

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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HI SHEAR TECHNOLOGY CORP

CIK: **918027** | IRS No.: **222535743** | State of Incorporation: **DE** | Fiscal Year End: **0531**
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Mailing Address
24225 GARNIER ST
TORRANCE CA 90505

Business Address
24225 GARNIER ST
TORRANCE CA 90505
3107842100

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

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

FOR THE FISCAL YEAR ENDED MAY 31, 2008 COMMISSION FILE NUMBER: 001-12810

HI-SHEAR TECHNOLOGY CORPORATION
(Name of Small Business Issuer in its Charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

22-2535743
(I.R.S. Employer
Identification No.)

24225 GARNIER STREET, TORRANCE, CA
(Address of principal executive offices)

90505-5355
(Zip Code)

Issuer's Telephone Number:

(310) 784-2100

Securities registered under Section 12(b) of the Exchange Act:
(Title of each class) (Name of each exchange on which registered)
COMMON STOCK AMERICAN STOCK EXCHANGE

Securities registered under Section 12(g) of the Exchange Act:
(Title of each class)
NONE

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 ()

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. (X)

Indicate by check mark whether the registration is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES () NO (X)

State issuer's revenues for its most recent fiscal year: \$27,628,000.

The aggregate value of the Registrants Common Stock held by non-affiliates of the Registrant was approximately \$16,828,825 as of July 3, 2008, based upon the closing sale price on the American Stock Exchange on that date at which the stock was last sold.

There were approximately 6,817,541 shares of the Registrants Common Stock issued and outstanding as of July 3, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Company's Proxy Statement to be filed with the U.S. Securities and Exchange Commission, or SEC, pursuant to Rule 14a-6 under the Securities Exchange Act of 1934, as amended, in connection with the Company's 2008 Annual Meeting of Stockholders are incorporated by reference in Part III, Items 9-14 of this Annual Report on Form 10-KSB.

Transitional Small Business Disclosure Format YES () NO (X)

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HI-SHEAR TECHNOLOGY CORPORATION
FORM 10-KSB

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PART I

ITEM 1. BUSINESS

GENERAL OVERVIEW

Hi-Shear Technology Corporation designs and manufactures high reliability pyrotechnic, mechanical and electronic products for the aerospace industry, national defense and other applications where pyrotechnic power is desirable. Its products are primarily used in space satellites and satellite

launch vehicles, exploration missions, strategic missiles, tactical weapons, advanced fighter aircraft and military systems. Customers such as the military, satellite manufacturers, launch vehicle assemblers, U.S. Government departments and agencies (including NASA), foreign space agencies, and others in the aerospace and defense business widely use Hi-Shear's products.

The Company's executive offices are located at 24225 Garnier Street, Torrance, CA 90505-5355, Telephone (310) 784-2100 - Facsimile (310) 325-5354.

HI-SHEAR PRODUCTS

Hi-Shear's products meet the specialized needs of both commercial and military satellites, the United States space program and defense applications. They consist primarily of pyrotechnic power cartridges and various types of separation devices designed to meet the demand for reliable high performance, with the strength to fasten two structures under rigorous conditions and then provide quick release upon command. Hi-Shear cartridges, cutters, pin pullers, separation nuts and separation bolts are used widely in the functioning of satellites and the vehicles which launch them into space. In addition, we design and manufacture electronic firing systems that control and sequentially fire the pyrotechnic devices according to pre-programmed parameters. These electronic devices and pyrotechnic products are used in missiles, launch vehicles, weapon systems, fighter aircraft ejection seats and other applications. We continually adapt our technology to produce products for other applications where pyrotechnic power is desirable and our unique product designs are suitable. Hi-Shear's products can be grouped into three product categories as follows:

PYROTECHNIC CARTRIDGES/INITIATORS. Satellites, missiles, weapon systems and other space vehicles require substantial stand-by power to perform certain timing-dependent functions such as separation, cutting and deployment. Hi-Shear designs, markets and manufactures pyrotechnic power cartridges/initiators and explosive detonators that have a high-energy output. These power cartridges are hermetically sealed electro-explosive devices that are compact, lightweight, environment and corrosion resistant and operate with ultra high reliability. The power cartridge provides the energy to operate the Company's separation devices, pin pullers, thrusters, actuators and cutters. These devices are used to separate rocket motors, nose cones, satellites, open satellite doors, payload fairings, operate valves, deploy solar panels, booms, communications antennae, missile fins, and stage separation on many of today's major launch vehicles. Hi-Shear manufactures the highest reliability NASA standard initiator used throughout its space exploration missions and the Space Shuttle.

CARTRIDGE ACTUATED DEVICES. Hi-Shear's cartridge actuated devices are mechanical gas-activated products for use on satellites, launch vehicles, missiles and other space vehicles. These devices include separation nuts, separation bolts, thrusters, wing/fin actuators, cutters, valves, pin pullers and other devices. They are designed for use as standard high strength fastening hardware with the ability to separate and/or release components or structures on command. These devices provide the low shock mechanical action required for rapid separation or deployment of structures or components in multistage launch vehicles, such as satellites, payload fairings, nose cones, capsules, booster rockets, tanks, solar arrays, antenna booms and other devices. We maintain an active program for new designs, including pyrotechnic and electric low shock deployment systems for the increasingly lighter satellites used in communications and intelligence gathering.

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In addition to pyrotechnic cartridge activated devices, we manufacture a line of electrically driven ultra low shock separation nuts for satellite applications where an alternative to pyrotechnic activation is desirable. These high performance electric separation devices provide the strength and flight heritage identical to our cartridge activated separation nuts while providing the advantage of reduced shock and resettable usage for appropriate applications. Hi-Shear also manufactures sophisticated highly reliable mechanical sub-components used on satellites to aim the satellites onboard communications array and other components for space vehicles and weapons systems according to customer supplied detailed designs and testing requirements.

ELECTRONIC PRODUCTS. Hi-Shear is a key supplier of electronic products

that fire pyrotechnic and/or explosive charges while at the same time maintaining the utmost in safety.

Hi-Shear supplies electronic safe arm fuzes for various military programs. The Company's Patriot (PAC-3) missile system safe arm fuze is used to fire explosive elements contained in the PAC-3 missile. This dual function high reliability safe arm fuze is a key operational component onboard each missile launch. The PAC-3 high performance anti-missile batteries are deployed with the U.S. Army and its allies throughout the world to protect against enemy missile attack. We employ a proprietary initiator in the safe arm product that, when removed, permits full testing of the electronics without risk to personnel or damaging the integrity of the missile system. This allows for economical missile system safety checks, and an extended shelf life estimated at 30 years, which is among the longest in the industry.

