

LABARGE INC  
Form 10-Q  
May 06, 2011

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 April 3, 2011  
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  
(Address of Principal Executive Offices)

63124  
(Zip Code)

(314) 997-0800

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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

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 May 6, 2011:

15,830,397 shares of common stock.

LaBarge, Inc.

FORM 10-Q

For the Quarterly Period Ended April 3, 2011

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

LaBarge, Inc.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(amounts in thousands, except per-share amounts)

|   | Three Months Ended |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | April 3,<br>2011   | March 28,<br>2010 | April 3,<br>2011  | March 28,<br>2010 |
| Net sales                                 | \$83,214           | \$74,735          | \$250,103         | \$206,890         |
| Cost of sales                             | 66,290             | 59,334            | 199,467           | 165,559           |
| Gross profit                              | 16,924             | 15,401            | 50,636            | 41,331            |
| Selling and administrative expense        | 10,616             | 8,402             | 29,048            | 25,350            |
| Operating income                          | 6,308              | 6,999             | 21,588            | 15,981            |
| Interest expense                          | 293                | 400               | 1,031             | 1,329             |
| Other expense (income), net               | 173                | (45 )             | 160               | (6 )              |
| Earnings before income taxes              | 5,842              | 6,644             | 20,397            | 14,658            |
| Income tax expense                        | 2,191              | 2,516             | 7,406             | 4,590             |
| Net earnings                              | \$3,651            | \$4,128           | \$12,991          | \$10,068          |
| Basic net earnings per common share       | \$0.23             | \$0.26            | \$0.83            | \$0.64            |
| Average basic common shares outstanding   | 15,706             | 15,710            | 15,695            | 15,737            |
| Diluted net earnings per common share     | \$0.23             | \$0.26            | \$0.81            | \$0.63            |
| Average diluted common shares outstanding | 15,970             | 16,010            | 15,941            | 16,036            |

See accompanying Notes to Consolidated Financial Statements.

LaBarge, Inc.

## CONSOLIDATED BALANCE SHEETS

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

|   | April 3,<br>2011 | June 27,<br>2010 |
|---|------------------|------------------|
|   | (Unaudited)      |                  |
| <b>ASSETS</b>   |                  |                  |
| Current assets:   |                  |                  |
| Cash and cash equivalents   | \$ 6,219         | \$2,301          |
| Accounts and other receivables, net   | 42,746           | 46,807           |
| Inventories   | 74,962           | 64,536           |
| Prepaid expenses  | 1,577            | 1,062            |
| Deferred tax assets, net  | 3,551            | 3,655            |
| Total current assets  | 129,055          | 118,361          |
| Property, plant and equipment, net of accumulated depreciation of \$39,791 at April 3, 2011, and \$35,704 at June 27, 2010                                    | 27,696           | 28,536           |
| Intangible assets, net  | 7,744            | 9,076            |
| Goodwill  | 43,424           | 43,424           |
| Other assets  | 5,147            | 5,125            |
| Total assets  | \$ 213,066       | \$204,522        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                  |                  |
| Current liabilities:  |                  |                  |
| Current maturities of long-term debt  | \$ 10,461        | \$12,069         |
| Trade accounts payable  | 24,928           | 26,538           |
| Accrued employee compensation   | 15,777           | 14,625           |
| Other accrued liabilities   | 4,343            | 3,712            |
| Cash advances from customers  | 7,015            | 2,921            |
| Total current liabilities   | 62,524           | 59,865           |
| Long-term advances from customers for purchase of materials   | 208              | 46               |
| Deferred tax liabilities, net   | 2,981            | 2,494            |
| Deferred gain on sale of real estate and other liabilities  | 718              | 1,219            |
| Long-term debt  | 17,300           | 25,258           |
| Stockholders' equity:   |                  |                  |
| Common stock, \$0.01 par value. Authorized 40,000,000 shares; 15,958,839 shares issued at both April 3, 2011, and June 27, 2010, including shares in treasury | 160              | 160              |
| Additional paid-in capital  | 14,045           | 14,582           |
| Retained earnings   | 116,818          | 103,827          |
| Accumulated other comprehensive loss  | (138 )           | (222 )           |
| Less cost of common stock in treasury shares of 132,912 at April 3, 2011, and 234,651 at June 27, 2010  | (1,550 )         | (2,707 )         |
| Total stockholders' equity  | 129,335          | 115,640          |
| Total liabilities and stockholders' equity  | \$ 213,066       | \$204,522        |
| See accompanying Notes to Consolidated Financial Statements.  |                  |                  |

LaBarge, Inc.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(amounts in thousands)

|  | Nine Months Ended<br>April 3,<br>2011 | March 28,<br>2010 |
|--|---------------------------------------|-------------------|
| Cash flows from operating activities:  |                                       |                   |
| Net earnings   | \$ 12,991                             | \$10,068          |
| Adjustments to reconcile net cash provided by operating activities:                              |                                       |                   |
| Loss on disposal of property, plant and equipment  | —                                     | 69                |
| Depreciation and amortization  | 6,270                                 | 6,739             |
| Amortization of deferred gain on sale of real estate   | (360)                                 | (361)             |
| Share-based compensation   | 1,121                                 | 843               |
| Deferred taxes   | 559                                   | 321               |
| Changes in operating assets and liabilities:   |                                       |                   |
| Accounts and other receivables, net  | 4,061                                 | (5,584)           |
| Inventories  | (10,426)                              | (6,246)           |
| Prepaid expenses   | (390)                                 | (114)             |
| Trade accounts payable   | (2,037)                               | 6,269             |
| Accrued liabilities  | 1,548                                 | 3,830             |
| Cash advances from customers   | 4,256                                 | (3,639)           |
| Net cash provided by operating activities  | 17,593                                | 12,195            |
| Cash flows from investing activities:  |                                       |                   |
| Additions to property, plant and equipment   | (3,380)                               | (3,600)           |
| Proceeds from disposal of property, equipment and other assets                                   | 46                                    | 14                |
| Additions to other assets  | (359)                                 | (701)             |
| Net cash used by investing activities  | (3,693)                               | (4,287)           |
| Cash flows from financing activities:  |                                       |                   |
| Borrowings on revolving credit facility  | 21,150                                | 850               |
| Payments of revolving credit facility  | (21,150)                              | (850)             |
| Repayments of long-term debt   | (9,566)                               | (6,121)           |
| Transaction costs related to bank financing  | (125)                                 | —                 |
| Excess tax benefits from stock option exercises  | 36                                    | 387               |
| Remittance of minimum taxes withheld as part of a net share settlement of stock option exercises | (562)                                 | (841)             |
| Issuance of treasury stock   | 235                                   | 140               |
| Purchase of treasury stock   | —                                     | (1,575)           |
| Net cash used by financing activities  | (9,982)                               | (8,010)           |
| Net increase (decrease) in cash and cash equivalents   | 3,918                                 | (102)             |
| Cash and cash equivalents at beginning of period   | 2,301                                 | 4,297             |
| Cash and cash equivalents at end of period   | \$ 6,219                              | \$4,195           |

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 at April 3, 2011, the related consolidated statements of income for the three and nine months ended April 3, 2011 and March 28, 2010, and the related consolidated statements of cash flows for the nine months ended April 3, 2011 and March 28, 2010 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 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. 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.

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 \$795,000 reduction to income tax expense is net of the federal income taxes. The Company determined that the amounts that related to prior fiscal years were not material to any of the respective 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 for the nine months ended March 28, 2010, was an increase of \$670,000, or \$0.04 per basic and diluted share. The impact on full-year net earnings for fiscal year 2010 was not material.

Business Combination

On April 3, 2011, the Company, Ducommun Incorporated ("Ducommun") and DLBMS, Inc. ("Merger Subsidiary") entered into an Agreement and Plan of Merger (the "Merger Agreement"). Under the terms of the Merger Agreement, Merger Subsidiary will be merged with and into the Company with the Company continuing as the surviving corporation and a wholly-owned subsidiary of Ducommun (the "Merger").

At the effective time of the Merger (the "Effective Time"), each outstanding share of the Company's common stock (including each outstanding share of restricted stock and the associated preferred stock purchase rights granted pursuant to the Rights Agreement, dated November 8, 2001 between the Company and Registrar and Transfer Company, as amended), other than shares: (a) held by the Company or its subsidiaries, (b) owned by Ducommun or its subsidiaries and (c) owned by stockholders who have not consented to the Merger and who have properly demanded appraisal for their shares under Delaware law, will be canceled and converted into the right to receive \$19.25 in cash, without interest. At the Effective Time, each outstanding option will be canceled and converted into the right to receive in cash, without interest and less applicable withholding taxes, an amount equal to the product of: (a) the excess, if any, of \$19.25 over the exercise price per share of common stock for such option multiplied by (b) the total number of shares of common stock then subject to such option immediately prior to the Effective Time.

