

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-01-11** | Period of Report: **1995-11-30**  
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### FILER

#### HI SHEAR INDUSTRIES INC

CIK: **47268** | IRS No.: **112406878** | State of Incorporation: **DE** | Fiscal Year End: **0531**  
Type: **10-Q** | Act: **34** | File No.: **001-07633** | Film No.: **96502898**  
SIC: **3452** Bolts, nuts, screws, rivets & washers

#### Mailing Address

3333 NEW HYDE PARK ROAD  
SUITE 202  
NORTH HILLS NY 11042

#### Business Address

3333 NEW HYDE PK RD  
SUITE 202  
NORTH HILLS NY 11042  
5166278600

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 1995  
-----

Commission file number 1-7633  
-----

Hi-Shear Industries Inc.  
-----

(Exact name of registrant as specified in its charter)

A Delaware Corporation

I.R.S. Employer Identification  
No. 11-2406878

3333 New Hyde Park Road, North Hills, NY 11042

Registrant's telephone number, including area code: (516) 627-8600

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  
    ---    ---

5,854,618 Common Shares were outstanding as of January 5, 1996.

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HI-SHEAR INDUSTRIES INC. AND SUBSIDIARIES	
CONSOLIDATED BALANCE SHEETS	
(Unaudited)	
	(000 Omitted)
	-----
	November 30,            May 31,
	1995                    1995
	-----
ASSETS	
Current assets:	
Cash and equivalents	\$106                    \$636

Accounts receivable - net	10,919	9,879
Inventory	20,872	22,821
Other current assets	1,951	1,510
	-----	-----
Total current assets	33,848	34,846
Property, plant and equipment, at cost	28,440	27,207
Less: Accumulated depreciation	17,069	16,067
	-----	-----
Net property, plant & equipment	11,371	11,140
Other assets	4,030	3,528
	-----	-----
	\$49,249	\$49,514
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable	\$1,930	\$1,835
Accounts payable	3,082	2,851
Accrued income taxes	198	145
Accrued salaries and wages	1,640	1,607
Other accrued expenses	5,997	6,125
	-----	-----
Total current liabilities	12,847	12,563
Long-term debt	10,184	9,872
Stockholders' equity:		
Common stock	614	614
Paid-in capital	34,572	34,572
Accumulated deficit	(2,645)	(1,971)
Cumulative translation and pension adjustments	(3,619)	(3,432)
Less treasury stock	(2,704)	(2,704)
	-----	-----
Total Stockholders' Equity	26,218	27,079
	-----	-----
	\$49,249	\$49,514
	=====	=====

See notes to consolidated financial statements.

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<TABLE>

HI-SHEAR INDUSTRIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

<CAPTION>

(000 Omitted)

	Three Months Ended		Six Months Ended	
	November 30, 1995	November 30, 1994	November 30, 1995	November 30, 1994
<S>	<C>	<C>	<C>	<C>
Revenues	\$16,264	\$14,303	\$31,141	\$28,141
Cost of goods sold	13,352	11,247	25,904	22,578
Selling, general and administrative expenses	2,711	2,734	5,181	5,284
	16,063	13,981	31,085	27,862
OPERATING INCOME	201	322	56	279
Interest expense, net	(348)	(313)	(690)	(589)
EARNINGS (LOSS) BEFORE INCOME TAXES	(147)	9	(634)	(310)
Provision for income taxes	52	36	40	45
NET LOSS	(\$199)	(\$27)	(\$674)	(\$355)
Net loss per share	(\$0.03)	\$-	(\$0.11)	(\$0.06)
Average Common shares outstanding			5,855	5,855

</TABLE>

See notes to consolidated financial statements.

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<TABLE>

HI-SHEAR INDUSTRIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

<CAPTION>

(000 Omitted)

	Six Months Ended	
	November 30, 1995	1994
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	(\$674)	(\$355)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,248	1,281
Decrease in accounts receivable	(1,134)	(243)
Decrease (increase) in inventories	1,848	(351)
Increase in accrued income taxes	62	86
Increase (decrease) in accounts payable, accrued salaries and wages and other accrued expenses	199	(51)
Increase in other assets	(964)	(930)
Net cash provided by (used for) operating activities	585	(563)
Cash flows from investing activities:		
Capital expenditures	(1,631)	(1,493)
Proceeds from sale of property and equipment	83	-
Net cash used for investing activities	(1,548)	(1,493)
Cash flows from financing activities:		
Proceeds from (payment of) short-term debt	119	(1)
Proceeds from long-term debt	25,990	25,337
Payment of long-term debt	(25,678)	(23,988)
Net cash provided by financing activities	431	1,348
Effect of exchange rate changes on cash	2	144
Net decrease in cash and equivalents	(530)	(564)
Cash and cash equivalents - beginning of year	636	940
Cash and cash equivalents - end of period	\$106	\$376

</TABLE>

See notes to consolidated financial statements

HI-SHEAR INDUSTRIES INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A - Basis of Presentation

The accompanying consolidated financial statements of Hi-Shear Industries Inc. and its subsidiaries ("Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations of any interim period are subject to year-end audit and adjustments, and are not necessarily indicative of the results of operations for the fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 1995.