Hi-Shear manufactures both the electronic Mark 58 Acoustic Firing Device and its master control unit, the Mark 92 Acoustic Firing Code Transmitter, for use by the U.S. Navy. This unique ordnance firing system utilizes acoustic signals for underwater demolition and is used by Navy divers to dispose of sea mines, limpet mines, sonobuoys and torpedoes. The acoustic firing device is specially constructed and tested to be non-magnetic equipment so that it may be used safely in the proximity of magnetic influenced ordnance. The acoustic firing device is consumed in each explosive disposal firing.

The Firing Code Transmitter is the compact portable electronic console that is operated on the oceans surface to remotely control the operation of the firing device. The firing code transmitter is programmed by its operator to effectively function the acoustic firing device, which is located underwater, at a significant distance from the code transmitter console. The transmitter is self contained in a briefcase sized weather proof case and has its own power supply. The transmitter unit is completely reusable and may efficiently signal the firing of many acoustic firing devices.

The Company supplies to the U.S. military and its allies around the world an ejection seat control unit and the ordnance devices that the control unit signals to fire. These devices are sold for use on the U.S. Air Force ACES II crew ejection seat installed in many fighter and bomber aircraft, including the A-10, B-2, F-15 and F-16. The ejection seat utilizes multiple ordnance devices that deploy parachutes, rockets and other events crucially necessary for the pilot's ejection from the aircraft. Hi-Shear also manufactures various ejection seat modification kits and other items used to enhance the performance of the ejection system that are supplied to the military services according to their detailed specifications and requirements.

CUSTOMERS AND CONTRACTS

Most of the Company's customers are large aerospace prime or subcontractors. In addition, Hi-Shear derives a significant amount of its revenue from contracts that it has directly with Government customers, including the U.S. Air Force, U.S. Navy, U.S. Army and NASA. Sales to Lockheed Martin, the United States Government and Boeing accounted for 39%, 19% and 13%, respectively, of the Company's revenues in fiscal year 2008, compared to 37%, 16% and 8%, respectively, of the Company's revenues in fiscal year 2007. Contract awards and contract competition phases vary from year to year, and therefore sales distribution among customers during any one fiscal year should not be considered indicative of future sales to those customers.

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In both fiscal years 2008 and 2007, all of the Company's contracts were on a fixed price contract basis where we agree to perform certain work for a fixed price. These fixed price contracts carry certain inherent risks, including the underestimation of costs, problems with new technologies, costly changes made by the customer for which it refuses to pay or the occurrence of adverse changes over the contract period. Due to economies that can be encountered over the period of the contract, these fixed price contracts can also offer significant profit potential. The Company's contracts that evolve from the U.S. Government or from its contractors are subject to termination for convenience by the customer or the U.S. Government. However, if this termination for convenience were exercised, the Company would be entitled to receive payment of

its costs incurred up to the date of termination and a reasonable termination fee. U.S. Government contracts extending beyond one year are also conditioned upon the continuing availability of Congressional appropriations because Congress usually appropriates on a fiscal year basis even though contract performance may take several years.

BACKLOG

The average time to design, manufacture and ship our products is typical of the lead times required for highly engineered, custom manufactured aerospace products. The final negotiation of the detailed contract requirements together with the purchase of long lead time material, manufacturing processes and testing take between 4 to 12 months or more to accomplish. During fiscal year 2008, we continued programs to reduce many of our manufacturing lead-times to help our customers reduce their product manufacturing time with more timely delivery. This is part of an overall strategy by Hi-Shear's aerospace customers to carry fewer components in inventory and to speed the construction of launch vehicles, satellites and weapon systems.

Total requirements included in contracts undertaken by us may contain options that extend beyond one year, and accordingly, portions are carried forward from one year to the next as part of the backlog. Some contracts with the U.S. Government and its prime contractors are supply contracts and/or multi-year options whose requirements are primarily based on the Government's demand for products on a periodic basis. Because many factors affect the scheduling of projects, no assurances can be given as to when revenue will be realized on projects that are included in backlog. Although backlog represents business that is considered to be firm, there can be no assurance that cancellation, changes in quantities, funding changes, or scope adjustments will not occur.

As of May 31, 2008, the Company's backlog of unrecognized revenue and unbilled amounts on open customers' orders was \$21.3 million and \$27.6 million, respectively, compared to unrecognized revenue and unbilled backlog amounts as of the end of the prior fiscal year of \$18.6 million and \$26.6 million, respectively. The increase in unbilled backlog is the result of growth in contract awards.

COMPETITION

Hi-Shear's aerospace and defense products are thoroughly tested individually, as well as tested in conjunction with the end product into which they are incorporated. After commencement of a given program, it is very costly for competitors to design new competitive components or for customers to change suppliers of the components since the customer would then be required to re-qualify the products. Therefore, due to the Company's extensive financial investment and years of involvement in the development of our products and the practical barriers to entry into the market by competitors, competition is not a critical factor for subsequent orders. In addition, local, state and federal permits and licenses that are required to manufacture such pyrotechnic and explosive devices as the Company produces are difficult to obtain and therefore provide further barriers to entry into the market by competitors. Hi-Shear currently qualifies as a small business entity for the purposes of obtaining small business set aside contracts and dealing with U.S. Government contracts or programs.

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MANUFACTURING AND PRODUCTION

Production consists of fabricating and assembling the mechanical and electronic hardware components and separately preparing the pyrotechnic charge used in the Company's cartridge devices. Production of the mechanical and electronic devices involves machining components in the precision machining center, the assembly of the components and the testing of the completed units. Throughout the entire process, strict quality assurance controls are maintained including customer and, where required, government inspection. After assembly, the products are functionally tested on a sample basis. During fiscal year 2008, Hi-Shear had approximately 117 full time employees (including employees hired from temporary agencies), the majority of whom are engineers and technicians.

The handling and processing of pyrotechnic materials requires extensive experience and expertise as well as the proper equipment, facilities and permits. We have been safely handling and processing these fuels and oxidizers for over forty years.

ADDITIONAL INFORMATION

The Company files annual and quarterly reports and proxy statements with the Securities and Exchange Commission (the "Commission") pursuant to federal securities laws. You may inspect such reports, including the exhibits thereto, without charge, at the Public Reference Room of the Commission at 450 Fifth Street N.W., Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. You may also access such material electronically by means of the Commission's home page on the Internet at <http://www.sec.gov>.

We intend to make available to our stockholders annual reports containing financial statements audited by an independent certified public accounting firm. We may also make available to our stockholders, from time to time, other reports about material corporate developments.