Pursuant to the Merger Agreement, the Company is subject to a "no shop" restriction on its ability to solicit third party proposals or provide information and engage in discussions with third parties relating to alternative business

combination transactions. The “no shop” provision is subject to a “fiduciary-out” provision that allows the Company, prior to obtaining stockholder approval of the Merger, (i) to engage in negotiations or discussions (including making any counterproposal or counter offer to) with any third party that has made after the date of the Merger Agreement a “superior proposal” or a bona fide unsolicited written acquisition proposal that the Company's

Board of Directors believes in good faith (after consultation with a financial advisor of nationally recognized reputation and outside legal counsel) is reasonably likely to lead to a “superior proposal,” (ii) furnish to any third party that has made after the date of the Merger Agreement a “superior proposal” nonpublic information, (iii) terminate or amend any provision of any confidentiality or standstill agreement to which it is a party with respect to a “superior proposal,” and (iv) make an “adverse recommendation change,” but in each case only if the Board of Directors determines in good faith, after consultation with outside legal counsel, that failure to take such action would likely result in a breach of its fiduciary duties under applicable law, taking into account all adjustments to the terms of the Merger Agreement that may be offered by Ducommun in response to any such proposed action by the Company.

The Merger Agreement contains customary termination rights for Ducommun and the Company including if, subject to the terms of the Merger Agreement, the Board of Directors authorizes the Company to enter into an agreement concerning a superior proposal or the Merger has not been consummated by September 30, 2011. The Merger Agreement provides that, upon the termination of the Merger Agreement, under specified circumstances the Company will be required to pay Ducommun a termination fee of \$12.4 million. Depending on the specific circumstances under which the Merger Agreement is terminated, the Company will be required to pay such termination fee either simultaneously with the event giving rise to the termination fee or within two business days following the consummation of an alternative business combination transaction. Additionally, in the event the Company's stockholders do not approve the Merger, the Company will be required to reimburse the reasonable out-of-pocket expenses and fees (including all fees and expenses of advisors) incurred in connection with the Merger Agreement and transactions contemplated thereby by Ducommun and its affiliates up to \$5 million.

The Merger Agreement contains customary representations, warranties and covenants, and the Merger is subject to customary closing conditions, including approval of the Merger by the Company's stockholders holding two-thirds of the outstanding shares of common stock and expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The parties currently expect to close the transaction in late June 2011.

Ducommun has obtained debt financing commitments for the transaction contemplated by the Merger Agreement, the aggregate proceeds of which will be sufficient for Ducommun to pay the aggregate per share merger consideration and all related fees and expenses.

To provide financing for the transaction, UBS Loan Finance LLC, UBS Securities LLC, Credit Suisse Securities (USA) LLC and Credit Suisse AG (the “Lenders”) have provided a commitment to Ducommun for a senior secured term loan of \$190 million and a senior secured revolving credit facility of up to \$40 million, subject to the conditions set forth in the commitment letter dated April 3, 2011 (the “Debt Commitment Letter”). In the Debt Commitment Letter, the Lenders have also committed to provide a senior unsecured bridge facility of \$200 million to be available if Ducommun does not complete an anticipated offering of high yield senior unsecured notes at the time of the consummation of the Merger. The obligations of the Lenders to provide financing under the Debt Commitment Letter are subject to a number of customary conditions included in the Debt Commitment Letter. Consummation of the Merger is not subject to a financing condition.

The parties to the Merger Agreement are entitled to seek specific performance against each other in order to enforce their respective obligations under the Merger Agreement, subject to the terms and conditions therein.

#### Regulatory Matter

On February 10, 2011, the Company received a Wells notice from the staff of the United States Securities and Exchange Commission (“SEC”) indicating that the staff intended to recommend the filing of a civil enforcement action against the Company. On March 18, 2011, the Company reached an understanding with the regional staff of the SEC



regarding the terms of a settlement that the regional staff has agreed to recommend to the SEC. The proposed agreement, under which the Company will not admit or deny any wrongdoing, will, if approved by the SEC, fully resolve all claims against the Company relating to the formal investigation that the SEC commenced in

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June, 2009, relating to the Company's internal controls regarding its use of estimates of completion costs for certain long-term production contracts. The SEC staff did not make a claim against any individuals and did not allege fraud on the part of the Company or any of its directors, officers or employees. The SEC did not request that the Company restate its financial statements for the periods in question. The proposed settlement includes the following principal terms: (i) the Company will agree to a cease and desist order from future violations of securities laws and (ii) the Company will pay a monetary penalty of \$200,000. The Company recorded the penalty related to the proposed settlement of \$200,000 in the Company's financial statements in "other income/expense" in the quarter ended April 3, 2011. In addition, pursuant to the request of the SEC staff the Company deposited \$200,000 in an escrow account during the quarter ended April 3, 2011.

#### Recently Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued an accounting standards update included in Accounting Standards Codification ("ASC") Topic 810, "Consolidation," which amends previous guidance to require an analysis to determine whether a variable interest gives a company a controlling financial interest in a variable interest entity. An ongoing reassessment of financial responsibility is required, including interests in entities formed prior to the effective date of this guidance. This guidance also eliminates the quantitative approach previously required for determining whether a company is the primary beneficiary. It is effective for fiscal years beginning after November 15, 2009. This guidance was adopted by the Company on June 28, 2010, and adoption did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued guidance titled "Revenue Recognition – Multiple Deliverable Revenue Arrangements" (Accounting Standards Update 2009-13), 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. This guidance was adopted on June 28, 2010, and adoption did not have a material impact on the Company's consolidated financial statements.

## 2. SALES AND NET SALES

Sales and net sales consist of the following:

(in thousands)

|                      | Three Months Ended |                   | Nine Months Ended |                   |
|----------------------|--------------------|-------------------|-------------------|-------------------|
|                      | April 3,<br>2011   | March 28,<br>2010 | April 3,<br>2011  | March 28,<br>2010 |
| Sales                | \$83,338           | \$74,884          | \$250,480         | \$207,281         |
| Less sales discounts | 124                | 149               | 377               | 391               |
| Net sales            | \$83,214           | \$74,735          | \$250,103         | \$206,890         |

#### Geographic Information

The Company has no sales offices or facilities outside of the United States. Sales for exports were 6.5% of total sales for the fiscal quarter ended April 3, 2011, compared with 11.0% for the fiscal quarter ended March 28, 2010. For the nine months ended April 3, 2011, sales for exports were 9.3% of total sales, compared with 10.1% for the nine months ended March 28, 2010. The majority of the Company's foreign sales are 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

Sales to the Company's 10 largest customers represented 54% of total revenue for the three months ended April 3, 2011, versus 60% for the three months ended March 28, 2010. The Company's top three customers and their



relative contributions to sales for the fiscal quarter ended April 3, 2011, were as follows: Schlumberger Ltd., \$9.4 million (11.3%); Owens-Illinois, Inc., \$8.4 million (10.0%); and Raytheon Company, \$5.9 million (7.0%). This compares with Owens-Illinois, Inc., \$12.2 million (16.3%); American Superconductor, \$6.4 million (8.5%); and Raytheon Company, \$6.0 million (8.0%) for the fiscal quarter ended March 28, 2010.

Sales to the Company's 10 largest customers represented 58% of total revenue for the nine months ended April 3, 2011, versus 61% for the nine months ended March 28, 2010. The Company's top three customers and their relative contributions to sales for the nine months ended April 3, 2011, were as follows: Owens-Illinois, Inc., \$32.3 million (12.9%); Schlumberger Ltd., \$26.1 million (10.4%); and American Superconductor, \$19.0 million (7.6%). This compares with Owens-Illinois, Inc., \$29.1 million (14.1%); Raytheon Company, \$17.8 million (8.6%); and American Superconductor, \$16.7 million (8.1%) for the nine months ended March 28, 2010.

