LABARGE INC
Form 10-Q
February 07, 2008

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

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934
For the quarterly period ended December 30, 2007

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934
For the transition period from _________ to _________

Commission File Number: 1-5761

LaBarge, Inc.
(Exact name of registrant as specified in its charter)

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

(314) 997-0800
(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ] Accelerated filer [X] Non-Accelerated Filer [ ]

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stockas of February 6, 2008: 15,404,598 shares of common stock.

LaBarge, Inc.

FORM 10-Q

For the Quarterly Period Ended December 30, 2007

Table of Contents

Table of Contents

PART I

LaBARGE, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(amounts in thousands - except per-share amounts)

	Three Months Ended		Six Months Ended	
	December 30, 2007	December 31, 2006	**December 30, 2007**	December 31, 2006
Net sales	**$ 67,052**	$ 60,820	**$ 126,242**	$ 110,720
Costs and expenses:				
Cost of sales	**53,676**	48,314	**101,494**	87,557
Selling and administrative expense	**7,465**	6,800	**14,412**	12,791

Interest expense	**387**	564	**814**	1,215
Other expense and (income), net	**22**	(64)	**32**	(20)
Earnings before income taxes	**5,502**	5,206	**9,490**	9,177
Income tax expense	**2,105**	2,009	**3,573**	3,569
Net earnings	**$ 3,397**	$ 3,197	**$ 5,917**	$ 5,608
Basic net earnings per common share:				
Basic net earnings	**$ 0.22**	$ 0.21	**$ 0.39**	$ 0.37
Average common shares outstanding	**15,216**	15,112	**15,208**	15,116
Diluted net earnings per share:				
Diluted net earnings	**$ 0.21**	$ 0.20	**$ 0.37**	$ 0.35
Average diluted common shares outstanding	**16,092**	16,008	**16,059**	16,040

See accompanying notes to consolidated financial statements.

Table of Contents

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

	December 30, 2007	**July 1, 2007**
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 451**	$ 392
Accounts and other receivables, net	**36,983**	30,204
Inventories	**66,011**	59,717
Prepaid expenses	**1,889**	2,333
Deferred tax assets, net	**1,834**	1,822
Total current assets	**107,168**	94,468
Property, plant and equipment, net	**17,269**	16,269
Intangible assets, net	**1,851**	2,282
Goodwill, net	**24,292**	24,292
Deferred tax asset, net	**743**	499
Other assets, net	**4,959**	4,772
Total assets	**$ 156,282**	$ 142,582
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	**$ 15,775**	$ 14,825
Current maturities of long-term debt	**6,265**	6,300
Trade accounts payable	**24,016**	18,643

Accrued employee compensation	**10,643**	10,837
Other accrued liabilities	**2,465**	2,321
Cash advances	**8,281**	3,613
Total current liabilities	**67,445**	56,539
Long-term advances from customers for purchase of materials	**1,009**	1,590
Deferred gain on sale of real estate and other liabilities	**2,445**	2,912
Long-term debt	**2,017**	5,131
Stockholders' equity:		
Common stock, $.01 par value. Authorized 40,000,000 shares; 15,773,253 issued at December 30, 2007 and July 1, 2007, including shares in treasury	**158**	158
Additional paid-in capital	**16,286**	16,174
Retained earnings	**69,691**	63,774
Less cost of common stock in treasury, shares of 368,655 at December 30, 2007 and 506,704 at July 1, 2007	**(2,769)**	(3,696)
Total stockholders' equity	**83,366**	76,410
Total liabilities and stockholders' equity	**$ 156,282**	$ 142,582

See accompanying notes to consolidated financial statements.

Table of Contents

LaBARGE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(amounts in thousands)

	Six Months Ended	
	December 30, 2007	December 31, 2006
Cash flows from operating activities:		
Net earnings	**$ 5,917**	$ 5,608
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	**2,535**	2,485
Amortization of deferred gain on sale of real estate	**(240)**	---