ITEM 2. PROPERTIES

Hi-Shear's manufacturing and executive offices are located in Torrance, California, in a 76,000 square foot building organized for electronic, mechanical, and pyrotechnic manufacturing, testing and assembly operations. The Company leases these offices pursuant to a five (5) year lease through August 31, 2012. The Company also owns and operates a plant on twelve acres of land in Santa Clarita, California that it utilizes as a storage and powder-blending facility in addition to conducting manufacturing and testing. We believe that our current leased facilities in Torrance and the property in Santa Clarita are adequately covered by insurance and will adequately support the Company's operations for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

Hi-Shear filed suit against United Space Alliance, LLC, a Delaware limited liability company ("Alliance"), and USBI Co., a Delaware corporation ("USBI"), in November 2000 in the Circuit Court of the Eighteenth Judicial Circuit, Brevard County, Florida. Hi-Shear sought to recover damages in excess of \$1,500,000, excluding interest, costs, and attorneys' fees, alleging Alliance and USBI breached contracts for Hi-Shear to manufacture and deliver certain hardware for use on the Space Shuttle. Hi-Shear also sought damages based on claims alleging that Alliance and USBI fraudulently induced Hi-Shear to enter into certain contracts to manufacture and deliver certain hardware for use on the Space Shuttle. In addition, Hi-Shear sought damages for claims that defendants misappropriated Hi-Shear's proprietary information and/or trade secrets in certain technical data and information. Hi-Shear also alleged a claim for a declaratory judgment.

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Alliance subsequently filed a counterclaim seeking damages of over \$450,000, excluding interest, costs, and attorneys' fees, alleging Hi-Shear breached its contracts to manufacture and deliver certain hardware for use on the Space Shuttle. Alliance also alleged a claim for conversion and an accounting relating to certain items of alleged government furnished equipment, and a claim for a declaratory judgment. As part of its defense in the litigation, Alliance claimed that it was coerced through duress to enter into a contract with Hi-Shear where Hi-Shear was the qualified successful lowest bidder. In addition, Alliance demanded that Hi-Shear ship uncertified flight hardware to it for use on the United States Space Shuttle, ahead of its normal certification schedule. USBI did not file a counterclaim against the Company.

In July 2004, Hi-Shear filed a separate but related suit against Pacific Scientific Energetic Materials Company, a Delaware corporation, in the Circuit Court of the Eighteenth Judicial Circuit, Brevard County, Florida. Hi-Shear sought to recover damages, alleging that defendant misappropriated

Hi-Shear's proprietary information and/or trade secrets in certain technical data and information, conspired to misappropriate trade secrets, and interfered with Hi-Shear's advantageous business relationships. After defendant filed, and the court ruled on a motion to dismiss, and Hi-Shear filed an amended complaint against Pacific Scientific, the court entered an order staying all further proceedings in the case until the appeals from the suit between Hi-Shear and Alliance and USBI are resolved, and the court enters a subsequent order lifting the stay.

Prior to the trial between Hi-Shear, Alliance, and USBI, the court made legal rulings that the Company did not have trade secrets in certain technical data and information, which the Company alleged had been misappropriated by Alliance and USBI. As a result, the court granted in part Alliance's and USBI's motions for summary judgment on that issue. Prior to trial, the court also made legal rulings that USBI did not fraudulently induce Hi-Shear to enter into a contract to manufacture and deliver certain flight hardware for use on the Space Shuttle. As a result, the court granted Alliance's and USBI's motions for summary judgment on that issue.

Trial before a jury of Hi-Shear's remaining claims against Alliance and USBI, and Alliance's counterclaim against Hi-Shear, commenced on July 5, 2005 in Titusville, Florida. Shortly after the trial began, the court made additional legal rulings, which resulted in its granting the remainder of Alliance's and USBI's motions for summary judgment on the trade secrets issues. As a consequence of those rulings and based on other circumstances, Hi-Shear dismissed its remaining claims against USBI. As a result, USBI was no longer a participant in the trial.

The jury trial continued through September 2, 2005. Some of Hi-Shear's claims were disposed of by the court based on legal rulings made during the course of trial. Of the remaining claims that the jury was asked to decide, the jury rendered a verdict in favor of Hi-Shear on one of its breach of contract claims, and awarded the Company damages of \$57,781, exclusive of interest, costs, and attorneys' fees. The jury found in favor of Alliance on Hi-Shear's remaining breach of contract claims and thus awarded Hi-Shear no damages on those claims. The jury also found in favor of Alliance on its counterclaim for breach of contracts but awarded it no damages. In addition, the jury determined that Hi-Shear converted certain government furnished equipment pursuant to Alliance's conversion counterclaim.

In August 2005, the court entered final judgment on Hi-Shear's claims against USBI. After hearing and denying post-trial motions by both Hi-Shear and Alliance, in May 2006 the court entered final judgment on Hi-Shear's and Alliance's respective claims against each other.

In September 2005, Hi-Shear appealed the final judgment entered on its claims against USBI to Florida's Fifth District Court of Appeal. Alliance participated in that appeal as an appellee based on its having joined in the trade secrets and fraudulent inducement summary judgment motions at the trial level. In February 2007, after hearing oral argument, the court of appeal affirmed the trial court's rulings and final judgment in favor of USBI. The appellate court denied motions by Hi-Shear and Alliance to recover attorneys' fees incurred on appeal.

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In June 2006, Hi-Shear appealed the final judgment entered on its claims against Alliance, and Alliance's counterclaims against Hi-Shear, to Florida's Fifth District Court of Appeal challenging the legal basis of the lower court's final judgment including the amounts of the recovery of Hi-Shear's damages on contracts for manufactured components and other claims at trial. The appeal encompasses issues evident throughout the court proceedings, including the legal basis of the trial court's judgments and questionable adverse rulings by the court during the entire course of the trial. Alliance has filed its cross-appeal, parties' briefs on appeal have been filed, and the oral arguments to the appellate court were completed on June 25, 2008. The Florida Fifth District Court of Appeal will issue its decision regarding this appeal in due course. The Company is not able to estimate when the decision will be issued or the ultimate outcome of such decision.

In the final judgments, the trial court retained jurisdiction to consider motions by the parties to recover attorneys' fees and litigation costs. In December 2006, the trial court entered an order denying Hi-Shear's motion for entitlement to recover its attorneys' fees and costs from Alliance, even though Hi-Shear was the only party to have been awarded damages by the jury. In that same order, the court determined that instead, Alliance had prevailed on its claims for breach on three of four contracts and thus was entitled to recover from Hi-Shear its reasonable attorneys' fees incurred relating to count I of its counterclaim against Hi-Shear for breach of contracts. The court also ordered that both Alliance and USBI were entitled to recover their respective litigation costs from Hi-Shear. Alliance has claimed the amount of reasonable attorneys' fees it should recover from Hi-Shear is approximately \$2,900,000, and the amount of litigation costs it should recover from Hi-Shear is approximately \$453,000. USBI has claimed the amount of litigation costs it should recover from Hi-Shear is approximately \$48,000. Hi-Shear has opposed these claims, believing that the amounts sought by Alliance and USBI are excessive.

