

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 64776 / June 30, 2011

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3297 / June 30, 2011

ADMINISTRATIVE PROCEEDING
File No. 3-14447

In the Matter of
LABARGE, INC.
Respondent.

: ORDER INSTITUTING CEASE-AND-
: DESIST PROCEEDINGS PURSUANT TO
: SECTION 21C OF THE SECURITIES
: EXCHANGE ACT OF 1934, MAKING
: FINDINGS, AND IMPOSING A CEASE-
: AND-DESIST ORDER AND A PENALTY
:

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against LaBarge, Inc. (“LaBarge” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order and a Penalty (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

Summary

From January 2006 through March 2007, LaBarge did not keep accurate books and records or implement and maintain sufficient internal controls regarding its use of estimates of completion costs for certain long-term production contracts. LaBarge used these estimates to determine its cost of sales and net earnings, which it disclosed in the periodic reports that it filed with the Commission. LaBarge's internal controls lapses and inaccurate books and records resulted in LaBarge filing certain inaccurate periodic reports in 2006 and 2007. As a result, LaBarge violated Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

Respondent

1. LaBarge, Inc., a Delaware corporation headquartered in St. Louis, Missouri, designs and manufactures electronics components for use in military, aviation, and other industrial equipment. LaBarge's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act, and its preferred stock purchase rights are registered with the Commission pursuant to Section 12(g) of the Exchange Act. LaBarge's common stock trades on the American Stock Exchange. LaBarge's fiscal year ends on the Sunday closest to June 30.

Facts

2. As a public company, LaBarge is required to fairly, accurately, and timely report its financial results and condition. To ensure fair and accurate reports, the federal securities laws and the Commission's regulations require public companies, such as LaBarge, to prepare and present their reports and financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"). Financial statements filed with the Commission that are not prepared in accordance with GAAP are presumed to be misleading or inaccurate.¹ LaBarge represented in its Commission filings that its financial statements complied with GAAP.

3. LaBarge's estimates of completion costs for certain long-term production contracts have a significant effect on its financial results. During 2006 and 2007, four of LaBarge's six plants manufactured pursuant to long-term production contracts. These plants, referred to as the CAS plants within LaBarge, generated as much as two-thirds of LaBarge's reported revenue and net earnings during 2006 and 2007. Consistent with GAAP, LaBarge utilizes the units-of-delivery variation of the percentage-of-completion method when determining the cost of goods sold and gross profits to recognize on long-term contracts.² This

¹ Regulation S-X, 17 C.F.R. 210.4-01(a)(1).

² FASB Accounting Standards Codification ("ASC") Topic 605-35 (including the former American Institute of Certified Public Accountants' Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts").

requires LaBarge to periodically make reasonably dependable and accurate estimates concerning the remaining costs needed to complete each long-term contract. GAAP requires LaBarge to recognize changes in these estimates when they become known.³ If the remaining completion costs are underestimated, the costs of goods sold will generally be underreported (and vice versa).

4. LaBarge acknowledged the importance of these estimates to its reported financial results in its annual statements and the notes to its financial statements. For example, LaBarge explained that, “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.”

5. In 2006 and 2007, the personnel at each of the CAS plants prepared estimates of completion costs for the long-term contracts in production at each plant. The plant personnel prepared these estimates at completion (referred to within LaBarge as “EACs”) in Excel spreadsheets outside of LaBarge’s accounting system and then manually entered the results into LaBarge’s centralized accounting system from which LaBarge generated its financial statements. The accuracy of LaBarge’s financial statements depended on the plant personnel accurately calculating reasonable EACs and then timely entering them into the accounting system without error.

6. In 2006 and 2007, LaBarge did not have adequate internal controls to ensure that the plant personnel calculated EACs correctly, updated EACs on a timely basis, or documented the reasons supporting changes made to EACs. LaBarge also did not have adequate internal controls to ensure that plant personnel correctly entered EAC information into the accounting system. Further, LaBarge did not provide the plant personnel with sufficient guidance regarding when an initial EAC had to be completed on a contract.

7. LaBarge also did not comply with its internal controls in 2006 and 2007. For example, on multiple occasions, including the second quarter of fiscal year 2007, plant personnel did not hold mandatory meetings to update and review EACs and/or did not document decisions made at those meetings. On other occasions, plant personnel did not recognize cumulative catch-up adjustments necessitated by changes to EACs. LaBarge often did not detect these lapses because it did not sufficiently verify compliance with its internal controls.

8. Because LaBarge did not implement adequate internal controls and sufficiently enforce or verify compliance with its existing internal controls, its plant personnel entered EACs into the accounting system that were inaccurate and/or were not supported by contemporaneous documentation. As a result, LaBarge misstated its financial statements for the second quarter of fiscal year 2006. Specifically, LaBarge reported net earnings for the second quarter of fiscal year 2006 of \$2,663,000, which were overstated by as much as \$193,000 or 7.8%. LaBarge filed these financial statements with the Commission in its periodic reports throughout its fiscal year 2006.

³ FASB ASC Topic 605-35; Codification of Staff Accounting Bulletins, Topic 13(A)(4)(b).

9. Because LaBarge did not implement adequate internal controls and sufficiently enforce or verify compliance with its internal controls, its plant personnel did not make changes to EACs on a timely basis. As a result, LaBarge misstated its financial statements for the second quarter of fiscal year 2007. Specifically, LaBarge reported net earnings for the second quarter of fiscal year 2007 of \$3,197,000, which were overstated by as much as \$244,000 or 8.3%. LaBarge filed these financial statements with the Commission in its periodic reports throughout its fiscal year 2007.

Violations

10. LaBarge filed materially inaccurate reports with the Commission as described above. As a result, LaBarge violated Section 13(a) of the Exchange Act and Rules 13a-1, 13a-13 and 12b-20 thereunder, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the Commission information, documents, and periodic reports as the Commission may require, and mandate that periodic reports contain such further material information as may be necessary to make the required statements not misleading.

11. LaBarge did not implement and maintain adequate internal controls relating to its cost estimates for long-term contracts as described above. As a result, LaBarge violated Section 13(b)(2)(B) of the Exchange Act, which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.

12. LaBarge did not maintain contemporaneous documentation supporting its changes to cost estimates on long-term contracts and it failed to keep books and records that accurately reflected its assets as described above. As a result, LaBarge violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent LaBarge, Inc. cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 promulgated thereunder.

B. Pursuant to Section 21B of the Exchange Act, Respondent LaBarge, Inc. shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$200,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Payment shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Securities and Exchange Commission, Office of Financial Management, 100 F St., NE, Stop 6042, Washington, DC 20549; and (D) submitted under cover letter that identifies LaBarge, Inc. as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Robert Burson, Senior Associate Regional Director, Chicago Regional Office, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 900, Chicago, IL 60604.

By the Commission.

Elizabeth M. Murphy
Secretary