### 3. ACCOUNTS AND OTHER RECEIVABLES

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

|                                      | April 3,<br>2011 | June 27,<br>2010 |
|--------------------------------------|------------------|------------------|
| Billed shipments                     | \$42,855         | \$46,890         |
| Less allowance for doubtful accounts | 295              | 285              |
| Trade receivables, net               | 42,560           | 46,605           |
| Other current receivables            | 186              | 202              |
| Total                                | \$42,746         | \$46,807         |

Included in accounts receivable at April 3, 2011, and June 27, 2010, were \$857,000 and \$407,000, respectively, of receivables due directly from the U.S. Government and \$15.7 million and \$14.8 million, respectively, due from customers related to contracts with the U.S. Government.

At April 3, 2011, the amounts due from the three largest accounts receivable debtors and the percentage of total accounts receivable represented by those amounts were \$6.4 million (14.9%), \$3.2 million (7.5%), and \$2.8 million (6.4%). This compares with \$10.1 million (21.5%), \$6.6 million (14.0%), and \$3.4 million (7.2%) at June 27, 2010.

### 4. INVENTORIES

Inventories consist of the following:  
(in thousands)

|   | April 3,<br>2011 | June 27,<br>2010 |
|---|------------------|------------------|
| Raw materials   | \$48,559         | \$42,602         |
| Work in progress  | 6,838            | 4,658            |
| Inventoried costs relating to long-term contracts, net of amounts attributable to revenues recognized to date | 15,631           | 13,399           |
| Finished goods  | 3,934            | 3,877            |
| Total   | \$74,962         | \$64,536         |

For the three months ended April 3, 2011, and March 28, 2010, expense for obsolete or slow-moving inventory charged to income before taxes was \$388,000 and \$300,000, respectively.

For the nine months ended April 3, 2011, and March 28, 2010, expense for obsolete or slow-moving inventory charged to income before taxes was \$1.3 million and \$851,000, respectively.

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

|   | April 3,<br>2011 | June 27,<br>2010 |
|---|------------------|------------------|
| Production costs of goods currently in process <sup>(1)</sup>   | \$14,961         | \$13,054         |
| 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 | 658              | 642              |
| Unrecovered costs subject to future negotiation   | 347              | —                |
| Reserve for contracts with estimated costs in excess of contract revenues   | (335 )           | (297 )           |
| Total inventoried costs   | \$15,631         | \$13,399         |

<sup>(1)</sup> 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 include unrecovered costs of \$347,000 and \$0 at April 3, 2011, and June 27, 2010, respectively, which are subject to future determination through negotiation or other procedures not complete at April 3, 2011. In the opinion of management, these costs will be recovered by contract modification.

The Company records a loss when the estimated costs of a contract exceed the net realizable value of the contract. The Company has recorded a provision equal to the amount that estimated costs would exceed the net realizable revenue over the contract.

## 5. INTANGIBLE ASSETS, NET

Intangible assets, net, consist of the following:  
(in thousands)

|                               | April 3,<br>2011 | June 27,<br>2010 |
|-------------------------------|------------------|------------------|
| Software                      | \$5,686          | \$5,446          |
| Less accumulated amortization | 4,846            | 4,432            |
| Net software                  | 840              | 1,014            |
| Customer lists                | 13,070           | 13,070           |
| Less accumulated amortization | 6,166            | 5,236            |
| Net customer lists            | 6,904            | 7,834            |
| Employee agreements           | 1,350            | 1,350            |
| Less accumulated amortization | 1,350            | 1,122            |
| Net employee agreements       | —                | 228              |
| Total                         | \$7,744          | \$9,076          |

Intangible assets are amortized over a period ranging from two to eight years. Amortization expense was \$520,000 for the three months ended April 3, 2011, compared with \$669,000 for the three months ended March 28, 2010. For the nine months ended April 3, 2011, amortization expense was \$1.7 million, compared with \$2.2 million in the nine months ended March 28, 2010.

The Company anticipates that amortization expense will approximate \$2.2 million for fiscal year 2011, \$2.0 million for fiscal year 2012, \$1.8 million for fiscal year 2013, \$1.7 million for fiscal year 2014, and \$1.6 million for fiscal year 2015.

The Company assesses the assets for impairment in accordance with ASC 360-10, "Property, Plant, and Equipment – Impairment or Disposal of Long-Lived Assets." Impairment is realized when the undiscounted cash flows to be derived from the asset are less than its carrying amount. If impairment exists, the carrying value of the impaired asset is reduced to its net realizable value. The impairment charge is recorded in operating results. There was no impairment charge during the nine months ended April 3, 2011, or during fiscal year 2010.

## 6. GOODWILL

Goodwill is summarized as follows:  
(in thousands)

|          | April 3,<br>2011 | June 27,<br>2010 |
|----------|------------------|------------------|
| Goodwill | \$43,424         | \$43,424         |

Goodwill is recorded at three of the Company's reporting units. Impairment is tested annually in the fourth quarter of each fiscal year or more frequently if events or circumstances warrant.

**7. OTHER ASSETS**

Other assets consist of the following:  
(in thousands)

|                               | April 3,<br>2011 | June 27,<br>2010 |
|-------------------------------|------------------|------------------|
| Cash value of life insurance  | \$4,643          | \$4,723          |
| Deposits and licenses         | 223              | 186              |
| Deferred financing costs, net | 199              | 141              |
| Other                         | 82               | 75               |
| Total                         | \$5,147          | \$5,125          |

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

**8. 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)

|   | April 3,<br>2011 |   | June 27,<br>2010 |   |
|---|------------------|---|------------------|---|
| Short-term borrowings:  |                  |   |                  |   |
| Revolving credit agreement:                                       |                  |   |                  |   |
| Balance at period-end   | \$—              |   | \$—              |   |
| Interest rate at period-end                                       | 3.50             | % | 3.75             | % |
| Average amount of short-term borrowings outstanding during period | \$168            |   | \$35             |   |
| Average interest rate for period                                  | 3.79             | % | 3.79             | % |
| Maximum short-term borrowings at any month-end                    | \$550            |   | \$—              |   |
| Senior long-term debt:  |                  |   |                  |   |
| Term loan   | \$27,500         |   | \$37,000         |   |
| Other   | 261              |   | 327              |   |
| Total senior long-term debt                                       | 27,761           |   | 37,327           |   |
| Less current maturities   | 10,461           |   | 12,069           |   |
| Long-term debt, less current maturities                           | \$17,300         |   | \$25,258         |   |

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, amended on January 30, 2009, and August 31, 2010. The Company further amended the loan agreement on December 31, 2010, to extend the maturity date to December 31, 2013. The following is a summary of certain provisions of the agreement:

The amended agreement provides for a revolving credit facility of 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 April 3, 2011, \$0 was outstanding under the revolving credit facility. As of April 3, 2011, letters of credit issued were \$1.2 million, leaving an aggregate of

up to \$28.8 million available under the revolving credit facility. This credit facility matures on December 31, 2013.

The amended agreement provides for an extension of the final maturity date of the term loan. Beginning in December 2010, quarterly principal payments of \$2.5 million are made, increasing to \$2.7 million in September 2011, decreasing to \$2.5 million in December 2011, and decreasing again to \$2.3 million in December 2013.

The term loan will be fully amortized at maturity on December 31, 2013.

Interest on the revolving facility and the term loan is calculated at a base rate of LIBOR plus a stated spread based on certain ratios. For the fiscal quarter ended April 3, 2011, the average rate was approximately 3.34%.

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 April 3, 2011.

Interest Rate Swap:

To mitigate the risk associated with interest rate volatility, the Company entered into an interest rate swap agreement made effective on January 9, 2009. 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 of \$35.0 million will amortize simultaneously with the term loan schedule in the associated loan agreement and will mature on December 22, 2011. At April 3, 2011, the outstanding balance under the associated loan agreement was \$21.4 million.

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 amended loan agreement executed on December 31, 2010, has not changed the accounting for the interest rate swap agreement as the hedge is expected to remain highly effective until maturity. The financial statement impact of ineffectiveness for the three and nine months ended April 3, 2011, was not material.

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 financial statements are consistent with the estimated fair value as of April 3, 2011.

Additionally, the interest rate swap agreement, further described above, has been recorded by the Company based on the estimated fair value as of April 3, 2011.

At April 3, 2011, the Company recorded a liability of \$217,000 classified within other long-term liabilities in the consolidated balance sheet, and accumulated other comprehensive loss of \$138,000 (net of deferred income tax effects of \$79,000) relating to the fair value of the interest rate swap contract.

