

LABARGE INC
Form 10-K
September 03, 2010

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended JUNE 27, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period _____ to _____.

Commission File Number 1-5761

LaBARGE, INC.

(Exact name of registrant specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

73-0574586

(I.R.S. Employer Identification Number)

9900 CLAYTON ROAD, ST. LOUIS, MISSOURI 63124

(Address of principal executive offices) (ZIP Code)

Registrant's telephone number, including area code: (314) 997-0800

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value

NYSE Amex

Title of Each Class

Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act:

Series C Junior Participating Preferred Stock Purchase Rights

Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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PART I

ITEM 1. BUSINESS

General Overview of Business

LaBarge, Inc. (“LaBarge” or the “Company”) is a Delaware corporation, incorporated in 1968, that provides custom high-performance electronic, electromechanical and interconnect systems on a contract basis for customers in diverse technology-driven markets. The Company’s core competencies are manufacturing, engineering and design of interconnect systems, printed circuit board assemblies, high-level assemblies and complete electronic systems for its customers’ specialized applications.

The Company markets its services to customers desiring a manufacturing and engineering partner capable of providing and developing products that can perform reliably in harsh environmental conditions, such as extreme temperatures, severe shock and vibration. 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 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 contract.

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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.

The Company's manufacturing and engineering facilities are located in Arkansas, Missouri, Oklahoma, Pennsylvania, Texas and Wisconsin.

The Company employs approximately 1,560 people, including approximately 1,330 people who provide support for production activities (including assembly, testing and engineering) and approximately 230 people who provide administrative support.

The Company operates its business in one reporting segment. See the Consolidated Financial Statements and the notes thereto filed with this Annual Report on Form 10-K for information relating to revenues from external customers, profits, total assets and geographical areas for each of the last three fiscal years. See Note 1 to the Consolidated Financial Statements.

The Company uses a fiscal year ending the Sunday closest to June 30; each fiscal quarter is 13 weeks. Fiscal years 2010, 2009 and 2008 each consisted of 52 weeks.

Recent Business Developments

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

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

The purchase price for Pensar's acquired assets was \$45.4 million. The acquisition was financed with senior bank debt. The purchase price was allocated to Pensar's net tangible and intangible assets based upon their estimated fair value as of the date of the acquisition.

On November 25, 2008, Eclipse Aviation Corporation ("Eclipse"), a customer of the Company, announced that it filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. On March 5, 2009, the Eclipse bankruptcy was converted to Chapter 7 liquidation.

The Eclipse bankruptcy negatively impacted the Company's financial results for the fiscal year ended June 28, 2009, as described in more detail throughout the Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Notes 4 and 5 to the Consolidated Financial Statements filed with this report.

Sales and Marketing

During fiscal 2010, 42.0% of the Company's revenues were generated from defense customers, 22.6% from industrial customers, 19.9% from natural resources customers, and 10.8% from medical customers. The remaining 4.7% of sales were derived from various customers in computing and communications, commercial aerospace, transportation, and other industries. The Company produces electronic equipment for use in a variety of high-technology applications, including military communication, radar and weapons systems; industrial automation; military and commercial aircraft; satellites; space launch vehicles; oil and gas wells; mine automation equipment; and medical devices. The Company's broad-based core competencies in electronics design and manufacturing allow it to pursue diverse opportunities with customers in many different markets. The diversification of the Company's customer base helps protect it from volatility in any one market sector.

With few exceptions, the Company's sales are made pursuant to fixed-price contracts. Larger, long-term government contracts may have provisions for milestone payments, progress payments or cash advances for purchase of inventory. At June 27, 2010, the Company had contracts with related cash advance payments but had no outstanding contracts with milestone or progress payments.

The Company seeks to develop strong, long-term relationships with its customers, which provide the basis for future sales. These close relationships allow the Company to better understand each customer's business needs and identify ways to provide greater value to the customer.

Competition

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There is intense competition for all of the Company's targeted customers. While the Company is not aware of another entity that competes in all of the Company's capabilities, there are numerous companies, many larger that compete in one or more of these capabilities. The Company's customers frequently have the ability to produce internally the products contracted to the Company, but because of cost, capacity, engineering capability or other reasons, outsource production of such products to the Company. The principal bases of competition is service, price, engineering expertise, technical and manufacturing capabilities, quality, reliability, and overall project management capability.

Concentration of Business

The Company's three largest customers accounted for 14.0%, 8.8% and 8.2%, respectively, of net sales in fiscal 2010. No other customer accounted for more than 6% of net sales. Sales to the largest 10 customers represented approximately 60.3% of the Company's net sales in fiscal year 2010 and 64.4% in fiscal year 2009. In most cases, sales to a single customer are made up of multiple parts that support numerous end products for that customer. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Fiscal 2010 – 2009 – 2008 – Net Sales" for disclosure regarding sales to customers that accounted for 10% or more of the Company's consolidated revenues.

In fiscal years 2010 and 2009, the Company derived net sales of 42.0% and 46.3%, respectively, from sales contracts with original equipment manufacturers ("OEMs") conducting business with the U.S. Government or its agencies. Generally, government contracts may be terminated at the convenience of the government. When such contracts are terminated, the Company typically receives payments to cover its direct and indirect costs incurred before termination in accordance with contractual terms.

Manufacturing Operations

The Company has organized its engineering and production to provide flexible independent locations with specific design and manufacturing capabilities. This approach allows local management at each facility to concentrate the necessary attention on specific customer needs and, at the same time, control all key aspects of the engineering and manufacturing processes. The manufacturing facilities share similar manufacturing processes and utilize common manufacturing equipment, which would allow the Company to move production between facilities if necessary.

Strategy

The Company's business strategy is to serve as an outsourcing partner to OEMs that conduct business in diverse markets by providing a package of broad-based manufacturing capabilities and value-added services. This strategy is designed around the Company's core competencies in manufacturing complex electronic and electromechanical assemblies, subsystems and interconnect systems for specialized applications where reliability is critical. The Company's business historically was concentrated in the defense and other government-related markets. In recent years, that focus broadened to include many more industrial and commercial customers. This greater market diversity helps protect the Company from downturns in any one market.

Environmental Compliance

Though the Company is subject to a variety of environmental regulations, compliance with federal, state and local environmental laws is not expected to materially affect the capital expenditures, earnings or competitive position of the Company.

Financial Information About Foreign and Domestic Operations and Export Sales

The Company has no sales offices or facilities outside of the United States. Sales for exports were 10.9% for the fiscal year ended June 27, 2010. Export sales exceeded 10% of total revenue 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.

Available Information

The Company makes available, free of charge, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through its Web site at www.labarge.com as soon as reasonably practicable after the Company electronically files such materials with, or furnishes to, the U.S. Securities and Exchange Commission ("SEC").

ITEM 1A. RISK FACTORS

The Company is subject to certain risks, events and uncertainties, many of which are beyond the Company's control. If one or more were to occur, it could adversely affect the Company's business, financial condition, results of operations, cash flows and the trading price of its common stock. The Company urges investors, when evaluating the Company and making investment decisions relative to its securities, to carefully consider the risk factors described herein, in addition to other information presented in this report and other reports and registration statements filed by the Company from time to time with the SEC. The risks and uncertainties described herein are those the Company currently believes may materially affect its business, but may not be the only risks faced by the Company. Additional risks and uncertainties that are not currently known, or those that are currently deemed immaterial, may also become important factors that adversely impact the Company.

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

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

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

A significant portion of the Company's business depends heavily on U.S. Government defense contracts, which are subject to unique risks.

In fiscal years 2010 and 2009, approximately 42.0% and 46.3%, respectively, of the Company's net sales were derived from subcontracts with OEMs on contracts with the U.S. Government. In addition to the normal business risks previously described herein, the Company's contracts related to orders for or associated with the U.S. Government are subject to unique risks, some of which are beyond the Company's control. The Company's net sales could be negatively impacted as a result of government defense spending cuts, general budgetary constraints and the complex and competitive government procurement processes. If the Company is unable to maintain the recent level of government-related sales, or replace government-related contracts with those of comparable non-government customers, this could have a material adverse effect on the Company's financial results.

Certain U.S. Government programs in which the Company participates may extend for several years; however, these programs are normally funded annually. Changes in the government's strategy and priorities may affect the Company's existing programs and future opportunities. The Company's government contracts and related orders are subject to cancellation, or delay, if appropriations for subsequent performance periods are not made. In addition, the Company anticipates that the U.S. Department of Defense budget will be under pressure as the current administration is faced with competing national priorities. The termination of funding for existing or new U.S. Government programs could have a material adverse effect on the Company's financial results.

The Company is also subject to certain U.S. Government audits and reviews of its business practices due to the Company's participation in government contracts, including the audit of allocated indirect costs. Such audits and reviews could result in adjustments to the Company's contract costs and profitability. The Company has recorded contract revenues based upon costs expected to be realized upon final audit. However, the Company does not know the outcome of any future audits and adjustments and may be required to reduce revenues or profits upon completion and final negotiation of audits. If any audit or review were to uncover inaccurate costs or improper activities, the Company could be subject to penalties and sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from conducting future business with the U.S. Government. Any such outcome could have a material adverse effect on the Company's financial results.

The Company uses estimates when bidding on contracts and may not have the ability to control, and may not accurately estimate, its costs associated with performing under fixed-price contracts. In addition, when determining the cost of sales to be recognized under certain long-term contracts, the Company is required to estimate total costs to complete the contract.

Most of the Company's contracts are on a fixed-price basis. Contract bidding and accounting require judgment relative to assessing risks, estimating contract revenues and costs and making assumptions for scheduling and technical issues. For example, assumptions have to be made regarding the length of time to complete the contract because costs include expected increases in prices for materials and wages, which can be particularly difficult to estimate for contracts with new customers. Similarly, assumptions have to be made regarding the future impact of Company-initiated efficiency initiatives and cost reduction efforts. In order to realize a profit on these contracts, the Company must, when it bids

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these contracts, accurately estimate its costs to complete the contracts. Its failure to accurately estimate these costs can result in cost overruns, which result in reduced or lost profits. Because of the significance of the judgments and estimates involved, it is possible that materially different amounts could be obtained if different assumptions were used or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates could have a material adverse effect on the Company's financial results.

Many of the Company's contracts require innovative design capabilities, are technologically complex, require state-of-the-art manufacturing expertise, or are dependent upon factors beyond the Company's control.

The Company manufactures and assists in the design of technologically advanced and innovative products applied by its customers in a variety of environments. Problems and delays in development or delivery of its products and services, which could prevent the Company from meeting its contractual requirements, include: changes in the Company's customers' required designs, acceptance of the customers' designs in the marketplace, technology, licensing and patent rights, labor, learning curve assumptions, materials and components, as well as the timing of purchase orders placed or required delivery dates, variation in demand for customers' products, federal government funding, regulatory changes affecting customers' industries, customer efforts to manage their inventory, changes in customers' manufacturing strategies and customers' technical problems or issues. Any such problems or delays could have a material adverse impact on the Company's financial results.

The Company faces intense industry competition and downward pricing pressures.

The EMS industry is highly fragmented and characterized by intense competition. Some of the Company's competitors have substantially greater manufacturing, purchasing, marketing and financial resources than the Company. Many of the Company's customers have the in-house capability to fulfill their manufacturing requirements. In addition, the Company is exposed to the introduction of lower priced competitive capabilities, significant price reductions by competitors or significant pricing pressures from customers. There can be no assurance that competition from existing or potential competitors will not have a material adverse effect on the Company's financial results.

The Company derives a portion of its revenues from non-U.S. sales and is subject to the risks of doing business in other countries.

While the Company does not derive a significant portion of its revenues from direct foreign sales, the Company's customers may derive certain portions of their sales to non-U.S. customers. As a result, the Company is subject to risks of conducting business internationally, including:

- Changes in regulatory requirements;
- Domestic and international government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation requirements;
- Delays in placing orders;
- The uncertainty of the ability of non-U.S. customers to finance purchases;
- Uncertainties and restrictions concerning the availability of funding credit or guarantees;
- Imposition of taxes, export controls, or tariffs, embargoes and other trade restrictions;
- Compliance with a variety of international laws, as well as U.S. laws affecting the activities of U.S. companies conducting business abroad; and
- Economic and geopolitical developments and conditions.

While the impact of these factors is difficult to predict, any one or more of these factors could have a material adverse effect on the Company's financial results.

The Company's operating results may fluctuate significantly and fall below expectations, as well as make future results difficult to predict.

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The Company is dependent upon contract awards from its customers, the size and timing of which vary from period to period. Accordingly, the Company's results of operations have varied historically and may continue to fluctuate significantly from period to period, including on a quarterly basis. Consequently, results of operations in any period should not be considered indicative of the operating results that may be experienced in any future period. Fluctuations in operating results may also result in fluctuations in the price of the Company's common stock. Factors that may adversely impact the Company's quarterly and annual results include, but are not limited to, the following:

- General economic conditions;
- Changes in sales mix and volume to customers;
- Changes in delivery schedules of the Company's customers and their customers;
- Changes in availability and cost of components used by the Company in its products and services;
- Volume of customer orders relative to the Company's production capacity;
- Market demand and acceptance of the Company's customers' products;
- Price erosion within the electronics manufacturing services ("EMS") marketplace;
- The announcement or introduction of new or enhanced services by the Company's competitors; and
- Capital equipment requirements needed to remain technologically competitive.

Continued recession and global economic slowdown may materially adversely affect the Company's business.

The U.S. and global economies are currently experiencing a period of substantial economic uncertainty with wide-ranging effects. The recent economic recession had slowed demand for the Company's manufacturing services, particularly in the natural resources and industrial markets. The Company's sales and gross profits depend significantly on general economic conditions and the demand for products in the markets in which the Company's customers compete. For example, the recent economic recession and related decline in demand for products and services across certain industries caused certain of the Company's customers to reduce their manufacturing and supply chain outsourcing, negatively impacting the Company's capacity utilization levels. In addition, the Company provides services to companies and industries that have in the past, and may in the future, experience financial difficulty, particularly in light of conditions in the credit markets and the overall economy. The Company's suppliers may also experience financial difficulty in this environment. If the Company's customers experience financial problems, the Company could have difficulty in recovering amounts owed to it from these customers, or demand for its products and services from these customers could decline. If the Company's suppliers experience financial problems, the Company could have difficulty sourcing materials necessary to fulfill production requirements and meet scheduled shipments. Continuing economic recession could affect the Company's customers' and suppliers' access to capital and liquidity. If one or more of the Company's customers were to become insolvent or otherwise were unable to pay for the products and services provided by the Company on a timely basis, or at all, the Company's financial results could be materially adversely affected.

The Company and its customers may be unable to keep current with the industry's technological changes.

The market for the Company's manufacturing services is characterized by rapidly changing technology and continuing product development. The future success of the Company's business will depend in large part upon its and its customers' ability to maintain and enhance technological capabilities, develop and market manufacturing services that meet changing customer needs and successfully anticipate or respond to technological advances in manufacturing processes on a cost-effective and timely basis.

The Company's operations are subject to numerous laws, regulations and restrictions, and failure to comply with these laws, regulations and restrictions could subject the Company to fines, penalties, suspension or debarment.

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The Company's contracts and operations are subject to various laws and regulations. Prime contracts with various agencies of the U.S. Government, and subcontracts with other prime contractors, are subject to numerous procurement regulations, including the False Claims Act and the International Traffic in Arms Regulations promulgated under the Arms Export Control Act, with noncompliance found by any one agency possibly resulting in fines, penalties, debarment, or suspension from receiving additional contracts with all U.S. Government agencies. Given the Company's dependence on U.S. Government business, suspension or debarment could have a material adverse effect on the Company's financial results.

In addition, while not a significant portion of the Company's operations, its international business subjects the Company to numerous U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, and repatriation of earnings, exchange controls, the Foreign Corrupt Practices Act and the anti-boycott provisions of the U.S. Export Administration Act. Changes in regulations or political environments may affect the Company's ability to conduct business in foreign markets including investment, procurement and repatriation of earnings. Failure by the Company or its sales representatives or consultants to comply with these laws and regulations could result in certain liabilities and could possibly result in suspension or debarment from government contracts or suspension of the Company's export privileges, which could have a material adverse effect on the Company's financial results.

The Company is also subject to various environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals used during its manufacturing process. Any failure by the Company to comply with present or future regulations could subject it to future liabilities or the suspension of production, which could have a material adverse effect on the Company's financial results. In particular, certain of the Company's customers must be in compliance with the European standard, Restriction of Hazardous Substances in Electrical and Electronic Equipment (RoHS Directive 2002-95-EC), for all products shipped to the European marketplace. The purpose of the directive is to restrict the use of hazardous substances in electrical and electronic equipment and to contribute to the environmentally sound recovery and disposal of electrical and electronic equipment waste. In addition, electronic component manufacturers must produce electronic components that are lead-free. The Company's Pittsburgh operation has implemented lead-free wave solder and reflow systems. The Company relies on numerous third-party suppliers for components used in the Company's production process and there can be no assurances these suppliers will comply with this standard. Noncompliance could have a material adverse effect on the Company's financial results.

The Company's business is subject to disruption caused by issues with its suppliers, natural disasters and other factors.

The Company's ability to deliver its products and services on schedule is dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials, internal and supplier produced parts and structures, conversion of raw materials into parts and assemblies and performance of suppliers and others. The Company relies on numerous third-party suppliers for components used in the Company's production process. Certain of these components are available only from single sources or a limited number of suppliers, or similarly, customers' specifications may require the Company to obtain components from a single source or certain suppliers. These and other factors, or the loss of a critical supplier, could cause disruptions or cost inefficiencies in the Company's operations compared to its competitors that have greater direct purchasing power, which could have a material adverse effect on the Company's financial results.

