updated from time to time in the Company's filings with U.S. Securities and Exchange Commission ("SEC").

These risks and uncertainties may cause our 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. Accordingly, we can give no assurances that any of the events anticipated by the forward-looking statements will occur, or if any of them do, what impact they will have on our results of operations or financial condition. We expressly decline any obligation to publicly revise any forward-looking statements that have been made to reflect the occurrence of events after the date of this report.

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

The Company designs, engineers and produces sophisticated electronic and electromechanical systems and devices, and complex interconnect systems on a contract basis for its customers. Engineering and manufacturing facilities are located in Arkansas, Missouri, Oklahoma, Pennsylvania, Texas and Wisconsin.

The Company employs approximately 1,450 people, including approximately 1,230 people who provide support for production activities (including assembly, testing and engineering) and approximately 220 people who provide administrative support.

The Company uses a fiscal year ending the Sunday closest to June 30; each fiscal quarter is 13 weeks.

The Company's customers conduct business in a variety of markets with significant revenues from customers in the defense, medical, aerospace, natural resources, industrial and other commercial markets. As a contract manufacturer, revenues and profit levels are impacted primarily by the volume of shipments in the particular period.

The Company provides information about its end markets to demonstrate the diversity of its customer base, which the Company believes helps to reduce potential volatility in its revenue stream. However, the Company does not target customers in individual markets, but rather targets companies whose manufacturing requirements match the services and capabilities the Company provides. Within all end markets, gross profit margins vary widely by customer and by contract.

The most significant factors influencing profitability in a particular period are: the mix of contracts with deliveries in that period and the volume of sales in relation to the Company's fixed costs during that period. Delivery schedules are generally determined by the Company's customers. The significant factors that influence the profitability of the individual contracts include: (i) the competitive environment in which the contract was bid; (ii) the experience level of the Company in manufacturing the particular product(s); (iii) the stability of the design of the product(s); and (iv) the accuracy of the Company's original cost estimates as reflected in the sale price for the product(s).

The Company has a centralized sales organization. The selling and marketing personnel have a customer and prospective customer focus, and are not limited to exclusively developing a specific end market.

On November 25, 2008, Eclipse Aviation Corporation ("Eclipse"), a customer of the Company, announced that it filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. On March 5, 2009, the Eclipse bankruptcy was converted to Chapter 7 liquidation. The Eclipse bankruptcy has had certain impacts on the Company's financial results for the three and six months ended December 28, 2008, as discussed in more detail throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations.

As a result of the Eclipse bankruptcy, the Company recorded additional cost of sales expense of \$4.2 million to adjust inventory originally valued at \$4.6 million to the lower of cost or market value during the three months ended December 28, 2008. The remaining inventory was valued at \$422,000, which the Company recovered by June 28, 2009, by selling some items to brokers and returning some items to the vendor. As of June 28, 2009, the value of inventory related to Eclipse was zero.

In addition, the Company recorded additional selling and administrative expense of \$3.7 million in the quarter ended December 28, 2008 to reserve for the receivables due to the Company from Eclipse. These receivables were written off against the reserve account in the quarter ended March 29, 2009.

Results of Operations – Three and Six Months Ended December 27, 2009

Backlog*(in thousands)*

| Change | December 27, 2009 | | June 28, 2009 |
|----------------------|----------------------|----|------------------|
| \$ Defense | \$ 113,985 | \$ | 113,480 |
| Natural resources | 18,138 | | 14,469 |
| Medical | 21,173 | | 20,552 |
| Industrial | 22,263 | | 12,330 |
| Commercial aerospace | 2,607 | | 3,255 |
| (Other) | 2,362 | | 3,922 |
| Total Backlog | \$ 180,528 | \$ | 168,008 |

Backlog at December 27, 2009, increased \$12.5 million from June 28, 2009. The \$3.7 million increase in natural resources backlog is primarily related to bookings in the wind power generation sector. Backlog growth in the industrial market of \$9.9 million is primarily related to stronger bookings of electronic assemblies used in high-performance semiconductor test equipment and systems of \$3.6 million and additional bookings for capital equipment used in glass container fabrication systems of \$5.2 million.

As of December 27, 2009, approximately \$22.0 million of the Company's backlog is scheduled to ship beyond the following 12 months, pursuant to the shipment schedules of the contracts that comprise backlog. This compares with \$22.9 million as of June 28, 2009.