Stock-based compensation	**718**	672
Other than temporary impairment of investment	**34**	105
Deferred taxes	**(256)**	(170)
Other	**8**	(1)
Changes in assets and liabilities, net of acquisitions:		
Accounts and other receivables, net	**(6,779)**	1,799
Inventories	**(6,294)**	(3,236)
Prepaid expenses	**444**	614
Trade accounts payable	**5,181**	3,256
Accrued liabilities	**(172)**	1,519
Advance payments from customers	**4,087**	635
Net cash provided by operating activities	**5,183**	13,286
Cash flows from investing activities:		
Additions to property, plant and equipment	**(2,818)**	(2,284)
Proceeds from disposal of property and equipment	**18**	25
Additions to other assets and intangibles	**(340)**	(569)
Net cash used by investing activities	**(3,140)**	(2,828)
Cash flows from financing activities:		
Borrowings on revolving credit facility	**41,925**	27,000
Payments of revolving credit facility	**(40,975)**	(34,125)
Borrowings of long-term debt	**---**	258
Repayments of long-term senior debt	**(3,149)**	(2,769)
Excess tax benefits from stock option	**77**	194
Issuance of treasury stock	**403**	461
Purchase of treasury stock	**(265)**	(889)
Net cash used by financing activities	**(1,984)**	(9,870)
Net increase in cash and cash equivalents	**59**	588
Cash and cash equivalents at beginning of period	**392**	947
Cash and cash equivalents at end of period	**$ 451**	$ 1,535
Non-cash transactions:		
Increase in capital lease obligations	**$ ---**	$ 8

See accompanying notes to consolidated financial statements.

Table of Contents

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

1. CONSOLIDATED FINANCIAL STATEMENTS -- BASIS OF PRESENTATION

The consolidated balance sheet at December 30, 2007, the related consolidated statements of income for the three and six months ended December 30, 2007 and December 31, 2006, and the consolidated statements of cash flows for the three and six months ended December 30, 2007 and December 31, 2006, have been prepared by LaBarge, Inc. (the "Company") without audit. In the opinion of management, adjustments, all of a normal and recurring nature, necessary to present fairly the financial position and the results of operations and cash flows for the aforementioned periods, have been made.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2007.

Stock-Based Compensation

For the three months ended December 30, 2007, total stock-based compensation was $436,000 ($272,000 after tax), equivalent to earnings per basic and diluted shares of $0.02. For the three months ended December 31, 2006, total stock-based compensation was $339,000 ($210,000 after tax) equivalent to earnings per basic and dilutive shares of $0.01. For the six months ended December 30, 2007, total stock-based compensation was $718,000 ($449,000 after tax), equivalent to earnings per basic and diluted share of $0.03. For the six months ended December 31, 2006, total stock-based compensation was $672,000 ($415,000 after tax), equivalent to earnings per basic and dilutive share of $0.03.

As of December 30, 2007, the total unrecognized compensation expense related to nonvested awards was $826,000 pretax, and the period over which it is expected to be recognized is approximately 1.3 years. At December 31, 2006, the total unrecognized compensation expense, including stock options and performance units, was $739,000 pretax, and the period over which it was expected to be recognized was 1.2 years.

No stock options were issued in the fiscal quarters ended December 30, 2007 and December 31, 2006, respectively. On August 24, 2005 and January 11, 2005, the Company entered into long-term incentive plan agreements with certain key executives tied to fiscal years 2008 and 2007 financial performance. Compensation expense related to these awards was recognized in the 2008 and 2007 second fiscal quarters, but no shares are included in the dilutive shares, as the performance conditions had not been met at December 30, 2007 and December 31, 2006.

All stock options outstanding at December 30, 2007 and December 31, 2006 were dilutive and included in the computation of diluted earnings per share. These options expire in various periods through 2014.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS No. 157”), to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures on fair value measurements. SFAS No. 157 becomes effective for the Company in its fiscal year ending June 28, 2009. The Company does not believe that adopting the provisions of SFAS No. 157 will have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The Company does not believe that the adoption of the provisions of SFAS No. 159 will have a material impact on its consolidated financial statements when it becomes effective for the fiscal year ending June 28, 2009.

In September 2006, the FASB’s Emerging Issues Task Force (“EITF”) reached a consensus on EITF Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefits Aspects of Endorsement Split-Dollar Life Insurance Arrangements” (“EITF 06-4”). This addresses only endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. EITF 06-04 becomes effective for the Company in its fiscal year ending June 28, 2009. The Company does not believe that adopting the provisions of EITF 06-4 will have a material impact on its consolidated financial statements.