On March 13-14, 2008, the trial court held an evidentiary hearing on the amount of reasonable attorneys' fees to be awarded to Alliance. At the hearing, Hi-Shear offered evidence and expert testimony to establish that Alliance's request for reasonable attorneys' fees and costs are excessive and that they should not have exceeded approximately \$400,000. The trial court also issued an order requiring memoranda of law by the parties on the amount of costs to be awarded to Alliance and USBI.

On July 28, 2008, the trial court sent a letter to Alliance's attorneys asking them to prepare a form of order regarding attorneys' fees. Hi-Shear received a copy of the letter on July 31, 2008. The letter does not specify the final amount of attorneys' fees to be awarded, and it indicates that an additional hearing will be required on specific issues. However, the letter also indicates that the trial court will make favorable rulings for Alliance on several issues, and it appears that the trial court may award to Alliance the preponderance of the attorneys' fees it seeks. On August 7, 2008, the trial court sent an additional letter to Alliance's attorneys addressing taxable costs that Alliance and USBI are entitled to recover.

The final outcome of Hi-Shear's pending appeal and Alliance's pending cross-appeal may have an effect on an award of attorneys' fees and costs to Alliance. Although Hi-Shear believes that it will prevail on its appeal and that the trial court's order that it pay Alliance's and USBI's attorneys' fees and costs will be reversed, Hi-Shear believes that it is appropriate under generally accepted accounting principles to accrue an estimate of the fees and costs described in the court's letters. Although Hi-Shear is unable to determine the precise amount of attorney fees that will be awarded at this time, it believes that it is appropriate under generally accepted accounting principles to accrue approximately \$3,275,000 associated with the litigation for its year ended May 31, 2008. This accrual does not include possible costs for prejudgment interest which may be assessed at the statutory rate dating from December, 2006. The ultimate award of an amount of attorneys' fees and costs against Hi-Shear, if any, will not have a material adverse impact on the Company's financial position and results of operations in the period a final fee and cost decision is made because an accrual of the estimated cost has been reflected in the current year's financial results. A reversal of this accrual amount in whole or in part in a subsequent period would have a positive impact on that period's financial results.

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In addition, the Company is subject to other claims and legal actions that may arise in the ordinary course of business. In the opinion of the Company, after consultation with counsel, the ultimate liability, if any, with respect to these other claims and legal actions, will not have a material effect on the financial position or on the results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Hi-Shear's Common Stock is traded on the American Stock Exchange under the symbol "HSR". The following table reflects the high and low sales prices of the Company's Common Stock, as reported by the American Stock Exchange composite tape, for the periods set forth below:

| | High ---- | Low --- |
|--------------------------------------|--------------|------------|
| Fiscal Year 2008 ending May 31, 2008 | | |
| 4th Quarter | \$ 11.94 | \$ 10.50 |
| 3rd Quarter | 13.64 | 11.11 |
| 2nd Quarter | 13.34 | 9.07 |
| 1st Quarter | 10.59 | 7.00 |
| Fiscal Year 2007 ending May 31, 2007 | | |
| 4th Quarter | \$ 12.11 | \$ 10.15 |
| 3rd Quarter | 13.12 | 8.17 |
| 2nd Quarter | 11.70 | 6.16 |
| 1st Quarter | 18.90 | 8.68 |

The Board of Directors approved and the Company paid two cash dividends during the fiscal year. The first cash dividend of \$2,383,000, or \$0.35 per share was paid October 8, 2007 to shareholders of record as of close of business October 5, 2007. The second cash dividend of \$2,726,000, or \$0.40 per share was paid April 11, 2008 to shareholders of record as of close of business April 1, 2008. The dividends were not special, and did not represent that the Company will pay dividends on a scheduled basis. Dividends will be determined by the Board of Directors in light of the conditions then existing, including earnings, financial requirements and conditions, opportunities for reinvesting earnings, business conditions and other factors.

The number of holders of record of Hi-Shear's Common Stock was 54 and the number of beneficial shareholders was approximately 1,136 as of July 3, 2008.

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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL OVERVIEW

The following discussion of Hi-Shear's financial condition and results of operations should be read in conjunction with the financial statements and notes thereto included elsewhere in this report. This report, including this discussion, contains forward-looking statements about business strategies, market potential, and product launches and future financial performance that involve risks and uncertainties. The Company's actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors. These factors include the acceptance and pricing of its new products, the development and nature of its relationship with key strategic partners, the allocation of the federal budget for government sponsored military and aerospace programs and the economy in general.

CRITICAL ACCOUNTING POLICIES

Hi-Shear's revenues are derived principally from fixed-price contracts that are accounted for on the percentage-of-completion method. Revenues for those contracts are calculated on the basis of the relationship between costs incurred and total estimated costs at completion of the contracts ("cost-to-cost" type of percentage-of-completion method of accounting). Revenue

recognition for contracts that require relatively less time to complete than those contracts accounted for on a percentage-of-completion basis are recognized as deliveries are made and invoices are submitted.

Because of the large amount of contracts in process at any point in time, changes in estimated costs to complete can have a significant impact on profitability of the Company. We estimate that each 1% change in the total estimated costs to complete the contracts in process at May 31, 2008 would change both the amount of revenue and earnings recognized by approximately \$113,000. We evaluate and update estimated costs to complete for open contracts on a regular basis. Those evaluations and updates include the participation of management and other key employees from all operational areas. Changed estimates to complete the contracts are then incorporated in the calculations of revenues and profits.

Included in the inventories recorded and maintained by the Company are purchased and manufactured component parts and finished goods that relate to previously completed contracts. The Company's management periodically assesses the likelihood that those inventory items will be used in future contracts, since many of the Company's past contracts relate to on-going programs, for which it will be awarded similar contracts. The current method utilized in management's assessment is to evaluate individual items in the inventories and assess current or future contract requirements which may use inventory parts. A reserve is established for individual inventory parts based on said analysis. Since the inventory reserve methodology is subjective, and subject to changes in estimates based upon updated information, changes in those estimates can be substantial.

RESULTS OF OPERATIONS

FISCAL YEAR ENDED MAY 31, 2008 COMPARED WITH FISCAL YEAR ENDED MAY 31, 2007

Strong customer demand for product resulted in \$30,087,000 of orders received during the year in comparison to \$25,969,000 for the previous year. Revenues recognized during fiscal year 2008 were \$27,628,000, compared to the \$20,550,000 of revenues recognized during fiscal year 2007. The increased revenues this year consisted of a higher concentration of satellite and launch vehicle products and resulted in increased profitability during the year. Utilizing an expanded workforce, production activities grew to meet the demand in both the electronic and pyrotechnic-based device product areas. The Company serviced over 200 separate space and defense projects during the year. Products used in space applications totaled 46% of total revenues while products manufactured for use in national missile defense accounted for 27% of total revenues.