Net Sales*(in thousands)*

| | Three Months Ended | | Six Months Ended | |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 | December 27, 2009 | December 28, 2008 |
| Defense | \$ 29,942 | \$ 33,656 | \$ 60,799 | \$ 64,844 |
| Industrial | 14,775 | 12,435 | 25,755 | 27,049 |
| Natural resources | 13,860 | 13,745 | 23,799 | 24,919 |
| Medical | 6,918 | 4,187 | 13,770 | 8,915 |
| Commercial aerospace | 746 | 1,698 | 2,613 | 4,772 |
| Other | 2,759 | 2,486 | 5,419 | 5,900 |
| Total net sales | \$ 69,000 | \$ 68,207 | \$ 132,155 | \$ 136,399 |

The Pensar acquisition, described in Note 2 to the Consolidated Financial Statements, contributed \$15.7 million of net sales to the fiscal 2010 second quarter, compared with \$193,000 of net sales in the fiscal 2009 second quarter. The net sales for the Company, excluding the impact of the Pensar acquisition, decreased \$14.7 million from the comparable period a year earlier, due primarily to the overall economic downturn. Medical sales increased \$2.7 million from the year-ago period due to the acquisition of Pensar, which contributed \$4.1 million of sales in the quarter ended December 27, 2009. Excluding the acquisition of Pensar, sales to natural resources customers decreased \$7.2 million versus the comparable period a year earlier due to lower demand from customers as a result of lower end market demand in the mining and oil and gas industries. Sales to the defense market decreased \$3.7 million versus the year-ago period.

The Pensar acquisition, described in Note 2 to the Consolidated Financial Statements, contributed \$25.9 million of net sales in the six months ended December 27, 2009, compared with \$193,000 of net sales in the six months ended December 28, 2008. For the six months ended December 27, 2009, excluding the impact of the Pensar acquisition, sales decreased \$29.9 million versus the comparable period a year earlier. The overall economic downturn was the primary contributor to the sales decline. Excluding the impact of the Pensar acquisition, sales to defense customers decreased \$4.0 million; sales to natural resources customers decreased \$11.7 million; and sales to industrial customers

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decreased \$6.0 million versus the year ago period. In addition, excluding the impact of the Pensar acquisition, sales to commercial aerospace customers decreased \$2.1 million; sales to medical customers decreased \$2.7 million; and sales to other customers decreased \$3.4 million versus the year-ago period. The decrease in sales to other markets was primarily due to the December 2008 completion of a large multi-year contract for baggage scanning equipment.

Sales to the Company's 10 largest customers represented 63% of total revenue for the three months ended December 27, 2009, versus 73% for the same period in fiscal 2009. The Company's top three customers and their relative contributions to fiscal 2010 second-quarter net sales were Owens Illinois, Inc., 14.5%; American Superconductor Corporation, 10.3%; and Raytheon Company, 9.2%. The Company's top three customers and their relative contributions to fiscal 2009 second-quarter sales were Owens Illinois, Inc., 14.8%; Schlumberger Ltd., 11.7%; and Northrop Grumman, 9.9%.

Cost of Sales and Gross Profit

(dollars in thousands)

| | Three Months Ended | | Six Months Ended | |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 | December 27, 2009 | December 28, 2008 |
| Cost of sales | \$ 55,300 | \$ 57,955 | \$06,225 | \$ 111,884 |
| Percent of net sales | 80.1% | 85.0% | 80.4% | 82.0% |
| Gross profit | 13,700 | 10,252 | 25,930 | 24,515 |
| Gross profit margin | 19.9% | 15.0% | 19.6% | 18.0% |

Cost of sales for the three months ended December 27, 2009, declined \$2.7 million and gross profit increased \$3.4 million from the comparable period a year earlier. One of the primary drivers of the decrease in cost of sales was the \$4.2 million write-down of inventory related to the Eclipse bankruptcy during the three months ended December 28, 2008, which is discussed in the Overview section.

The acquisition of Pensar added cost of sales of \$13.9 million and gross profit of \$1.8 million to the quarter ended December 27, 2009, compared with cost of sales of \$216,000 and gross profit of (\$23,000) in the quarter ended December 28, 2008. The Company acquired Pensar on December 22, 2008; and therefore, cost of sales and gross profit for the quarter ended December 27, 2009 includes the results of Pensar for a full quarter, compared with one week of results included in the quarter ended December 28, 2008. Excluding the Pensar operation and the one-time write-down of the Eclipse inventory, gross profit margin would have been 22.5%, an increase of 120 basis points, over the same period in fiscal year 2009.

For the three months ended December 27, 2009, gross profit was positively impacted by \$369,000 for the payment of a claim on a contract completed in the quarter ended March 29, 2009. This represents the final settlement of this claim.

Cost of sales for the six months ended December 27, 2009, declined \$5.7 million and gross profit increased \$1.4 million from the six months ended December 28, 2008. One of the primary drivers of the decrease in cost of sales was the \$4.2 million write-down of inventory related to the Eclipse bankruptcy, which is discussed in the Overview section.

The acquisition of Pensar added cost of sales of \$23.0 million and gross profit of \$2.8 million to the six months ended December 27, 2009, compared with cost of sales of \$216,000 and gross profit of (\$23,000) in the six months ended December 28, 2008. The Company acquired Pensar on December 22, 2008; and therefore, the results for the six months ended December 27, 2009 include the results of Pensar for six months, compared with one week of results in the six months ended December 28, 2008. Excluding the Pensar operation and the one-time write down of the Eclipse inventory, gross profit margin would have been 21.9%, an increase of 80 basis points over the same period in fiscal year 2009.