The Company has classified its financial assets and liabilities using 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 April 3, 2011 |         |         | Total |
|-------------------------------|--------------------------------|---------|---------|-------|
|                               | Level 1                        | Level 2 | Level 3 |       |
| Other long-term liabilities:  |                                |         |         |       |
| Interest rate swap derivative | \$—                            | \$217   | \$—     | \$217 |
|                               | \$—                            | \$217   | \$—     | \$217 |

Other Long-Term Debt:

Other long-term debt includes capital lease agreements with outstanding balances totaling \$11,000 at April 3, 2011, and \$77,000 at June 27, 2010.

Maturities of Senior Long-Term Debt:

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

(in thousands)

| Fiscal Year |          |
|-------------|----------|
| 2011        | \$2,503  |
| 2012        | 10,458   |
| 2013        | 10,000   |
| 2014        | 4,800    |
| Total       | \$27,761 |

## 9. CASH FLOWS

Total cash payments for interest for the three months ended April 3, 2011, and March 28, 2010, amounted to \$271,000 and \$392,000, respectively. Total cash payments for interest for the nine months ended April 3, 2011, and March 28, 2010, amounted to \$1.3 million and \$1.3 million, respectively. Net cash payments for federal and state income taxes were \$1.6 million and \$1.4 million for the three months ended April 3, 2011, and March 28, 2010, respectively. Net cash payments for federal and state income taxes were \$7.1 million and \$2.9 million for the nine months ended April 3, 2011, and March 28, 2010, respectively.

## 10. COMPREHENSIVE INCOME

Comprehensive income consists of the following:

(in thousands)

|                                 | Three Months Ended |                   | Nine Months Ended |                   |
|---------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                 | April 3,<br>2011   | March 28,<br>2010 | April 3,<br>2011  | March 28,<br>2010 |
| Net income                      | \$3,651            | \$4,128           | \$12,991          | \$10,068          |
| Other comprehensive gain (loss) | 54                 | (16 )             | 84                | (112 )            |
| Comprehensive income            | \$3,705            | \$4,112           | \$13,075          | \$9,956           |

The other comprehensive gains of \$54,000 and \$84,000 recognized in the three and nine months ended April 3, 2011, respectively, and other comprehensive losses of \$16,000 and \$112,000 recognized in the three and nine months ended March 28, 2010, respectively, represent the result of the changes in the fair value of the interest rate swap agreement described in Note 8 to 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.

## 11. 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 |                   | Nine Months Ended |                   |
|---------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                       | April 3,<br>2011   | March 28,<br>2010 | April 3,<br>2011  | March 28,<br>2010 |
| Net earnings                          | \$3,651            | \$4,128           | \$12,991          | \$10,068          |
| Basic net earnings per common share   | \$0.23             | \$0.26            | \$0.83            | \$0.64            |
| Diluted net earnings per common share | \$0.23             | \$0.26            | \$0.81            | \$0.63            |

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 and nonvested shares.

Basic and diluted shares are computed as follows:

(in thousands)

|  | Three Months Ended |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | April 3,<br>2011   | March 28,<br>2010 | April 3,<br>2011  | March 28,<br>2010 |
| Average common shares outstanding – basic            | 15,706             | 15,710            | 15,695            | 15,737            |
| Dilutive options and nonvested shares                | 264                | 300               | 246               | 299               |
| Adjusted average common shares outstanding – diluted | 15,970             | 16,010            | 15,941            | 16,036            |

All stock options outstanding and nonvested shares at April 3, 2011, and March 28, 2010, 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 2010 financial performance. The compensation expense related to these awards is recognized quarterly. The nonvested



shares vest at the end of the fiscal year 2012.

## 12. STOCK-BASED ARRANGEMENTS

The Company has established the 1993 Incentive Stock Option Plan, as amended, the 1995 Incentive Stock Option Plan and the 1999 Non-Qualified Stock Option Plan (collectively, the "Plans"). In the aggregate, the Plans provide for the issuance of up to 2.2 million shares to be granted in the form of share-based awards to key employees of the Company. In addition, pursuant to the 2004 Long Term Incentive Plan, as amended ("LTIP"), the Company provides for the issuance of up to 850,000 shares to be granted in the form of share-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 share-based compensation awards outstanding at April 3, 2011, include stock options, restricted stock and performance units.

For the three and nine months ended April 3, 2011, total stock-based compensation was \$404,000 (\$253,000 after tax), and \$1.1 million (\$720,000 after tax), respectively, and was equivalent to earnings per basic and diluted share of \$0.02 and \$0.05, respectively. For the three and nine months ended March 28, 2010, total stock-based compensation was \$140,000 (\$83,000 after tax), and \$843,000 (\$527,000 after tax), respectively, and was equivalent to earnings per basic and diluted share of \$0.01 and \$0.03, respectively.

As of April 3, 2011, the total unrecognized compensation expense related to nonvested shares and performance units was \$612,000 before income tax, and the period over which it is expected to be recognized is approximately one and a quarter years. At March 28, 2010, the total unrecognized compensation expense related to nonvested shares and performance units was \$154,000 before income tax, and the period over which it was recognized was approximately three months.

### Stock Options

A summary of the activity in the Company's Plans during the nine months ended April 3, 2011, is presented below:

|                                | Number of<br>Shares | Weighted-Average<br>Exercise Price | Number of<br>Shares<br>Exercisable | Weighted-Average<br>Exercise Price | Weighted-Average<br>Fair Value<br>Granted<br>Options |
|--------------------------------|---------------------|------------------------------------|------------------------------------|------------------------------------|--|
| Outstanding at June 27, 2010   | 426,652             | \$ 5.61                            | 426,652                            | \$ 5.61                            |  |
| Exercised                      | 1,000               | \$ 8.54                            | —                                  | —                                  | —  |
| Outstanding at October 3, 2010 | 425,652             | 5.60                               | 425,652                            | 5.60                               |  |
| Exercised                      | 14,087              | 6.91                               | —                                  | —                                  | —  |
| Outstanding at January 2, 2011 | 411,565             | \$ 5.55                            | 411,565                            | \$ 5.55                            |  |
| Exercised                      | —                   |                                    |                                    |                                    |  |
| Outstanding at April 3, 2011   | 411,565             | \$ 5.55                            | 411,565                            | \$ 5.55                            |  |

The following table summarizes information about stock options outstanding and exercisable as of April 3, 2011:

| Range of Exercise Prices | Number<br>Outstanding | Weighted-Average                               |                                       |   |
|--------------------------|-----------------------|--|---------------------------------------|---|
|                          |                       | Remaining<br>Contractual<br>Life<br>(In Years) | Weighted-Average<br>Exercise<br>Price | Aggregate<br>Intrinsic Value<br>( <sup>(1)</sup> (in millions)) |
| \$2.50 – 3.00            | 112,900               | 0.4  | \$ 2.85                               | \$1.7   |
| \$3.01 – 5.96            | 117,013               | 2.3  | 3.53                                  | 1.6   |
| \$5.97 – 8.54            | 181,652               | 3.4  | 8.54                                  | 1.6   |
|                          | 411,565               | 2.3  | \$ 5.55                               | \$4.9   |

<sup>(1)</sup> The intrinsic value of a stock option is the amount by which the April 3, 2011, market value of the underlying stock exceeds the exercise price of the option.

There were no stock options exercised during the fiscal quarters ended April 3, 2011, and March 28, 2010. For the nine months ended April 3, 2011, and March 28, 2010, the total intrinsic value of stock options exercised was \$104,000 and \$1.1 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 or nine months ended April 3, 2011.

#### 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 year following the performance period.

A summary of the activity of the Company's nonvested shares during the three and nine months ended April 3, 2011, is presented below:

|                                   | Number of<br>Nonvested Shares | Weighted-<br>Average Grant<br>Price |
|-----------------------------------|-------------------------------|-------------------------------------|
| Nonvested shares at June 27, 2010 | 119,338                       | \$12.30                             |
| Awarded                           | —                             | —                                   |
| Vested                            | —                             | —                                   |
| Forfeited                         | —                             | —                                   |
| Nonvested shares at April 3, 2011 | 119,338                       | \$12.30                             |

For the three months ended April 3, 2011, and March 28, 2010, compensation expense related to the LTIP was \$372,000 and \$140,000, respectively.

For the nine months ended April 3, 2011, and March 28, 2010, compensation expense related to the LTIP was \$1.0 million, and \$843,000, respectively.

### 13. SUBSEQUENT EVENTS

As discussed in Note 1 of the Consolidated Financial Statements, on April 3, 2011, the Company entered into a definitive agreement under which Ducommun Incorporated (NYSE: DCO), a provider of engineering and manufacturing services to the aerospace and defense industry, will acquire the Company for a purchase price of \$19.25 per share in cash. The transaction is expected to be completed in late June 2011.

