LABARGE INC
Form 10-Q
February 06, 2009

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

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 28, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 1-5761
LaBarge, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	73-0574586
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
9900 Clayton Road, St. Louis, Missouri	63124
(Address of Principal Executive Offices)	(Zip Code)

(314) 997-0800

(Registrant s Telephone Number, Including Area Code)
N/A

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

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

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. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Indicate the number of shares outstanding of each of the Issuer s classes of common stock as of February 5, 2009: 15,916,900 shares of common stock.

LaBarge, Inc.
FORM 10-Q
For the Quarterly Period Ended December 28, 2008
Table of Contents

PART I
LaBARGE, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(amounts in thousands except per-share amounts)

	Three Months Ended		Six Months Ended	
	December 28, 2008	December 30, 2007	**December 28, 2008**	December 30, 2007
Net sales	**$68,207**	$67,052	**$136,399**	$126,242
Costs and expenses:				
Cost of sales	**57,955**	53,676	**111,884**	101,494
Selling and administrative expense	**9,642**	7,465	**17,912**	14,412
Interest expense	**145**	387	**303**	814
Other expense, net	**6**	22	**16**	32
Earnings before income taxes	**459**	5,502	**6,284**	9,490
Income tax expense	**210**	2,105	**2,366**	3,573
Net earnings	**$ 249**	$ 3,397	**$ 3,918**	$ 5,917
Basic net earnings per common share	**$ 0.02**	$ 0.22	**$ 0.26**	$ 0.39
Average common shares outstanding	**15,451**	15,216	**15,343**	15,208
Diluted net earnings per share	**$ 0.02**	$ 0.21	**$ 0.24**	$ 0.37
Average diluted common shares outstanding	**16,059**	16,092	**16,070**	16,059

See accompanying notes to consolidated financial statements.

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

	December 28, 2008	June 29, 2008
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,695**	$ 1,646
Accounts and other receivables, net	**36,799**	40,778
Inventories	**62,588**	66,927
Prepaid expenses	**1,295**	1,245
Deferred tax assets, net	**4,943**	1,960
Total current assets	**107,320**	112,556
Property, plant and equipment, net	**26,054**	17,248
Intangible assets, net	**12,707**	1,548
Goodwill, net	**42,161**	24,292
Deferred tax asset, net	**137**	
Other assets, net	**5,266**	4,828
Total assets	**$193,645**	$160,472
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	**$ 5,850**	$ 10,500
Current maturities of long-term debt	**2,152**	4,682
Trade accounts payable	**20,841**	22,684
Accrued employee compensation	**10,342**	13,494
Other accrued liabilities	**2,586**	2,552
Cash advances	**10,081**	11,897
Total current liabilities	**51,852**	65,809
Long-term advances from customers for purchase of materials	**47**	622
Deferred gain on sale of real estate and other liabilities	**1,888**	2,125
Long-term debt	**43,414**	447
Stockholders equity:		
Common stock, $.01 par value. Authorized 40,000,000 shares; 15,958,839 issued at December 28, 2008 and 15,773,253 at June 29, 2008, respectively, including shares in treasury	**160**	158
Additional paid-in capital	**14,247**	16,547

Retained earnings	**82,519**	78,601
Less cost of common stock in treasury, shares of 47,727 at December 28, 2008 and 419,503 at June 29, 2008	**(482)**	(3,837)
Total stockholders equity	**96,444**	91,469
Total liabilities and stockholders equity	**$193,645**	$160,472

See accompanying notes to consolidated financial statements.