For the six months ended December 27, 2009, gross profit was positively impacted by \$596,000, for the payment of a claim on a contract completed in the third quarter of fiscal year 2009. This represents the final settlement of this claim.

Selling and Administrative Expense

(dollars in thousands)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------------|------------------|--------------|
| | December 27, | December 28, | December 27, | December 28, |

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| | 2009 | 2008 | 2009 | 2008 |
|------------------------------------|----------|----------|-----------|-----------|
| Selling and administrative expense | \$ 8,858 | \$ 9,642 | \$ 16,948 | \$ 17,912 |
| Percent of net sales | 12.8% | 14.1% | 12.8% | 13.1 % |

Selling and administrative expense decreased by \$784,000 for the three months ended December 27, 2009, compared with the three months ended December 28, 2008. This is primarily the result of additional selling and administrative expense of \$3.7 million in the quarter ended December 28, 2008 to reserve for the receivables due to the Company from Eclipse, which is discussed in more detail in the Overview section. As a result of the write-downs related to Eclipse, the Company also lowered accrued incentive compensation by \$1.8 million in the three months ended December 28, 2008. As a result, incentive compensation is \$2.2 million higher in the three months ended December 27, 2009, compared with the three months ended December 28, 2008. The decrease in selling and administrative expense for the Eclipse related write-offs is offset by the Pensar acquisition which added \$1.0 million to selling and administrative expense for the three months ended December 27, 2009, compared with \$71,000 of expense for Pensar in the three months ended December 28, 2008.

Selling and administrative expense decreased by \$964,000 for the six months ended December 27, 2009, compared with the six months ended December 28, 2008. This is primarily the result of additional selling and administrative expense of \$3.7 million in the quarter ended December 28, 2008 to reserve for the receivables due to the Company from Eclipse, which is discussed in more detail in the Overview section. As a result of the write-downs related to Eclipse, the Company also lowered accrued incentive compensation by \$1.8 million in the six months ended December 28, 2008. As a result, incentive compensation is \$1.6 million higher in the six months ended December 27, 2009, compared with the six months ended December 28, 2008. The decrease in selling and administrative expense for the Eclipse related write-offs is offset by the Pensar acquisition which added \$1.9 million to selling and administrative expenses for the six months ended December 27, 2009, compared with \$71,000 of expense for Pensar in the three months ended December 28, 2008. In addition, the Company experienced lower employee relocation expenses of \$124,000, and lower travel costs of \$169,000. Selling and administrative expenses were also reduced by \$134,000 for the temporary suspension of the Company's 401(k) matching contribution and the employee stock purchase plan.

Interest Expense

(in thousands)

| | Three Months Ended | | Six Months Ended | |
|------------------|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 | December 27, 2009 | December 28, 2008 |
| Interest expense | \$ 421 | \$ 145 | \$ 929 | \$ 303 |

Interest expense increased for the three and six months ended December 27, 2009, from the three and six months ended December 28, 2008, due to higher average debt levels as a result of borrowings to finance the Pensar acquisition.

Income Tax Expense

(in thousands)

| | Three Months Ended | | Six Months Ended | |
|-------------|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 | December 27, 2009 | December 28, 2008 |
| Tax expense | \$ 1,569 | \$ 210 | \$ 2,074 | \$ 2,366 |

The estimated annual effective income tax rate for the three and six months ended December 27, 2009 was 36.8%, compared with 38.7% for both the three and six months ended December 28, 2008. The income tax expense recorded for the three and six months ended December 27, 2009, was also impacted favorably by \$795,000 for the recording of refunds due to a correction to the apportionment factor for state income tax returns as described in Note 1 of the Consolidated Financial Statements.

Liquidity and Capital Resources

Cash Flow

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(in thousands)

| | Six Months Ended | |
|--|-------------------------|-------------------------|
| | December 27, 2009 | December 28, 2008 |
| Net cash provided by operating activities | \$12,667 | \$ 13,287 |
| Net cash provided (used) by investing activities | (3,085) | (48,664) |
| Net cash provided (used) by financing activities | (5,080) | 35,426 |
| Net increase in cash and cash equivalents | \$ 4,502 | \$ 49 |

The Company's operations generated \$12.7 million of cash in the six months ended December 27, 2009, compared with \$13.3 million in the six months ended December 28, 2008. The Pensar acquisition generated positive operating cash flow of \$1.5 million for the six months ended December 27, 2009. The primary driver of the \$2.2 million lower operating cash flow, excluding the impact of Pensar cash flow, in the six months for fiscal 2010 versus the same period a year earlier was a \$37.4 million reduction in cash received from customers (excluding Pensar customers) due to lower sales levels in the fiscal 2010 first and second quarters, compared with the same fiscal periods in the prior year. The lower receipts were offset by a \$22.7 million reduction in disbursements for inventory purchases and other costs of production. The lower inventory purchases and other production costs were primarily driven by the reduction of sales volume for the six months ended December 27, 2009, exclusive of the Pensar acquisition, and a reduction of purchases of long-lead materials. In addition, the cash used for payroll-related expenditures decreased by \$7.8 million in the six months ended December 27, 2009, compared with the six months ended December 28, 2008. Also, net income tax payments were \$1.6 million lower in the six months ended December 27, 2009, versus the same period in fiscal year 2009.