Note B - Other Event

On October 9, 1995, the Company signed a definitive agreement for the sale of its aerospace fastener subsidiary, Hi-Shear Corporation and allied companies, to GFI Industries S.A. for \$46 million in cash. GFI, a publicly traded French company, has aerospace, automotive and industrial fastener operations which primarily serve the European market. The proposed sale, which is expected to be finalized in early 1996, has been favorably reviewed by the regulatory authorities and is now only subject to the approval of the Company's stockholders. The transaction represents the sale of substantially all of the Registrant's operating assets except for its net operating loss carryforwards and its claims against the U.S. Navy in respect of the termination of certain contracts. A decision in favor of the Registrant by the Armed Services Board of Contract Appeals has been appealed by the U.S. Department of Justice. The Company plans to use approximately \$12.5 million of the proceeds to repay existing indebtedness and anticipates distributing one half of the net proceeds after expenses, or approximately \$15.2 million, to shareholders. Proxy materials will be disseminated to stockholders in early January 1996. David A. Wingate, Chairman and Chief Executive Officer of the Company, Philip M. Slonim, a director of the Company, and certain other stockholders of the Company, who together hold approximately 30.4% of the outstanding common stock, have agreed to vote in favor of the transaction.

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Item 2. Management's Discussion and Analysis of Results of

## Results of Operations

Revenues for the second quarter ended November 30, 1995 were \$16.3 million compared with \$14.3 million for last year's second quarter. Revenues increased to \$31.1 million for the six months ended November 30, 1995 from \$28.1 million for the same last year period. The Company achieved operating income of \$201,000 for the second quarter of fiscal 1996 compared to operating income of \$322,000 for the second quarter of the prior year. For the first six months of fiscal 1996, the Company's operating income was \$56,000, compared to last year's six month operating income of \$279,000. The net loss for the three months ended November 30, 1995 was \$199,000 or \$.03 a share versus a net loss of \$27,000 for the same three month period last year. For the six months ended November 30, 1995, the net loss was \$674,000 or \$.11 a share as compared to a net loss of \$355,000 or \$.06 a share for the same period last year.

The decline in operating results, despite an increase in revenues, is primarily attributable to the prolonged downturn in production of commercial aircraft. The low level of aircraft production has negatively impacted the domestic and foreign fastener industry resulting in overcapacity, downward pressure on pricing levels and decreased profitability. Although orders for aircraft fasteners are improving, increases in pricing levels remain difficult to achieve. Operating margins remain tight and the Company is still working off older, lower price contracts which is having an adverse effect on operating results. In addition, increasing material and labor costs are beginning to erode the savings achieved on cost reduction and production improvement programs instituted over the past 18 months. We have instituted measures to effectively deal with these costs and expect that operating conditions will gradually improve over the next several quarters.

Interest expense increased in the current quarter and six month period due to an increase in interest rates.

The Company did not record a provision or benefit for federal income taxes in the second quarter or six months of fiscal 1995 due to the Company's tax loss carryforward position, in accordance with the rules of Statement on Financial Accounting Standards No. 109, "Accounting For Income Taxes."

## Liquidity and Capital Resources

The Company currently maintains a secured three year revolving



credit and term loan facility primarily to provide working capital for the domestic Aerospace Fastening Systems operation. At November 30, 1995 the Company had \$11,304,000 outstanding under this facility at 10.75%. The Company also utilizes operating leases to satisfy the larger capital expenditure requirements of its fastener operations. A U.K. subsidiary maintains a separate \$2.3 million working capital loan facility of which \$810,000 was outstanding at November 30, 1995.

Working capital at November 30, 1995 was \$21,001,000 compared to \$22,283,000 at May 31, 1995. The decline is primarily due to a reduction in inventories and an increase in short term debt, offset by increases in accounts receivable.

The Company believes that cash flow from operations and available credit facilities will provide sufficient liquidity to meet working capital, capital expenditures and other ongoing business requirements. Capital expenditures, consisting primarily of plant modifications and the normal upgrading and replacement of existing machinery and equipment is expected to be approximately \$3.5 million in fiscal 1996.

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PART II - OTHER INFORMATION  
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Item 1. Legal Proceedings

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On September 28, 1995 the Company reported that the United States Department of Justice had appealed the Armed Services Board of Contract Appeals May 30, 1995 decision converting the 1991 terminations for default of two contracts with the U.S. Navy into terminations for the convenience of the Government.

The Department of Justice was granted an extension until February 2, 1996 from its original due date of December 29, 1995 to file a brief stating the basis for the appeal.

Item 6. Exhibits and Reports on Form 8-K

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On October 10, 1995, the Company reported that it had signed a definitive agreement for the sale of its aerospace fastener subsidiary, Hi-Shear Corporation and allied companies, to GFI Industries S.A. for \$46 million in cash.

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of

1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HI-SHEAR INDUSTRIES INC.

By: s/David A. Wingate

-----  
David A. Wingate, Chairman,  
President & Chief Executive

By: s/Victor J. Galgano

-----  
Victor J. Galgano, Vice  
President & Chief Financial  
Officer

Date: January 5, 1996

-----

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