In addition, from time to time, the Company has experienced shortages of some of the components that it uses in production. These shortages can result from strong demand for those components or from problems experienced by suppliers and can result in delays in production, which may prevent the Company from making scheduled shipments to customers. The Company's inability to make scheduled shipments could cause it to experience a reduction in sales, an increase in inventory levels and costs, and could adversely affect relationships with existing and prospective customers. Component shortages may also increase the Company's cost of goods sold because it may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components. As a result, component shortages could have a material adverse effect on the Company's financial results.

The Company has operations located in regions of the U.S. that may be exposed to damaging storms and other natural disasters. While preventative measures typically help to minimize harm to the Company, the damage and disruption resulting from certain storms or other natural disasters may be significant. Although no assurances can be made, the Company believes it can recover costs associated with natural disasters through insurance or its contracts. Natural disasters such as storms and earthquakes can disrupt electrical and other power distribution networks and cause adverse effects on profitability and performance, including computer and network operation and accessibility. In addition, computer viruses and similar harmful software programs, as well as network outages, disruptions and attacks may also disrupt the Company's operations unless quarantined or otherwise prevented. These and other factors beyond the Company's control, such as inflation related to raw material commodity pricing, terrorist acts, or other events could have a material adverse effect on the Company's financial results.

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

As part of its overall strategy, the Company has, from time to time, acquired certain businesses. Such investments are made upon careful target analysis and due diligence procedures designed to achieve a desired return and strategic objective. These procedures often involve certain assumptions and judgment in determining the related acquisition price. After acquisition, unforeseen issues could arise which adversely affect the anticipated returns or which are otherwise not recoverable as an adjustment to the purchase price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates. Goodwill accounts for \$43.4 million, or 21.2%, of the Company's total

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

The Company may not have the ability to renew its facilities leases on terms favorable to the Company and relocation of Company operations presents risks due to business interruption.

Certain of the Company's manufacturing facilities and offices are leased and have lease terms that expire between 2010 and 2020. The majority of these leases provide the Company with the opportunity to renew the leases at the Company's option and, if renewed, provide that rent will be equal to the fair market rental rate at the time of renewal, which could be significantly higher than the Company's current rental rates. The Company may be unable to offset these cost increases by charging more for its products and services. Furthermore, continued economic degradation may continue to negatively impact and create greater pressure in the commercial real estate market, causing higher incidences of landlord default and/or lender foreclosure of properties, including properties occupied by the Company. While the Company maintains, in most cases, certain non-disturbance rights, it is not certain that such rights will in all cases be upheld, thereby potentially jeopardizing the Company's continued right of occupancy in such instances. An occurrence of any of these events could have a material adverse effect on the Company's financial results.

If the Company chooses to move any of its operations, those operations will be subject to additional relocation costs and associated risks of business interruption.

The occurrence of litigation in which the Company could be named as a defendant is unpredictable.

From time to time, the Company and its subsidiaries are involved in various legal and other proceedings that are incidental to the conduct of the Company's business. While the Company believes no current proceedings, if adversely determined, could have a material adverse effect on the Company's financial results, no assurances can be given. Any such claims may divert financial and management resources that would otherwise be used to benefit the Company's operations and could have a material adverse effect on the Company's financial results.

If the Company does not adequately manage and evolve the financial reporting and managerial systems, and processes, the ability to manage and grow the business may be constrained.

The Company's ability to successfully implement its business plan and comply with regulations requires an effective planning and management process. The Company needs to continue improving its existing system, and implement new, operational and financial systems, procedures and controls. For example, the Company is evaluating the impact of the convergence of U.S. generally accepted accounting principles to International Financial Reporting Standards. The Company's current systems may not support this convergence without significant modifications or reconfiguration. The Company is currently in the process of evaluating new Enterprise Resource Planning ("ERP") systems. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls, could harm the Company's ability to remain competitive or to forecast future results. Any implementation of a new system could significantly impact the Company's financial results due to the costs and the risks of implementations.

The Company is dependent on the recruitment and retention of key personnel.

Operating results are heavily dependent upon the Company's ability to attract and retain sufficient personnel with requisite experience and skills, including executives and plant management. Despite significant competition, the continued growth and expansion of the Company's contract manufacturing business will require the Company to identify, hire, train and retain additional skilled and experienced personnel. Also critical to ongoing operations at one of the Company's facilities is the successful negotiation of collective bargaining agreements and the avoidance of organized work stoppages. The loss of any key employees, the failure to meet recruitment and retention objectives, or the inability to efficiently and successfully negotiate collective bargaining agreements could negatively impact the Company's ability to grow and remain competitive in the future and could have a material adverse effect on the Company's financial results.

Any disruption in the global financial markets and any economic downturn may adversely impact the availability and cost of credit and customer purchasing and payment patterns.

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The ability of the Company to refinance indebtedness and to obtain financing for acquisitions or other general corporate and commercial purposes will depend on the Company's operating and financial performance and is also subject to prevailing economic conditions and to financial, business and other factors beyond the control of the Company. Global credit markets and the financial services industry have experienced a period of unprecedented turmoil characterized by the bankruptcy, failure or sale of various financial institutions, a general tightening of credit, and an unprecedented level of market intervention from the United States and other governments. These events have adversely affected the U.S. and world economy, and may adversely affect the availability and cost of financing in the event of the reoccurrence these events.

The Company is subject to the risk of increased income taxes.

The Company and its subsidiaries are subject to tax return audits and examinations by various taxing jurisdictions. In determining the adequacy of the Company's provision for income taxes, the Company regularly assesses the likelihood of adverse outcomes resulting from tax examinations. While it is often difficult to predict the final outcome or the timing of the resolution of a tax examination, the Company believes its tax reserves reflect the outcome of tax positions that are more likely than not to occur. However, the Company cannot provide complete assurance that the final determination of any tax examinations will not be materially different than that, which is reflected in the Company's current income tax provisions. Should additional taxes be assessed as a result of a current or future examination, this could have a material adverse effect on the Company's financial results in the period or periods during which such determination is made.

The Company's stock price is subject to significant volatility.

During the fiscal year ended June 27, 2010, the sales price per share of the Company's common stock has ranged from a high of \$13.94 per share to a low of \$8.01 per share. The Company's stock price has been, and may continue to be, subject to significant volatility due to various reasons, including: fluctuations in the Company's revenue and earnings, the market's changing expectations for the Company's growth, overall equity market conditions, the limited float of the Company's common stock, other risks and uncertainties described herein and other factors related or unrelated to the Company's operations. The price of the Company's common stock may also fluctuate due to conditions in the industries the Company and its customers serve or in the financial markets generally. If the Company's stock price drops below the Company's net book value for an extended period of time, it may trigger an acceleration of goodwill impairment testing. The Company regularly assesses such situations to determine whether a triggering event has occurred and, if such an event does not occur, the Company will continue to conduct its annual goodwill impairment testing during the fourth fiscal quarter.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company's principal facilities, which are deemed adequate and suitable for the Company's business, are as follows:

| <u>Location</u> | <u>Principal Use</u> | <u>Land (acres)</u> | <u>Buildings (sq. ft.)</u> | <u>Calendar Year or Termination of Lease</u> |
|-----------------|---------------------------------------|-------------------------|--------------------------------|--|
| Appleton, WI | Manufacturing, Offices & Warehouse | 8.9 | 76,728 | Owned |
| Berryville, AR | Manufacturing & Offices | 17.5 | 52,000 | Owned |
| Houston, TX | Manufacturing & Offices | 2 | 33,000 | 2013 |
| Huntsville, AR | Manufacturing & Offices | 6 | 69,000 | 2020 |
| Joplin, MO | Manufacturing & Offices | 5 | 55,000 | Owned |
| Joplin, MO | Manufacturing | 1 | 92,000 | 2016 |
| Pittsburgh, PA | Manufacturing & Offices | 5 | 135,502 | 2010 |
| Pittsburgh, PA | Manufacturing | 1 | 29,880 | 2010 |

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| | | | | |
|---------------|-------------------------|-----|--------|-------|
| St. Louis, MO | Offices | 3 | 27,790 | 2013 |
| Tulsa, OK | Manufacturing & Offices | 3 | 55,000 | Owned |
| Tulsa, OK | Manufacturing & Offices | 0.5 | 22,900 | 2015 |

The Company is currently negotiating a lease extension agreement for Pittsburgh for leases that terminate in calendar year 2010. The Company expects that a lease will be extended under existing option provisions.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and its subsidiaries are involved in various legal and other proceedings that are incidental to the conduct of the Company's business. Management believes that no known proceeding, which if adversely determined, would have a material effect on the Company's financial condition and results of operations.

ITEM 4. [REMOVED AND RESERVED]

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Price and Cash Dividends

LaBarge's common stock is listed on the NYSE Amex, under the trading symbol of "LB." The following table indicates the quarterly high and low sale prices of the stock for the fiscal years 2010 and 2009, as reported by the NYSE Amex.

| <u>Fiscal 2010</u> | <u>High</u> | <u>Low</u> |
|--|-------------|------------|
| June 29, 2009 – September 27, 2009 | \$11.38 | \$8.01 |
| September 28, 2009 – December 27, 2009 | 12.34 | 10.64 |
| December 28, 2009 – March 28, 2010 | 13.13 | 10.40 |
| March 29, 2010 – June 27, 2010 | 13.94 | 10.70 |
| | | |
| <u>Fiscal 2009</u> | <u>High</u> | <u>Low</u> |
| June 30, 2008 – September 28, 2008 | \$16.29 | \$11.62 |
| September 29, 2008 – December 28, 2008 | 15.72 | 8.47 |
| December 29, 2009 – March 29, 2009 | 14.63 | 4.45 |
| March 30, 2009 – June 28, 2009 | 9.53 | 6.94 |

Holders

As of September 2, 2010, there were 1,739 holders of record of LaBarge's common stock.

Dividend Policy

The Company has paid no cash dividends on its common stock. The Company currently anticipates that it will retain any future earnings for the development, operation and expansion of its business and for possible acquisitions, and does not intend to pay cash dividends in the foreseeable future.

In August 2009, the Company's Board of Directors authorized the Company to repurchase up to 1.0 million shares of its common stock. In the three months ended June 27, 2010, the Company repurchased 84,494 shares of its common stock. The following table discloses certain

information relating to these repurchases.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Weighted Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------------------------|----------------------------------|---------------------------------------|--|--|
| March 29, 2010 – April 25, 2010 | --- | --- | --- | 864,083 |
| April 26, 2010 – May 23, 2010 | --- | --- | --- | 864,083 |
| May 24, 2010 – June 27, 2010 | 84,494 | 11.51 | 84,494 | 779,589 |
| Total | 84,494 | \$ 11.51 | 84,494 | |

- (1) Shares repurchased pursuant to a resolution of the Board of Directors dated August 26, 2009, authorizing the repurchase of up to 1.0 million shares. This authorization expired on August 26, 2010 and was renewed on September 1, 2010, expiring September 1, 2011. Purchases under this authorization were made in the open market.

ITEM 6. SELECTED FINANCIAL DATA

(in thousands, except per-share amounts)

| | Fiscal Year Ended | | | | |
|---------------------------------------|-------------------|------------------|------------------|------------------|-----------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 | July 1, 2007 | July 2, 2006 |
| Net sales | \$ 289,303 | \$ 273,368 | \$ 279,485 | \$ 235,203 | \$ 190,089 |
| Before income tax earnings | 22,035 | 16,667 | 23,838 | 17,999 | 15,964 |
| Net earnings | \$ 14,888 | \$ 10,338 | \$ 14,827 | \$ 11,343 | \$ 9,708 |
| Basic net earnings per share | \$ 0.95 | \$ 0.67 | \$ 0.98 | \$ 0.75 | \$ 0.64 |
| Diluted net earnings per share | \$ 0.93 | \$ 0.64 | \$ 0.92 | \$ 0.71 | \$ 0.60 |
| Total assets | \$ 204,522 | \$ 190,835 | \$ 160,472 | \$ 142,582 | \$ 140,350 |
| Long-term debt | 37,327 | 45,488 | 5,129 | 11,431 | 22,193 |

No cash dividends have been paid during the periods presented.

The Company acquired Pensar Electronic Solutions, LLC (“Pensar”) on December 22, 2008. Therefore, the Company’s financial results for the fiscal year ended June 27, 2010, includes 52 weeks of Pensar activity, compared with 27 weeks of activity for the fiscal year ended June 28, 2009. The impact of the Pensar acquisition is described in the Results of Operations section that follows.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements

Certain sections of this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that relate to future events or the Company’s future financial performance. The

Company has attempted to identify these statements by terminology including “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “seek,” “goal,” “may,” “will,” “should,” “can,” “continue,” or the negative of these terms or other comparable terminology. These statements include statements about the Company’s market opportunity, its growth strategy, competition, expected activities, and the adequacy of its available cash resources. These statements may be found in the sections of this report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” “Risk Factors” and “Legal Proceedings.” Although the Company believes that, in making any such statement, its expectations are based on reasonable assumptions, readers are cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, regulatory, competitive and other factors that may cause the Company or its industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions as described in Item 1A, “Risk Factors” of this Annual Report on Form 10-K.

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 assists in the design and manufacture of 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’s customers conduct business in a variety of markets with significant revenues from customers in the defense, natural resources, industrial, medical, commercial aerospace and computing and communications markets. As a contract manufacturer, revenues are impacted primarily by the volume of shipments in the particular period.

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

The most significant factors influencing profitability in a particular period are: the mix of contracts with deliveries in that period and the volume of sales in relation to the Company’s fixed costs during that period. Delivery schedules are generally determined by the Company’s customers. The significant factors that influence the profitability of the individual contracts include: (i) the competitive environment in which the contract was bid; (ii) the experience level of the Company in manufacturing these 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.

On November 25, 2008, Eclipse Aviation Corporation (“Eclipse”), a customer of the Company, announced that it filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. On March 5, 2009, the Eclipse bankruptcy was converted to Chapter 7 liquidation.

The Eclipse bankruptcy negatively impacted the Company’s financial results for the fiscal year ended June 28, 2009, as described in more detail throughout the Management’s Discussion and Analysis of Financial Condition and Results of Operations, and in Notes 4 and 5 to the Consolidated Financial Statements filed with this report. The end market for sales to Eclipse was commercial aerospace.

The Company acquired Pensar Electronic Solutions, LLC (“Pensar”) on December 22, 2008. Therefore, the Company’s financial results for the fiscal year ended June 27, 2010, includes 52 weeks of Pensar activity, compared with 27 weeks of activity for the fiscal year ended June 28, 2009. The impact of the Pensar acquisition is described in the Results of Operations section that follows.

Results of Operations – Fiscal 2010 – 2009 – 2008

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Backlog

(in thousands)

| | Change Fiscal 2010 vs. 2009 | Fiscal Year Ended | | |
|----------------------|--------------------------------|-------------------|-------------------|-------------------|
| | | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Defense | \$ (3,049) | \$ 110,430 | \$ 113,479 | \$ 119,407 |
| Natural resources | 21,888 | 36,357 | 14,469 | 18,058 |
| Industrial | 16,301 | 28,631 | 12,330 | 20,780 |
| Medical | (2,387) | 18,165 | 20,552 | 11,495 |
| Commercial aerospace | (1,643) | 1,612 | 3,255 | 46,230 |
| Government systems | 18 | 19 | 1 | 3,743 |
| Other | (409) | 3,513 | 3,922 | 1,580 |
| Total backlog | \$30,719 | \$ 198,727 | \$ 168,008 | \$ 221,293 |

The backlog at June 27, 2010 increased \$30.7 million from June 28, 2009. The \$21.9 million increase in natural resources backlog is primarily attributable to strong bookings with wind power generation and oil and gas customers. The \$16.3 million increase in industrial backlog is primarily comprised of stronger bookings of electronic assemblies used in high-performance semiconductor test equipment and systems (\$5.1 million) and additional bookings of electronic and electromechanical assemblies used in capital equipment for glass container fabrication systems (\$8.2 million).

The backlog at June 28, 2009 included \$20.4 million from the Pensar acquisition. Absent the Pensar acquisition, the backlog from June 29, 2008 to June 28, 2009 decreased by \$73.7 million. The \$43.0 million reduction in commercial aerospace is primarily related to the Eclipse bankruptcy described in more detail in Notes 4 and 5 to the Consolidated Financial Statements. The remaining decline in backlog results from reduced orders in several market sectors due to the economic downturn. The \$9.1 million increase in medical backlog primarily resulted from the Pensar acquisition.

Approximately \$30.4 million of the backlog at fiscal 2010 year-end is scheduled to ship beyond the next 12 months, pursuant to the shipment schedules of the contracts that comprise backlog. This compares with \$22.9 million at fiscal year-end 2009.

Net Sales

(in thousands)

| | Change Fiscal 2010 vs. 2009 | Fiscal Year Ended | | |
|------------------------|--------------------------------|---------------------|------------------|------------------|
| | | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Defense | \$ (5,701) | \$ 121,528 | \$ 127,229 | \$ 107,882 |
| Industrial | 13,335 | 65,416 | 52,081 | 50,873 |
| Natural resources | 7,271 | 57,521 | 50,250 | 65,375 |
| Medical | 6,537 | 31,299 | 24,762 | 19,979 |
| Commercial aerospace | (4,083) | 4,157 | 8,240 | 20,386 |
| Government systems | (4,090) | 13 | 4,103 | 10,565 |
| Other | 2,666 | 9,369 | 6,703 | 4,425 |
| Total net sales | \$15,935 | \$289,303 | \$273,368 | \$279,485 |

The Pensar acquisition, which occurred in fiscal year 2009 and is described in Note 2 to the Consolidated Financial Statements, contributed \$62.4 million of net sales in the 12 months ended June 27, 2010, compared with \$25.9 million in the six months ended June 28, 2009. The overall increase in Pensar's sales in fiscal year 2010 versus fiscal year 2009 is primarily due to the fact that Pensar was included in the Company's

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results for approximately half of the 2009 fiscal year and for the entire 2010 fiscal year. The \$36.5 million increase in sales for this facility during fiscal 2010 versus fiscal 2009 included an increase of \$16.5 million in the natural resources market, a \$10.5 million increase in the industrial market, and a \$7.1 million increase in the medical market.