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

	Six Months Ended	
	December 28, 2008	December 30, 2007
Cash flows from operating activities:		
Net earnings	**$ 3,918**	$ 5,917
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	**2,765**	2,535
Amortization of deferred gain on sale of real estate	**(241)**	(240)
Stock-based compensation	**575**	718
Other than temporary impairment of investment	**19**	34
Deferred taxes	**(3,120)**	(256)
Other		8
Changes in assets and liabilities, net of acquisitions:		
Accounts and other receivables, net	**11,218**	(6,779)
Inventories	**11,200**	(6,294)
Prepaid expenses	**97**	444
Trade accounts payable	**(7,477)**	5,181
Accrued liabilities	**(3,276)**	(172)
Advance payments from customers	**(2,391)**	4,087
Net cash provided by operating activities	**13,287**	5,183
Cash flows from investing activities:		
Acquisition of Pensar, net of cash acquired	**(44,802)**	
Additions to property, plant and equipment	**(3,280)**	(2,818)
Proceeds from disposal of property and equipment	**10**	18
Additions to other assets and intangibles	**(592)**	(340)
Net cash used by investing activities	**(48,664)**	(3,140)
Cash flows from financing activities:		
Borrowings on revolving credit facility	**35,375**	41,925
Payments of revolving credit facility	**(40,025)**	(40,975)
Borrowings of long-term debt	**42,014**	
Repayments of long-term debt	**(1,577)**	(3,149)
Payment of debt issuance costs	**(274)**	
Excess tax benefits from stock option exercises	**3,029**	77
Remittance of minimum taxes withheld as part of a net share settlement of stock option exercises	**(1,689)**	
Issuance of treasury stock	**1,894**	403
Purchase of treasury stock	**(3,321)**	(265)

Net cash provided (used) by financing activities	**35,426**	(1,984)
Net increase in cash and cash equivalents	**49**	59
Cash and cash equivalents at beginning of period	**1,646**	392
Cash and cash equivalents at end of period	**$ 1,695**	$ 451
Non-cash transactions:		
Increase in capital lease obligations	**$ 49**	$

See accompanying notes to consolidated financial statements.

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

1. CONSOLIDATED FINANCIAL STATEMENTS BASIS OF PRESENTATION

The consolidated balance sheet at December 28, 2008, and the related consolidated statements of income and cash flows for the three and six months ended December 28, 2008 and December 30, 2007, have been prepared by LaBarge, Inc. (LaBarge or the Company) without audit. In the opinion of management, adjustments, all of a normal and recurring nature, necessary to present fairly the financial position and the results of operations and cash flows for the aforementioned periods, have been made. Certain prior year amounts have been reclassified to conform to the 2009 presentation.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended June 29, 2008.

Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157), to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures on fair value measurements. On June 30, 2008, the company adopted the provision of SFAS No. 157. The adoption did not have a material impact on its consolidated financial statements. The Company will defer the adoption of SFAS No. 157 for its nonfinancial assets and nonfinancial liabilities until the year ended June 27, 2010, as permitted under FASB Staff Position 157-2, Effective Date of FASB Statement No. 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses, on items for which the fair value option has been elected, in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. On June 30, 2008, the Company adopted the provisions of SFAS No. 159. The adoption did not have a material impact on its consolidated financial statements.

In September 2006, the FASB s Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefits Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). This addresses only endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. EITF 06-04 was adopted on June 30, 2008. Adopting the provisions of EITF 06-4 did not have a material impact on the Company s consolidated financial statements.

2. ACQUISITION

On December 22, 2008, the Company acquired substantially all of the assets of Pensar Electronic Solutions, LLC (Pensar). The acquisition of Pensar, located in Appleton, Wisconsin, gives the Company a presence in the Upper Midwest, and adds substantial new medical and industrial accounts to the Company s customer mix.

Pensar is a profitable contract electronics manufacturer that designs, engineers and manufactures low-to-medium volume, high-mix, complex printed circuit board assemblies and higher-level electronic assemblies for a variety of end markets. Pensar s calendar 2008 revenues were $52.4 million. The company has long-term customer relationships with industry leaders in a variety of commercial markets, with the medical and industrial sectors accounting for the largest contributions to revenues.

The purchase price for the acquired assets was $45.3 million, subject to certain estimated working capital adjustments to be finalized in the quarter ended March 29, 2009. In addition, the Company assumed working capital liabilities of approximately $5.6 million, primarily trade accounts payable, and incurred estimated transaction costs of $146,000. The acquisition was financed with senior debt.