The \$45.6 million decrease in cash used by the Company's investing activities in the six months ended December 27, 2009 versus the three and six months ended December 28, 2008 was driven by the \$44.8 million investment in the Pensar acquisition made in the second fiscal quarter of fiscal year 2009. Capital expenditures were \$2.6 million in the six months ended December 27, 2009. These expenditures relate primarily to facility improvements at the Houston, Joplin and Tulsa plants. Capital expenditures were \$3.3 million for equipment in the six months ended December 28, 2008, primarily related to the Company's \$2.5 million purchase of the Tulsa manufacturing facility, which had been leased in prior years.

The \$40.5 million decrease in cash provided by financing activities in the six months ended December 27, 2009 versus the six months ended December 28, 2008 is due to the fact that in the fiscal 2009 second quarter, the Company borrowed \$42.9 million to acquire the assets of Pensar. The Company had no short-term debt outstanding at the beginning of the quarter ended December 27, 2009. In addition, the Company made long-term debt payments during the quarter ended December 27, 2009 of \$4.0 million.

Capital Structure

The Company entered into a senior secured loan agreement on December 22, 2008, which was amended on January 30, 2009. The following is a summary of certain provisions of the agreement:

- The agreement provides for a revolving credit facility, up to \$30.0 million, which is available for direct borrowings or letters of credit. The facility is based on a borrowing base formula equal to the sum of 85% of eligible receivables and 35% of eligible inventories. As of December 27, 2009, there were no outstanding loans under the revolving credit facility. As of December 27, 2009, letters of credit issued were \$1.1 million, leaving an aggregate of \$28.9 million available under the revolving credit facility. This credit facility matures on December 22, 2011.
- The agreement provides for an aggregate \$45.0 million term loan, with quarterly principal payments beginning in September 2009 of \$2.0 million, increasing to \$2.5 million in September 2010 and increasing to \$2.7 million in September 2011. The balance is due on December 22, 2011.
- Interest on the revolving facility and the term loan is calculated at a base rate or LIBOR plus a stated spread based on certain ratios. For the fiscal quarter ended December 27, 2009, the average rate was approximately 3.6%.
- All loans are secured by substantially all the assets of the Company other than real estate.
- The Company must comply with covenants and certain financial performance criteria consisting of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in relation to debt, minimum net worth and operating cash flow

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in relation to fixed charges. The Company was in compliance with its borrowing agreement covenants as of and during the fiscal quarter ended December 27, 2009.

- The Company's exposure to variable interest rates has increased. This variability and market volatility creates a level of uncertainty in interest payments on a period-to-period basis.

Other Long-Term Debt:

Other long-term debt includes capital lease agreements with outstanding balances totaling \$159,000 at December 27, 2009 and \$238,000 at June 28, 2009.

The aggregate maturities of long-term obligations are as follows:

(in thousands)

| Fiscal Year | |
|--------------------|----------|
| 2010 | \$ 4,082 |
| 2011 | 12,069 |
| 2012 | 25,258 |
| 2013 | --- |
| 2014 | --- |
| Total | \$41,409 |

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

Stockholders' Equity and Debt

(in thousands)

| | December 27, 2009 | June 28, 2009 |
|----------------------|------------------------------|--------------------------|
| Stockholders' equity | \$ 108,303 | \$ 103,151 |
| Total debt | 41,409 | 45,488 |

Management believes the availability of funds going forward from cash generated from operations and available bank credit facilities 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 its 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 a periodic basis.

The following discussion of critical accounting policies is intended to bring to the attention of readers those accounting policies that management believes are critical to the Company's consolidated financial statements and other financial disclosures. It is not intended to be a comprehensive list of all of the Company's significant accounting policies that are more fully described in the notes to the consolidated financial statements in this Quarterly Report on Form 10-Q for the quarter ended December 27, 2009 and in the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 2009.

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Revenue Recognition and Cost of Sales

The Company's revenue is derived from units and services delivered pursuant to contracts. The Company has a significant number of contracts for which revenue is accounted for under the percentage of completion method using the units of delivery as the measure of completion. This method is consistent with FASB Accounting Standards Codification ("ASC") Topic 605-35 (formerly the Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1")). The percentage of total revenue recognized from contracts under the percentage of completion method is generally 40-60% of total revenue in any given quarter. These contracts are primarily fixed price contracts that vary widely in terms of size, length of performance period and expected gross profit margins. Under the units of delivery method, the Company recognizes revenue when title transfers, which is usually upon shipment of the product or completion of the service.

The Company also sells products under purchase agreements, supply contracts and purchase orders that are not within the scope of ASC Topic 605-35. The Company provides goods from continuing production over a period of time. The Company builds units to the customer specifications based on firm purchase orders from the customer. The purchase orders tend to be of a relatively short duration and customers place orders on a periodic basis. The pricing is generally fixed for some length of time and the quantities are based on individual purchase orders. Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition." Revenue is recognized on substantially all transactions when title transfers, which is usually upon shipment.