For the 12 months ended June 27, 2010, excluding the impact of the Pensar acquisition, sales decreased \$20.6 million, versus the comparable period a year earlier. The overall economic downturn was the primary contributor to the sales decline. Excluding the impact of the Pensar acquisition, fiscal 2010 sales to defense customers decreased \$5.7 million; sales to natural resources customers decreased \$9.3 million; sales to industrial customers increased \$2.8 million; sales to commercial aerospace customers decreased \$4.1 million; and sales to other customers decreased \$4.3 million, versus fiscal 2009.

Excluding the impact of the Pensar acquisition, the \$5.7 million decrease in defense sales in fiscal year 2010 related to reduced shipments under several contracts to produce cable and electronic assemblies for a variety of defense applications, including military aircraft, missile systems, radar systems and shipboard programs. Sales to customers in the natural resources market were negatively impacted by the overall economic downturn. This downturn resulted in a \$9.3 million decrease in natural resources sales primarily in the oil and gas sector. Government systems sales were down as the Company completed a large multi-year contract for baggage scanning equipment in December 2008. Commercial aerospace sales decreased due to the bankruptcy of Eclipse described in Notes 4 and 5 to the Consolidated Financial Statements.

The Pensar acquisition contributed \$25.9 million of net sales to the 2009 fiscal year. The overall decrease in net sales between fiscal years 2009 and 2008 was primarily due to the economic downturn. The \$19.3 million increase in defense sales in fiscal year 2009 related to several contracts to produce cable and electronic assemblies for a variety of defense applications, including military aircraft, missile systems, radar systems and shipboard programs. Sales to customers in the natural resources market were negatively impacted by the overall economic downturn. This downturn was partially offset by \$9.7 million of natural resources sales from the Pensar acquisition, in the wind-power generation sector. The increase in medical sales was driven by \$8.7 million of sales from the Pensar acquisition. Government systems sales were down as the Company completed a large multi-year contract for baggage scanning equipment in December 2008. Commercial aerospace sales decreased due to the bankruptcy of Eclipse described in Notes 4 and 5 to the Consolidated Financial Statements.

Sales to the Company's 10 largest customers represented 60.3% of total revenue in fiscal 2010, versus 64.4% in fiscal 2009 and 69.6% in fiscal 2008. The Company's top three customers and their relative contribution to fiscal year 2010 sales were Owens-Illinois, Inc., 14.0%; American Superconductor, 8.8%; and Raytheon Company, 8.2%. The Company's top three customers for fiscal year 2009 were Owens-Illinois, Inc., 14.2%; Raytheon Company, 8.8%; and Schlumberger Ltd., 8.5%. The Company's top three customers for fiscal year 2008 were Owens-Illinois, Inc., 14.2%; Schlumberger Ltd., 11.2% and Modular Mining Systems, Inc., 9.4%.

Cost of Sales and Gross Profit

(dollars in thousands)

| | Change Fiscal 2010 vs. 2009 | <u>Fiscal Year Ended</u> | | |
|----------------------------|---|--------------------------|------------------|------------------|
| | | <u>June 27, 2010</u> | June 28, 2009 | June 29, 2008 |
| Cost of sales | \$9,094 | \$231,677 | \$222,583 | \$224,498 |
| |) basis | | | |
| Percent of net sales | (130pts. | 80.1% | 81.4% | 80.3% |
| Gross profit | \$6,841 | 57,626 | 50,785 | 54,987 |
| |) basis | | | |
| <u>Gross profit margin</u> | 130pts. | 19.9% | 18.6% | 19.7% |

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 fiscal year ended June 27, 2010, increased \$9.1 million, compared with the prior fiscal year, driven by the fiscal year 2010 sales increase of \$15.9 million. Gross profit for fiscal year 2010 increased \$6.8 million and gross profit margin was up 130 basis points versus the prior fiscal year. The increase in gross profit margin from 18.6% in fiscal year 2009 to 19.9% in fiscal year 2010 was primarily driven by the impact of the write-down of inventory related to the Eclipse program, described in Note 5 to the Consolidated Financial Statements. The fiscal

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2009 write-down of Eclipse-related inventory increased cost of sales and reduced gross profit by \$4.2 million. This write-down reduced the reported gross profit margin by 150 basis points. In addition, gross profit for fiscal year 2010 was positively impacted by \$596,000, for the payment of a claim on a contract completed in the third quarter of fiscal year 2009. This represents the final settlement of this claim.

The acquisition of Pensar added cost of sales of \$54.8 million and gross profit of \$7.7 million in the fiscal year ended June 27, 2010. The Pensar acquisition generated gross profit margin of 12.3% in the fiscal year ended June 27, 2010. Excluding the Pensar acquisition, the gross profit margin would have been 22.0% for the 12 months ended June 27, 2010.

Cost of sales for the fiscal year ended June 28, 2009 decreased \$1.9 million, compared with the prior fiscal year, driven by the fiscal year 2009 sales decline of \$6.1 million. Gross profit for fiscal year 2009 was down \$4.2 million and gross profit margin was down 110 basis points versus the prior fiscal year. The decline in gross profit margin from 19.7% in fiscal year 2008 to 18.6% in fiscal year 2009 was primarily driven by the write-down of inventory related to the Eclipse program described in Note 5 to the Consolidated Financial Statements and the acquisition of Pensar. In addition, gross profit margin was negatively impacted by a percentage drop in sales that exceeded the percentage drop in indirect manufacturing expenses.

The acquisition of Pensar added cost of sales of \$23.6 million and gross profit of \$2.3 million in the fiscal year ended June 28, 2009. The Pensar operation generated gross profit margin of 8.8% in the fiscal year ended June 28, 2009. The Pensar gross profit margin was negatively impacted by the step up of work in process and finished goods inventory as part of the allocation of the acquisition purchase price, which added \$218,000 to cost of sales recorded by the Pensar operation. Excluding the Pensar operation, the gross profit margin would have been 19.6% for the 12 months ended June 28, 2009, a decrease of 10 basis points compared with the same period in fiscal 2008.

Absent the Eclipse write-off and the impact of the Pensar acquisition, the gross profit margin would have been 21.3% for the fiscal year ended June 28, 2009, which is 160 basis points higher than the fiscal year ended June 29, 2008.

During the fiscal year ended June 29, 2008, the Company's gross margin was negatively impacted by higher than anticipated labor and material costs on certain early-stage long-term contracts that were not fully recoverable from the Company's customers, and start-up expenses on a significant new contract for the assembly of heavy mechanical products in the industrial market. In addition, in the fiscal year ended June 29, 2008, the Company recorded costs of \$248,000, to account for the actual and anticipated loss on current and future shipments on one particular defense program for which the Company experienced significant design changes.

Selling and Administrative Expense

(dollars in thousands)

| | Fiscal Year Ended | | | |
|---|------------------------------|------------------|------------------|-----------|
| Change Fiscal 2010 vs. 2009 | June 27, 2010 | June 28, 2009 | June 29, 2008 | |
| Selling and administrative expense | \$1,125 | \$ 33,935 | \$ 32,810 | \$ 29,557 |
| Percent of net sales | 30pts. | 11.7% | 12.0% | 10.6% |

Selling and administrative expense increased by \$1.1 million for the 12 months ended June 27, 2010, compared with the 12 months ended June 28, 2009. The selling and administrative expenses for the Pensar acquisition were \$3.8 million in the 12 months ended June 27, 2010, compared with \$2.1 million in the six months ended June 28, 2009. Excluding the impact of the Pensar acquisition, selling and administrative expense decreased \$522,000 for the 12 months ended June 27, 2010, compared with the 12 months ended June 28, 2009. The decrease in expenses is primarily attributable to the \$3.7 million write-off of the Eclipse accounts receivable expensed during the second quarter of fiscal 2009. In addition, fringe benefit expense decreased \$342,000, professional service fees decreased \$287,000, employee relocation expenses decreased \$130,000, and amortization expense decreased \$246,000, compared with the year-ago period. These decreases were offset by increases in incentive compensation of \$3.2 million, higher salaries and wages of \$638,000, and tax expense of \$346,000.

In fiscal year 2009, the major factors increasing selling and administrative expense, compared with fiscal 2008, were: the write-off of the Eclipse accounts receivable of \$3.7 million, the acquisition of Pensar of \$2.1 million, and higher salaries and wages due to head count and wage

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inflation of \$1.4 million. Partially offsetting these increases were lower incentive compensation expense of \$3.1 million, lower commissions of \$575,000, and reduced personnel recruiting and relocation expenses of \$259,000.

Interest Expense

(in thousands)

| | Change Fiscal 2010 vs. 2009 | Fiscal Year Ended | | |
|------------------|--------------------------------------|------------------------------|---------------------|---------------------|
| | | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Interest expense | \$417 | \$1,711 | \$1,294 | \$1,459 |

Interest expense increased in fiscal year 2010 from the prior year due to the full-year impact of carrying the debt associated with the Pensar acquisition. The debt level decreased in the fiscal year period ended June 27, 2010, as a result of principal payments.

Interest expense decreased in fiscal year 2009 from the prior year due to lower average interest rates.

Income Tax Expense

(in thousands)

| | Change Fiscal 2010 vs. 2009 | Fiscal Year Ended | | |
|--------------------|--------------------------------------|------------------------------|---------------------|---------------------|
| | | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Income tax expense | \$ 818 | \$7,147 | \$6,329 | \$9,011 |

The effective income tax rate, prior to discrete items, for fiscal 2010 was 37%, compared with 40% and 38% in fiscal years 2009 and 2008, respectively. During the first quarter of fiscal year 2010, the Company recorded a \$795,000 reduction to income tax expense from a correction in the apportionment factor for state income tax returns for fiscal years 2006 through 2009 and an increase in other tax expense, included in selling and administrative expense, of \$193,000 (\$125,000 after-tax) for a gross receipts tax that relates to fiscal years 2005 through 2009. The Company determined that the amounts related to prior fiscal years were not material to all prior fiscal years and, therefore, recognized the adjustments during the first quarter of fiscal year 2010. The net impact of both adjustments to net earnings was an increase of \$670,000 for the 12 months ended June 27, 2010, which had a \$0.04 impact on basic and diluted earnings per share. The impact on full-year net earnings for fiscal year 2010 is not material.

Net Earnings and Earnings Per Share

(amounts in thousands, except per-share data)

| | Fiscal Year Ended | | |
|--------------------------------|--------------------------|------------------|------------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Net earnings | \$ 14,888 | \$ 10,338 | \$ 14,827 |
| Basic net earnings per share | \$ 0.95 | \$ 0.67 | \$ 0.98 |
| Diluted net earnings per share | \$ 0.93 | \$ 0.64 | \$ 0.92 |

| | Fiscal Year Ended | | |
|--|--------------------------|------------------|------------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Average common shares outstanding -- basic | 15,713 | 15,498 | 15,198 |
| Dilutive options and nonvested shares | 382 | 546 | 940 |

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| | | | |
|--|---------------|--------|--------|
| Adjusted average common shares outstanding -- diluted | 16,095 | 16,044 | 16,138 |
|--|---------------|--------|--------|

All outstanding stock options and nonvested shares at June 27, 2010, June 28, 2009 and June 29, 2008, were dilutive. The stock options expire in various periods through 2014. The Company has 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 over the next two fiscal years.

Liquidity and Capital Resources

Cash Flow

(in thousands)

| | Fiscal Year Ended | | |
|---|-------------------|------------------|------------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Net cash provided by operating activities | \$ 13,997 | \$ 29,620 | \$ 18,047 |
| Net cash (used) by investing activities | (5,030) | (56,500) | (5,185) |
| Net cash (used) provided by financing activities | (10,963) | 29,531 | (11,608) |
| Net (decrease) increase in cash and cash equivalents | \$ (1,996) | \$ 2,651 | \$ 1,254 |

The Company's operations generated \$14.0 million of cash in the 12 months ended June 27, 2010, compared with \$29.6 million in the 12 months ended June 28, 2009. The Pensar acquisition generated positive operating cash flows of \$2.1 million for the 12 months ended June 27, 2010, and \$2.0 million for the six months ended June 28, 2009.

Excluding the impact of Pensar's operating cash flow, the primary driver of the \$15.6 million reduction in operating cash flow, in the 12 months of fiscal 2010, versus the same period a year earlier, was a \$35.5 million reduction in cash received from customers (excluding Pensar customers). This results from lower sales in the 12 months ended June 27, 2010, exclusive of the Pensar acquisition, compared with the same fiscal period in the prior year. The lower receipts were offset by a \$21.0 million reduction in disbursements for inventory purchases and other costs of production. The lower inventory purchases and other production costs were primarily driven by the reduction of sales volume for the 12 months ended June 27, 2010, exclusive of the Pensar acquisition, and a reduction of purchases of long-lead materials. In addition, the cash used for payroll-related expenditures decreased by \$4.7 million in the 12 months ended June 27, 2010, compared with the 12 months ended June 28, 2009, as a result of a reduction in the incentive compensation paid during fiscal year 2010, compared with incentive compensation paid in fiscal year 2009.

The \$51.5 million decrease in cash used by the Company's investing activities in the 12 months ended June 27, 2010, versus the 12 months ended June 28, 2009 was driven by the \$45.1 million investment in the Pensar acquisition made in the second fiscal quarter of fiscal year 2009. Capital expenditures were \$4.2 million in the 12 months ended June 27, 2010. These expenditures relate primarily to facility improvements at the Houston, Joplin and Tulsa plants. Capital expenditures were \$10.8 million in the 12 months ended June 28, 2009, primarily related to the Company's \$2.5 million purchase of the Tulsa manufacturing facility, which had been leased in prior years, and the \$4.2 million purchase of surface-mount technology equipment to expand the Company's capabilities in Pittsburgh and Tulsa.

The \$40.5 million decrease in cash provided by financing activities in the 12 months ended June 27, 2010, versus the 12 months ended June 28, 2009, reflects the second quarter of fiscal 2009 borrowing of \$35.0 million of senior debt and \$7.9 million of short-term borrowings to acquire the assets of Pensar. In addition, the Company made debt payments during the 12 months ended June 27, 2010, of \$8.2 million, versus debt payments of \$1.7 million in fiscal year 2009. In fiscal year 2009, the Company paid down \$10.5 million of borrowings under the revolving credit facility.

The Company's operations generated \$29.6 million of cash in fiscal 2009, compared with \$18.0 million in fiscal 2008. The Pensar acquisition generated positive operating cash flow of \$2.0 million for fiscal year 2009. The primary driver of the increased operating cash flow was a \$42.5 million reduction in disbursements for inventory purchases and other costs of production. The lower inventory purchases and other production costs were primarily driven by the reduction of sales volume in fiscal year 2009, exclusive of the Pensar acquisition, and a reduction of purchases of long lead time materials. This increase in net cash provided by operations was partially offset by a reduction of cash receipts from trade receivables of \$25.0 million and a reduction of cash received from cash advances from customers of \$5.2 million in fiscal year 2009, compared with fiscal year 2008. In addition, the cash used for payroll-related expenditures increased by \$5.6 million in fiscal year 2009,

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compared with fiscal year 2008. Income tax payments made during fiscal year 2009 were \$4.6 million lower than in fiscal 2008.

The Company's investing activities used \$56.5 million in fiscal year 2009, compared with \$5.2 million used in fiscal year 2008. The primary driver was the \$45.1 million used to acquire Pensar (see Note 1 to the Consolidated Financial Statements). In addition, capital expenditures used \$10.8 million, including the Company's \$2.5 million purchase of the Tulsa manufacturing facility, which had been leased in prior years. Also the Company purchased \$4.2 million of surface mount technology equipment to expand its capabilities in Tulsa and Pittsburgh.

The \$41.1 million increase in cash provided by financing activities in fiscal year 2009 was primarily attributable to the \$35.0 million of senior term debt used to finance the Pensar acquisition.

Capital Structure

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

- The 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 June 27, 2010, there were no outstanding loans under the revolving credit facility. As of June 27, 2010, 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 22, 2011.
- The agreement provides for an aggregate \$45.0 million term loan, with quarterly principal payments beginning in September 2009 of \$2.0 million, increasing to \$2.5 million in September 2010 and increasing to \$2.7 million in September 2011. The balance is due on December 22, 2011.
- Interest on the revolving facility and the term loan is calculated at a base rate or LIBOR plus a stated spread based on certain ratios. For the fiscal year ended June 27, 2010, the average rate was approximately 3.66%.
- 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 year ended June 27, 2010.

To mitigate the risk associated with interest rate volatility, the Company entered into an interest rate swap agreement 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 is \$35.0 million, which will amortize simultaneously with the term loan schedule in the associated loan agreement and will mature on December 22, 2011.

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

The interest rate swap agreement has been designated as a cash flow hedging instrument and the Company has formally documented, designated and assessed the effectiveness of the interest rate swap. The financial statement impact of ineffectiveness for the fiscal year ended June 27, 2010, was immaterial.

Fair Value:

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

The Company has considered amounts outstanding under the long-term debt agreements and determined that carrying amounts recorded in the financial statements are consistent with the estimated fair value as of June 27, 2010.

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

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of June 27, 2010.

At June 27, 2010, the Company recorded a liability of \$361,000 classified within other long-term liabilities in the consolidated balance sheet, and accumulated other comprehensive loss of \$222,000 (net of deferred income tax effects of \$139,000) relating to the fair value of the interest rate swap agreement.

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 June 27, 2010 | | | |
|-------------------------------|---|-------|-------|-------|
| | Level | Level | Level | Total |
| | 1 | 2 | 3 | |
| Other long-term liabilities: | | | | |
| Interest rate swap derivative | \$--- | \$361 | \$--- | \$361 |
| Total | \$--- | \$361 | \$--- | \$361 |

Other Long-Term Debt

Other long-term debt includes capital lease agreements with outstanding balances totaling \$77,000 at June 27, 2010 and \$238,000 at June 28, 2009.