The initial purchase price has been allocated to Pensar s net tangible and intangible assets based upon their estimated fair value as of the date of the acquisition. The preliminary purchase price allocation as of December 22, 2008, is as follows:

(in thousands)

	As of December 22, 2008
Current assets	**$ 14,549**
Property and equipment	**7,169**
Intangible assets	**11,465**
Goodwill	**17,869**
Total assets acquired	**$ 51,052**
Current liabilities	**5,643**
Long-term liabilities	
Total liabilities assumed	**$ 5,643**
Net assets acquired	**$ 45,409**

The Company believes that substantially all of the goodwill will be deductible for tax purposes. The preliminary estimates of intangible assets include $9.7 million for the Customer List, which is expected to be amortized over eight years, and $1.6 million for Employee Non-Compete Contracts, which is expected to be amortized over three and one-half years.

Sales attributable to Pensar were $193,000 for the three and six months ended December 28, 2008. The impact on net earnings for the three and six months was ($75,000), which is $0.0 per basic and diluted shares.

The following table represents LaBarge s pro forma consolidated results of operations as if the acquisition of Pensar had occurred at the beginning of each period presented. Such results have been prepared by adjusting the historical LaBarge results to include Pensar results of operations and incremental interest and other expenses related to acquisition debt. The Pensar financial results in the pro forma are based on Pensar s unaudited financial statements. The Company will file Pensar s audited financial statements with an amendment to the Company s Current Report on Form 8K filed with the Securities and Exchange Commission on December 23, 2008. The pro forma results do not include any cost savings that may result from the combination of LaBarge and Pensar operations. The pro forma results may not necessarily reflect the consolidated operations that would have existed had the acquisition been completed at the beginning of such periods nor are they necessarily indicative of future results.

	Three Months Ended		Six Months Ended	
	December 28, 2008	December 30, 2007	**December 28, 2008**	December 30, 2007
Net sales	**$80,139**	$79,430	**$161,317**	$150,144

Net earnings	**388**	3,938	**4,340**	6,226
Basic net earnings per share	**$ 0.03**	$ 0.26	**$ 0.28**	$ 0.41
Diluted earnings per share	**$ 0.02**	$ 0.24	**$ 0.27**	$ 0.39

3. SALES AND NET SALES
Sales and net sales consist of the following:
(in thousands)

	Three Months Ended		Six Months Ended	
	December 28, 2008	December 30, 2007	**December 28, 2008**	December 30, 2007
Sales	**$68,361**	$67,349	**$136,831**	$126,693
Less sales discounts	**154**	297	**432**	451
Net sales	**$68,207**	$67,052	**$136,399**	$126,242

Geographic Information
The Company has no sales offices or facilities outside of the United States. Sales for exports did not exceed 10% of total sales in any fiscal year.

4. ACCOUNTS AND OTHER RECEIVABLES
Accounts and other receivables consist of the following:
(in thousands)

	December 28, 2008	June 29, 2008
Billed shipments	**$ 39,211**	$40,105
Less allowance for doubtful accounts	**3,986**	252
Trade receivables, net	**35,225**	39,853
Other current receivables	**1,574**	925
Total	**$ 36,799**	$40,778

At December 28, 2008, the amounts due from the three largest accounts receivable debtors and the percentage of trade accounts receivable represented by those amounts were $7.2 million (18.3%), $3.8 million (9.6%), and $2.3 million (5.9%). This compares with $10.3 million (25.7%), $3.4 million (8.5%), and $2.9 million (7.2%) at June 29, 2008.
At December 28, 2008, other current receivables included an income tax receivable of $1.4 million. At June 29, 2008, other current receivables included an income tax receivable of $778,000.
On November 25, 2008, Eclipse Aviation Corporation (Eclipse), a customer of the Company, announced that it filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. Total accounts receivable from Eclipse at December 28, 2008 was $3.7 million. (The Company also has inventory exposure that is discussed in more detail in Note 5.)
On January 20, 2009, the bankruptcy court approved the sale of certain assets of Eclipse to EclipseJet Aviation International, Inc. (EclipseJet), an affiliate of ETIRC Aviation, which was a major shareholder of Eclipse. EclipseJet has announced that it intends to continue production of the Eclipse E500 aircraft, which was the primary product of Eclipse. In the Chapter 11 bankruptcy proceeding, EclipseJet did not assume the Company s contract or the obligations associated with the pre-petition receivables.
The Company expects to negotiate a new contract with EclipseJet to resume production of the products it had previously been providing for the E500 aircraft. This negotiation may include the payment of some portion of the

pre-petition Eclipse receivables as an inducement for the Company to resume production. To date, no such offers have been received. Given the uncertainty, the Company recorded an additional selling and administrative expense of $3.7 million in the second quarter to reserve the receivables. If the Company is successful in collecting some or all of the pre-petition receivables, it will be recorded as a recovery (income) of an amount previously reserved.