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Cost of revenues for the fiscal year 2008 was \$14,827,000, or 54% of revenues, compared to \$11,652,000, or 57% of revenues, for the prior fiscal year. Cost containment programs, including utilization of new equipment, absorption of fixed overhead expenses by a larger labor base and continuing improvements in manufacturing procedures also contributed to the reduction in cost of revenues. There was a \$42,000 increase to inventory reserves for fiscal year 2008.

Gross margin continued to improve in both total amount and as a percentage of revenues. A higher concentration of satellite and launch vehicle products drove increased profitability and contributed to increasing gross margin percentages year over year. Gross margin for fiscal year 2008 increased \$3,903,000 to \$12,801,000, or 46% of revenues, from \$8,898,000, or 43% of revenues, which was reported for fiscal year 2007. Consistent with year over year reductions to cost of revenues, the Company continues to realize gross margin improvement.

Selling, general and administrative expenses were \$3,413,000 for fiscal year 2008, compared to \$2,974,000 in fiscal year 2007. The 15% increase or \$439,000 is predominately an increase in consulting and accounting expenses.

Litigation Expenses

A total of \$3,846,000 was charged to general and administrative expense during the year to reflect the costs related solely to the prosecution of the Alliance lawsuit and an estimate of possible fee and court cost awards adverse to the Company made related to the case. Legal expenses of \$619,000 were disbursed to Hi-Shear legal representatives in addition to a \$3,275,000 accrual made based on estimates of court letters related to possible amounts of legal fees to be awarded in the case adverse to Hi-Shear. This accrual does not include possible costs for prejudgment interest which may be assessed at the statutory rate dating from December, 2006. These expenses are exclusively related to this single lawsuit and have no effect on the direct operations of the Company. Hi-Shear has appealed the final judgment entered on its claims against Alliance to the Florida Fifth District Court of Appeals. See Item 3. Legal Proceedings.

Operating Income of \$5,542,000 was lower than the \$5,673,000 for the prior year. The reduction of operating income was caused by the \$3,846,000 litigation expenses related to the Alliance lawsuit as referred to above. Excluding this singular litigation expense, the operating income would have been \$3,447,000 higher. This operating income (excluding litigation expense) of \$8,989,000 yields a 52% increase over last year's operating income (excluding litigation expense) of \$5,924,000. This increase is driven by the greater revenue produced in the year and favorable gross product margins.

<TABLE>

<S> <C>

| FISCAL YEAR 2008 | | | |
|--------------------|--|-------------------------------------|--|
| | Statement of Operations including Litigation Expense | Impact of Litigation Expenses | Statement of Operations without Litigation Expense |
| Revenues | \$ 27,628,000 | | \$ 27,628,000 |
| Pre-tax Income | \$ 5,586,000 | \$ 3,447,000 | \$ 9,033,000 |
| Taxes | \$ 2,046,000 | \$ 1,263,000 | \$ 3,309,000 |
| Net Income | \$ 3,540,000 | \$ 2,184,000 | \$ 5,724,000 |
| Earnings per Share | \$ 0.52 | \$ 0.32 | \$ 0.84 |

</TABLE>

The Company realized pre-tax income of \$5,586,000, or 20% of revenues, for the fiscal year ended May 31, 2008, compared to pre-tax income of \$5,673,000, or 28% of revenues, for the previous fiscal year. The reduction of 8% was driven by the litigation expenses described above; excluding litigation expenses, pre-tax income would have increased more than \$3,400,000 resulting from process improvements and increased absorption of fixed overhead expenses by a larger labor base.

Income tax expense for fiscal year 2008 was \$2,046,000 and 37% of pre-tax income, compared to \$2,255,000 and 40% of pre-tax income for fiscal year 2007. The decrease in income tax expense occurred primarily as a consequence of the corresponding decrease in pre-tax income, upon which reported income tax expense is principally based. The decrease in the percentage of pre-tax income from 40% to 37% is the result of the increase in the domestic production activity deduction (from 3% to 6%).

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, Accounting for Income Taxes" ("FIN 48"), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on deregulation, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted the

provisions of FIN 48 on June 1, 2007. The adoption of FIN 48 did not have a significant effect on the Company's financial position and results of operations for the year ended May 31, 2008. Further, the Company is currently under audit by the Internal Revenue Service. The Company's management has considered the various tax positions subject to examination in accordance with FIN 48, and as a result, the Company's management does not anticipate any material adjustments that may arise as the result of the examination. Accordingly, no adjustments have been made to the accompanying financial statements.

Net income for the fiscal year ended May 31, 2008 was \$3,540,000, or \$0.52 per share and 13% of revenues, compared to \$3,418,000, or \$0.50 per share and 17% of revenues, for the previous fiscal year. The net income increased 4% over last year including the litigation expenses and is driven by increased revenue and favorable product gross margins. The decline in net income as a percentage of total revenue is the result of the litigation expenses described above. Net income excluding this singular litigation expense was \$5,724,000 or \$0.84 per share, an increase of approximately \$2,300,000 compared to last year. The Company's positive earnings and new orders during the year supported the distribution of two dividends to shareholders, a \$0.35 per share dividend to shareholders in October, 2007 and a \$0.40 per share dividend to shareholders in April, 2008. A total of \$0.75 per share was paid to the shareholders of record during fiscal 2008.

Fourth Quarter revenues were strong as improvements to manufacturing processes were enhanced and new orders were received. Revenues in the 4th quarter were \$9,102,000 compared to \$5,975,000 for the same quarter in fiscal year 2007. A strong customer demand for satellite and launch products contributed to higher gross margins and higher operating margins. Gross margin in the 4th quarter of fiscal year 2008 was 47% compared to 43% for the same period last year. The implementation of new automated equipment, operating efficiencies and lower overhead costs contributed to a strong gross margin. Operating margin in the 4th quarter of fiscal year 2008 was 5% compared to 30% for the same period last year due to litigation expenses described above. Cash balances continue to remain strong. All operating expenses are and have been covered by current cash balances and thus, there is no balance on the revolving line of credit the Company maintains with its Bank.

FINANCIAL CONDITION

Accounts receivable balances, which consist of billed and unbilled amounts were \$8,111,000 and \$6,363,000 respectively at the end of fiscal year 2008. The billed and unbilled amounts at the completion of fiscal year 2007 were \$4,936,000 and \$8,071,000 respectively. The accounts receivable balances at both May 31, 2008 and May 31, 2007 were not reduced for reserves on doubtful accounts. The increase in billed receivables of \$3,175,000 can be attributed to the increase in contract performance resulting in billing opportunities, as well as the negotiation of interim billing events on long term contracts contributed to the higher billed balance.

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Unbilled receivables represent revenues recognized from fixed priced contracts based upon percentage-of-completion, but in advance of completing billable events for which invoices are submitted to customers. As billing events occur for such contracts (generally tied to delivery of hardware), previously unbilled receivables are converted to billed accounts receivable with the preparation and submission of invoices to customers. Unbilled receivables at May 31, 2008 were \$6,363,000, compared to \$8,071,000 at the end of fiscal year 2007. The decrease in unbilled receivables at May 31, 2008 can be attributed to the billing events described above.