Maturities of Senior Long-Term Debt and Other Long-Term Obligations

The aggregate maturities of long-term obligations are as follows for the periods presented:

(in thousands)

| Fiscal Year | |
|--------------------|------------------|
| 2011 | \$ 12,069 |
| 2012 | 25,258 |
| Total | \$ 37,327 |

Stockholders' Equity and Debt

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

(in thousands)

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| | Fiscal Year Ended | |
|---|------------------------------|------------------|
| | June 27, 2010 | June 28, 2009 |
| Stockholders' equity | \$115,640 | \$103,151 |
| Total debt and capital lease obligations | 37,327 | 45,488 |

The Company intends to renegotiate the senior loan agreement prior to its maturity on December 2011. Management believes the availability of funds going forward from cash generated from operations and available bank credit facilities should be sufficient to support the planned operations and capital expenditures of the Company's business for the next two fiscal years.

The following table shows LaBarge's contractual obligations as of June 27, 2010:

(in thousands)

| Contractual Obligations | Payment Due by Period | | | | |
|------------------------------------|------------------------------|---------------------------------|------------------------|------------------------|----------------------------------|
| | Total | Less than 1 year | 1 – 3 years | 3 – 5 years | More than 5 years |
| | | | | | |
| Long-term debt | \$ 37,250 | \$12,000 | \$25,250 | \$ --- | \$ --- |
| Capital lease obligations | 77 | 69 | 8 | --- | --- |
| Operating lease obligations | 7,692 | 2,186 | 2,960 | 1,092 | 1,454 |
| Total | \$ 45,019 | \$14,255 | \$28,218 | \$1,092 | \$1,454 |

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made its best estimates and judgment of certain amounts included in the financial statements. The Company believes there is a likelihood that materially different amounts would be reported under different conditions or using different assumptions related to the accounting policies described below. Application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Company's senior management discusses the accounting policies described below with the Audit Committee of the Company's Board of Directors on a periodic basis.

The following discussion of critical accounting policies is intended to bring to the attention of readers those accounting policies that management believes are critical to the Company's consolidated financial statements and other financial disclosures. It is not intended to be a comprehensive list of all of the Company's significant accounting policies that are more fully described in the Notes to the Consolidated Financial Statements in this 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"). The percentage of total revenue recognized from contracts under the percentage of completion method is generally 30-60% of total revenue in any given quarter. These contracts are primarily fixed price contracts that vary widely in terms of size, length of performance period and expected gross profit margins. Under the units of delivery method, the Company recognizes revenue when title transfers, which is usually upon shipment of the product or completion of the service.

The Company also sells products under purchase agreements, supply contracts and purchase orders that are not within the scope of ASC Topic 605-35. The Company provides goods from continuing production over a period of time. The Company builds units to the customer specifications based on firm purchase orders from the customer. The purchase orders tend to be of a relatively short duration and customers place orders on a periodic basis. The pricing is generally fixed for some length of time and the quantities are based on individual purchase

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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 fiscal years ended June 27, 2010, June 28, 2009, and June 29, 2008, expense for the write-down of inventory to lower of cost or market value charged to income before income taxes was \$1.7 million, \$1.5 million, and \$1.9 million, respectively. This expense does not include the \$4.2 million charge related to the Eclipse bankruptcy recognized in the second quarter of fiscal 2009 as described in the Overview section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Goodwill and Other Intangible Assets

The Company evaluates goodwill for impairment on an annual basis on the first day of June of each fiscal year, as well as whenever events or changes in circumstances 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 (“ASC 350”). 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 at June 1, 2010 was \$43.4 million. Goodwill is recorded at three of the Company's reporting units. Based on the 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 \$24.2 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 \$19.2 million at June 1, 2010. The fair value of this

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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 seven percent. The Company expects sales growth rates for this reporting unit to exceed the long term industry average of seven percent 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 and 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 Earnings before Interest Depreciation and Amortization ("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.

Recently Adopted Accounting Standards

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

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In September 2006, the FASB issued guidance titled “Fair Value Measurements” (ASC Topic 820), to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures required relative to fair value measurements. The Company adopted the provisions of ASC Topic 820 on June 30, 2008 for financial assets and liabilities, which did not have a material impact on the Company’s consolidated financial statements.

In September 2006, the FASB issued guidance titled “Accounting for Deferred Compensation and Postretirement Benefits Aspects of Endorsement Split-Dollar Life Insurance Arrangements” (ASC Topic 715). This guidance addresses the accounting for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. The Company adopted ASC Topic 715 on June 30, 2008, which did not have a material impact on the Company’s consolidated financial statements.

In February 2007, the FASB issued guidance titled “The Fair Value Option for Financial Assets and Financial Liabilities” (ASC Topic 825), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. In accordance with this guidance, 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. The Company adopted the provisions of ASC Topic 825 on June 30, 2008, which did not have a material impact on the Company’s consolidated financial statements.

In December 2007, the FASB issued guidance titled “Business Combinations” (ASC Topic 805), which provides guidance on the accounting and reporting for business combinations. The guidance is effective for fiscal years beginning after December 15, 2008 and was adopted by the Company on June 29, 2009. Adoption did not have a material impact on the Company’s consolidated financial statements.

In March 2008, the FASB issued guidance titled “Disclosures about Derivative Instruments and hedging Activities, an amendment of FASB Statement No. 133” (ASC Topic 815), which requires companies to disclose their objectives and strategies for using derivative instruments, whether or not designated as hedging instruments under ASC Topic 815. ASC Topic 815 was effective for the Company for the fiscal year ended June 28, 2009 and did not have a material impact on its consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force 03-6-1 titled “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” that addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The adoption of this guidance in the first quarter of fiscal year 2010 did not have a material impact on the Company’s consolidated financial statements.

In April 2009, the FASB issued guidance titled “Improving Disclosures about Fair Value Measurement” (Accounting Standards Update 2010-06), which requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance also requires those disclosures in summarized financial information at interim reporting periods. This guidance is effective for reporting periods ending after June 15, 2009. The Company adopted this guidance effective June 29, 2009. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

In August 2009, the FASB issued guidance titled “Fair Value Measurements and Disclosures:” Measuring Liabilities at Fair Value (Accounting Standards Update 2009-5), which states companies determining the fair value of a liability may use the perspective of an investor that holds the related obligation as an asset. This guidance addresses practice difficulties caused by the tension between fair-value measurements based on the price that would be paid to transfer a liability to a new obligor and contractual or legal requirements that prevent such transfers from taking place. This guidance is effective for interim and annual periods beginning after August 27, 2009, and applies to all fair-value measurements of liabilities required by GAAP. No new fair-value measurements are required by this guidance. The Company adopted this guidance effective September 28, 2009. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

Recently Issued Accounting Standards

In June 2009, the FASB issued guidance titled “Consolidation” (ASC Topic 810), 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 will be adopted on June 28, 2010, and the Company does not expect this guidance will have a material impact on its 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 will be adopted on June 28, 2010, and the Company does not expect

this guidance will have a material impact on its consolidated financial statements.

ITEM 7A. 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 10.9% of total sales in fiscal year ended June 27, 2010, and less than 10% of total Company revenue in fiscal years 2009 and 2008. Export sales exceeded 10% of total revenue 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 June 27, 2010, the Company had \$37.3 million in total debt. Of the total debt, \$28.8 million has a fixed rate through an interest rate swap agreement, and therefore, is not subject to interest rate risk. Another \$327,000 is subject to a fixed rate through borrowing agreements and is not subject to interest rate risk. The interest rate on the remaining \$8.2 million is subject to fluctuation. If interest rates increased 1%, the additional interest cost to the Company would be approximately \$69,000 for one year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the "Index to Consolidated Financial Statements" contained on page 38 filed herewith.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. 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 Control Over Financial Reporting

During fiscal year 2010, 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.

For Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm, please refer to pages 39 and 40 of this Annual Report.

ITEM 9B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Certain information required by this Item 10 will be included in the Company's 2010 definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report and is incorporated herein by reference. The following sections of the 2010 proxy materials are herein incorporated by reference: "Proposal 1: Election of Directors" (note that information regarding executive officers is included in this section); information disclosing the Audit Committee financial expert under the "Report of the Audit Committee;" and "Section 16(a) Beneficial Ownership Reporting Compliance."

The Company has a long-standing Policy on Business Conduct and Ethics applicable to all employees and directors (including the Company's principal executive officer, principal financial officer, principal accounting officer and controller), which is available in the investor relations' section of the Company's Web site at www.labarge.com. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding the amendment to, or a waiver from, a provision of this policy that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K by posting such information on its website.

There have been no material changes to the procedures by which stockholders may recommend nominees to the Board of Directors since the filing of the quarterly report on Form 10-Q for the fiscal quarter ended March 28, 2010.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 will be included in the Company's 2010 definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report under "Proposal 1: Election of Directors," and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Certain information required by this Item 12 will be included in the Company's 2010 definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report under the section "Voting Securities and Ownership Thereof By Management and Certain Beneficial Owners" and is herein incorporated by reference.

The following table contains certain information as of June 27, 2010 with respect to options granted and outstanding under the Company's three stock option plans, weighted average exercise prices of outstanding options, warrants and rights and the number of securities remaining available for future issuance under these plans:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|--|---|--|---|
| Equity compensation plans approved by security holders | 426,652 | \$5.26 | 10,962 |
| Equity compensation plans not approved by security holders | --- | --- | --- |

The following table contains certain information as of June 27, 2010, with respect to restricted stock awards outstanding under the 2004 Long Term Incentive Plan:

| Number of Securities to be Issued Based on | Weighted Average Price | Number of Securities Remaining Available for Future Issuance Under |
|---|------------------------|--|
|---|------------------------|--|

| Plan Category | Outstanding Grants | of Securities Issued | Equity Compensation Plans |
|--|---------------------------|-----------------------------|----------------------------------|
| Equity compensation plans approved by security holders | 119,338 | 12.30 | 496,821 |
| Equity compensation plans not approved by security holders | --- | --- | |

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain information required by this Item 13 will be included in the Company's 2010 definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report under the sections "Certain Relationships and Related Transactions" and "Proposal 1: Election of Directors" and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Certain information required by this Item 14 will be included in the Company's 2010 definitive proxy materials to be filed with the SEC within 120 days after the end of the Company's fiscal year covered by this report under the section "Proposal 2: Ratification of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- a. The following documents are filed as part of this Annual Report on Form 10-K: (1) Financial Statements and (2) Schedules noted in the "Index to Consolidated Financial Statements" on page 38 and (3) Exhibits noted under "Exhibits."
- b. Exhibits filed with this Annual Report on Form 10-K are included under "Exhibits" below.
- c. None

EXHIBITS

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|---|
| 2.1 | — Asset Sale and Purchase Agreement dated as of February 17, 2004 by and between LaBarge Electronics, Inc. and Pinnacle Electronics, Inc. previously filed with the Securities and Exchange Commission with the Company's Current Report on Form 8-K (File No. 001-05761) on February 23, 2004, and incorporated |

herein by reference.

- 2.2 Asset Purchase Agreement dated as of December 22, 2008 by and between Pensar Electronic Solutions, LLC, all Members of Pensar Electronic Solutions, LLC and LaBarge Acquisition Company, Inc., previously filed as Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended December 28, 2008, and incorporated herein by reference.
- 3.1(a) Restated Certificate of Incorporation, dated October 26, 1995, previously filed as Exhibit 3.1(i) to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended October 1, 1995 and incorporated herein by reference.
- 3.1(b) Certificate of Amendment to Restated Certificate of Incorporation, dated November 7, 1997, previously filed as Exhibit 3.1(a) to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended December 28, 1997 and incorporated herein by reference.

3.2

By-Laws, as amended, previously filed as Exhibit 3.2(a) to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended October 1, 1995 and incorporated herein by reference.

3.3 Certificate of Designations for Series C Junior Participating Preferred Stock, previously filed as Exhibit 3 to the Company's Registration Statement on Form 8-A (File No. 000-33319) on November 9, 2001 and incorporated herein by reference.

4.1(a) Form of Rights Agreement dated as of November 8, 2001, between the Company and UMB Bank, as Rights Agent, which includes as Exhibit B the form of Rights Certificate, previously filed as Exhibit 4 to the Company's Registration Statement on Form 8-A (File No. 000-33319) on November 9, 2001 and incorporated herein by reference.

4.1(b) First Amendment to the Rights Agreement appointing Registrar and Transfer Company as successor Rights Agent with respect

to Series C Junior Participating Preferred Stock Purchase Rights, previously filed with Securities & Exchange Commission with the Company's Current Report on Form 8-K (File No. 001-05761), dated January 4, 2002 and incorporated herein by reference.

10.1 Term Loan Promissory Note dated February 17, 2004 in the principal amount of \$6,080,000 executed by LaBarge Properties, Inc. and payable to U.S. Bank National Association previously filed with the Company's Current Report on Form 8-K (File No. 001-05761) on February 23, 2004 and incorporated herein by reference.

10.2(a) Loan Agreement dated February 17, 2004 by and among the Company, LaBarge Electronics, Inc. and U.S. Bank National Association, as agent, previously filed with the Company's Current Report on Form 8-K (File No. 001-05761) on February 23, 2004 and incorporated herein by reference.

10.2(b) First Amendment to the Loan Agreement dated April 16, 2004 by and among

the Company,
LaBarge,
Electronics, Inc., as
borrowers, U.S.
Bank National
Association and
National City Bank
of Pennsylvania, as
lenders, and U.S.
Bank National
Association, as
agent, previously
filed with the
Company's Annual
Report on Form
10-K (File No.
001-05761) on
September 3, 2004
and incorporated
herein by reference.

10.2(c) Second Amendment
to the Loan
Agreement dated
August 24, 2005 by
and among the
Company, LaBarge,
Electronics, Inc., as
borrowers, U.S.
Bank National
Association and
National City Bank
of Pennsylvania, as
lenders, and U.S.
Bank National
Association, as
agent, previously
filed with the
Company's Annual
Report on Form
10-K (File No.
001-05761) on
September 8, 2005
and incorporated
herein by reference.

10.2(d) Third Amendment
to the Loan
Agreement dated
February 10, 2006
by and among the
Company, LaBarge,
Electronics, Inc., as
borrowers, U.S.
Bank National
Association and
National City Bank
of Pennsylvania, as
agent, previously
filed with the

Company's Current Report on Form 8-K (File No. 001-05761) on February 15, 2006 and incorporated herein by reference.

10.2(e) Fourth Amendment to the Loan Agreement dated December 1, 2006 by and among the Company, LaBarge, Electronics, Inc., as borrowers, U.S. Bank National Association and National City Bank of Pennsylvania, as agent, previously filed with the Company's Form 10-Q (File No. 001-05761) on February 7, 2007 and incorporated herein by reference.

10.2(f) Fifth Amendment to the Loan Agreement dated October 3, 2008, by and among the Company, LaBarge, Electronics, Inc., as borrowers, U.S. Bank National Association, Wells Fargo Bank, National Association and National City Bank of Pennsylvania, as lenders, and U.S. Bank National Association, as agent for the lenders, previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended September 28, 2008 and incorporated herein by reference.

10.2(g) Loan Agreement dated as of December 22, 2008 by and among the Company, LaBarge Electronics, Inc. and LaBarge Acquisition Company, Inc., as borrowers, U.S. Bank National Association and Wells Fargo Bank, National Association, as lenders, and U.S. Bank National Association, as agent, previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended December 28, 2008 and incorporated herein by reference.

10.2(h) First Amendment dated January 30, 2009 to the Loan Agreement dated December 22, 2008, by and among the Company, LaBarge Electronics, Inc. and LaBarge Acquisition Company, Inc., as borrowers, U.S. Bank National Association and Wells Fargo Bank, National Association, as lenders, and U.S. Bank National Association, as agent, previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended March 29, 2009 and incorporated herein by reference.

10.3(a)* First Amendment and Restatement to the LaBarge Employees Savings Plan executed on May 3, 1990 and First Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on June 5, 1990, previously filed as Exhibits (i) and (ii), respectively, to the LaBarge, Inc. Employees Savings Plan's Annual Report on Form 11-K (File No. 001-05761) for the year ended December 31, 1990 and incorporated herein by reference.

10.3(b)* Second Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on November 30, 1993, previously filed with the Securities and Exchange Commission July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.3(c)* Third Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on March 24, 1994, previously filed with the Securities and Exchange

Commission on July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.3(d)* Fourth Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on January 3, 1995, previously filed with the Securities and Exchange Commission on July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.3(e)* Fifth Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on October 26, 1995, previously filed with the Securities and Exchange Commission on July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

10.3(f)* Sixth Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on January 9, 1998, previously filed as

Exhibit II,
respectively, to the
LaBarge, Inc.
Employees Savings
Plan's Annual
Report on Form
11-K (File No.
001-05761) for the
year ended
December 31, 1997
and incorporated
herein by reference.

10.3(g) *

Seventh
Amendment to the
First Amendment
and Restatement of
the LaBarge, Inc.
Employees Savings
Plan executed on
August 11, 1999,
previously filed
with the Securities
and Exchange
Commission with
the Company's
Annual Report
on Form 10-K (File
No. 001-05761) on
September 27, 1999
and incorporated
herein by reference.

10.4(a)*

LaBarge, Inc. 1993
Incentive Stock
Option Plan,
previously filed
with the Securities
and Exchange
Commission on
July 24, 1996 with
the Company's
Registration
Statement on Form
S-3, No. 333-08675
and incorporated
herein by reference.

10.4(b)*

First Amendment to
the LaBarge, Inc.
1993 Incentive
Stock Option Plan,
previously filed
with the Securities
and Exchange
Commission on
July 24, 1996 with
the Company's

Registration
Statement on Form
S-3, No. 333-08675
and incorporated
herein by reference.