The Company is aware of five purported class actions filed subsequent to the announcement of the Merger against the Company, its directors and Ducommun filed by purported stockholders of the Company and relating to the Merger. The complaints allege, among other things, that the Company's directors breached their fiduciary duties to the Company's stockholders, and that the Company and Ducommun aided and abetted the Company's directors in such alleged breaches of their fiduciary duties. Each plaintiff purports to bring his claims on behalf of himself and a class of Company stockholders. The actions seek judicial declarations that the Merger Agreement was entered into in breach of the directors' fiduciary duties, rescission of the transactions contemplated by the Merger Agreement, and the award of attorneys' fees and expenses for the plaintiffs. Three lawsuits challenging the proposed transaction have been filed in Missouri state court, all in the Circuit Court of St. Louis County. All seek declaratory, rescissory and other, unspecified, equitable relief against the directors and officers on a theory of breach of fiduciary duty to the stockholders and against the Company and Ducommun on a theory of "aiding and abetting" the individual defendants. The last filed of the Missouri suits also seeks to enjoin the transaction. No money damages are sought, except for attorneys' fees and costs.

The three Missouri cases are:

1. John M. Foley, Jr. v. LaBarge, Inc. et al., St. Louis County Circuit Court Cause No. 11SL-CC01383, filed April 5, 2011.
2. John M. Foley, Jr. v. LaBarge, Inc., et al., St. Louis County Circuit Court Cause No. 11SL-CC01391, filed April 6, 2011.
3. William W. Wheeler v. LaBarge, Inc., et al., St. Louis County Circuit Court Cause No. 11SL-CC01392, filed April 6, 2011.

Two other similar lawsuits have been filed in the Chancery Court of the State of Delaware by different attorneys than the those who filed above-described matters. Barry P. Borodkin v. Craig E. LaBarge, et al., transaction ID 36985939, Case No. 6368- (filed on April 12, 2011) and Insulators and Asbestos Workers Local No. 14 v. Craig LaBarge, et al. (filed on April 15, 2011) are putative class actions that mirror the claims raised in the Missouri cases, but also seek injunctive relief to prevent the proposed transaction with Ducommun in addition to accounting and attorneys' fees and costs. The Company believes that the lawsuits are without merit and intends to defend them vigorously.

LaBarge, Inc.

Form 10-Q

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 terms.

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 Part II, Item 1A of this quarterly report on Form 10-Q, as the same may be updated from time to time in our filings with the 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.

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 1,570 people, including approximately 1,340 people who provide support for production activities (including assembly, testing and engineering) and approximately 230 people who provide administrative support.

The Company uses a fiscal year ending the Sunday closest to June 30. The nine months ended April 3, 2011, contained 40 weeks while the nine months ended March 28, 2010, contained 39 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 are impacted primarily by the volume of shipments in the particular period. The Company is currently monitoring a situation with one of its customers, American Superconductor, which is discussed in detail in Item 1A.

Risk Factors.

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. Though the selling and marketing personnel have a customer and prospective customer focus, they are not limited to exclusively developing a specific end market.

#### Results of Operations – Three and Nine Months Ended April 3, 2011

##### Backlog

(in thousands)

|                      | Change   | April 3,<br>2011 | June 27,<br>2010 |
|----------------------|----------|------------------|------------------|
| Defense              | \$45,395 | \$155,825        | \$110,430        |
| Natural Resources    | (4,969 ) | 31,388           | 36,357           |
| Industrial           | (3,247 ) | 25,384           | 28,631           |
| Medical              | 3,348    | 21,513           | 18,165           |
| Commercial Aerospace | 1,093    | 2,705            | 1,612            |
| Other                | 1,240    | 4,772            | 3,532            |
| Total backlog        | \$42,860 | \$241,587        | \$198,727        |

The backlog at April 3, 2011, increased \$42.9 million from June 27, 2010. The \$45.4 million increase in defense backlog is primarily attributable to several large contracts related to producing interconnect and electronic assemblies for a variety of defense applications, including military aircraft, missile systems, radar systems and shipboard programs. The \$5.0 million decrease in natural resources backlog is primarily attributable to lower bookings from the wind power generation industry. The \$3.2 million decrease in industrial backlog is primarily attributable to a decrease in bookings of electronic and electromechanical assemblies used in capital equipment for glass container fabrication systems.

Approximately \$47.2 million of the backlog at April 3, 2011, is scheduled to ship beyond the next 12 months, pursuant to the shipment schedules of the contracts that comprise backlog. This compares with \$30.4 million at June 27, 2010.

##### Net Sales

(in thousands)

|                      | Three Months Ended |                   | Nine Months Ended |                   |
|----------------------|--------------------|-------------------|-------------------|-------------------|
|                      | April 3,<br>2011   | March 28,<br>2010 | April 3,<br>2011  | March 28,<br>2010 |
| Defense              | \$32,940           | \$28,878          | \$91,333          | \$89,677          |
| Natural Resources    | 19,130             | 14,507            | 62,748            | 38,306            |
| Industrial           | 18,060             | 19,650            | 59,990            | 45,405            |
| Medical              | 10,235             | 8,303             | 26,239            | 22,073            |
| Commercial Aerospace | 920                | 892               | 3,126             | 3,505             |
| Other                | 1,929              | 2,505             | 6,667             | 7,924             |
| Total net sales      | \$83,214           | \$74,735          | \$250,103         | \$206,890         |

For the three months ended April 3, 2011, sales increased \$8.5 million, versus the comparable period a year earlier. Sales to defense customers increased \$4.1 million, primarily related to several large contracts related to producing



interconnect and electronic assemblies for a variety of defense applications, including military aircraft, missile systems, radar systems and shipboard programs. Sales to natural resources customers increased \$4.6 million, primarily attributable to an increase in sales to oil and gas customers. Sales to industrial customers decreased \$1.6 million, primarily due to lower demand for electronic and electromechanical assemblies used in capital equipment for glass container fabrication systems.

For the nine months ended April 3, 2011, sales increased \$43.2 million, versus the comparable period a year earlier. Sales to natural resources customers increased \$24.4 million, primarily attributable to an increase in sales to oil and gas, wind power generation and mining customers. Sales to industrial customers increased \$14.6 million, primarily due to higher demand for capital equipment used in glass container fabrications systems and higher demand for electronic assemblies used in high-performance semiconductor test equipment.

Sales to the Company's 10 largest customers represented 54% of total revenue for the three months ended April 3, 2011, versus 60% for the three months ended March 28, 2010. The Company's top three customers and their relative contributions to sales for the fiscal quarter ended April 3, 2011, were as follows: Schlumberger Ltd., \$9.4 million (11.3%); Owens-Illinois, Inc., \$8.4 million (10.0%); and Raytheon Company, \$5.9 million (7.0%). This compares with Owens-Illinois, Inc., \$12.2 million (16.3%); American Superconductor, \$6.4 million (8.5%); and Raytheon Company, \$6.0 million (8.0%) for the fiscal quarter ended March 28, 2010.

Sales to the Company's 10 largest customers represented 58% of total revenue for the nine months ended April 3, 2011, versus 61% for the nine months ended March 28, 2010. The Company's top three customers and their relative contributions to sales for the nine months ended April 3, 2011, were as follows: Owens-Illinois, Inc., \$32.3 million (12.9%); Schlumberger Ltd., \$26.1 million (10.4%); and American Superconductor, \$19.0 million (7.6%). This compares with Owens-Illinois, Inc., \$29.1 million (14.1%); Raytheon Company, \$17.8 million (8.6%); and American Superconductor, \$16.7 million (8.1%) for the nine months ended March 28, 2010.

#### Cost of Sales and Gross Profit (dollars in thousands)

|                      | Three Months Ended |   |                   |   | Nine Months Ended |   |                   |   |
|----------------------|--------------------|---|-------------------|---|-------------------|---|-------------------|---|
|                      | April 3,<br>2011   |   | March 28,<br>2010 |   | April 3,<br>2011  |   | March 28,<br>2010 |   |
| Cost of sales        | \$66,290           |   | \$59,334          |   | \$199,467         |   | \$165,559         |   |
| Percent of net sales | 79.7               | % | 79.4              | % | 79.8              | % | 80.0              | % |
| Gross profit         | \$16,924           |   | \$15,401          |   | \$50,636          |   | \$41,331          |   |
| Gross profit margin  | 20.3               | % | 20.6              | % | 20.2              | % | 20.0              | % |

Gross profit margins vary significantly 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 the period. Delivery schedules are generally determined by the Company's customers. The significant factors that influence the profitability of 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.