Therefore, revenue for contracts within the scope of ASC Topic 605-35 and for those not within the scope of ASC Topic 605-35 is recognized when title transfers, which is usually upon shipment or completion of the service.

However, the cost of sales recognized under both contract types is determined differently. The percentage-of-completion method for contracts that are within the scope of ASC Topic 605-35 gives effect to the most recent contract value and estimates of cost at completion. Contract costs generally include all direct costs, such as materials, direct labor, subcontracts and indirect costs identifiable with or allocable to the contracts. Learning or start-up costs, including tooling and set-up costs incurred in connection with existing contracts, are charged to existing contracts. The contract costs do not include any sales, marketing or general and administrative costs. Revenue is calculated as the number of units shipped multiplied by the sales price per unit. The Company estimates the total revenue of the contract and the total contract costs and calculates the contract cost percentage and gross profit margin. The gross profit during a period is equal to the earned revenue for the period multiplied by the estimated contract gross profit margin. Thus, if no changes to estimates were made, the procedure results in every dollar of earned revenue having the same cost of earned revenue percentage and gross profit percentages. This method is applied consistently on all of the contracts accounted for in accordance with ASC Topic 605-35.

The Company periodically reviews all estimates to complete as required by the authoritative guidance and the estimated total cost and expected gross profit are revised as required over the life of the contract. Any revisions to the estimated total cost are accounted for as a change of an estimate. A cumulative catch up adjustment is recorded in the period of the change of the estimated costs to complete the contract. Therefore, cost of sales and gross profit in a period includes (a) a cumulative catch-up adjustment to reflect the adjustment of previously recognized profit associated with all prior period revenue recognized based on the current estimate of gross profit margin, as appropriate, and (b) an entry to record the current period costs of sales and related gross profit margin based on the current period sales multiplied by the current estimate of the gross profit margin on the contract. Cumulative adjustments are reported as a component of cost of sales.

For contracts accounted for using the percentage of completion method, management's estimates of material, labor and overhead costs on long-term contracts are critical to the Company. Due to the size, length of time and nature of many of our contracts, the estimation of costs through completion is complicated and subject to many variables. Total contract cost estimates are largely based on negotiated or estimated material costs, historical labor performance trends, business base and other economic projections. Factors that influence these estimates include inflationary trends, technical and schedule risk, performance trends, asset utilization, and anticipated labor rates.

The development of estimates of costs at completion involves procedures and personnel in all areas that provide financial or production information on the status of contracts. Estimates of each significant contract's value and estimate of costs at completion are reviewed and reassessed quarterly. Changes in these estimates result in recognition of cumulative adjustments to the contract profit in the period in which the change in estimate is made. When the current estimate of costs indicates a loss will be incurred on the contract, a provision is made in the current period for the total anticipated loss.

Due to the significance of judgment in the estimation process described above, it is likely that different cost of sales amounts could be recorded if we used different assumptions, or if the underlying circumstances were to change. Changes in underlying assumptions, estimates, or circumstances may adversely or positively affect future financial performance.

In summary, the cumulative gross profit margin recognized through the end of the current period on a contract will equal the current estimate of the gross profit margin on the contract multiplied by the contract revenues recognized through the end of the current period. The current period gross profit will equal current period sales multiplied by the expected gross profit margin (on a percentage basis) on the contract plus or minus any net effect of cumulative adjustments to prior period sales under the contract.

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In addition, when there is an anticipated loss on a contract, a provision for the entire loss is recorded in the period when the anticipated loss is determined. The loss is reported as a component of cost of sales. Therefore, the cumulative gross profit margin recognized through the end of the current period on a contract with an estimated loss will equal the current estimate of the gross profit margin on the contract multiplied by the contract revenues recognized through the end of the current period plus the provision for the additional loss on contract revenues yet to be recognized. The current period gross profit on a contract with a loss reserve will equal current period sales at a 0% gross profit margin plus or minus any net effect of cumulative adjustments to the loss reserve based on any changes to the estimated total loss on the contract.

This method of recording costs for contracts under ASC Topic 605-35 is equivalent to Alternative A as described in paragraph 35 of ASC Topic 605-35.

The contracts that are not subject to percentage of completion accounting are not subject to estimated costs of completion. Cost of sales under these contracts are based on the actual cost of material, labor and overhead charged to each job. The contract costs do not include any selling and administrative expenses. The Company generally performs the work under fixed price arrangements so the profit may be influenced by the accuracy of the estimates used at the time a particular job is bid, as reflected in the sales price for the product, including: material costs, inflation, labor costs (both hours and rates), complexity of the work, and asset utilization.