10.5* Management
Retirement Savings
Plan of LaBarge,
Inc., previously
filed with the
Securities and
Exchange
Commission on
July 24, 1996 with
the Company's
Registration
Statement on Form
S-3, No. 333-08675
and incorporated
herein by reference.

10.6* LaBarge, Inc. 1995
Incentive Stock
Option Plan,
previously filed
with the Securities
and Exchange
Commission with
the Company's
Annual Report on
Form 10-K (File
No. 001-05761) on
September 19, 1996
and incorporated
herein by reference.

10.7(a)* LaBarge, Inc.
Employee Stock
Purchase Plan,
previously filed
with the Securities
and Exchange
Commission with
the Company's
definitive Proxy
Statement on
Schedule 14A (File
No. 001-05761)
filed on September
21, 1998, and
incorporated herein
by reference.

10.7(b)* First Amendment to
the LaBarge, Inc.
Employee Stock

Purchase Plan,
previously filed
with the Securities
and Exchange
Commission with
the Company's
Quarterly Report on
Form 10-Q (File
No. 001-05761) on
May 12, 1999 and
incorporated here in
by reference.

10.8* LaBarge, Inc. 1999
Non-Qualified
Stock Option Plan,
previously filed
with the Company's
definitive Proxy
Statement on
Schedule 14A (File
No. 001-05761)
filed on October 8,
1999, and
incorporated herein
by reference.

10.9* Form of Executive
Severance
Agreement,
previously filed
with Securities and
Exchange
Commission with
the Company's
Current Report on
Form 8-K (File No.
001-05761) on
February 22, 2005,
and incorporated
herein by reference.

10.10* LaBarge, Inc. 2004
Long Term
Incentive Plan,
previously filed
with the
Commission with
the Company's
Current Report on
Form 8-K filed
November 2, 2004
and incorporated
herein by reference.

10.11 Form of
Competitive
Practices
Agreement,
previously filed
with the
Commission with

the Company's
Current Report on
Form 8-K (File No.
001-05761) filed
February 22, 2005
and incorporated
herein by reference.

- 21** Subsidiaries of the Company.
- 23** Consent of Independent Registered Public Accounting Firm.
- 24** Power of Attorney (see signature page).
- 31.1** Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) 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(a) 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.

- * Management contract or
compensatory plan,
contract or arrangement.
- ** Document filed
herewith.

LaBARGE, INC. AND SUBSIDIARIES
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All other schedules have been omitted as they are not applicable, not significant, or the required information is provided in the consolidated financial statements or notes thereto.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) of the Securities Exchange Act of 1934, as amended). Under the supervision and with the participation of management, including the principal executive officer and the principal financial officer, the Company assessed the effectiveness of its internal control over financial reporting as of June 27, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the report entitled "Internal Control-Integrated Framework." Although there are inherent limitations in the effectiveness of any system of internal control over financial reporting, management has concluded that, as of June 27, 2010, the Company's internal control over financial reporting is effective based on its evaluation.

The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

/s/CRAIG E. LaBARGE

Craig E. LaBarge
Chairman of the Board, Chief Executive Officer
and President

/s/DONALD H. NONNENKAMP

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

LaBarge, Inc.:

We have audited the accompanying consolidated balance sheets of LaBarge, Inc. and subsidiaries (the Company) as of June 27, 2010 and June 28, 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended June 27, 2010. We also have audited the Company's internal control over financial reporting as of June 27, 2010, based on criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LaBarge, Inc. and subsidiaries as of June 27, 2010 and June 28, 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended June 27, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 27, 2010, based on criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/KPMG LLP

St. Louis, Missouri
September 2, 2010

LaBarge, Inc.
CONSOLIDATED STATEMENTS OF INCOME
(amounts in thousands, except per-share amounts)

| | Fiscal Year Ended | | |
|------------------|--------------------------|--------------------------|--------------------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Net sales | \$ 289,303 | \$ 273,368 | \$ 279,485 |
| Cost of sales | 231,677 | 222,583 | 224,498 |
| | 57,626 | 50,785 | 54,987 |

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Gross profit

| | | | |
|-------------------------------------|------------------|------------------|------------------|
| Selling and administrative expense | 33,935 | 32,810 | 29,557 |
| Operating income | 23,691 | 17,975 | 25,430 |
| Interest expense | 1,711 | 1,294 | 1,459 |
| Other (income) expense, net | (55) | 14 | 133 |
| Earnings before income taxes | 22,035 | 16,667 | 23,838 |
| Income tax expense | 7,147 | 6,329 | 9,011 |
| Net earnings | \$ 14,888 | \$ 10,338 | \$ 14,827 |

| | | | |
|--|----------------|----------------|----------------|
| Basic net earnings per common share | \$ 0.95 | \$ 0.67 | \$ 0.98 |
|--|----------------|----------------|----------------|

| | | | |
|--|---------------|---------------|---------------|
| Average basic common shares outstanding | 15,713 | 15,498 | 15,198 |
|--|---------------|---------------|---------------|

| | | | |
|--|----------------|----------------|----------------|
| Diluted net earnings per common share | \$ 0.93 | \$ 0.64 | \$ 0.92 |
|--|----------------|----------------|----------------|

| | | | |
|--|---------------|---------------|---------------|
| Average diluted common shares outstanding | 16,095 | 16,044 | 16,138 |
|--|---------------|---------------|---------------|

See accompanying Notes to Consolidated Financial Statements.

LaBarge, Inc.
CONSOLIDATED BALANCE SHEETS

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

| | June 27, 2010 | June 28, 2009 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,301 | \$ 4,297 |
| Accounts and other receivables, net | 46,807 | 37,573 |
| Inventories | 64,536 | 54,686 |
| Prepaid expenses | 1,062 | 1,090 |
| Deferred tax assets, net | 3,655 | 3,055 |
| Total current assets | 118,361 | 100,701 |
| Property, plant and equipment, net of accumulated depreciation of \$35,704 at June 27, 2010, and \$30,823 at June 28, 2009 | 28,536 | 30,624 |
| Intangible assets, net | 9,076 | 11,255 |
| Goodwill | 43,424 | 43,457 |
| Other assets | 5,125 | 4,798 |
| Total assets | \$ 204,522 | \$ 190,835 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 12,069 | \$ 6,162 |
| Trade accounts payable | 26,538 | 18,354 |
| Accrued employee compensation | 14,625 | 10,957 |
| Other accrued liabilities | 3,712 | 2,483 |
| Cash advances from customers | 2,921 | 6,738 |
| Total current liabilities | 59,865 | 44,694 |
| Long-term advances from customers for purchase of materials | 46 | 47 |
| Deferred tax liabilities, net | 2,494 | 1,885 |
| Deferred gain on sale of real estate and other liabilities | 1,219 | 1,732 |
| Long-term debt | 25,258 | 39,326 |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value. Authorized 40,000,000 shares; 15,958,839 issued at June 27, 2010, and June 28, 2009, respectively, including shares in treasury | 160 | 160 |
| Additional paid-in capital | 14,582 | 14,700 |
| Retained earnings | 103,827 | 88,939 |
| Accumulated other comprehensive loss | (222) | (141) |
| Less cost of common stock in treasury shares of 234,651 at June 27, 2010, and 56,765 at June 28, 2009 | (2,707) | (507) |
| Total stockholders' equity | 115,640 | 103,151 |
| Total liabilities and stockholders' equity | \$ 204,522 | \$ 190,835 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Fiscal Year Ended | | |
|---|--------------------------|------------------|------------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Cash flows from operating activities: | | | |
| Net earnings | \$ 14,888 | \$ 10,338 | \$ 14,827 |
| Adjustments to reconcile net cash provided by operating activities, net of effects of acquisition: | | | |
| Loss on disposal of property, plant and equipment | 2 | 108 | 45 |
| Depreciation and amortization | 9,298 | 6,930 | 5,290 |
| Amortization of deferred gain on sale of real estate | (481) | (481) | (481) |
| Share-based compensation | 1,104 | 1,128 | 1,445 |
| Other than temporary impairment of investments | --- | 26 | 59 |
| Deferred taxes | 9 | 790 | 361 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | (9,231) | 10,480 | (10,574) |
| Inventories | (9,830) | 18,589 | (7,210) |
| Prepaid expenses | 28 | 259 | 1,088 |
| Trade accounts payable | 7,777 | (9,794) | 3,531 |
| Accrued liabilities | 4,250 | (3,018) | 2,350 |
| Cash advances from customers | (3,817) | (5,735) | 7,316 |
| Net cash provided by operating activities | 13,997 | 29,620 | 18,047 |
| Cash flows from investing activities: | | | |
| Acquisition, net of cash acquired | --- | (45,074) | --- |
| Additions to property, plant and equipment | (4,162) | (10,799) | (4,840) |
| Proceeds from disposal of property, equipment and other assets | 29 | 25 | 130 |
| Additions to other assets and intangibles | (897) | (652) | (480) |
| Other investing activities | --- | --- | 5 |
| Net cash used in investing activities | (5,030) | (56,500) | (5,185) |
| Cash flows from financing activities: | | | |
| Borrowings on revolving credit facility | 7,850 | 50,050 | 91,278 |
| Payments of revolving credit facility | (7,850) | (60,550) | (95,603) |
| Borrowings of long-term debt | --- | 42,014 | --- |
| Repayments of long-term debt | (8,162) | (1,654) | (6,302) |
| Transaction costs related to bank financing | --- | (274) | --- |
| Excess tax benefits from stock option exercises | 422 | 3,083 | 213 |
| Remittance of minimum taxes withheld as part of a net share settlement of stock option exercises | (841) | (3,566) | (265) |
| Issuance of treasury stock | 174 | 613 | 781 |
| Purchase of treasury stock | (2,556) | (185) | (1,710) |
| Net cash (used) provided by financing activities | (10,963) | 29,531 | (11,608) |
| Net (decrease) increase in cash and cash equivalents | (1,996) | 2,651 | 1,254 |
| Cash and cash equivalents at beginning of fiscal year | 4,297 | 1,646 | 392 |
| Cash and cash equivalents at end of fiscal year | \$ 2,301 | \$ 4,297 | \$ 1,646 |

See accompanying Notes to Consolidated Financial Statements.

LaBarge, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(amounts in thousands, except share amounts)

Fiscal Year Ended

| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
|--|-------------------|------------------|------------------|
| STOCKHOLDERS' EQUITY | | | |
| Common stock, beginning of year | \$ 160 | \$ 158 | \$ 158 |
| Shares issued during year | --- | 2 | --- |
| Common stock, end of year | 160 | 160 | 158 |
| Paid-in capital, beginning of year | 14,700 | 16,547 | 16,174 |
| Stock compensation programs | (118) | (1,847) | 373 |
| Paid-in capital, end of year | 14,582 | 14,700 | 16,547 |
| Retained earnings, beginning of year | 88,939 | 78,601 | 63,774 |
| Net earnings for the year | 14,888 | 10,338 | 14,827 |
| Retained earnings, end of year | 103,827 | 88,939 | 78,601 |
| Accumulated other comprehensive loss, beginning of year | (141) | --- | --- |
| Other comprehensive loss for the year, net of tax | (81) | (141) | --- |
| Accumulated other comprehensive loss, end of year | (222) | (141) | --- |
| Treasury stock, beginning of year | (507) | (3,837) | (3,696) |
| Acquisition of treasury stock | (3,762) | (3,504) | (1,975) |
| Issuance of treasury stock | 1,562 | 6,834 | 1,834 |
| Treasury stock, end of year | (2,707) | (507) | (3,837) |
| Total stockholders' equity | \$ 115,640 | \$ 103,151 | \$ 91,469 |
| COMPREHENSIVE INCOME | | | |
| Net earnings | \$ 14,888 | \$ 10,338 | \$ 14,827 |
| Other comprehensive loss, net of tax | (81) | (141) | --- |
| Total comprehensive income | \$ 14,807 | \$ 10,197 | \$ 14,827 |
| COMMON SHARES | | | |
| Common stock, beginning of year | 15,958,839 | 15,773,253 | 15,773,253 |
| Shares issued during year | --- | 185,586 | --- |
| Common stock, shares issued, end of year | 15,958,839 | 15,958,839 | 15,773,253 |
| TREASURY SHARES | | | |
| Treasury stock, beginning of year | (56,765) | (419,503) | (506,704) |
| Acquisition of shares | (338,664) | (293,004) | (145,038) |
| Issuance of shares | 160,778 | 655,742 | 232,239 |
| Treasury stock, end of year | (234,651) | (56,765) | (419,503) |

See accompanying Notes to Consolidated Financial Statements.

LaBarge, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

LaBarge, Inc. and subsidiaries (the “Company”) manufactures and assists in the design and engineering of sophisticated electronic and electromechanical systems and devices and complex interconnect systems on a contract basis for its customers in diverse markets.

The Company markets its services to customers desiring an engineering and manufacturing partner capable of developing and providing products that can perform reliably in harsh environmental conditions, such as high and low temperatures, severe shock and vibration. The Company’s customers do business in a variety of markets with significant revenues from customers in the defense, government systems, medical, aerospace, natural resources, industrial and other commercial markets. As a contract manufacturer, revenues and profit levels are impacted, primarily, by the volume and mix of sales in the particular period.

Principles of Consolidation

The consolidated financial statements include the accounts of LaBarge, Inc. and its wholly-owned subsidiaries. Investments in less than 20%-owned companies are accounted for at cost. All inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America (“GAAP”) requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made its best estimates and judgment of certain amounts included in the financial statements. Areas involving significant judgments and estimates include revenue recognition and cost of sales, inventories, and goodwill and intangible assets. Actual results could differ from those estimates.

Certain items in the prior year’s consolidated financial statements have been reclassified to conform to the current year presentation. For the fiscal years ended June 28, 2009 and June 29, 2008, the Company revised its presentation of cash flows for the purchase of treasury stock, the issuance of treasury stock and the remittance of minimum taxes withheld as a part of net settlements of share-based payments. The total net cash flows provided by financing activities did not change nor did this impact any other presented financial information. The impact of the revision was not considered material to the previously issued financial statements.

During the first quarter of fiscal year 2010, the Company recorded a \$795,000 reduction to income tax expense from a correction in the apportionment factor for state income tax returns for fiscal years 2006 through 2009 and an increase in other tax expense, included in selling and administrative expense, of \$193,000 (\$125,000 after-tax) for a gross receipts tax that relates to fiscal years 2005 through 2009. The \$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 all prior fiscal years and, therefore, recognized the adjustments during the first quarter of fiscal year 2010. The net impact of both adjustments to net earnings was an increase of \$670,000 for the 12 months ended June 27, 2010, which

had a \$0.04 impact on basic and diluted earnings per share. The impact on full-year net earnings for fiscal year 2010 was not material.

Accounting Period

The Company uses a fiscal year ending the Sunday closest to June 30; each fiscal quarter is 13 weeks. Fiscal years 2010, 2009 and 2008 each consisted of 52 weeks.

Segment Reporting Policy

The Company reports its operations as one segment.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

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 Statement of 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". The percentage of total revenue recognized from contracts under the percentage of completion method is generally 30-60% of total revenue in any given quarter. These contracts are primarily fixed price contracts that vary widely in terms of size, length of performance period and expected gross profit margins. Under the units of delivery method, the Company recognizes revenue when title transfers, which is usually upon shipment of the product.

The Company also sells products under purchase agreements, supply contracts and purchase orders that are not within the scope of FASB ASC Topic 605-35. The Company provides goods from continuing production over a period of time. The Company builds units to the customer specifications and 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 FASB ASC Topic 605-35 and for those not within the scope of FASB 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 FASB ASC Topic 605-35 gives effect to the most recent contract value and estimates of cost at completion. Contract costs generally include all direct costs, such as materials, direct labor, subcontracts and indirect costs identifiable with or allocable to the contracts. Learning or start-up costs, including tooling and set-up costs incurred in connection with existing contracts, are charged to existing contracts. The contract costs do not include any sales, marketing or general and administrative costs. Revenue is calculated as the number of units shipped multiplied by the sales price per unit. The Company estimates

the total revenue of the contract and the total contract costs and calculates the contract cost percentage and gross profit margin. The gross profit during a period is equal to the earned revenue for the period times 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 under FASB 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. The revision to the estimated total cost is accounted for as a change of an estimate. A cumulative catch up adjustment is recorded in the period of the change in 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.

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. 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 an anticipated loss will equal current period sales at a 0% gross profit margin plus or minus any net effect of cumulative adjustments to the loss based on any changes to the estimated total loss on the contract.

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

The contracts that are not subject to the 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.

Accounts Receivable

Accounts receivable have been reduced by an allowance for amounts that management estimates are un-collectable. This estimated allowance is based primarily on management's evaluation of the financial condition of the Company's customers. The Company considers factors, which include but are not limited to: (i) the customer's payment history, (ii) the customer's current financial condition and (iii) any other relevant information about the collectibility of the receivable. The Company considers all information available to it in order to make an informed and reasoned judgment as to whether it is probable that an accounts receivable asset has been impaired as of a specific date. The Company's policy on bad debt allowances for accounts receivable is to provide for any invoice not collected in 360 days, and to provide for additional amounts where, in the judgment of management, such an allowance is warranted based on the specific facts and circumstances.

Inventories

Inventories, other than work-in-process inventoried costs relating to those contracts accounted for under FASB ASC Topic 605-35, are carried at the lower of cost or market value.

Inventoried costs relating to contracts accounted for under FASB ASC Topic 605-35 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.