Inventories, net of reserves, decreased to \$1,345,000 at May 31, 2008 from \$1,569,000 at May 31, 2007. Inventory reserves, which are established in accordance with management's estimates regarding the extent to which inventory items will ultimately be used to generate future revenues, were \$526,000 at May 31, 2008, compared to \$484,000 at May 31, 2007.

Trade accounts payable decreased to \$740,000 at the end of fiscal year 2008 compared to \$793,000 at the end of fiscal year 2007. Timing of receipts submitted to Hi-Shear for payment at the end of any fiscal month/year will

directly impact the outstanding balance for invoices due. There are no disputed amounts included in accounts payable at May 31, 2008.

At both May 31, 2008 and May 31, 2007, the Company did not have any bank debt and has available borrowing of up to \$5,000,000 available from its commercial bank under a revolving line of credit maturing December 15, 2009 (See Note 8). The Company also has available a \$1,000,000 equipment letter of credit maturing January 31, 2009, and bearing interest under the same terms as the revolving line of credit. As of May 31, 2008, there was no existing balance on this instrument.

LIQUIDITY AND CAPITAL RESOURCES

Net cash of \$5,994,000 was provided by operating activities during fiscal year 2008, compared to net cash of \$1,910,000 that was provided by operating activities during fiscal year 2007. The increase in net operating cash flows between the two fiscal years was primarily the result of increases in accounts receivable and collections of accounts receivables as described above.

To supplement cash provided by operating activities, the Company maintains a business loan agreement including a revolving line of credit with a commercial bank, for the purpose of having sufficient cash to meet its cash obligations. There was no outstanding balance under this line of credit at May 31, 2008. Since the maximum borrowing limit under the line of credit is \$5,000,000, the amount available for borrowing at May 31, 2008 was \$5,000,000. The line of credit is available to the Company through December 15, 2009, which is the maturity date of the business loan agreement covering the line of credit. Outstanding amounts under the line of credit bear interest at prime less .25% (4.75% at May 31, 2008) or at the Company's option LIBOR plus 2% (4.9% at May 31, 2008).

The Company also has available a \$1,000,000 equipment letter of credit maturing January 31, 2009, and bearing interest under the same terms as the revolving line of credit. As of May 31, 2008, there was no existing balance on this instrument.

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The business loan agreement contains various financial covenants that have been modified during the fiscal year. On June 4th, 2007, the covenant requiring a quarterly certificate of compliance was removed; in addition, the requirement for the bank to pre-approve a dividend prior to payment was removed. Revised language specifies the Company may make periodic distribution of excess capital in the form of dividend to its shareholders if and only if at the time of such payment, the Company is in compliance with all provisions of the loan document, including (without limitation) all financial covenants, and no default under the agreement has occurred, is continuing or would result from the making of such payment. In June, 2008 the fixed charge coverage ratio was modified effective February 29, 2008. The modification allows cash dividends to be excluded from the calculation if liquid assets on the day of distribution are at least \$750,000. The covenants including current ratio (at least 2 to 1) and the fixed charge coverage ratio (1.25 to 1) shall exist as covenants under the loan agreement (although quarterly reporting is no longer required). At May 31, 2008, the Company was compliant with all of the financial covenants.

The Company's management believes that the current line of credit is sufficient to enable the Company to meet its projected needs for cash throughout the period of time during which the revolving line of credit is available for its use.

In its attempt to minimize interest expense associated with any outstanding balance that may exist under the revolving line of credit, the Company has arranged with its bank to maintain "zero balances" in its disbursement and depository accounts for the purpose of "sweeping" excess deposited cash to pay down any revolving line of credit balance. As a result of this arrangement, the reported "cash and cash equivalents" amounts reflected on the Company's balance sheet may be minimal if the need to sweep to cover line of credit balances exist. Because no balance existed on the line of credit at May 31, 2008, the need to "sweep" excess cash was not necessary and therefore reported "cash and cash equivalents" at that date was \$1,655,000.

With the approval of its Board of Directors, the Company paid two cash dividends of \$2,383,000, or \$0.35 per share and \$2,726,000 and \$0.40 per share, to shareholders of record as of the close of business October 5, 2007 and April 1, 2008 respectively. The dividends were not special, and did not represent that the Company will pay dividends on a scheduled basis.

ITEM 7. FINANCIAL STATEMENTS

The reports of the independent certified public accountants and financial statements and notes listed in the accompanying index are part of this report. See "Index to Financial Statements" on page 17.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company carried out an evaluation of the effectiveness of the design and operation of disclosure controls and procedures as of May 31, 2008, being the date of the most recently completed fiscal year. This evaluation was carried out under the supervision and with the participation of George W. Trahan, Chief Executive Officer and Jan L. Hauhe, Chief Financial Officer. Based upon that evaluation, both the Chief Executive Officer and Chief Financial Officer concluded that current disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that are filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission (SEC).

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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During the fiscal year ended May 31, 2008, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to affect, our internal control over financial reporting during the fiscal year ended May 31, 2008. Improvements to strengthen internal controls have been made during the current fiscal year and will continue to be made to address identified weaknesses.

The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, 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 and includes those policies and procedures that:

- (a) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- (b) 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 registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- (c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

In connection with the preparation of our financial statements for the year ended May 31, 2008, certain internal control weaknesses became evident that require the following remedial actions to remove them from the material weakness category:

1. Documentation and surveillance of internal controls needs to be improved to fully support management's assessment of controls.
2. Design of financial closing procedures and controls needs to be improved to ensure compliance with new accounting pronouncements, regulations, and to prevent material misstatements.
3. Internal technical resources, regarding complex accounting and reporting issues, should be strengthened in the financial area.

As part of the communications by Raimondo Pettit Group, with respect to their audit procedures for fiscal year 2008, Raimondo Pettit Group informed the CFO and CEO that these areas constituted material weaknesses as defined by Auditing Standard No. 5, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements," established by the Public Company Accounting Oversight Board (PCAOB).

In accordance with Section 404 of the Sarbanes-Oxley Act of 2002, the Company intends to take appropriate and reasonable steps to make the necessary improvements to remediate these deficiencies. We intend to consider the results of our remediation efforts and related testing as part of our fiscal year-end 2009 assessment of the effectiveness of our internal control over financial reporting.

This 10-KSB does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by Raimondo Pettit Group pursuant to temporary rules of the SEC that permit the Company to provide only Management's report in this 10-KSB.

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ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Information required by this item will be contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after May 31, 2008 and is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this item will be contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after May 31, 2008 and is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after May 31, 2008 and is incorporated herein by

reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after May 31, 2008 and is incorporated herein by reference.