Cost of sales for the three months ended April 3, 2011, increased \$7.0 million, compared with the prior fiscal year, driven by a \$8.5 million increase in sales. Gross profit for the three months ended April 3, 2011, increased \$1.5 million, and gross profit margin decreased 30 basis points versus the same period in the prior fiscal year.

Cost of sales for the nine months ended April 3, 2011, increased \$33.9 million, compared with the prior fiscal year, driven by a \$43.2 million increase in sales. Gross profit for the nine months ended April 3, 2011, increased \$9.3 million, and gross profit margin increased 20 basis points versus the same period in the prior fiscal year.

Selling and Administrative Expense  
(dollars in thousands)

|                                    | Three Months Ended |                   |      |   | Nine Months Ended |                   |      |   |
|------------------------------------|--------------------|-------------------|------|---|-------------------|-------------------|------|---|
|                                    | April 3,<br>2011   | March 28,<br>2010 |      |   | April 3,<br>2011  | March 28,<br>2010 |      |   |
| Selling and administrative expense | \$10,616           | \$8,402           |      |   | \$29,048          | \$25,350          |      |   |
| Percent of net sales               | 12.8               | %                 | 11.2 | % | 11.6              | %                 | 12.3 | % |

Selling and administrative expense increased by \$2.2 million for the three months ended April 3, 2011, compared with the three months ended March 28, 2010. The increase in expenses is primarily attributable to an increase in professional service fees of \$1.6 million, \$1.4 million of which are associated with the pending acquisition of the Company by Ducommun as described in Note 1 of the Notes to the Consolidated Financial Statements. In addition, salaries and fringe benefit expense increased \$605,000, software amortization decreased \$203,000, and bad debt expense increased \$208,000 in three months ended April 3, 2011, compared with the three months ended March 28, 2010. In the three months ended March 28, 2010, bad debt expense was favorably impacted by \$220,000 due a collection that was reserved for in fiscal year 2009.

Selling and administrative expense increased by \$3.7 million for the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. The increase in expenses is primarily attributable to an increase in salaries and fringe benefit expense of \$1.8 million, versus the prior-year period. In addition, professional service fees increased \$2.0 million, \$1.5 million of which are associated with the pending acquisition of the Company by Ducommun described in Note 1 of the Notes to the Consolidated Financial Statements. In addition, software amortization decreased \$530,000, offset by increases of \$348,000 in bad debt expense, \$212,000 in rent expense, and \$182,000 in expenses for utilities in the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010.

Interest Expense  
(in thousands)

|                  | Three Months Ended |                   | Nine Months Ended |                   |
|------------------|--------------------|-------------------|-------------------|-------------------|
|                  | April 3,<br>2011   | March 28,<br>2010 | April 3,<br>2011  | March 28,<br>2010 |
| Interest expense | \$293              | \$400             | \$1,031           | \$1,329           |

Interest expense decreased \$107,000 for the three months ended April 3, 2011, versus the same period a year earlier due to lower average debt levels.

Interest expense decreased \$298,000 for the nine months ended April 3, 2011, versus the same period a year earlier due to lower average debt levels.

Income Tax Expense  
(in thousands)

|                    | Three Months Ended |                   | Nine Months Ended |                   |
|--------------------|--------------------|-------------------|-------------------|-------------------|
|                    | April 3,<br>2011   | March 28,<br>2010 | April 3,<br>2011  | March 28,<br>2010 |
| Income tax expense | \$2,191            | \$2,516           | \$7,406           | \$4,590           |

The estimated annual effective income tax rate for the three and nine months ended April 3, 2011, was 36.5%,



compared with 37.5% for the three and nine months ended March 28, 2010. The income tax expense recorded for the nine months ended March 28, 2010, was 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.

## Liquidity and Capital Resources

### Cash Flow

(in thousands)

|  | Nine Months Ended |                   |
|--|-------------------|-------------------|
|  | April 3,<br>2011  | March 28,<br>2010 |
| Net cash provided by operating activities            | \$17,593          | \$12,195          |
| Net cash used by investing activities                | (3,693 )          | (4,287 )          |
| Net cash used by financing activities                | (9,982 )          | (8,010 )          |
| Net increase (decrease) in cash and cash equivalents | \$3,918           | \$(102 )          |

The Company's operations generated \$17.6 million of cash in the nine months ended April 3, 2011, compared with \$12.2 million of cash generated in the nine months ended March 28, 2010. The primary driver of the \$5.4 million increase in net operating cash flow in the current-year period was \$57.7 million of increased cash received from trade customers due to the higher sales levels for the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. Also, cash received from customers to fund long-lead material purchases was \$4.6 million higher in the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. This was partially offset by a \$43.8 million increase in cash disbursements for inventory purchases and other costs of operations in the fiscal 2011 third quarter. The higher inventory purchases and other operation costs were primarily driven by the increase in sales volume for the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. In addition, the cash used for payroll-related expenditures increased \$9.1 million in the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010, due to bonus payments made during the nine months ended April 3, 2011, and the timing of the payroll disbursements, which resulted in an additional payroll disbursement in the nine months ended April 3, 2011, compared with the nine months ended March 28, 2010. Also, net income tax payments were \$4.2 million higher in the nine months ended April 3, 2011, versus the same period in fiscal year 2010.

The \$594,000 decrease in cash used by the Company's investing activities in the nine months ended April 3, 2011, versus the nine months ended March 28, 2010, was primarily driven by a reduction of \$189,000 in capital expenditures for equipment and facilities and a reduction of \$348,000 in spending for software.

The \$2.0 million increase in cash used by financing activities in the nine months ended April 3, 2011, versus the nine months ended March 28, 2010, is primarily due to the Company repaying long-term debt of \$9.6 million in the nine months ended April 3, 2011, compared with payments of \$6.1 million in the nine months ended March 28, 2010. This was offset by a reduction in purchases of common stock. The Company purchased no common stock in the nine months ended April 3, 2011, compared with purchases of \$1.6 million of common stock in the nine months ended March 28, 2010.

### Capital Structure

The Company entered into a senior secured loan agreement on December 22, 2008, amended on January 30, 2009, and August 31, 2010. The Company further amended the loan agreement on December 31, 2010, to extend the maturity date to December 31, 2013. The following is a summary of certain provisions of the agreement:

The amended agreement provides for a revolving credit facility of 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 April 3, 2011, \$0 was outstanding under the revolving credit facility. As of April 3, 2011, letters of credit issued were \$1.2 million, leaving an aggregate of



up to \$28.8 million available under the revolving credit facility. This credit facility matures on December 31, 2013.

The amended agreement provides for an extension of the final maturity date of the term loan. Beginning in December 2010, quarterly principal payments of \$2.5 million are made, increasing to \$2.7 million in September 2011, decreasing to \$2.5 million in December 2011, and decreasing again to \$2.3 million in December 2013.

The term loan will be fully amortized at maturity on December 31, 2013.

Interest on the revolving facility and the term loan is calculated at a base rate of LIBOR plus a stated spread based on certain ratios. For the fiscal quarter ended April 3, 2011, the average rate was approximately 3.34%.

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 April 3, 2011.

Interest Rate Swap:

To mitigate the risk associated with interest rate volatility, the Company entered into an interest rate swap agreement made effective on January 9, 2009. 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 of \$35.0 million will amortize simultaneously with the term loan schedule in the associated loan agreement and will mature on December 22, 2011. At April 3, 2011, the outstanding balance under the associated loan agreement was \$21.4 million.

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 amended loan agreement executed on December 31, 2010, has not changed the accounting for the interest rate swap agreement as the hedge is expected to remain highly effective until maturity. The financial statement impact of ineffectiveness for the three months ended April 3, 2011, and March 28, 2010, was not material.

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 financial statements are consistent with the estimated fair value as of April 3, 2011.

Additionally, the interest rate swap agreement, further described above, has been recorded by the Company based on the estimated fair value as of April 3, 2011.

At April 3, 2011, the Company recorded a liability of \$217,000 classified within other long-term liabilities in the consolidated balance sheet, and accumulated other comprehensive loss of \$138,000 (net of deferred income tax effects of \$79,000) relating to the fair value of the interest rate swap contract.