In addition, management regularly reviews all inventory for lower of cost or market issues to market value to determine whether any write-down is necessary. Various factors are considered in making this determination, including expected program life, recent sales history, predicted trends and market conditions. If actual demand or market conditions are less favorable than those projected by management, write-downs of inventory to lower cost or market may be required. For the fiscal years ended June 27, 2010, June 28, 2009, and June 29, 2008, the expense for writing inventory down to the lower of cost or market charged to income before income taxes was \$1.7 million, \$1.5 million and \$1.9 million (excluding the impact of the charges related to Eclipse as described in Note 5 of the Notes to Consolidated Financial Statements), respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company has considered future taxable income analyses and feasible tax planning strategies in assessing the need for a valuation allowance. Should the Company determine that it would not be able to recognize all or part of its net deferred tax assets in the future, an adjustment to the carrying value of the deferred tax assets would be charged to income in the period in which such determination is made. Effective July 2, 2007, the Company adopted the recognition and disclosure provision of FASB ASC Topic 740. This addresses the accounting for uncertain tax position that a Company has taken or expects to take on a tax return. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

Fair Value of Financial Instruments

The Company considers 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 June 27, 2010.

Additionally, the interest rate swap agreement, further described in Note 11 to the Notes to Consolidated Financial Statements, has been recorded by the Company based on the estimated fair value as of June 27, 2010.

Property, Plant and Equipment

Property, plant and equipment is carried at cost and includes additions and improvements which extend the remaining useful lives of the assets. Depreciation is computed on the straight-line method.

Cash Equivalents

The Company considers cash equivalents to be temporary investments that are readily convertible to cash, such as certificates of deposit, commercial paper and treasury bills with original maturities of three months or less.

Cash Advances

The Company receives cash advances from customers under certain contracts. Cash advances are liquidated over the period of product deliveries.

Employee Benefit Plans

The Company has a contributory savings plan covering certain employees. The Company expenses all plan costs as incurred.

The Company offers a non-qualified deferred compensation program to certain key employees whereby they may defer a portion of their annual compensation for payment upon retirement plus a guaranteed return. The program is unfunded; however, the Company purchases Company-owned life insurance contracts through which the Company will recover a portion of its cost upon the death of the employee.

The Company also offers an employee stock purchase plan that allows eligible employees to purchase common stock at the end of each quarter at 15% below the market price as of the first or last day of the quarter, whichever is lower. The Company recognizes an expense for the 15% discount.

As part of the Company's cost savings initiatives, the Company temporarily suspended its 401(k) matching contributions and the employee stock purchase plan in April 2009. This suspension applied to employees Company-wide, including the named executive officers. As a result, the Company recorded no expense related to these plans in the fiscal year ended June 27, 2010. The plans were reinstated for the fiscal year 2011.

Share-Based Arrangements

The Company accounts for share-based arrangements under Statements of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, which requires that all share-based compensation be recognized as expense, measured at the fair value of the award. FASB ASC Topic 718 also requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows.

During the fiscal years ended June 27, 2010, June 28, 2009, and June 29, 2008, the Company was notified that shares issued upon the exercise of incentive stock options ("ISOs") were sold prior to being held by the employee for 12 months. These disqualifying dispositions resulted in an excess tax benefit for the Company. Since the ISOs vested prior to adoption of the FASB ASC Topic 718, the entire tax benefit of \$35,000 for fiscal year 2010, \$16,000 for fiscal year 2009, and \$213,000 for fiscal year 2008 was recorded as an increase to additional paid-in capital.

During the fiscal years ended June 27, 2010, June 28, 2009, and June 29, 2008, nonqualified shares were exercised, which generated excess tax benefits for the Company. The excess tax benefits recorded as an increase to additional paid in capital were \$387,000 for the year ended June 27, 2010, \$3.1 million for the year ended June 28, 2009 and \$184,000 for the fiscal year ended June 29, 2008.

No stock options were issued in the years ended June 27, 2010, June 28, 2009, and June 29, 2008. All stock options

previously granted were at prices not less than fair market value of the common stock at the grant date. These options expire in various periods through 2014.

The Company has a program to award performance units tied to financial performance to certain key employees. The awards have a one-year performance period and an additional two-year service period, and compensation expense is recognized over three years. Included in diluted shares at June 27, 2010, were 119,338 shares issuable for fiscal year 2010 performance, as the performance condition was met. No performance units were issued related to fiscal year 2009, as the performance condition was not met. Included in diluted shares at June 27, 2010, June 28, 2009, and June 29, 2008, were 141,923 shares issued for fiscal 2008 performance, as the performance condition was met. The share amounts described here are the number of shares issuable upon vesting of restricted shares and are included in dilutive shares using the treasury stock method as described in Note 16 of Consolidated Financial Statements.

For the fiscal year ended June 27, 2010, total share-based compensation was \$1.1 million (\$691,000 after-tax), equivalent to earnings per basic and diluted share of \$0.04. For the fiscal year ended June 28, 2009, total share-based compensation was \$1.1 million (\$678,000 after-tax), equivalent to earnings per basic and diluted share of \$0.04. For the fiscal year ended June 29, 2008, total share-based compensation was \$1.4 million (\$891,000 after-tax), equivalent to earnings per basic and diluted share of \$0.06.

Goodwill and Other Intangible Assets

In accordance with FASB ASC Topic 350, *Intangibles – Goodwill and Other* (“ASC 350”), “Goodwill and Other Intangible Assets,” intangible assets deemed to have indefinite lives and goodwill are not subject to amortization. All other intangible assets are amortized over their estimated useful lives. Goodwill and other intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company did not have any intangible assets other than goodwill not subject to amortization during the fiscal years ended June 27, 2010, and June 28, 2009. Testing the impairment of goodwill requires comparison of the estimated fair values of each reporting unit to its carrying value. If the fair value of the reporting unit were less than its carrying value, the Company would record an impairment in accordance with ASC Topic 350.

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 as compared to the sum of the fair values of all reporting units including those without goodwill.

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.

During the fourth quarter of 2010, the Company completed its annual impairment test and determined that the fair value of its reporting units are in excess of the carrying values and that there was no impairment of goodwill. Different assumptions regarding such factors as sales levels and price changes, labor and material cost changes, interest rates and productivity could affect such valuations.

Recently Adopted Accounting Standards

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

In September 2006, the FASB issued guidance titled “Fair Value Measurements” (ASC Topic 820), to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures required relative to fair value measurements. The Company adopted the provisions of ASC Topic 820 on June 30, 2008 for financial assets and liabilities, which did not have a material impact on the Company’s consolidated financial statements.

In September 2006, the FASB issued guidance titled “Accounting for Deferred Compensation and Postretirement Benefits Aspects of Endorsement Split-Dollar Life Insurance Arrangements” (ASC Topic 715). This guidance addresses the accounting for endorsement split-dollar

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life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. The Company adopted ASC Topic 715 on June 30, 2008, which did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued guidance titled "The Fair Value Option for Financial Assets and Financial Liabilities" (ASC Topic 825), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. In accordance with this guidance, 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. The Company adopted the provisions of ASC Topic 825 on June 30, 2008, which did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued guidance titled "Business Combinations" (ASC Topic 805), which provides guidance on the accounting and reporting for business combinations. The guidance is effective for fiscal years beginning after December 15, 2008 and was adopted by the Company on June 29, 2009. Adoption did not have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB Issued guidance titled "Disclosures about Derivative Instruments and hedging Activities, an amendment of FASB Statement No. 133" (ASC Topic 815), which requires companies to disclose their objectives and strategies for using derivative instruments, whether or not designated as hedging instruments under ASC Topic 815. ASC Topic 815 was effective for the Company for the fiscal year ended June 28, 2009 and did not have a material impact on its consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force 03-6-1 titled "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" that addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The adoption of this guidance in the first quarter of fiscal year 2010 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued guidance titled "Improving Disclosures about Fair Value Measurement" (Accounting Standards Update 2010-06), which requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance also requires those disclosures in summarized financial information at interim reporting periods. This guidance is effective for reporting periods ending after June 15, 2009. The Company adopted this guidance effective June 29, 2009. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In August 2009, the FASB issued guidance titled "Fair Value Measurements and Disclosures:" Measuring Liabilities at Fair Value (Accounting Standards Update 2009-5), which states companies determining the fair value of a liability may use the perspective of an investor that holds the related obligation as an asset. This guidance addresses practice difficulties caused by the tension between fair-value measurements based on the price that would be paid to transfer a liability to a new obligor and contractual or legal requirements that prevent such transfers from taking place. This guidance is effective for interim and annual periods beginning after August 27, 2009, and applies to all fair-value measurements of liabilities required by GAAP. No new fair-value measurements are required by this guidance. The Company adopted this guidance effective September 28, 2009. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

In June 2009, the FASB guidance titled "Consolidation" (ASC Topic 810), 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 will be adopted on June 28, 2010, and the Company does not expect this guidance will have a material impact on its 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 will be adopted on June 28, 2010, and the Company does not expect this guidance will have a material impact on its consolidated financial statements.

2.

ACQUISITION

On December 22, 2008, the Company acquired substantially all of the assets of Pensar Electronic Solutions, LLC ("Pensar"). The acquisition of Pensar, located in Appleton, Wisconsin, provided the Company with a presence in the Upper Midwest, and added significant new medical, natural resources and industrial accounts to the Company's customer mix. Pensar is a contract electronics manufacturer that designs, engineers

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and manufactures low-to-medium volume, high-mix, complex printed circuit board assemblies and higher-level electronic assemblies for customers in a variety of end markets.

The purchase price was allocated to Pensar's net tangible and intangible assets based upon their estimated fair value as of the date of the acquisition. The Company believes that substantially all of the \$19.1 million of goodwill will be deductible for tax purposes. Intangible assets consist of \$9.7 million for Pensar's "customer list," which is being amortized over eight years, and \$950,000 for "employee non-compete contracts" which is being amortized over two years.

Sales attributable to Pensar were \$62.4 million for the 12 months ended June 27, 2010. The impact on the Company's net earnings for the fiscal year 2010 was an increase of \$3.1 million before income tax and \$1.9 million after-tax, which had a \$0.12 impact on basic and diluted earnings per share for the fiscal year ended June 27, 2010.

3. SALES AND NET SALES

Sales and net sales consist of the following:

(in thousands)

| | Fiscal Year Ended | | |
|----------------------|--------------------------|------------------|------------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Sales | \$289,781 | \$274,304 | \$280,354 |
| Less sales discounts | 478 | 936 | 869 |
| Net sales | \$289,303 | \$273,368 | \$279,485 |

Geographic Information

The Company has no sales offices or facilities outside of the United States. Sales for exports were 10.9% of total sales for the fiscal year ended June 27, 2010. The exports exceeded 10% of total sales due to a large contract related to wind power generation equipment. This contract is denominated in U.S. dollars and, therefore, the Company does not have foreign currency risk associated with the related accounts receivable.

Customer Information

The Company's top three customers and their relative contributions to sales for fiscal year ended June 27, 2010 were as follows: Owens-Illinois, Inc., \$40.4 million (14.0%); American Superconductor, \$25.3 million (8.8%); and Raytheon Company, \$23.7 million (8.2%). This compares with Owens-Illinois, Inc., \$38.8 million (14.2%), Raytheon Company, \$24.1 million (8.8%) and Schlumberger Ltd., \$23.3 million (8.5%) for fiscal year ended June 28, 2009, and Owens-Illinois, Inc., \$39.8 million (14.2%), Schlumberger Ltd., \$31.2 million (11.2%) and Modular Mining Systems, Inc., \$26.2 million (9.4%), for fiscal year ended June 29, 2008.

4. ACCOUNTS AND OTHER RECEIVABLES, NET

Accounts and other receivables consist of the following:

(in thousands)

| | June 27, 2010 | June 28, 2009 |
|--------------------------------------|--------------------------|---------------------|
| Billed shipments | \$46,890 | \$35,269 |
| Less allowance for doubtful accounts | 285 | 350 |
| Trade receivables, net | 46,605 | 34,919 |
| Other current receivables | 202 | 2,654 |
| Total | \$46,807 | \$37,573 |

Included in accounts receivable at June 27, 2010, and June 28, 2009, were \$407,000 and \$791,000, respectively, of receivables due directly from the U.S. Government and \$14.8 million and \$13.8 million, respectively, due from customers related to contracts with the U.S. Government.

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At June 27, 2010, the amounts due from the three largest accounts receivable debtors and the percentage of total accounts receivable represented by those amounts were \$10.1 million (21.5%), \$6.6 million (14.0%), \$3.4 million (7.2%). This compares with \$6.2 million (17.5%), \$3.4 million (9.7%), and \$2.6 million (7.3%) at June 28, 2009.

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. The Company recorded additional selling and administrative expense of \$3.7 million in the quarter ended December 28, 2008 to write-down the receivable from Eclipse to its estimated realizable value. (The Company also took charges against inventory as described in more detail in Note 5.) On March 5, 2009, the Eclipse bankruptcy case was converted to Chapter 7 liquidation. The Company does not expect any recovery from the bankruptcy estate.

Other current receivables as of June 28, 2009, included an income tax receivable of \$2.2 million.

Allowance for Doubtful Accounts

This account represents amounts that may be uncollectible in future periods.

(in thousands)

| Fiscal Year | Balance Beginning of Period | Additions Charged to Expense | Less Deductions | Balance End of Period |
|----------------|-----------------------------------|------------------------------------|--------------------|-----------------------------|
| 2008 | \$ 214 | \$ 72 | \$ 34 | \$ 252 |
| 2009 | 252 | 3,943 | 3,845 | 350 |
| 2010 | 350 | 15 | 80 | 285 |

INVENTORIES

5.

Inventories consist of the following:

(in thousands)

| | June 27, 2010 | June 28, 2009 |
|---|------------------|------------------|
| Raw materials | \$ 42,602 | \$ 38,902 |
| Work in progress | 4,658 | 3,768 |
| Inventoried costs relating to long-term contracts, net of amounts attributable to revenues recognized to date | 13,399 | 9,296 |
| Finished goods | 3,877 | 2,720 |
| Total | \$ 64,536 | \$ 54,686 |

For the fiscal year ended June 27, 2010, June 28, 2009, and June 29, 2008, expense for the write down of inventory to lower of cost or market charged to income before taxes was \$1.7 million, \$5.7 million and \$1.9 million, respectively. The expense for the write down of inventory to lower of cost or market in the fiscal year ended June 28, 2009, includes a \$4.2 million charge related to the Eclipse bankruptcy described in Note 4.

The Company had approximately \$4.6 million of inventory related to the production of the Eclipse E500 aircraft that was written down to its market value during the quarter ended December 28, 2008. The Company analyzed the inventory to reasonably determine the lower of cost or market value in light of the significant uncertainty surrounding the Company's future role in the production of the Eclipse E500 aircraft, if any. As a result of this analysis, the Company recorded additional cost of sales expense of \$4.2 million to record inventory at the lower of cost or market value during the quarter ended December 28, 2008. The remaining inventory was valued at \$422,000, which the Company was able to recover by June 28, 2009 by selling certain items to brokers and returning certain items to vendors.

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

(in thousands)

| | June 27, 2010 | June 28, 2009 |
|---|--------------------------|---------------------|
| Production costs of goods currently in process ⁽¹⁾ | \$13,054 | \$9,115 |
| Excess of production costs of delivered units over the estimated average cost of all units expected to be produced, including tooling and non-recurring costs | 642 | 621 |
| Unrecovered costs subject to future negotiation | --- | 69 |
| Provision for contracts with estimated costs in excess of contract revenues | (297) | (509) |
| Total inventoried costs | \$13,399 | \$9,296 |

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

The Company records a loss when the estimated costs of a contract exceed the net realizable value of such contract. Both contracts are fixed price contracts where the Company underestimated the materials cost and the inflation in commodity prices when the contracts were bid. The Company has recorded a provision equal to the amount that estimated costs would exceed the net realizable revenue over the contract.

6. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net is summarized as follows:

(in thousands)

| | June 27, 2010 | June 28, 2009 | Estimated useful life in years |
|-------------------------------|--------------------------|------------------|--------------------------------------|
| Land | \$ 1,083 | \$ 1,083 | --- |
| Building and improvements | 11,242 | 10,398 | 3 - 40 |
| Leasehold improvements | 4,225 | 3,694 | 2 - 15 |
| Machinery and equipment | 40,060 | 38,099 | 2 - 16 |
| Furniture and fixtures | 2,862 | 2,834 | 3 - 16 |
| Computer equipment | 3,801 | 3,454 | 3 |
| Construction in progress | 967 | 1,885 | --- |
| | 64,240 | 61,447 | |
| Less accumulated depreciation | 35,704 | 30,823 | |
| Total | \$28,536 | \$30,624 | |

Capital spending in fiscal year 2010 related primarily to improvements to the Houston, Joplin, and Tulsa facilities. In fiscal year 2009, capital expenditures related primarily to the purchase and improvement of the Tulsa facility and the purchase of surface mount technology equipment to expand the Company's capabilities in Pittsburgh and Tulsa.

Depreciation expense was \$6.5 million, \$4.9 million, and \$4.2 million for the fiscal years ended June 27, 2010, June 28, 2009, and June 29, 2008, respectively.

The Company assessed its assets for impairment in accordance with ASC 360-10, Property, Plant, and Equipment – Impairment of Disposal of Long-Lived Assets (“ASC 360-10”). 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. The carrying value of long-lived assets to be abandoned (for example, machinery and equipment that is no longer used in operations) is adjusted when the decision is made to abandon the asset. The Company recorded charges to the statement of income for fiscal year 2010, fiscal year 2009 and fiscal year 2008 of \$196,000, \$84,000 and \$72,000, respectively, related to assets no longer used in operations.

7. INTANGIBLE ASSETS, NET

Total inventoried costs

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Intangible assets, net, are summarized as follows:

(in thousands)

| | June 27, 2010 | June 28, 2009 |
|-------------------------------|------------------|---------------------|
| Software | \$5,446 | \$ 5,133 |
| Less accumulated amortization | 4,432 | 3,972 |
| Net software | 1,014 | 1,161 |
| Customer lists | 9,670 | 13,070 |
| Less accumulated amortization | 1,836 | 3,679 |
| Net customer lists | 7,834 | 9,391 |
| Employee agreements | 950 | 950 |
| Less accumulated amortization | 722 | 247 |
| Net employee agreements | 228 | 703 |
| Total | \$9,076 | \$11,255 |

Intangible assets are amortized over periods ranging from two to eight years. Amortization expense was \$2.8 million for the fiscal year ended June 27, 2010, \$2.0 million for fiscal year ended June 28, 2009, and \$1.1 million for fiscal year ended June 29, 2008.