During fiscal year 2007, the Company entered into an agreement with an industrial customer to manufacture and supply certain parts. Consistent with guidance in ASC Topic 605-45, the cost of the supplied parts is netted against the invoice price to determine net sales when the part is shipped. For the three and six months ended December 27, 2009, the Company's net sales recognized under this contract were \$2.7 million and \$4.7 million, respectively, related to the manufactured assemblies, and \$163,000 and \$228,000, respectively, related to the supplied parts.

On a very limited number of transactions, at a customer's request, the Company will recognize revenue when title passes, but prior to the shipment of the product to the customer. As of December 27, 2009, the Company has recognized revenue on products for which title has transferred but the product has not been shipped to the customer of \$491,000. The Company recognizes revenue for storage and other related services as the services are provided.

Inventories

Inventories, other than work-in-process inventoried costs relating to those contracts accounted for under percentage of completion accounting are carried at the lower of cost or market value.

Inventoried costs relating to contracts accounted for under percentage of completion accounting are stated at the actual production cost, including overhead, tooling and other related non-recurring costs, incurred to date, reduced by the amounts identified with revenue recognized on units delivered. Selling and administrative expenses are not included in inventory costs. Inventoried costs related to these contracts are reduced, as appropriate, by charging any amounts in excess of estimated realizable value to cost of sales. The costs attributed to units delivered under these contracts are based on the estimated average cost of all units expected to be produced. This average cost utilizes, as appropriate, the learning curve concept, which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition. In accordance with industry practice, inventories include amounts relating to long-term contracts that will not be realized in one year. Since the inventory balance is dependent on the estimated cost at completion of a contract, inventory is impacted by all of the factors described in the Revenue Recognition and Cost of Sales section above. Inventoried costs related to those contracts not accounted for under percentage of completion accounting are carried at the lower of cost or market.

In addition, management regularly reviews all inventory for obsolescence to determine whether any write-down is necessary. Various factors are considered in making this determination, including expected program life, recent sales history, predicted trends and market conditions. If actual demand or market conditions are less favorable than those projected by management, inventory write-downs may be required. For the quarters ended December 27, 2009 and December 28, 2008, expense for obsolete or slow-moving inventory charged to income before income taxes was \$296,000 and \$260,000, respectively. For the six months ended December 27, 2009 and December 28, 2008, expense for obsolete or slow-moving inventory charged to income before income taxes was \$551,000 and \$857,000, respectively. This expense does not include the \$4.2 million charge related to the Eclipse bankruptcy recognized in the second quarter of fiscal 2009 as discussed in the Overview section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Goodwill and Other Intangible Assets

The Company evaluates goodwill for impairment on an annual basis on the first day of June of each fiscal year, as well as whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Potential impairment of goodwill is assessed by comparing the carrying value of the reporting unit to its estimated fair value. If the carrying value of the reporting unit exceeds its fair value, an impairment loss may be required to be recorded. In addition to the annual impairment evaluation, the Company evaluates whether any triggering events have occurred, such as a significant decrease in expected cash flows or changes in market or other business conditions that may indicate a potential impairment of goodwill or other intangible assets. Also, the Company monitors its market capitalization compared with the carrying value of the Company.

Stock Options

The Company estimates the fair value of its reporting units based on a combination of a market approach and an income approach. The market approach is based on market data for a group of guideline companies. The income approach is based on a discounted cash flow analysis. The discount rate used in this analysis is determined by management based on a weighted average cost of capital, which considers the risk inherent in the business. The estimate of cash flows and the discount rate are subject to change depending on the economic environment, including factors such as interest rates, expected returns in the equity markets, and business prospects for the end-markets served by the Company. The Company estimates the future cash flows for its reporting units using reasonable and appropriate assumptions, including among others, revenue growth rates and expected operating margins, working capital growth needs and capital expenditures. These assumptions are derived based on the Company's and its peers historical operating performance adjusted for current and expected competitive and economic factors surrounding the electronic manufacturing services industry. The Company believes the market data used in the market approach and the estimated future cash flows and discount rate used in the income approach are reasonable; however, changes in estimates could materially affect the Company's estimates of the fair value of the reporting units and therefore, the results of the Company's impairment analysis.

During the fourth fiscal quarter ended June 28, 2009, the Company performed its annual impairment testing of goodwill and concluded that no impairment charges were required. Goodwill is recorded at three of the Company's reporting units. Based on the annual impairment analysis performed on June 1, 2009, the Company determined that the fair value of two of the reporting units, which represented \$24.2 million of the total goodwill recorded, were substantially in excess of the carrying value of the reporting units.

The remaining reporting unit, which was acquired in December 2008, had goodwill of \$19.2 million at June 1, 2009. The fair value of this reporting unit exceeded the carrying value of this unit by approximately 15%. The estimates and assumptions made in the Company's valuation are inherently subject to significant uncertainties, many of which are beyond its control and there is no assurance that these results can be achieved. The primary assumptions for which there is a reasonable possibility of the occurrence of a variation that would significantly affect the measurement value include the assumptions regarding revenue growth, expected operating margins, working capital requirements and the discount rate utilized.