ITEM 13. EXHIBITS

Exhibits: See "Exhibit Index", page 16.

ITEM 14. zPRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after May 31, 2008 and is incorporated herein by reference.

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SIGNATURE

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HI-SHEAR TECHNOLOGY CORPORATION

Date: August 29, 2008

By: /s/ George W. Trahan

George W. Trahan
President, Chief Executive Officer
and Chairman

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: August 29, 2008

By: /s/ George W. Trahan

George W. Trahan
President, Chief Executive Officer
and Chairman

By: /s/ Thomas R. Mooney

Thomas R. Mooney
Director, Co-chairman of the Board

By: /s/ Jan L. Hauhe

Jan L. Hauhe
Chief Financial Officer

By: /s/ Jack Bunis

Jack Bunis
Director

By: /s/ Lawrence Moreau

Lawrence Moreau
Director

By: /s/ John Zaepfel

John Zaepfel
Director

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<TABLE>

<S> <C>

| EXHIBIT NUMBER | EXHIBIT INDEX DESCRIPTIONS | SEQUENTIALLY NUMBERED |
|----------------|--|-----------------------|
| ----- | ----- | ----- |
| 3.1 | Certificate of Incorporation, as amended(1) | |
| 3.2 | Bylaws, as amended(2) | |
| 4.1 | Form of Common Stock(3) | |
| 10.1 | 1993 Stock Option Plan(2) | |
| 10.2.3 | Consulting Agreement with Thomas R. Mooney(17) | |
| 10.3.3 | Employment Agreement with George W. Trahan(17) | |
| 10.4.1 | Torrance Property Lease(6) | |
| 10.4.1.1 | Torrance Property Lease Amendment #1(12) | |
| 10.4.1.2 | Torrance Property Lease Amendment #2(15) | |
| 10.5.1 | Form of Buy/Sell Agreement(6) | |
| 10.6 | Southern California Bank Credit Facility (now U.S. Bank) (4) | |
| 10.6.1 | Promissory Note Relating to U.S. Bank Credit Facility(5) | |
| 10.6.2 | Promissory Note Related to U.S. Bank Credit Facility(7) | |
| 10.6.3 | Promissory Note and Amendment Relating to U.S. Bank Credit Facility(7) | |
| 10.6.3.1 | Amendments to Promissory Notes Relating to U.S. Bank Credit Facility(8) | |
| 10.6.3.2 | Amendments to Promissory Notes Relating to U.S. Bank Credit Facility(11) | |
| 10.6.3.3 | Amendment to Promissory Note Relating to U.S. Bank Credit Facility(12) | |
| 10.6.3.4 | Amendment to Promissory Note Relating to U.S. Bank Credit Facility(13) | |
| 10.6.3.5 | Amendment to Promissory Note Relating to U.S. Bank Credit Facility(16) | |
| 10.6.3.6 | Amendment to Promissory Note Relating to U.S. Bank Credit Facility(17) | |
| 10.6.4 | Term Note Related to U.S. Bank Credit Facility(11) | |
| 10.6.4.1 | Term Note Related to U.S. Bank Credit Facility(16) | |
| 10.7 | Revolving Credit Note | |
| 10.7.1 | Amendment to Revolving Credit Agreement and Loan Documents | |
| 16.2 | Letter on Change in Certifying Accountant(9) | |
| 16.3 | Letter on Change in Certifying Accountant (10) | |
| 20 | Form 8-K/A filed August 8, 2003(12) | |
| 23.1 | Consent of Raimondo Pettit Group | |
| 31 | Rule 13a-14(a) Certifications | |
| 32 | Section 1350 Certifications | |

</TABLE>

- (1) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM SB-2 REGISTRATION STATEMENT NO. 33-73972 FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 10, 1994.
- (2) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM SB-2 REGISTRATION STATEMENT NO. 33-73972 FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 1, 1994.
- (3) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM SB-2 REGISTRATION STATEMENT NO. 33-73972 FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 23, 1994.
- (4) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 12, 1998.
- (5) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 17, 1999.
- (6) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 24, 2000.
- (7) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 10, 2002.
- (8) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 29, 2002.

- (9) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO EXHIBIT 16.2 TO FORM 8-K/A FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 24, 2003.
- (10) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO EXHIBIT 16.3 TO FORM 8-K/A FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 8, 2003.
- (11) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 19, 2003.
- (12) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 30, 2004.
- (13) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 13, 2005.
- (14) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 28, 2006.
- (15) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-QSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 16, 2007.
- (16) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-QSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 13, 2007.
- (17) PREVIOUSLY FILED AND INCORPORATED BY REFERENCE TO THE COMPANY'S FORM 10-KSB FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 10, 2007.

INDEX TO FINANCIAL STATEMENTS

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| Balance Sheet..... | F-2 |
| Statements of Operations..... | F-3 |
| Statements of Stockholders' Equity | F-4 |
| Statements of Cash Flows | F-5 |
| Notes to Financial Statements..... | F-6 - F-23 |

RAIMONDO PETTIT GROUP
A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Hi-Shear Technology Corporation

We have audited the accompanying balance sheet of Hi-Shear Technology Corporation as of May 31, 2008, and the related statements of operations, stockholders' equity, and cash flows for the years ended May 31, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hi-Shear Technology Corporation as of May 31, 2008 and the results of its operations and its cash flows for the two year period then ended in conformity with accounting principles generally accepted in the United States of America

/s/ Raimondo Pettit Group

Torrance, California
August 27, 2008

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<TABLE>
<S> <C>
HI-SHEAR TECHNOLOGY CORPORATION

BALANCE SHEET
MAY 31, 2008

ASSETS:

| | |
|---|--------------|
| ----- | |
| Current Assets: | |
| Cash and cash equivalents | \$ 1,655,000 |
| Accounts receivable, net (Note 4) | 14,474,000 |
| Inventories, net (Note 5) | 1,345,000 |
| Deferred income taxes (Note 12) | 2,430,000 |
| Prepaid expenses and other current assets | 182,000 |
| | ----- |
| TOTAL CURRENT ASSETS | \$20,086,000 |
| Land (Note 7) | 846,000 |
| Equipment, net (Note 6) | 2,003,000 |
| | ----- |
| TOTAL ASSETS | \$22,935,000 |
| | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY:

| | |
|--|--------------|
| ----- | |
| Current Liabilities: | |
| Trade accounts payable | 740,000 |
| Accrued liabilities (Note 9) | 5,872,000 |
| Deferred revenue (Note 10) | 1,204,000 |
| Current portion of obligations under capital leases (Note 11) | 40,000 |
| | ----- |
| TOTAL CURRENT LIABILITIES | \$ 7,856,000 |
| Deferred income taxes (Note 12) | 315,000 |
| Obligation under capital leases (less current portion) (Note 11) | 34,000 |
| | ----- |
| TOTAL LIABILITIES | \$ 8,205,000 |

Commitments and Contingencies (Notes 8, 13 and 16)
Stockholders' Equity
Preferred stock, \$1.00 par value; 500,000 shares
authorized; no shares issued 0
Common stock, \$.001 par value - 25,000,000 shares

| | |
|--|--------------|
| authorized; 6,817,541 shares issued and outstanding at May 31, 2008 | 7,000 |
| Additional paid-in capital | 7,823,000 |
| Retained earnings | 6,900,000 |
| | ----- |
| TOTAL STOCKHOLDERS' EQUITY | \$14,730,000 |
| | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$22,935,000 |
| | ===== |

See Notes to Financial Statements.