5. INVENTORIES
Inventories consist of the following:
(in thousands)

	December 28, 2008	June 29, 2008
Raw materials	**$ 43,842**	$47,221
Work in progress	**14,339**	16,319
Finished goods	**4,407**	3,387
Total	**$ 62,588**	$66,927

For the three months ended December 28, 2008 and December 30, 2007, expense for obsolescence charged to income before taxes was $260,000 and $502,000, respectively. For the six months ended December 28, 2008 and December 30, 2007, expense for obsolescence charged to income before taxes was $857,000 and $819,000, respectively. This expense does not include the $4.2 million charge related to the Eclipse bankruptcy discussed below. The Company has approximately $4.6 million of inventory related to the production of the Eclipse E500 aircraft. As discussed in Note 4, EclipseJet did not assume the Company s contract.

EclipseJet has indicated to the Company that it intends to resume production of the E500 aircraft. The Company and EclipseJet may negotiate a new contract to resume production of the cables for the Eclipse E500. If this occurs, the inventory consisting of raw material and finished goods could be utilized at a later date.

As of the quarter ended December 28, 2008, the Company does not have a contract in place with EclipseJet, nor have there been any negotiations regarding any such contract. The Company has analyzed the inventory to reasonably determine the lower of cost or market value in light of the significant uncertainty surrounding the EclipseJet plans and the Company s future role in the production of the E500 aircraft, if any. As a result of this analysis, the Company has recorded additional cost of sales expense of $4.2 million to record inventory at the lower of cost or market value. The remaining inventory is valued at $422,000, which the Company believes it can recover by a combination of using the inventory on other programs; returning it to the original vendors; and selling it to brokers.

If the Company ultimately does enter into an agreement to supply EclipseJet, and is able to utilize the inventory in future periods, the inventory will be recognized in cost of sales at its reduced value.

6. INTANGIBLE ASSETS, NET
Intangible assets, net, are summarized as follows:
(in thousands)

	December 28, 2008	June 29, 2008
Software	**$ 4,506**	$4,090
Less accumulated amortization	**3,669**	3,457
Net software	**837**	633
Customer list	**13,070**	3,400
Less accumulated amortization	**2,791**	2,485
Net customer list	**10,279**	915

Employee agreements	**$ 1,600**	$
Less accumulated amortization	**9**	
Net employee agreements	**1,591**	
Total intangible assets, net	**$ 12,707**	$ 1,548

Intangibles are amortized over a three-to eight-year period. Amortization expense for the three months ended December 28, 2008 and December 30, 2007 was $278,000 and $253,000, respectively. Amortization expense was $544,000 and $519,000 for the six months ended December 28, 2008 and December 30, 2007, respectively.
The Company anticipates that amortization expense will approximate $2.0 million for fiscal year 2009; $2.7 million for fiscal year 2010; $2.3 million for fiscal year 2011, and $2.1 million for fiscal year 2012.

7. GOODWILL

Goodwill is summarized as follows:
(in thousands)

	December 28, 2008	June 29, 2008
Goodwill	**$ 42,361**	$24,492
Less accumulated amortization	**200**	200
Net goodwill	**$ 42,161**	$24,292

Impairment is tested annually in the fourth quarter of each fiscal year, or more frequently if events or circumstances change.

