FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

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FILER

HEI INC

CIK:**351298**| IRS No.: **410944876** | State of Incorp.:**MN** | Fiscal Year End: **0831**
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Mailing Address
P O BOX 5000
1495 STEIGER LAKE LANE
VICTORIA MN 55386

Business Address
1495 STEIGER LAKE LN
P O BOX 5000
VICTORIA MN 55386
6124432500

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

[X] Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended DECEMBER 2, 1995 ("FIRST QUARTER, FISCAL 1996") or

[ ] Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ________________ to ________________

COMMISSION FILE NUMBER 0-10078

HEI, INC.

(Exact name of small business issuer as specified in its charter)

MINNESOTA	41-0944876
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

PO BOX 5000, 1495 STEIGER LAKE LANE, VICTORIA, MN	55386
(Address of principal executive offices)	(Zip Code)

Issuer's Telephone number, including area code: (612) 443-2500

NONE

Former name, former address and former fiscal year, if changed since last report.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [ ]

3,801,597 Common Shares, par value $0.05, were outstanding as of December 2, 1995.

This Form 10-QSB consists of 10 pages.

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Paat I - Financial Information

Item 1. Financial Statements

HEI, INC. BALANCE SHEET
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
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<S>	December 2, 1995 (Unaudited) <C>	August 31, 1995 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$1,881	$1,438
Short-term investments	3,900	3,820
	5,781	5,258
Accounts receivable, net	2,400	2,525
Inventories	2,099	1,851
Other, principally deferred tax assets	341	349
Total current assets	10,621	9,983
Property and equipment:		
Land	184	184
Building and improvements	1,419	1,398
Fixtures and equipment	5,626	5,475
Accumulated depreciation and amortization	(4,373)	(4,183)
Net property and equipment	2,856	2,874
Total assets	$13,477	$12,857
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$704	$385
Accrued liabilities	1,014	1,043
Income taxes payable	266	175
Total current liabilities	1,984	1,603
Deferred tax liability	272	272
Shareholders' equity:		
Undesignated stock; 5,000,000 shares authorized, none issued		
Common stock, $.05 par; 10,000,000 shares authorized; 3,801,597 and 3,791,597 shares issued and outstanding	190	190
Paid-in capital	6,198	6,183
Retained earnings	4,833	4,609
Total shareholders' equity	11,221	10,982
Total liabilities and shareholders' equity	$13,477	$12,857

</TABLE>

See accompanying notes to unaudited financial statements.

HEI, INC. STATEMENT OF OPERATIONS (UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
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	Three Months Ended	
	Dec. 2, 1995	Nov. 26, 1994
<S>	<C>	<C>
Net sales	$4,710	$5,947
Cost of sales	3,660	4,031
Gross profit	1,050	1,916
Operating expenses:		
Selling, general and administrative	593	638
Research, development and engineering	190	197
Operating income	267	1,081
Other, principally interest income	(87)	(36)
Income before income taxes	354	1,117
Income taxes	130	407
Net income	$224	$710
Net income per common share	$.06	$.18
Weighted average number of common and common equivalent shares outstanding	4,004,541	3,879,071

</TABLE>

See accompanying notes to unaudited financial statements.

HEI, INC. STATEMENT OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

<TABLE>
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Three months ended	December 2, 1995	November 26, 1994
<S>	<C>	<C>
CASH FLOW PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 224	$710
Depreciation and amortization	190	176
CHANGES IN CURRENT OPERATING ITEMS:		
Accounts receivable	125	345
Inventories	(248)	(239)
Prepaid expenses and other	8	(8)
Accounts payable	319	78
Accrued liabilities	(29)	87
Income taxes payable	91	242
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES	680	1,391
CASH FLOW USED FOR INVESTING ACTIVITIES:		
Purchase of short-term investments	(1,030)	(1,951)
Maturity of short-term investments	950	326
Additions to property and equipment	(172)	(58)
NET CASH FLOW USED FOR INVESTING ACTIVITIES	(252)	(1,683)
CASH FLOW PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Principal payments for obligations under capital leases		(12)
Issuance of common shares	15	46
NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES	15	34
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	443	(258)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,438	1,579
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,881	$1,321

</TABLE>

See accompanying notes to unaudited financial statements.

(1) BASIS OF FINANCIAL STATEMENT PRESENTATION

The unaudited financial statements have been prepared by the Company, under the rules and regulations of the Securities and Exchange Commission. The accompanying financial statements contain all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of such financial statements.

Certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted under such rules and regulations although the Company believes that the disclosures are adequate to make the information presented not misleading. The year-end balance sheet data were derived from audited financial statements, but do not include all disclosures required by generally accepted accounting principles. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report to Shareholders on Form 10-KSB for the year ended August 31, 1995. Interim results of operations for the three month period ended December 2, 1995 may not necessarily be indicative of the results to be expected for the full year.

(2) INVENTORIES

Inventories are stated at the lower of cost or market and include materials, labor and overhead costs. The first-in, first-out cost method is used in valuing inventories. Inventories consist of the following:

<TABLE>
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(Dollars in thousands)	December 2, 1995 (Unaudited)	August 31, 1995
<S>	<C>	<C>
Purchased parts	$1,820	$1,670
Work in process	1,091	907
Finished goods	190	233
Allowance for excess or obsolete stock	(1,002)	(959)
	$2,099	$1,851

</TABLE>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION - LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flow provided by operating activities was $680,000 for the three months ended December 2, 1995. This included net income of $224,000, non-cash depreciation and amortization of $190,000, and a net reduction of $266,000 in current operating items for the first three months of fiscal 1996. The current operating item reduction included increased accounts payable of $319,000 and decreased accounts receivable of $125,000, partially offset by increased inventories of $248,000.

The inventory increase is primarily due to increased work in process toward customer scheduled build requirements.

Accounts receivable average days outstanding were 46 days as of December 2, 1995 as compared to 47 days for the same period a year ago. Inventory turns were 6.7 turns for the first three months of fiscal 1996 as compared to 7.6 turns for the same period a year ago.

The Company has a $3,000,000 revolving line of credit which expires in March, 1997. Borrowings under this agreement are collateralized by accounts receivable. The agreement requires compliance with certain financial covenants and restricts obtaining other borrowings. Interest on the revolving line of credit is based on the Company's option, at the lender's prime rate of interest or 2% above the lender's LIBOR rate. As of December 2, 1995, there were no borrowings under the revolving line of credit.

Capital equipment expenditures for the three months ended December 2, 1995 were $172,000, primarily for production equipment, including a laser profiler for measuring thick film material.

During fiscal 1996, the Company intends to expend approximately $4.3 million for a facility addition, manufacturing facility improvements and capital equipment. These additions will increase manufacturing capacity to meet anticipated requirements for continued revenue growth. It is expected that these expenditures will be funded primarily through long-term financing.

REVIEW OF OPERATIONS

NET SALES

1996 vs. 1995: HEI, Inc's net sales for the three months ended December 2, 1995 decreased 21%, as compared to the same period a year ago. Microelectronic sales decreased 24% from the same three month period last year as a result of reduced shipments in the high density disk drive business. The reduction in disk drive business shipments was partially offset by increased shipments to medical and hearing aid accounts. As previously reported, shipments to a new disk drive account are ramping up as that model enters production volumes. The major new disk drive customer is expected to absorb much of the capacity made available as the previous largest account model phased out in the first quarter. Peripheral product sales increased 12% as compared to last year's comparable three month period.

GROSS PROFIT

1996 vs. 1995: For the three months ended December 2, 1995, gross profit decreased $866,000, or 45%, from last year with the gross profit rate decreasing to 22% from 32% last year. The gross profit rate decrease is primarily due to the effect of reduced volumes on manufacturing fixed costs as well as the effect of lower margins on new business as the product mix evolves to a larger percentage of new programs bid under increasing price competition.

OPERATING EXPENSES

1996 vs. 1995: Operating expenses for the three month period ended December 2, 1995 decreased 6% from last year's comparable period. The decrease in selling and general and administrative expense for the quarter was due to reduced bad debt expense. Operating expenses were 17% of net sales as compared to 14% for the first quarter of last year. The increase in the percentage to net sales is primarily due to the effect of reduced volumes on fixed costs.

INCOME TAXES

During each quarter of fiscal 1996, the Company is recording income tax expense based on the expected effective rate for the full year. The expected effective income tax rate for fiscal 1996 is approximately 37%, the same rate as fiscal 1995. Income tax expense for the first quarter of fiscal 1996 was $130,000 as compared to $407,000 for the same period a year ago.

NET INCOME

1996 vs. 1995: The Company had net income of $224,000 for the first quarter of fiscal 1996 compared to $710,000 for the same period a year ago. The decrease in net income principally was the result of reduced sales and reduced gross profit margins.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

Exhibit 27 Financial Data Schedule

b) Reports on Form 8-K

No Reports on Form 8-K were filed during the quarter ended December 2, 1995.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEI, INC.

(Registrant)

Date: January 8, 1996

/s/ JERALD H. MORTENSON

Jerald H. Mortenson
Vice President of Finance and Administration,
Chief Financial Officer and Treasurer
(a duly authorized officer)

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