As of December 27, 2009, the consolidated goodwill balance is \$43.4 million. During the interim period ended December 27, 2009, the Company evaluated whether a triggering event occurred which would require a detailed test of goodwill for impairment as of an interim date. The Company determined based on the financial performance of each reporting unit to-date in fiscal year 2010, as well as the Company's internal forecast information, that there was no evidence of a significant change in the business climate and no evidence of any other triggering event. Consequently, the Company will continue to evaluate whether any triggering events occurs during interim periods through the date of the annual impairment test as of June 1, 2010.

If the current economic conditions continue to deteriorate, causing a decline in the Company's stock price or expected cash flows, impairments to one or more businesses could occur in future periods whether or not connected to the annual impairment analysis. The Company will continue to monitor the recoverability of the carrying value of its goodwill and other long-lived assets. Any related losses or required write-downs could have a material adverse effect on the Company's financial results.

Recently Adopted Accounting Standards

In August 2009, the Financial Accounting Standards Board ("FASB") issued guidance, which states companies determining the fair value of a liability may use the perspective of an investor that holds the related obligation as an asset. This guidance addresses practice difficulties caused by the tension between fair-value measurements based on the price that would be paid to transfer a liability to a new obligor and contractual or legal requirements that prevent such transfers from taking place. This guidance is effective for interim and annual periods beginning after August 27, 2009, and applies to all fair-value measurements of liabilities required by GAAP. No new fair-value measurements are required by this guidance. The Company adopted this guidance effective September 28, 2009. The adoption of this guidance did not have a material impact on its financial statements.

In December 2007, the FASB issued authoritative guidance regarding business combinations, which provides guidance on the accounting and reporting for business combinations. The guidance is effective for fiscal years beginning after December 15, 2008 and was adopted by the Company on June 29, 2009. Adoption did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued authoritative guidance titled, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162." The guidance provides for the FASB Accounting Standards Codification (the "Codification") to become the single official source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles ("GAAP"). The Codification did not change U.S. GAAP but reorganizes the accounting literature and was effective for the Company's interim and annual periods ending after September 15, 2009. Adoption did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued guidance, which requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance also requires those disclosures in summarized financial

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information at interim reporting periods. This guidance is effective for reporting periods ending after June 15, 2009. The Company adopted this guidance effective June 29, 2009. The adoption of this guidance did not have a material impact on its financial statements.

In June 2008, the FASB issued guidance that addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. The adoption of this guidance in the first quarter of fiscal year 2010 did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

In October 2009, the FASB issued guidance, which requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. This guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company will adopt this guidance effective June 28, 2010. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Risk

The Company is not significantly exposed to transactions denominated in foreign currencies. However, if the significance of foreign currency exposure grows, management will monitor whether it would be appropriate to use foreign currency risk management instruments to mitigate any exposures.

Interest Rate Risk

As of December 27, 2009, the Company had \$41.4 million in total debt. Of the total debt, \$30.3 million has a fixed rate through an interest rate swap agreement, and therefore, is not subject to interest rate risk. Another \$409,000 is subject to a fixed rate through borrowing agreements and is not subject to interest rate risk. The interest rate on the remaining \$10.7 million is subject to fluctuation. If interest rates increased 1.0%, the additional interest cost to the Company would be approximately \$80,000 for one year.

Item 4. Controls and Procedures.

Evaluation Of Disclosure Controls And Procedures

Management, under the supervision and with the participation of the Company's Chief Executive Officer and President, and the Company's Vice President and Chief Financial Officer, reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") as of the end of the period covered by this report.

Based on such review and evaluation, the Company's Chief Executive Officer and President and Vice President and Chief Financial Officer concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to the Company's management, including its Chief Executive Officer and President and Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes In Internal Controls

During the three months ended December 27, 2009, there were no changes in internal control over financial reporting identified in connection with management's evaluation that have materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A.

Risk Factors

Our Annual Report on Form 10-K for the year ended June 28, 2009, includes “Risk Factors” under Item 1A of Part I. Except for the updated risk factors described below, there have been no material changes from the risk factors described in our Form 10-K. The information below updates, and should be read in conjunction with, the risk factors and information disclosed in our Form 10-K.

The Company depends heavily upon a concentrated base of customers, which are subject to unique risks, and a significant reduction in sales to any of the Company’s major customers, or the loss of a major customer, could have a material impact on the Company’s financial results.

Although the Company believes its relationships with its large customers are good, there can be no assurance that the Company will retain any or all of its large customers or will be able to form new relationships with customers upon the loss of one or more of its existing customers. This risk may be further complicated by pricing pressures, intense competition prevalent in the Company’s industry and other factors.

In addition, the Company generally makes sales under purchase orders that are subject to cancellation, modification or rescheduling. Changes in the economic environment and the financial condition of the industries the Company serves could result in customer requests for rescheduling or cancellation of contractual orders. Some of the Company’s contracts have specific provisions relating to schedule and performance and failure to deliver in accordance with such provisions could result in cancellations, modifications, rescheduling and/or penalties, in some cases at the customers’ convenience and without prior notice. While the Company normally recovers its direct and indirect costs, if the Company experiences such cancellations, modifications, or rescheduling that cannot be replaced in a timely fashion; this could have a material adverse effect on the Company’s financial results.