The Company has classified its financial assets and liabilities using 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 April 3, 2011 |         |         | Total |
|-------------------------------|--------------------------------|---------|---------|-------|
|                               | Level 1                        | Level 2 | Level 3 |       |
| Other long-term liabilities:  |                                |         |         |       |
| Interest rate swap derivative | \$—                            | \$217   | \$—     | \$217 |
|                               | \$—                            | \$217   | \$—     | \$217 |

Other Long-Term Debt:

Other long-term debt includes capital lease agreements with outstanding balances totaling \$11,000 at April 3, 2011, and \$77,000 at June 27, 2010.

Maturities of Senior Long-Term Debt:

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

(in thousands)

| Fiscal Year |          |
|-------------|----------|
| 2011        | \$2,503  |
| 2012        | 10,458   |
| 2013        | 10,000   |
| 2014        | 4,800    |
| Total       | \$27,761 |

Stockholders' Equity and Debt

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

(in thousands)

|                      | April 3,<br>2011 | June 27,<br>2010 |
|----------------------|------------------|------------------|
| Stockholders' equity | \$129,335        | \$115,640        |
| Debt                 | 27,761           | 37,327           |

Management believes the availability of funds going forward from cash generated from operations and available bank credit facilities will 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 the Annual Report on Form 10-K for the fiscal year ended June 27, 2010.

#### 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 the Financial Accounting Standards Board ("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") ("ASC Topic 605-35"). The percentage of total revenue recognized from contracts under the percentage of completion method is generally 35-55% 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, and 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 and gross profit percentage. 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, the total anticipated loss is recognized in that period.

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.

In addition, when there is an anticipated loss on a contract, 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 on the contract 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.

## 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 lower of cost or market value issues to determine whether any write-down to the lower of cost or market value 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 April 3, 2011, and March 28, 2010, expense for the write-down of inventory to lower of cost or market value charged to income before income taxes was \$388,000, and \$300,000, respectively. For the nine months ended April 3, 2011, and March 28, 2010, expense for the write-down of inventory to lower of cost or market value charged to income before income taxes was \$1.3 million, and \$851,000, respectively.

## 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 during the fiscal year 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. The Company evaluates whether any triggering events have occurred during the fiscal year, such as a significant decrease in expected cash flows at a reporting unit or changes in market or other business conditions that may indicate a potential impairment of goodwill or other intangible assets. In addition, the Company monitors its market capitalization, compared with the carrying value of the Company.

The annual goodwill impairment testing is performed in accordance with FASB ASC Topic 350, "Intangibles – Goodwill and Other ." Under guidelines established by FASB ASC Topic 280, "Segment Reporting" ("ASC 280") the Company operates as one operating segment. However, the goodwill impairment analysis is performed at a reporting unit level. A reporting unit is one level below an operating segment as defined by ASC 280. Goodwill is recorded on three of the Company's reporting units. The goodwill was a result of purchase accounting during the acquisition of these reporting units.

The Company estimates the fair value of its reporting units based on a combination of a market approach and an income approach. The income approach utilizes the discounted cash flow model and the market approach is based on market data for a group of guideline companies. The Company also considers its market capitalization on the date of the impairment testing, compared with the sum of the fair values of all reporting units including those without goodwill recorded.

The discounted cash flow analysis requires the Company to make estimates and judgments about the future cash flows of each reporting unit. The future cash flow forecasts for each reporting unit are based on historical and forecasted revenue and operating costs. This, in turn, involves further estimates such as expected future revenue and expense growth rates, working capital needs at each reporting unit and future capital expenditures required to



meet the revenue growth. The discount rate is based on the estimated weighted average cost of capital for each reporting unit, which considers the risk inherent in each reporting unit.

The Company performed its annual impairment test of goodwill as of June 1, 2010, and concluded that no impairment charges were required. Total goodwill is \$43.4 million. Based on the annual impairment test completed as of June 1, 2010, the Company determined that the fair value of two of the reporting units, which represented \$24.3 million of the total goodwill, was substantially in excess of the carrying value of the reporting units.

The remaining reporting unit, which was acquired in December 2008, had goodwill of \$19.1 million at June 1, 2010. The fair value of this reporting unit exceeded the carrying value of this unit by more than 20%. However, this is a relatively recent acquisition that was purchased prior to the economic slowdown and the disruptive events in the credit markets. The estimates and assumptions made in the Company's estimate of the fair value of this reporting unit are inherently subject to significant uncertainties, many of which are beyond the control of the Company 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 variation that would significantly affect the measurement value include the assumptions regarding discount rate utilized, revenue growth, expected operating profit margins, and working capital requirements.

The following is a summary analysis of the significant assumptions used by the Company to estimate the fair value of this reporting unit using the income approach and how the assumptions were developed:

**Discount rate:** The discount rate represents the expected return on capital and is based on the estimated weighted-average cost of capital for the reporting unit. The discount rate used in determining the fair value of the reporting unit was 16%. This rate considers the risk inherent in the projections used to estimate the fair value of the reporting unit. This rate takes into account the uncertainty about the expected revenue growth of the reporting unit and expected operating margins as well as the past performance of the reporting unit. A change in the discount rate of 1% would indicate that the fair value of the reporting unit remains in excess of the carrying value of the unit. However, it would indicate that the excess of the fair value of the reporting unit over the carrying value of the reporting unit would be less than 20%.

**Revenue growth assumptions:** Projected annual growth assumptions are 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 ("EMS") industry. The long term expected growth rate for the EMS industry is 7%. The Company expects sales growth rates for this reporting unit to exceed the long term industry average of 7% during the next five years as the Company recovers from the economic slowdown in fiscal years 2009 and 2010. The growth rates will then normalize to industry rates. The Company used a terminal growth rate of 3% to calculate the terminal value in the discounted cash flow analysis. The Company expects the growth rates for the reporting unit to exceed the long-term growth rate of the EMS industry because (1) the Company expects that in fiscal year 2011, and fiscal year 2012, existing customers of the reporting unit will recover to their sales rates prior to the economic slowdown, and (2) the Company believes that with access to the Company's larger sales force and more competitive financial strength the reporting unit will be able to attract new customers and gain additional business from existing customers.

**Operating profit margin assumptions:** The forecasted operating profit used in the income approach for the reporting unit is expected to improve in the future years as a result of implementing lean efficiency improvements, leveraging of the Company-wide purchasing agreements and leveraging fixed costs.

**Working Capital assumptions and capital expenditures:** Working capital requirements were forecasted based on the reporting unit's historical performance and considering industry averages. Capital expenditures were forecasted based on current spending plans for the next two fiscal years and on industry averages, thereafter.

The Company also used the market approach to estimate the fair value of the reporting unit. The Company utilizes the guideline public company method in which valuation pricing multiples are derived from the market share prices of stocks of companies that are engaged in the same or similar lines of business as the reporting unit, and that are actively traded on a free and open market. The derived multiples are then applied to the reporting unit's financial

metrics producing indications of value, which are correlated to reach a final indication of value. The Company used EBITDA multiples based on the last 12 months and for the next 12 months to EBITDA to estimate fair value using a market approach. These multiples range from 5.0 to 7.0 times EBITDA. In addition, the Company included a control premium in this analysis. This resulted in a market value that was within 10% of the estimated fair value using the income approach.

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. If the current economic conditions 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. Any related losses or required write-downs could have a material adverse effect on the Company's financial results.

The Company is currently monitoring a situation with one of the customers of this reporting unit, which is discussed in detail in Item 1A. Risk Factors.

#### Recently Adopted Accounting Standards

In June 2009, the FASB issued an accounting standards update included in ASC Topic 810, "Consolidation," which amends previous guidance to require an analysis to determine whether a variable interest gives a company a controlling financial interest in a variable interest entity. An ongoing reassessment of financial responsibility is required, including interests in entities formed prior to the effective date of this guidance. This guidance also eliminates the quantitative approach previously required for determining whether a company is the primary beneficiary. It is effective for fiscal years beginning after November 15, 2009. This guidance was adopted on June 28, 2010 and adoption did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued guidance titled "Revenue Recognition – Multiple Deliverable Revenue Arrangements" (Accounting Standards Update 2009-13), 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. This guidance was adopted by the Company on June 28, 2010, and adoption did not have a material impact on the Company's consolidated financial statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

#### Foreign Currency Risk

The Company has no sales offices or facilities outside of the United States. Sales for exports were 6.5% of total sales for the fiscal quarter ended April 3, 2011, compared with 11.0% for the fiscal quarter ended March 28, 2010. For the nine months ended April 3, 2011, sales for exports were 9.3% of total sales compared with 10.1% for the nine months ended March 28, 2010. The majority of the Company's foreign sales are 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.