The Company anticipates that amortization expense will approximate \$2.1 million for fiscal year 2011, \$1.9 million for fiscal year 2012, \$1.7 million for fiscal year 2013, and \$1.6 million for fiscal years 2014 and 2015.

The Company assessed the assets for impairment in accordance with ASC 360-10, Property, Plant, and Equipment – Impairment of Disposal of Long-Lived Assets (“ASC 360-10”). 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 fiscal years 2010, 2009 or 2008, respectively.

8. GOODWILL

Goodwill is summarized as follows:

(in thousands)

| | June 27, 2010 | June 28, 2009 |
|-----------------|------------------|---------------------|
| Goodwill | \$43,424 | \$43,457 |

Goodwill is recorded at three of the Company’s reporting units. During the fourth quarter of fiscal 2010, in accordance with the Company’s accounting policy as described in Note 1 to the Consolidated Financial Statements, the Company performed the annual impairment analysis and determined that goodwill was not impaired.

9. OTHER ASSETS

Other assets are summarized as follows:

(in thousands)

| | June 27, 2010 | June 28, 2009 |
|-------------------------------|---------------------|---------------------|
| Cash value of life insurance | \$4,723 | \$4,482 |
| Deposits and licenses | 186 | 54 |
| Deferred financing costs, net | 141 | 233 |

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| | | |
|--------------|----------------|----------------|
| Other | 75 | 29 |
| Total | \$5,125 | \$4,798 |

The cash value of life insurance relates to Company-owned life insurance policies on certain current and retired key employees as described in Note 13 to the Consolidated Financial Statements.

10. SALE-LEASEBACK TRANSACTION

On March 22, 2007, the Company sold its headquarters building complex for \$9.6 million. Simultaneously, the Company entered into a six-year lease with the building's new owner. The lease on the building qualifies as an operating lease. LaBarge's continuing involvement with the property is more than a minor part, but less than substantially all of the use of the property. The gain on the transaction was \$3.5 million. The profit on the sale, in excess of the present value of the minimum lease payments over the lease term, was \$635,000 before income tax (\$391,000 after-tax) and was recorded as a gain in other income in the fiscal year ended July 1, 2007. The remainder of the gain of \$2.9 million is being amortized over the six years of the lease as a reduction in rent expense. Of this amount, \$481,000 was recognized in the fiscal years ended June 27, 2010, June 28, 2009, and June 29, 2008, respectively.

The obligations for future minimum lease payments as of June 27, 2010, and the amortization of the remaining deferred gain of \$1.3 million is:

(in thousands)

| Fiscal Year | Minimum Lease Payments | Deferred Gain Amortization | Net Rental Expense |
|--------------------|-------------------------------|-----------------------------------|---------------------------|
| 2011 | \$ 603 | \$ (481) | \$ 122 |
| 2012 | 603 | (481) | 122 |
| 2013 | 435 | (346) | 89 |

11. SHORT- AND LONG-TERM OBLIGATIONS

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

(amounts in thousands)

| | June 27, 2010 | June 28, 2009 |
|---|--------------------------|--------------------------|
| Short-term borrowings: | | |
| Revolving credit agreement: | | |
| Balance at year-end | \$ --- | \$ --- |
| Interest rate at year-end | 3.75% | 4.00% |
| Average amount of short-term borrowings outstanding during period | \$ 35 | \$ 2,206 |
| Average interest rate for fiscal year | 3.79% | 4.10% |
| Maximum short-term borrowings at any month-end | \$ --- | \$ 5,875 |
| Senior long-term debt: | | |
| Term loan | \$37,000 | \$45,000 |
| Other | 327 | 488 |
| Total senior long-term debt | 37,327 | 45,488 |
| Less current maturities | 12,069 | 6,162 |
| Long-term debt, less current maturities | \$25,258 | \$39,326 |

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

Total net cash payments for interest in fiscal years 2010, 2009, and 2008 were \$1.7 million, \$897,000, and \$1.5 million, respectively.

Senior Lender:

Total

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

- The 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 June 27, 2010, there were no outstanding loans under the revolving credit facility. As of June 27, 2010, 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 22, 2011.
- The agreement provides for an aggregate \$45.0 million term loan, with quarterly principal payments beginning in September 2009 of \$2.0 million, increasing to \$2.5 million in September 2010 and increasing to \$2.7 million in September 2011. The balance is due on December 22, 2011.
- Interest on the revolving facility and the term loan is calculated at a base rate or LIBOR plus a stated spread based on certain ratios. For the fiscal year ended June 27, 2010, the average rate was approximately 3.66%.
- 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 year ended June 27, 2010.

Interest Rate Swap:

To mitigate the risk associated with interest rate volatility, the Company entered into an interest rate swap agreement 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 is \$35.0 million, which will amortize simultaneously with the term loan schedule in the associated loan agreement and will mature on December 22, 2011.

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

The interest rate swap agreement has been designated as a cash flow hedging instrument, and the Company has formally documented, designated and assessed the effectiveness of the interest rate swap. The financial statement impact of ineffectiveness for the fiscal year ended June 27, 2010, was not significant.

Fair Value:

The Company considers 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 June 27, 2010.

Additionally, the interest rate swap agreement, further described above, has been recorded by the Company based on the estimated fair value as of June 27, 2010.

At June 27, 2010, the Company recorded a liability of \$361,000 classified within other long-term liabilities in the consolidated balance sheet, and accumulated other comprehensive loss of \$222,000 (net of deferred income tax effects of \$139,000) relating to the fair value of the interest rate swap agreement.

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:

Total

62

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- 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 June 27, 2010 | | | |
|-------------------------------------|---|---------------|--------------|---------------|
| | Level | Level | Level | Total |
| | 1 | 2 | 3 | |
| Other long-term liabilities: | | | | |
| Interest rate swap derivative | \$--- | \$ 361 | \$--- | \$ 361 |
| Total | \$--- | \$ 361 | \$--- | \$ 361 |

Other Long-Term Debt:

Other long-term debt includes capital lease agreements with outstanding balances totaling \$77,000 at June 27, 2010, and \$238,000 at June 28, 2009.

Maturities of Senior Long-Term Debt:

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

(in thousands)

| Fiscal Year | |
|--------------------|-----------------|
| 2011 | \$ 12,069 |
| 2012 | 25,258 |
| Total | \$37,327 |

12.

OPERATING LEASES

The Company operates its corporate headquarters and certain of its manufacturing facilities in leased premises and with leased equipment under noncancellable operating lease agreements having an initial term of more than one year and expiring at various dates through 2020.

Rental expense under operating leases is as follows:

(in thousands)

| | Fiscal Year Ended | | |
|------------------------------------|--------------------------|---------------------|------------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Initial term of more than one year | \$2,700 | \$2,985 | \$2,894 |
| Deferred gain on sale leaseback | (481) | (481) | (481) |
| Short-term rentals | --- | --- | 155 |
| Total | \$2,219 | \$2,504 | \$2,568 |

Total

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At June 27, 2010, the future minimum lease payments under operating leases with initial noncancellable terms in excess of one year are as follows:

(in thousands)

| Fiscal Year | |
|--------------------|--------------|
| 2011 | 2,186 |
| 2012 | 1,629 |
| 2013 | 1,331 |
| 2014 | 547 |
| 2015 | 545 |
| Thereafter | 1,454 |
| Total | 7,692 |

The \$1.5 million due after 2015 relates to an obligation under a long-term facility lease in Huntsville, Arkansas.

13. EMPLOYEE BENEFIT PLANS

The Company has a qualified contributory savings plan under Section 401(k) of the Internal Revenue Code for employees meeting certain service requirements. The plan allows eligible employees to contribute up to 60% of their compensation, with the Company matching 50% of the first \$25 per month and 25% of the excess on the first 8% of this contribution. During fiscal years 2010, 2009, and 2008, Company matching contributions were \$0, \$419,000, and \$494,000, respectively. The Company suspended the matching contributions in the third quarter of fiscal 2009 and reinstated the matching contributions on July 1, 2010. In addition, at the discretion of the Board of Directors, the Company may also make contributions dependent on profits each year for the benefit of all eligible employees under the plan. There were no such contributions for fiscal years 2010, 2009, and 2008.

The Company has a deferred compensation plan for certain employees who, due to Internal Revenue Service ("IRS") guidelines, cannot take full advantage of the contributory savings plan. This plan, which is not required to be funded, allows eligible employees to defer portions of their current compensation and the Company guarantees an interest rate of between prime and prime plus 2%. To support the deferred compensation plan, the Company may elect to purchase Company-owned life insurance. The increase in the cash value of the life insurance policies exceeded the premiums paid by \$81,000, \$95,000, and \$90,000 in fiscal years 2010, 2009, and 2008, respectively. The cash surrender value of the Company-owned life insurance related to deferred compensation is included in other assets along with other policies owned by the Company, and was \$1.8 million at June 27, 2010, compared with \$1.7 million at June 28, 2009. The liability for the deferred compensation and interest thereon is included in accrued employee compensation and was \$5.3 million at June 27, 2010, compared with \$5.2 million at June 28, 2009.

The Company has an employee stock purchase plan that allows eligible employees to purchase common stock at the end of each quarter at 15% below the market price as of the first or last day of the quarter, whichever is lower. The Company suspended the employee stock purchase plan in the third quarter of fiscal 2009 and reinstated the plan in the first quarter of fiscal 2011. For the fiscal year June 28, 2009, 25,946 shares were purchased by employees in aggregate amount of \$318,000 for which the Company recognized expense of approximately \$59,000. For the fiscal year ended June 29, 2008, 24,166 shares were purchased by employees in the aggregate amount of \$307,000, for which the Company recognized expense of approximately \$65,000.

14. OTHER EXPENSE (INCOME), NET

The components of other income, net, are as follows:

(amounts in thousands)

| | Fiscal Year Ended | | |
|---|------------------------------|---------------------|---------------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Interest income | \$ (21) | \$ (8) | \$ (11) |
| Other than temporary impairment of investments | --- | 26 | 59 |
| Other, net | (34) | (4) | 85 |
| Total | \$ (55) | \$ 14 | \$ 133 |

Total

15.

INCOME TAXES

Total income tax expense (benefit) was allocated as follows:

(in thousands)

| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
|--|------------------|---------------------|---------------------|
|--|------------------|---------------------|---------------------|

Current:

| | | | |
|-----------------------|-----------------|-----------------|-----------------|
| U.S. Federal | \$ 6,880 | \$ 4,431 | \$ 7,210 |
| State and Local | 86 | 1,011 | 1,444 |
| Total | \$ 6,966 | \$ 5,442 | \$ 8,654 |

Deferred:

| | | | |
|-----------------------|---------------|---------------|---------------|
| U.S. Federal | \$ 174 | \$ 750 | \$ 245 |
| State and Local | 7 | 137 | 112 |
| Total | \$ 181 | \$ 887 | \$ 357 |

**Income
tax
expense
from
operations:**

| | | | |
|-----------------------|-----------------|-----------------|-----------------|
| U.S. Federal | \$ 7,054 | \$ 5,181 | \$ 7,455 |
| State and Local | 93 | 1,148 | 1,556 |
| Total | \$ 7,147 | \$ 6,329 | \$ 9,011 |

Income tax expense (benefit) differed from the amounts computed by applying the U.S. Federal income tax rate of 35% as follows:

(in thousands)

| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
|---|------------------|------------------|------------------|
| Computed "expected" tax expense | \$ 7,712 | \$ 5,834 | \$ 8,343 |
| Increase (decrease) in income taxes resulting from: | | | |
| Manufacturing deductions | (358) | (113) | (360) |
| Tax exposure adjustment | (130) | (185) | (135) |
| Apportionment adjustment | (795) | --- | --- |
| State and local tax, net | 758 | 813 | 1,007 |
| Other | (40) | (20) | 156 |
| Total | \$ 7,147 | \$ 6,329 | \$ 9,011 |

The Company regularly reviews its potential tax liabilities for tax years subject to audit.

Total

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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. See Note 1 to Consolidated Financial Statements for further discussion.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

(in thousands)

| | June 27, 2010 | June 28, 2009 |
|--|-------------------|-------------------|
| Deferred tax assets: | | |
| Inventories due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986 and inventory valuation provisions | \$ 2,452 | \$ 1,917 |
| Gain on sale-leaseback transaction | 502 | 714 |
| Deferred compensation | 2,329 | 2,668 |
| Loss reserves on long-term contracts | 117 | 217 |
| Accrued vacation | 495 | 462 |
| Other than temporary impairment of asset - held for sale | 295 | 307 |
| Other | 561 | 361 |
| Total gross deferred tax assets | \$ 6,751 | \$ 6,646 |
| Deferred tax liabilities: | | |
| Goodwill and intangibles | \$ (3,324) | \$ (2,775) |
| Property, plant and equipment, principally due to differences in depreciation methods | (2,228) | (2,618) |
| Other | (38) | (83) |
| Total gross deferred tax liabilities | \$ (5,590) | \$ (5,476) |
| Net deferred tax assets | \$ 1,161 | \$ 1,170 |

A valuation allowance is provided, if necessary, to reduce the deferred tax assets to a level, which, more likely than not, will be realized. The net deferred tax assets reflect management's belief that it is more likely than not that future operating results will generate sufficient taxable income to realize the deferred tax assets.

Total net cash payments for federal and state income taxes were \$4.4 million for fiscal year 2010, \$4.1 million for fiscal year 2009, and \$8.4 million for fiscal year 2008.

The amount of unrecognized tax benefits as of June 27, 2010 included \$28,000 of uncertain tax benefits and other items, which would impact the Company's provision for income taxes and effective tax rate if recognized. The amount of unrecognized tax benefits as of June 28, 2009, and June 29, 2008, included \$158,000 and \$274,000, respectively, of uncertain tax benefits and other items, which would impact the Company's provision for income taxes and effective tax rate if recognized.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of June 27, 2010, there was approximately \$16,000 of accrued interest related to uncertain tax positions.

The Company's federal income tax return for fiscal years 2010 and 2009 are open tax years. In August 2009, the Company was notified that the IRS would be auditing the fiscal year 2008 return. The fiscal year 2008 audit was closed in fiscal year 2009 with no findings. The Company files in numerous state jurisdictions with varying statutes of limitation open from 2004 through 2009, depending on each jurisdiction's unique tax laws. During the fiscal year ended June 29, 2008, the IRS concluded its examination of the Company's federal returns for fiscal years 2005 and 2006. As a result of adjustments to the Company's claimed research and experimentation credits, and other issues, the Company settled with the IRS for \$236,000. The unrecognized tax benefits were decreased by \$371,000 as a result of the settlement and the expiration of certain statutes.

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The Company recorded \$15,000 of the additional expense related to the settlement during the fiscal year ended June 29, 2008.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

(in thousands)

| | June 27, 2010 | June 28, 2009 |
|---|------------------------------|---------------------|
| Balance at beginning of the year | \$ 158 | \$ 274 |
| Reductions for tax positions of prior years | (130) | (116) |
| Balance at end of year | \$ 28 | \$ 158 |

16. EARNINGS PER COMMON SHARE

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

(amounts in thousands, except per-share amounts)

| | Fiscal Year Ended | | |
|---------------------------------------|--------------------------|------------------|---------------------|
| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
| Net earnings | \$ 14,888 | \$ 10,338 | \$ 14,827 |
| Basic net earnings per common share | \$ 0.95 | \$ 0.67 | \$ 0.98 |
| Diluted net earnings per common share | \$ 0.93 | \$ 0.64 | \$ 0.92 |

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 vesting of restricted shares and the assumed exercise of dilutive common share options by using the treasury stock method.

(in thousands)

| | June 27, 2010 | June 28, 2009 | June 29, 2008 |
|--|------------------------------|---------------------|------------------|
| Average common shares outstanding -- basic | 15,713 | 15,498 | 15,198 |
| Dilutive options and nonvested shares | 382 | 546 | 940 |
| Adjusted average common shares outstanding -- diluted | 16,095 | 16,044 | 16,138 |

All outstanding stock options and nonvested shares at June 27, 2010, June 28, 2009, and June 29, 2008, were dilutive. The stock options expire in various periods through 2014. The Company had awarded certain key executives nonvested shares tied to the Company's fiscal year 2008 financial performance. The compensation expense related to these awards is recognized quarterly. The nonvested shares vest over the next fiscal year.

17. SHARE-BASED ARRANGEMENTS

The Company has established the 1993 Incentive Stock Option Plan, the 1995 Incentive Stock Option Plan and the 1999 Non-Qualified Stock Option Plan (collectively, the "Plans"). The Plans provide for the issuance of up to 2.2 million shares to be granted in the form of share-based awards to key employees of the Company. In addition, pursuant to the 2004 Long Term Incentive Plan ("LTIP"), the Company provides for the issuance of up to 850,000 shares to be granted in the form of 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 June 27, 2010, include stock options, restricted stock and performance units.

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For the fiscal year ended June 27, 2010, total share-based compensation was \$1.1 million (\$691,000 after-tax), equivalent to earnings per basic and diluted shares of \$0.04. For the fiscal year ended June 28, 2009, total share-based compensation was \$1.1 million (\$678,000 after-tax), equivalent to earnings per basic and diluted shares of \$0.04. For the fiscal year ended June 29, 2008, total share-based compensation was \$1.4 million (\$891,000 after-tax), equivalent to earnings per basic and diluted share of \$0.06.

As of June 27, 2010, the total unrecognized compensation expense related to nonvested shares and performance units was \$979,000 before income tax, and the period over which it is expected to be recognized is approximately two years. At June 28, 2009, the total unrecognized compensation expense related to nonvested shares and performance units was \$615,000 before income tax, and the period over which it is expected to be recognized is approximately one year.