Recently Adopted Accounting Standards

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes as Interpretation of FASB Statement No. 109” (“FIN 48”) on July 2, 2007. The implementation of FIN 48 did not result in an adjustment to the liability for unrecognized income tax benefits. At the adoption date of July 2, 2007, there was approximately $630,000 of unrecognized tax benefits, all of which would affect the Company’s effective tax rate if recognized. At December 30, 2007, there was approximately $630,000 of unrecognized tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 30, 2007, there was approximately $121,000 of accrued interest related to uncertain tax positions, $19,000 and $39,000 of which was recognized in the three and six months ended December 30, 2007, respectively.

The Company’s federal income tax returns for fiscal years 2004 through 2006 are open tax years. We file in numerous state jurisdictions with varying statutes of limitation open from 2003 through 2006, depending on each jurisdiction’s unique tax laws. The Company’s federal returns for fiscal year 2005 and fiscal year 2006 are currently being examined by the Internal Revenue Service (“IRS”). The IRS has proposed adjustments related to the Company’s claimed research and experimentation credits and other issues. The Company is currently evaluating the proposed adjustments and believes it is reasonably possible that a decrease of $250,000 to $350,000 of the unrecognized tax benefits may occur when the audit is completed. The impact of the proposed adjustment on the statement of income is not expected to be material.

In September 2006, the FASB's EITF reached a consensus on EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). This consensus explains how to determine the amount that could be realized from a life insurance contract, which is the measurement amount for the asset in accordance with Technical Bulletin 85-4. EITF 06-5 became effective for the Company in the current fiscal year. Adopting the provisions of EITF 06-5 did not have a material impact on the Company's consolidated financial statements.

2. GROSS AND NET SALES

Gross and net sales consist of the following:

(in thousands)

	Three Months Ended		Six Months Ended	
	December 30, 2007	December 31, 2006	**December 30, 2007**	December 31, 2006
Gross sales	**$ 67,349**	$ 61,115	**$ 126,693**	$ 111,161
Less sales discounts	**297**	295	**451**	441
Net sales	**$ 67,052**	$ 60,820	**$ 126,242**	$ 110,720

Geographic Information

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

3. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consist of the following:

(in thousands)

	December 30, 2007	July 1, 2007
Billed shipments, net of progress payments	**$ 37,131**	$ 30,042
Less allowance for doubtful accounts	**294**	214
Trade receivables, net	**36,837**	29,828
Other current receivables	**146**	376
Total	**$ 36,983**	$ 30,204

Progress payments are payments from customers in accordance with contractual terms for contract costs incurred to date. These payments are recognized as revenue when the completed units are shipped.

At December 30, 2007, the amounts due from the three largest accounts receivable debtors and the percentage of total accounts receivable represented by those amounts were $8.0 million (22%), $3.6 million (9%), and $3.4 million (9%). This compares with $4.4 million (15%), $2.5 million (8%), and $2.3 million (8%) at July 1, 2007.

4. INVENTORIES

Inventories consist of the following:

(in thousands)

July 1,

	December 30, 2007	2007
Raw materials	**$ 45,119**	$39,369
Work in progress	**20,892**	20,348
Total	**$ 66,011**	$59,717

In accordance with contractual agreements, the U.S. Government has a security interest in inventories identified with related contracts for which progress payments have been received.

For the three months ended December 30, 2007 and December 31, 2006, expense for obsolescence charged to income before taxes was $502,000 and $306,000, respectively. For the six months ended December 30, 2007 and December 31, 2006, expense for obsolescence charged to income before taxes was $819,000 and $528,000, respectively.

5. INTANGIBLE ASSETS, NET

Intangible assets, net, is summarized as follows:

(in thousands)

	December 30, 2007	July 1, 2007
Software	**$ 3,865**	$3,830
Less accumulated amortization	**3,213**	3,043
Net software	**652**	787
Customer list	**3,400**	3,400
Less accumulated amortization	**2,201**	1,918
Net customer list	**1,199**	1,482
Other, net	**---**	13
Total intangible assets, net	**$ 1,851**	$2,282

Intangibles are amortized over a three- to six-year period. Amortization expense for the three months ended December 30, 2007 and December 31, 2006 was $253,000 and $264,000, respectively. Amortization expense was $519,000 and $544,000 for the six months ended December 30, 2007 and December 31, 2006, respectively.