8. OTHER ASSETS

Other assets is summarized as follows:
(in thousands)

	December 28, 2008	June 29, 2008
Cash value of life insurance	**$ 4,828**	$4,612
Deposits, licenses and other, net	**96**	112
Securities held for sale	**7**	26
Deferred financing costs, net	**299**	42
Other	**36**	36
Total	**$ 5,266**	$4,828

9. SHORT- AND LONG-TERM OBLIGATIONS

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

	December 28, 2008	June 29, 2008
Short-term borrowings:		
Revolving credit agreement:		
Balance at period-end	**$ 5,850**	$10,500
Interest rate at period-end	**4.00%**	3.83%
Average amount of short-term borrowings outstanding during period	**$ 647**	$14,764

Average interest rate for period	**4.19%**	5.79%
Maximum short-term borrowings at any month-end	**$ 5,875**	$19,025
Senior long-term debt:		
Senior lender:		
Term loans	**$ 45,000**	$ 4,500
Other	**566**	629
Total senior long-term debt	**45,566**	5,129
Less current maturities	**2,152**	4,682
Long-term debt, less current maturities	**$ 43,414**	$ 447

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.

The Company entered into a senior loan agreement on February 17, 2004, which was amended on December 22, 2008. The amended agreement extended the credit facility for three years.

Senior Lender:

The Company amended its senior secured loan agreement on December 22, 2008. The following is a summary of the agreement:

A revolving credit facility, up to $30.0 million, available for direct borrowings or letters of credit. The facility is based on a borrowing base formula equal to the sum of 85% of eligible receivables and 35% of eligible inventories. As of December 28, 2008, the outstanding loans under the revolving credit facility were $5.9 million. As of December 28, 2008, letters of credit issued were $1.0 million; and an aggregate of $23.1 million was available under the revolving credit facility. This credit facility matures on December 28, 2011.

An aggregate $45.0 million term loan amortized beginning September 2009, at a quarterly rate of $2.0 million, increasing to $2.5 million in September 2010, and increasing to $2.7 million in September 2011. The balance is due in December 2011.

Interest on the revolving facility and the term loans is calculated at a base rate or LIBOR plus a stated spread based on certain ratios. For the fiscal quarter ended December 28, 2008, the average rate was approximately 3.98%.

All loans are secured by substantially all the assets of the Company other than real estate.

Covenants and performance criteria consist of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) in relation to debt, EBITDA in relation to fixed charges and minimum net worth. The Company was in compliance with its borrowing agreement covenants as of December 28, 2008. The write-off of certain assets related to Eclipse did not impact the Company s debt covenant compliance.

Subsequent to the quarter ended December 28, 2008, the Company entered into an Interest Rate Swap Agreement with a bank. Under this agreement, the Company fixed the interest payments to a base rate of 1.885% plus a stated spread based on certain ratios. The beginning notional amount is $35 million, which will amortize simultaneously with the term loan schedule in the loan agreement and will mature on December 22, 2011.

Other Long-Term Debt:

Other long-term debt includes capital lease agreements with outstanding balances totaling $316,000 at December 28, 2008 and $336,000 at June 29, 2008.

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

(in thousands)

Fiscal Year	
2009	$ 77
2010	8,162
2011	10,069
2012	27,258
2013	
Total	$45,566

10. CASH FLOWS

Total cash payments for interest for the three months ended December 28, 2008 and December 30, 2007 amounted to $130,000 and $411,000, respectively. Total cash payments for interest for the six months ended December 28, 2008 and December 30, 2007 amounted to $262,000 and $867,000, respectively. Net cash payments for both federal and state income taxes were $3.1 million for the three and six months ended December 28, 2008, compared with $3.4 million for the three and six months ended December 30, 2007.

11. EARNINGS PER COMMON SHARE

Basic and diluted earnings per share are computed as follows:

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

	Three Months Ended		Six Months Ended	
	December 28, 2008	December 30, 2007	**December 28, 2008**	December 30, 2007
Net earnings	**$ 249**	$ 3,397	**$3,918**	$ 5,917
Basic net earnings per share	**$0.02**	$ 0.22	**$ 0.26**	$ 0.39
Diluted earnings per share	**$0.02**	$ 0.21	**$ 0.24**	$ 0.37

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

(in thousands)

	Three Months Ended		Six Months Ended
	December 28,	December 30,	