Stock Options

A summary of the activity in the Company's Plans during the fiscal year ended June 27, 2010, is presented below:

| | Number of Shares | Weighted Average Exercise Price | Number of Shares Exercisable | Weighted Average Exercise Price | Weighted Average Fair Value Granted Options |
|---|---------------------|---------------------------------------|------------------------------------|---------------------------------------|---|
| Outstanding at July 1, 2007 | 1,581,313 | \$ 3.90 | 1,581,313 | \$ 3.90 | |
| Canceled | --- | --- | --- | --- | |
| Exercised | (99,989) | 4.69 | --- | --- | |
| Outstanding at June 29, 2008 | 1,481,324 | \$ 3.84 | 1,481,324 | \$ 3.84 | |
| Canceled | (4,500) | 8.54 | --- | --- | |
| Exercised | (892,285) | 3.08 | --- | --- | --- |
| Outstanding at June 28, 2009 | 584,539 | \$ 4.97 | 584,539 | \$ 4.97 | |
| Canceled | --- | --- | --- | --- | |
| Exercised | (157,887) | 3.25 | --- | --- | --- |
| Outstanding at June 27, 2010 | 426,652 | \$ 5.61 | 426,652 | \$ 5.61 | |

The following table summarizes information about stock options outstanding and exercisable as of June 27, 2010:

| Range of Exercise Prices | Number Outstanding | Weighted- Average Remaining Contractual Life (In Years) | Weighted- Average Exercise Price | Aggregate Intrinsic Value (1) <i>(in millions)</i> |
|-----------------------------|-----------------------|---|---|---|
| \$2.50 – 3.00 | 112,900 | 1.2 | \$2.85 | \$ 1.1 |
| \$3.03 – 5.96 | 121,600 | 3.1 | 3.53 | 1.1 |
| \$5.97– 8.54 | 192,152 | 4.2 | 8.54 | 0.7 |
| | 426,652 | 3.1 | \$5.61 | \$ 2.9 |

(1) The intrinsic value of a stock option is the amount by which the June 27, 2010 market value of the underlying stock exceeds the exercise price of the option.

For the fiscal years ended June 27, 2010, and June 28, 2009, the total intrinsic value of stock options exercised was \$1.2 million and \$8.2 million, respectively. The exercise period for all stock options generally may not exceed 10 years from the date of grant. Stock option grants to individuals generally become exercisable over a service period of one to five years. There were no stock options granted in the fiscal years ended June 27, 2010, and June 28, 2009.

Performance Units and Nonvested Stock

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

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

A summary of the activity of the Company's nonvested shares during the fiscal year ended June 27, 2010, is presented below:

| | Number of Nonvested Shares | Weighted Average Grant Price |
|--|---|---|
| Nonvested shares at July 1, 2007 | 74,261 | \$ 13.33 |
| Issued | 108,084 | 12.29 |
| Vested | (74,261) | 13.33 |
| Nonvested shares at June 29, 2008 | 108,084 | \$ 12.29 |
| Issued | 141,923 | 13.00 |
| Vested | (108,084) | 12.29 |
| Nonvested shares at June 28, 2009 | 141,923 | \$ 13.00 |
| Issued | 119,338 | 12.30 |
| Vested | (141,923) | 13.00 |
| Nonvested shares at June 27, 2010 | 119,338 | \$ 12.30 |

For the fiscal years ended 2010, 2009, and 2008, compensation expense related to the LTIP was \$1.1 million, \$1.1 million and \$1.4 million, respectively.

18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data is set forth below:

(amounts in thousands, except per-share amounts)

| Fiscal Year 2010 | Fiscal Quarter Ended | | | | Total |
|-------------------------|-------------------------------|------------------------------|---------------------------|--------------------------|--------------|
| | September 27, 2009 | December 27, 2009 | March 28, 2010 | June 27, 2010 | |
| Net sales | \$ 63,155 | \$ 69,000 | \$ 74,735 | \$ 82,413 | \$ 289,303 |

Total

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| | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|------------------|
| Cost of sales | 50,925 | 55,300 | 59,334 | 66,118 | 231,677 |
| Gross profit | 12,230 | 13,700 | 15,401 | 16,295 | 57,626 |
| Selling and administrative expense | 8,090 | 8,858 | 8,402 | 8,585 | 33,935 |
| Operating income | 4,140 | 4,842 | 6,999 | 7,710 | 23,691 |
| Interest expense | 508 | 421 | 400 | 382 | 1,711 |
| Other expense (income), net | 24 | 15 | (45) | (49) | (55) |
| Earnings before income taxes | 3,608 | 4,406 | 6,644 | 7,377 | 22,035 |
| Income tax expense | 505 | 1,569 | 2,516 | 2,557 | 7,147 |
| Net earnings | \$ 3,103 | \$ 2,837 | \$ 4,128 | \$ 4,820 | \$ 14,888 |
| Basic net earnings per common share | \$ 0.20 | \$ 0.18 | \$ 0.26 | \$ 0.31 | \$ 0.95 |
| Average basic common shares outstanding | 15,743 | 15,756 | 15,710 | 15,644 | 15,713 |
| Diluted net earnings per common share | \$ 0.19 | \$ 0.18 | \$ 0.26 | \$ 0.30 | \$ 0.93 |
| Average diluted common shares outstanding | 16,048 | 16,041 | 16,010 | 16,035 | 16,095 |

18. **SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) (continued)**

| Fiscal Year 2009 | Fiscal Quarter Ended | | | | Total |
|--|----------------------|-------------------|-----------------|-----------------|------------------|
| | September 28, 2008 | December 28, 2008 | March 29, 2009 | June 28, 2009 | |
| Net sales | \$ 68,192 | \$ 68,207 | \$ 72,216 | \$ 64,753 | \$ 273,368 |
| Cost of sales | 53,929 | 57,955 | 57,558 | 53,141 | 222,583 |
| Gross profit | 14,263 | 10,252 | 14,658 | 11,612 | 50,785 |
| Selling and administrative expense | 8,270 | 9,642 | 7,828 | 7,070 | 32,810 |
| Operating income | 5,993 | 610 | 6,830 | 4,542 | 17,975 |
| Interest expense | 158 | 145 | 508 | 483 | 1,294 |
| Other expense, net | 10 | 6 | 4 | (6) | 14 |
| Earnings before income taxes | 5,825 | 459 | 6,318 | 4,065 | 16,667 |
| Income tax expense | 2,156 | 210 | 2,506 | 1,457 | 6,329 |
| Net earnings | \$ 3,669 | \$ 249 | \$ 3,812 | \$ 2,608 | \$ 10,338 |
| Basic net earnings per common share | \$ 0.24 | \$ 0.02 | \$ 0.24 | \$ 0.17 | \$ 0.67 |
| Average basic common shares outstanding | 15,234 | 15,451 | 15,656 | 15,651 | 15,498 |
| Diluted net earnings per common share | \$ 0.23 | \$ 0.02 | \$ 0.24 | \$ 0.16 | \$ 0.64 |

Total

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| Average diluted common shares outstanding | 16,090 | 16,059 | 16,042 | 16,029 | 16,044 |
|---|--------|--------|--------|--------|--------|
|---|--------|--------|--------|--------|--------|

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|---|
| 2.1 | Asset Sale and Purchase Agreement dated as of February 17, 2004 by and between LaBarge Electronics, Inc. and Pinnacle Electronics, Inc. previously filed with the Securities and Exchange Commission with the Company's Current Report on Form 8-K (File No. 001-05761) on February 23, 2004, and incorporated herein by reference. |
| 2.2 | Asset Purchase Agreement dated as of December 22, 2008 by and between Pensar Electronic Solutions, LLC, all Members of Pensar Electronic Solutions, LLC and LaBarge Acquisition Company, Inc., previously filed as Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended December 28, 2008, and incorporated herein by reference. |
| 3.1(a) | Restated Certificate of Incorporation, dated October 26, 1995, previously filed as Exhibit 3.1(i) to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended October 1, 1995 and incorporated herein by reference. |
| 3.1(b) | Certificate of Amendment to Restated Certificate of Incorporation, dated November 7, 1997, previously filed as Exhibit 3.1(a) to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended December 28, 1997 and incorporated herein by reference. |
| 3.2 | By-Laws, as amended, previously filed as Exhibit 3.2(a) to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended October 1, 1995 and incorporated herein by reference. |
| 3.3 | Certificate of Designations for Series C Junior Participating Preferred Stock, previously filed as Exhibit 3 to the Company's Registration Statement on Form 8-A (File No. 000-33319) on November 9, 2001 and incorporated herein by reference. |
| 4.1(a) | Form of Rights Agreement dated as of November 8, 2001, between the Company and UMB Bank, as Rights Agent, which includes as Exhibit B the form of Rights Certificate, previously filed as Exhibit 4 to the Company's Registration Statement on Form 8-A (File No. 000-33319) on November 9, 2001 and incorporated herein by reference. |
| 4.1(b) | First Amendment to the Rights Agreement appointing Registrar and Transfer Company as successor Rights Agent with respect to Series C Junior Participating Preferred Stock Purchase Rights, previously filed with Securities & Exchange Commission with the Company's Current Report on Form 8-K (File No. 001-05761), dated January 4, 2002 and incorporated herein by reference. |
| 10.1 | Term Loan Promissory Note dated February 17, 2004 in the principal amount of \$6,080,000 executed by LaBarge Properties, Inc. and payable to U.S. Bank National Association previously filed with the Company's Current Report on Form 8-K (File No. 001-05761) on February 23, 2004 and incorporated herein by reference. |
| 10.2(a) | Loan Agreement dated February 17, 2004 by and among the Company, LaBarge Electronics, Inc. and U.S. Bank National Association, as agent, previously filed with the Company's Current Report on Form 8-K (File No. 001-05761) on February 23, 2004 and incorporated herein by reference. |
| 10.2(b) | |
| Total | |

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First Amendment to the Loan Agreement dated April 16, 2004 by and among the Company, LaBarge, Electronics, Inc., as borrowers, U.S. Bank National Association and National City Bank of Pennsylvania, as lenders, and U.S. Bank National Association, as agent, previously filed with the Company's Annual Report on Form 10-K (File No. 001-05761) on September 3, 2004 and incorporated herein by reference.

- 10.2(c) Second Amendment to the Loan Agreement dated August 24, 2005 by and among the Company, LaBarge, Electronics, Inc., as borrowers, U.S. Bank National Association and National City Bank of Pennsylvania, as lenders, and U.S. Bank National Association, as agent, previously filed with the Company's Annual Report on Form 10-K (File No. 001-05761) on September 8, 2005 and incorporated herein by reference.
- 10.2(d) Third Amendment to the Loan Agreement dated February 10, 2006 by and among the Company, LaBarge, Electronics, Inc., as borrowers, U.S. Bank National Association and National City Bank of Pennsylvania, as agent, previously filed with the Company's Current Report on Form 8-K (File No. 001-05761) on February 15, 2006 and incorporated herein by reference.
- 10.2(e) Fourth Amendment to the Loan Agreement dated December 1, 2006 by and among the Company, LaBarge, Electronics, Inc., as borrowers, U.S. Bank National Association and National City Bank of Pennsylvania, as agent, previously filed with the Company's Form 10-Q (File No. 001-05761) on February 7, 2007 and incorporated herein by reference.
- 10.2(f) Fifth Amendment to the Loan Agreement dated October 3, 2008, by and among the Company, LaBarge, Electronics, Inc., as borrowers, U.S. Bank National Association, Wells Fargo Bank, National Association and National City Bank of Pennsylvania, as lenders, and U.S. Bank National Association, as agent for the lenders, previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended September 28, 2008 and incorporated herein by reference.
- 10.2(g) Loan Agreement dated as of December 22, 2008 by and among the Company, LaBarge Electronics, Inc. and LaBarge Acquisition Company, Inc., as borrowers, U.S. Bank National Association and Wells Fargo Bank, National Association, as lenders, and U.S. Bank National Association, as agent, previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended December 28, 2008 and incorporated herein by reference.
- 10.2(h) First Amendment dated January 30, 2009 to the Loan Agreement dated December 22, 2008, by and among the Company, LaBarge Electronics, Inc. and LaBarge Acquisition Company, Inc., as borrowers, U.S. Bank National Association and Wells Fargo Bank, National Association, as lenders, and U.S. Bank National Association, as agent, previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-05761) for the quarter ended March 29, 2009 and incorporated herein by reference.
- 10.3(a)* First Amendment and Restatement to the LaBarge Employees Savings Plan executed on May 3, 1990 and First Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on June 5, 1990, previously filed as Exhibits (i) and (ii), respectively, to the LaBarge, Inc. Employees Savings Plan's Annual Report on Form 11-K (File No. 001-05761) for the year ended December 31, 1990 and incorporated herein by reference.
- 10.3(b)* Second Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on November 30, 1993, previously filed with the Securities and Exchange Commission July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.
- 10.3(c)* Third Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on March 24, 1994, previously filed with the Securities and Exchange Commission on July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.
- 10.3(d)* Fourth Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on January 3, 1995, previously filed with the Securities and Exchange Commission on July 24, 1996 with the Company's Registration

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Statement on Form S-3, No. 333-08675 and incorporated herein by reference.

- 10.3(e)* Fifth Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on October 26, 1995, previously filed with the Securities and Exchange Commission on July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.
- 10.3(f)* Sixth Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on January 9, 1998, previously filed as Exhibit II, respectively, to the LaBarge, Inc. Employees Savings Plan's Annual Report on Form 11-K (File No. 001-05761) for the year ended December 31, 1997 and incorporated herein by reference.
- 10.3(g)* Seventh Amendment to the First Amendment and Restatement of the LaBarge, Inc. Employees Savings Plan executed on August 11, 1999, previously filed with the Securities and Exchange Commission with the Company's Annual Report on Form 10-K (File No. 001-05761) on September 27, 1999 and incorporated herein by reference.
- 10.4(a)* LaBarge, Inc. 1993 Incentive Stock Option Plan, previously filed with the Securities and Exchange Commission on July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.
- 10.4(b)* First Amendment to the LaBarge, Inc. 1993 Incentive Stock Option Plan, previously filed with the Securities and Exchange Commission on July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.
- 10.5* Management Retirement Savings Plan of LaBarge, Inc., previously filed with the Securities and Exchange Commission on July 24, 1996 with the Company's Registration Statement on Form S-3, No. 333-08675 and incorporated herein by reference.
- 10.6* LaBarge, Inc. 1995 Incentive Stock Option Plan, previously filed with the Securities and Exchange Commission with the Company's Annual Report on Form 10-K (File No. 001-05761) on September 19, 1996 and incorporated herein by reference.
- 10.7(a)* LaBarge, Inc. Employee Stock Purchase Plan, previously filed with the Securities and Exchange Commission with the Company's definitive Proxy Statement on Schedule 14A (File No. 001-05761) filed on September 21, 1998, and incorporated herein by reference.
- 10.7(b)* First Amendment to the LaBarge, Inc. Employee Stock Purchase Plan, previously filed with the Securities and Exchange Commission with the Company's Quarterly Report on Form 10-Q (File No. 001-05761) on May 12, 1999 and incorporated here in by reference.
- 10.8* LaBarge, Inc. 1999 Non-Qualified Stock Option Plan, previously filed with the Company's definitive Proxy Statement on Schedule 14A (File No. 001-05761) filed on October 8, 1999, and incorporated herein by reference.
- 10.9* Form of Executive Severance Agreement, previously filed with Securities and Exchange Commission with the Company's Current Report on Form 8-K (File No. 001-05761) on February 22, 2005, and incorporated herein by reference.
- 10.10* LaBarge, Inc. 2004 Long Term Incentive Plan, previously filed with the Commission with the Company's Current Report on Form 8-K filed November 2, 2004 and incorporated herein by reference.

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- 10.11 Form of Competitive Practices Agreement, previously filed with the Commission with the Company's Current Report on Form 8-K (File No. 001-05761) filed February 22, 2005 and incorporated herein by reference.
- 21** Subsidiaries of the Company.
- 23** Consent of Independent Registered Public Accounting Firm.
- 24** Power of Attorney (see signature page).
- 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.

* Management contract or compensatory plan, contract or arrangement.
** Document filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this to the Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 2, 2010

LaBarge, Inc.

By:

/s/DONALD H. NONNENKAMP

Donald H. Nonnenkamp

Vice President, Chief Financial Officer & Secretary

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Craig E. LaBarge and Donald H. Nonnenkamp and each of them, and substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign this Report, any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, herby ratifying and confirming all that said attorneys-in-fact and agents or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereto.

Pursuant to the requirements of the Securities Act of 1934, the Report has been signed below by the following persons on behalf of the

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Registrant and in the capacities and on the date indicated.

| <u>SIGNATURE</u> | <u>TITLE</u> | <u>DATE</u> |
|--|--|--------------------------|
| <u>/s/CRAIG E. LaBARGE</u> Craig E. LaBarge | Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer) | <u>September 1, 2010</u> |
| <u>/s/DONALD H. NONNENKAMP</u> Donald H. Nonnenkamp | Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer) | <u>September 1, 2010</u> |
| <u>/s/ROBERT G. CLARK</u> Robert G. Clark | Director | <u>September 1, 2010</u> |
| <u>/s/THOMAS A. CORCORAN</u> Thomas A. Corcoran | Director | <u>September 1, 2010</u> |
| <u>/s/JOHN G. HELMKAMP, JR.</u> John G. Helmkamp, Jr. | Director | <u>September 1, 2010</u> |
| <u>/s/LAWRENCE J. LeGRAND</u> Lawrence J. LeGrand | Director | <u>August 24, 2010</u> |
| <u>/s/JACK E. THOMAS, JR.</u> Jack E. Thomas, Jr. | Director | <u>September 1, 2010</u> |