The Company anticipates that amortization expense will approximate $1.1 million for fiscal year 2008, $1.1 million for fiscal year 2009, $899,000 for fiscal year 2010 and $423,000 for fiscal year 2011.

6. GOODWILL

Goodwill is summarized as follows:

(in thousands)

	December 30, 2007	July 1, 2007
Goodwill	**$ 24,492**	$24,492
Less accumulated amortization	**200**	200
Net goodwill	**$ 24,292**	$24,292

Impairment is tested annually in the fourth quarter of each fiscal year, or more frequently if events or circumstances change. There were no changes in the carrying amount of goodwill at December 30, 2007 and July 1, 2007.

7. OTHER ASSETS

Other assets is summarized as follows:

(in thousands)

	December 30, 2007	July 1, 2007
Cash value of life insurance	**$ 4,611**	$4,390
Deposits, licenses and other, net	**185**	154
Securities held for sale	**51**	85
Deferred financing costs, net	**75**	108
Other	**37**	35
Total	**$ 4,959**	$4,772

8. SHORT- AND LONG-TERM OBLIGATIONS

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

(dollars in thousands)

	December 30, 2007	July 1, 2007
Short-term borrowings:		
Revolving credit agreement:		
Balance at period-end	**$ 15,775**	$ 14,825
Interest rate at period-end	**6.53%**	6.91%
Average amount of short-term borrowings outstanding during period	**$ 12,751**	$ 13,486
Average interest rate for period	**6.79%**	7.29%
Maximum short-term borrowings at any month-end	**$ 15,775**	$ 16,675
Senior long-term debt:		
Senior lender:		
Term loan	**$ 7,500**	$ 10,500
Other	**782**	931
Total senior long-term debt	**8,282**	11,431
Less current maturities	**6,265**	6,300
Long-term debt, less current maturities	**$ 2,017**	$ 5,131

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

The Company entered into a senior loan agreement on February 17, 2004, which was amended in December 2006. The Company incurred $330,000 of financing costs that have been deferred and are being amortized over a period beginning May 2004 and ending February 2009. At December 30, 2007, the unamortized amount was $75,000.

Senior Lender:

The Company entered into a senior secured loan agreement with a group of banks on February 17, 2004. The following is a summary of the agreement:

- A revolving credit facility, up to $30.0 million, available for direct borrowings or letters of credit. The facility is based on a borrowing base formula equal to the sum of 85% of eligible receivables and 35% of eligible inventories. As of December 30, 2007, outstanding loans under the revolving credit facility were $15.8 million; letters of credit issued were $1.2 million; and an aggregate of $13.0 million was available under the revolving credit facility. This credit facility matures on February 17, 2009.

- A $25.0 million term loan amortized beginning May 2004, at a quarterly rate of $1.0 million, increased to $1.25 million in May 2006 and increased to $1.5 million in May 2007. Final maturity is February 2009. As of December 30, 2007, the amount outstanding was $7.5 million.

- Interest on both loans is calculated at a percentage of prime or a stated rate over LIBOR based on certain ratios. For the three- and six-month periods ended December 30, 2007, the average rates were approximately 6.75% and 6.78%, respectively.

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

- Covenants and performance criteria consist of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in relation to debt, EBITDA in relation to fixed charges and minimum net worth. The Company was in compliance with its borrowing agreement covenants as of December 30, 2007.

Other Long-Term Debt:

Other long-term debt includes capital lease agreements with outstanding balances totaling $404,000 at December 30, 2007 and $470,000 at July 1, 2007.

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

(in thousands)

Fiscal Year	
2008	$3,153
2009	4,681
2010	147
2011	51
2012	250
Total	$8,282

9. CASH FLOWS

Total cash payments for interest for the three months ended December 30, 2007 and December 31, 2006 amounted to $411,000 and $578,000, respectively. Total cash payments for interest for the six months ended December 30, 2007 and December 31, 2006 amounted to $867,000 and $1.2 million, respectively. Net cash payments for both federal and state income taxes were $3.4 million for the three and six months ended December 30, 2007, compared with $3.0 million for the three and six months ended December 31, 2006, respectively.