#### Interest Rate Risk

As of April 3, 2011, the Company had \$27.8 million in total debt. Of the total debt, \$21.4 million has a fixed rate through an interest rate swap agreement, and therefore, is not subject to interest rate risk. Another \$261,000 is subject to a fixed interest rate through borrowing agreements and is not subject to interest rate risk. The interest rate on the remaining \$6.1 million is subject to fluctuation. If interest rates increased 1%, the additional interest cost to the Company would be approximately \$53,000 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, 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 Securities Exchange Act of 1934, as amended, (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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 April 3, 2011, 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 27, 2010, includes “Risk Factors” under Item 1A of Part I. Except as set forth 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.

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. As of April 3, 2011, goodwill accounts for \$43.4 million, or 20.4%, of the Company’s total assets. The Company evaluates goodwill amounts for impairment annually, or when evidence of potential impairment exists. The annual impairment test is based on several factors requiring judgment. Principally, a significant decrease in expected cash flows or changes in market or other business conditions may indicate potential impairment of recorded goodwill. If the current economic conditions 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.

In December 2008, the Company acquired the assets of its Appleton operation which included \$19.1 million of goodwill and \$9.7 million of intangible customer list. As of April 3, 2011, the net book value of the customer list is \$6.9 million. As of April 3, 2011, the Company’s backlog for the Appleton operation was \$37.2 million, which includes approximately \$10.6 million relating to orders at the Appleton facility for electronic systems used in wind power generation equipment with American Superconductor. Based on current estimates, backlog related to American Superconductor is scheduled to ship in the next nine months. As of April 3, 2011, the trade receivables due from this customer were \$2.5 million, of which \$600,000 was past due. Included in inventory as of April 3, 2011, was \$718,000 related to this customer. Year to date through April 3, 2011, the Company has recorded \$19.0 million of sales to this customer, which represent approximately 7.6% of total LaBarge sales and 34.8% of the Appleton operation’s sales.

American Superconductor’s largest customer, providing 75% of American Superconductor’s revenue for the nine months ended December 2010, is Sinovel Wind Group Co. Ltd. (“Sinovel”). On April 5, 2011, American Superconductor issued an update regarding its anticipated fourth quarter and fiscal year ended March 31, 2011, results. In the press release, American Superconductor announced that Sinovel had refused to accept contracted shipments of electrical components and spare parts in March 2011, and that Sinovel was past due on \$56.0 million of shipments from prior quarters.

American Superconductor has not canceled any orders with the Company, but has indicated that it would delay receipt of current orders by 30 to 60 days. If the orders are not canceled and are merely delayed, this should not have a significant negative impact on the Appleton operation, as it moves out the projected cash flow by 90 days.



Based on discussions with American Superconductor, and given the information that is currently available, the Company believes that it will collect the receivable and, although possibly delayed, shipments will resume in a time frame that would not have a significant impact on the operations of the Appleton facility. The Company will continue to monitor the situation and maintain contact with the customer. If the orders to American Superconductor

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are canceled, substantially reduced or postponed for a significant period of time, the Company may be required to record an impairment of the goodwill related to the Appleton operation, which could have a material adverse effect on the Company's financial results.

Management's focus on the Merger may divert their attention from ongoing business concerns.

Consummation of the Merger, and satisfaction of various conditions to closing the Merger, will require a significant investment of resources by the Company, including the time and attention of our management. We cannot predict or estimate the impact that our management's attention to these matters will have on the operation of our business.

The announcement of the Merger Agreement may cause disruptions that will harm the Company's operating results and business, customer relationships, and relationships with our employees and suppliers.

The inclination of our customers and suppliers to continue their business relationships with us may be negatively impacted by the announcement of the Merger. In addition, certain of our employees may elect to pursue other employment opportunities as a result of the Merger and the transactions contemplated under the Merger Agreement. Any significant disruption to our customer, supplier or employee relationships could have an adverse effect on our financial condition and results of operations.

The Company must obtain governmental and regulatory approvals to consummate the Merger, which, if delayed, not granted or granted with unacceptable conditions, may jeopardize or delay the consummation of the Merger, result in additional expenditure of time and resources and reduce the anticipated benefits of the acquisition.

The Merger is conditioned on the receipt of clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. If the Company does not receive such approvals, or does not receive such approvals on terms that satisfy the conditions set forth in the Merger Agreement, then the Company will not be obligated to consummate the Merger.

The governmental authorities from which the Company must seek these regulatory approvals have broad discretion in their review of the transaction. As a condition to their approval of the merger, the governmental authorities may impose requirements, limitations or costs on the combined company, require divestitures of the combined company or place restrictions on the conduct of the business of the combined company. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the consummation of the merger and could reduce its anticipated benefits to the Company. The Company cannot make any assurances that it will obtain all of the required regulatory approvals or that Ducommun will obtain them on any particular terms. The Merger Agreement also contains a condition that the staff of the SEC has not rejected or expressly disapproved any of the material terms or conditions of the March 18, 2011, settlement that the regional SEC staff has agreed to recommend to the SEC. See Note 1 to the Consolidated Financial Statements.

The Company will incur significant transaction and Merger-related integration costs in connection with the Merger. The Company expects to incur a number of costs associated with completing the Merger. The substantial majority of these costs will be non-recurring expenses and will primarily consist of transaction costs related to the Merger. It is possible that the Merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events.

An event, change or other circumstance could occur that could give rise to the termination of the Merger Agreement, including a termination under circumstances that could require us to pay a termination fee or reimburse Ducommun for its expenses incurred in connection with the proposed transaction up to \$5.0 million.

The market price of the Company's common stock may decline as a result of investor perceptions of the Merger. In response to the announcement of the Merger, the market price of Company common stock may decline as a result of investor perceptions about the terms or benefits of the transaction.

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Item 6. Exhibits

| Exhibit No. | Description   |
|-------------|---|
| 2.1         | Agreement and Plan of Merger, dated as of April 3, 2011, by and among LaBarge, Inc., Ducommun Incorporated and DLBMS, Inc. (filed as Exhibit 2.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission (the "SEC") on April 6, 2011, and incorporated herein by reference).* |
| 4.1         | Amendment No. 2 to Rights Agreement, dated as of April 3, 2011, by and between LaBarge, Inc. and Registrar and Transfer Company as Rights Agent (filed as Exhibit 4.1 to the Registrant's Form 8-K filed with the SEC on April 6, 2011, and incorporated herein by reference).                        |
| 10.1        | Employment Agreement, dated April 3, 2011, by and between LaBarge, Inc. and Craig E. LaBarge (filed as Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on April 6, 2011, and incorporated herein by reference).  |
| 10.2        | Employment Agreement, dated April 3, 2011, by and between LaBarge, Inc. and Donald H. Nonnenkamp (filed as Exhibit 10.2 to the Registrant's Form 8-K filed with the SEC on April 6, 2011, and incorporated herein by reference).  |
| 10.3        | Employment Agreement, dated April 3, 2011, by and between LaBarge, Inc. and Randy L. Buschling (filed as Exhibit 10.3 to the Registrant's Form 8-K filed with the SEC on April 6, 2011, and incorporated herein by reference).  |
| 10.4        | Employment Agreement, dated April 3, 2011, by and between LaBarge, Inc. and Teresa K. Huber (filed as Exhibit 10.4 to the Registrant's Form 8-K filed with the SEC on April 6, 2011, and incorporated herein by reference).   |
| 10.5        | Employment Agreement, dated April 3, 2011, by and between LaBarge, Inc. and William D. Bitner (filed as Exhibit 10.5 to the Registrant's Form 8-K filed with the SEC on April 6, 2011, and incorporated herein by reference).   |
| 10.6        | Employment Agreement, dated April 3, 2011, by and between LaBarge, Inc. and John R. Parmley (filed as Exhibit 10.6 to the Registrant's Form 8-K filed with the SEC on April 6, 2011, and incorporated herein by reference).   |
| 10.7        | Second Amendment to LaBarge, Inc. 2004 Long Term Incentive Plan, dated April 3, 2011 (filed as Exhibit 10.7 to the Registrant's Form 8-K filed with the SEC on April 6, 2011, and incorporated herein by reference).  |
| 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.
- \* Schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish a supplemental copy of any omitted schedule to the SEC upon request.

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SIGNATURE

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

LaBarge, Inc.

Date: May 6, 2011

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