Changes in future business conditions could cause business investments and/or recorded goodwill to become impaired, resulting in substantial losses and write-downs.

As part of its overall strategy, the Company has, from time to time, acquired certain businesses. Such investments are made upon careful target analysis and due diligence procedures designed to achieve a desired return and strategic objective. These procedures often involve certain assumptions and judgment in determining the related acquisition price. After acquisition, unforeseen issues could arise which adversely affect the anticipated returns or which are otherwise not recoverable as an adjustment to the purchase price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates. Goodwill accounts for approximately \$43.4 million, or approximately 22.0%, of the Company’s total assets. The Company evaluates goodwill amounts for impairment annually, or when evidence of potential impairment exists.

During the fourth fiscal quarter ended June 28, 2009, the Company performed its annual impairment testing of goodwill and concluded that no impairment charges were required. Goodwill is recorded at three of the Company’s reporting units. Based on the annual impairment analysis performed on June 1, 2009, the Company determined that the fair value of two of the reporting units, which represented \$24.2 million of the total goodwill recorded, were substantially in excess of the carrying value of the reporting units.

The remaining reporting unit, which was acquired in December 2008, had goodwill of \$19.2 million at June 1, 2009. The fair value of this reporting unit exceeded the carrying value of this unit by approximately 15%. The estimates and assumptions made in the Company’s valuation are inherently subject to significant uncertainties, many of which are beyond its control and there is no assurance that these results can be achieved. The primary assumptions for which there is a reasonable possibility of the occurrence of a variation that would significantly affect the measurement value include the assumptions regarding revenue growth, expected operating margins, working capital requirements and the discount rate utilized.

As of December 27, 2009, the goodwill balance is \$43.4 million. During the interim period ended December 27, 2009, the Company evaluated whether a triggering event occurred which would require a detailed test of goodwill for impairment as of an interim date. The Company determined based on the financial performance of each reporting unit to-date in fiscal year 2010, as well as the Company’s internal forecast information, that there was no evidence of a significant change in the business climate and no evidence of any other triggering event. Consequently, the Company will continue to evaluate whether any triggering events occurs during interim periods through the date of the annual impairment test as of June 1, 2010.

The annual impairment test is based on several factors requiring judgment. Principally, a significant decrease in expected cash flows or changes

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in market or other business conditions may indicate potential impairment of recorded goodwill. If the current economic conditions continue to deteriorate, causing a decline in the Company's stock price or expected cash flows, impairments to one or more businesses could occur in future periods whether or not connected to the annual impairment analysis. The Company will continue to monitor the recoverability of the carrying value of its goodwill and other long-lived assets. Any related losses or required write-downs could have a material adverse effect on the Company's financial results.

The Company is subject to various state and local regulations.

The Company's operations are conducted in various state and local jurisdictions. Each of which has unique regulations and tax requirements. As Company operations change from time to time, compliance with each jurisdiction's requirements, which also are changing in the current revenue constrained environment, becomes more difficult to administer. Failure to comply with all regulations exposes the Company to assessments of taxes, interest and penalties from these state and local jurisdictions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Repurchases:

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|---|--|---|---|
| September 28, 2009 – October 25, 2009 | --- | --- | --- | 986,400 |
| October 26, 2009 – November 22, 2009 | 40,582 | \$11.32 | 40,582 | 945,818 |
| November 23, 2009 – December 27, 2009 | 7,700 | \$11.24 | 7,700 | 938,118 |
| Total | 48,282 | \$11.24 | 48,282 | 938,118 |

(1) Shares repurchased under resolution of the Board of Directors dated August 26, 2009, authorizing repurchase of up to 1,000,000 shares. This authorization expires on August 26, 2010.

Item 4. Submission of Matters to a Vote of Security Holders.

The Company held its Annual Meeting of Stockholders on November 11, 2009.

At the meeting, Messrs. Helmkamp and LeGrand were elected as Class B Directors with terms expiring in 2012. The votes with respect to each nominee and with respect to the other matter voted on by shareholders at the meeting are set forth below:

| Proposal No. 1 | Number of Votes FOR | Withheld Authority to Vote |
|----------------|---------------------|----------------------------|
| | 14,238,518 | 178,847 |

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**John G.
Helmkamp, Jr.
Lawrence J.
LeGrand**

14,239,127

178,238

| Proposal No. 2 | FOR | AGAINST | ABSTAIN |
|---|------------|----------------|----------------|
| Ratification of KPMG LLP as Independent Registered Public Accountants | 14,260,935 | 136,189 | 20,241 |

There were no broker non-votes.

Item 6.

Exhibits.

- 31.1 Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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: January 29, 2010

By: /S/ DONALD H. NONNENKAMP
 Name: Donald H. Nonnenkamp
 Vice President and Chief Financial Officer
 Principal Financial Officer