10. EARNINGS PER COMMON SHARE

Basic and diluted earnings per share are computed as follows:

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

	Three Months Ended		Six Months Ended	
	December 30, 2007	December 31, 2006	**December 30, 2007**	December 31, 2006
Net earnings	**$ 3,397**	$ 3,197	**$ 5,917**	$ 5,608
Basic net earnings per share	**$ 0.22**	$ 0.21	**$ 0.39**	$ 0.37
Diluted earnings per share	**$ 0.21**	$ 0.20	**$ 0.37**	$ 0.35

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

(in thousands)

	Three Months Ended	Six Months Ended

	December 30, 2007	December 31, 2006	**December 30, 2007**	December 31, 2006
Average common shares outstanding -- basic	**15,216**	15,112	**15,208**	15,116
Dilutive options and nonvested restricted shares	**876**	896	**851**	924
Adjusted average common shares outstanding -- diluted	**16,092**	16,008	**16,059**	16,040

All stock options outstanding and nonvested restricted shares at December 30, 2007 and December 31, 2006 were dilutive and included in the computation of diluted earnings per share. These options expire in various periods through 2014. The restricted shares vest over the next two fiscal years.

11. SHARE-BASED COMPENSATION

The Company has established the 1993 Incentive Stock Option Plan, the 1995 Incentive Stock Option Plan, and the 1999 Non-Qualified Stock Option Plan (collectively, the "Plans"). The Plans provide for the issuance of up to 2.2 million shares to be granted in the form of stock-based awards to key employees of the Company. In addition, pursuant to the 2004 Long Term Incentive Plan ("LTIP"), the Company provides for the issuance of up to 850,000 shares to be granted in the form of stock-based awards to certain key employees and nonemployee directors. The Company may satisfy the awards upon exercise with either new or treasury shares. The Company's stock compensation awards outstanding at December 30, 2007 include stock options, restricted stock and performance units.

As of December 30 2007, the total unrecognized compensation expense related to nonvested awards, including stock options, restricted shares and performance units, was $826,000 pretax and the period over which it is expected to be recognized is approximately 1.3 years.

The Company has an Employee Stock Purchase Plan that allows any eligible employee 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 as expense the difference between the price the employee pays and the market price of the stock on the last day of the quarter.

A summary of the Company's Plans as of December 30, 2007 is presented below:

	Number of Shares	**Weighted-Average Exercise Price**	**Number of Shares Exercisable**	**Weighted-Average Exercise Price**	**Weighted-Average Fair Value Granted Option**
Outstanding at July 1, 2007	1,581,313	$ 3.90	1,581,313	$ 3.90	
Canceled	---				
Granted	---				$ ---
Exercised	(24,500)	8.54			
Outstanding at September 30, 2007	1,556,813	$ 3.83	1,556,813	$ 3.83	
Canceled	**---**	**---**	**---**	**---**	
Granted	**---**	**---**	**---**	**---**	**$ ---**
Exercised	**(14,950)**	**2.86**	**---**	**---**	
Outstanding at December 30, 2007	**1,541,863**	**$ 3.83**	**1,541,863**	**$ 3.83**	

Stock Options

The following table summarizes information about stock options outstanding:

Outstanding and Exercisable Options

Range of Exercise Prices	Number Outstanding at December 30, 2007	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (1) *(in thousands)*
$2.50 - 3.00	975,586	2.5	$ 2.58	$ 11,580
$3.03 - 5.96	288,200	5.2	3.51	3,153
$5.97 - 8.54	278,077	6.7	8.54	1,638
	1,541,863	3.7	$ 3.83	$ 16,371

The intrinsic value of a stock option is the amount by which the current market value of the underlying stock exceeds the exercise price of the option.

The total intrinsic value of stock options exercised during the three and six months ended December 30, 2007 was $156,000 and $259,000, 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 quarter ended December 30, 2007.

Performance Units and Restricted Stock

The Company entered into performance unit award agreements with certain key executives under the LTIP in August 2005, August 2006 and August 2007. These agreements provide for the issuance of performance units, to be settled in stock, subject to the achievement of the Company's financial goals. Settlements are made pursuant to a range of opportunities relative to net earnings. No settlement occurs for results below the minimum threshold and additional shares shall be issued if the performance exceeds the target goals. The compensation cost of performance