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HI-SHEAR TECHNOLOGY CORPORATION

STATEMENTS OF OPERATIONS
YEAR ENDED MAY 31,

| | 2008 | 2007 |
|--|--------------|--------------|
| | ----- | ----- |
| REVENUES | \$27,628,000 | \$20,550,000 |
| Cost of Revenues | 14,827,000 | 11,652,000 |
| | ----- | ----- |
| GROSS MARGIN | 12,801,000 | 8,898,000 |
| Selling, General and Administrative Expenses | 3,413,000 | 2,974,000 |
| Litigation Expense | 3,846,000 | 251,000 |
| | ----- | ----- |
| OPERATING INCOME | 5,542,000 | 5,673,000 |
| Interest Income, Net | 44,000 | 0 |
| | ----- | ----- |
| INCOME BEFORE INCOME TAX EXPENSE | 5,586,000 | 5,673,000 |
| Income Tax Expense | 2,046,000 | 2,255,000 |
| | ----- | ----- |
| NET INCOME | \$ 3,540,000 | \$ 3,418,000 |
| | ===== | ===== |
| | | |
| Earnings per Common Share - Basic | \$ 0.52 | \$ 0.50 |
| | ----- | ----- |
| Earnings per Common Share - Diluted | \$ 0.52 | \$ 0.50 |
| | ----- | ----- |
| Weighted # Common Shares Outstanding: | | |
| Basic | 6,808,000 | 6,778,000 |
| | ----- | ----- |
| Diluted | 6,825,000 | 6,812,000 |
| | ----- | ----- |

See Notes to Financial Statements.

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HI-SHEAR TECHNOLOGY CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Total Stockholders' Equity |
|--------------------------|--------------|----------|----------------------------------|----------------------|----------------------------------|
| | Shares | Amount | | | |
| Balance, May 31, 2006 | 6,774,000 | \$ 7,000 | \$ 7,503,000 | \$ 6,746,000 | \$ 14,256,000 |
| Stock based compensation | -- | -- | 16,000 | -- | 16,000 |
| Stock options exercised | 11,000 | -- | 48,000 | -- | 48,000 |
| Dividend | -- | -- | -- | (1,695,000) | (1,695,000) |
| Net Income | -- | -- | -- | 3,418,000 | 3,418,000 |
| Balance, May 31, 2007 | 6,785,000 | 7,000 | 7,567,000 | 8,469,000 | 16,043,000 |
| Stock based compensation | -- | -- | 110,000 | -- | 110,000 |
| Stock options exercised | 33,000 | -- | 146,000 | -- | 146,000 |
| Dividend | -- | -- | -- | (5,109,000) | (5,109,000) |
| Net Income | -- | -- | -- | 3,540,000 | 3,540,000 |
| Balance May 31, 2008 | 6,818,000 | \$ 7,000 | \$ 7,823,000 | \$ 6,900,000 | \$ 14,730,000 |

See Notes to Financial Statements.

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HI-SHEAR TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOWS

YEAR ENDED MAY 31,

| | 2008 | 2007 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 3,540,000 | \$ 3,418,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 472,000 | 465,000 |
| Loss on disposition of inventory | 380,000 | 0 |
| Accrued losses on uncompleted contracts | (180,000) | 0 |
| Provision for inventory reserves | 42,000 | 59,000 |
| Deferred income taxes, net | (1,427,000) | (216,000) |
| Stock based compensation | 110,000 | 16,000 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,449,000) | (2,087,000) |
| Inventories | (18,000) | (18,000) |
| Prepaid expenses and other assets | (40,000) | 28,000 |
| Trade accounts payable | (53,000) | (67,000) |
| Accrued liabilities | 3,619,000 | 348,000 |
| Deferred revenue | 998,000 | (36,000) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 5,994,000 | 1,910,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment | (334,000) | (734,000) |
| NET CASH USED IN INVESTING ACTIVITIES | (334,000) | (734,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from stock options exercised | 146,000 | 48,000 |
| Payment of stock dividends | (5,109,000) | (1,695,000) |
| Payment on capital lease obligations | (39,000) | (40,000) |

| | | |
|---|--------------|-------------|
| NET CASH USED IN FINANCING ACTIVITIES | (5,002,000) | (1,687,000) |
| NET INCREASE (DECREASE) IN CASH | 658,000 | (511,000) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 997,000 | 1,508,000 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 1,655,000 | \$ 997,000 |
| | ===== | ===== |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | 16,000 | 10,000 |
| Cash paid for taxes | 3,529,000 | 2,337,000 |
| Non-cash investing and financing activities | | |
| Stock based compensation | 110,000 | 16,000 |

See Notes to Financial Statements.

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</TABLE>

HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS:

Hi-Shear Technology Corporation designs and manufactures power cartridges, separation devices, electronic firing units and other special components used by the worldwide aerospace industry, the military and the National Aeronautics and Space Administration (NASA). The Company's aerospace products are procured under both long and short-term contracts with numerous aerospace contractors, subcontractors and agencies of the United States Government. The Company is dependent on the continuation of the satellite industry and government sponsored military and aerospace programs in order to maintain its revenues.

A SUMMARY OF THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES IS AS FOLLOWS:

USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of both assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made by management are used for, but not limited to, the realization of claims receivable and certain inventories, costs to complete contracts, and the carrying value of long-lived assets. Actual results could differ from those estimates, and such changes could be material.

REVENUE RECOGNITION:

The Company's revenues are derived principally from fixed-price contracts that are accounted for on the percentage-of-completion method. Revenues for those contracts are calculated on the basis of the relationship between costs incurred and total estimated costs to complete the contracts (cost-to-cost type of percentage-of-completion method of accounting). Revenue recognition for contracts that require relatively less time to complete than those contracts accounted for on a percentage-of-completion basis are recognized as deliveries are made.

Provisions for estimated total contract losses on uncompleted contracts are made in the period in which such losses are determined. Amounts representing contract change orders are included in revenues only when the amounts can reliably be

estimated and realization is probable. Changes in estimates of revenues, costs and profits are recognized in the period such changes are made.

The Company submits claims for cost reimbursement related to contract requirement changes not yet incorporated into its contract or other contract costs in negotiation. These claims for reimbursement result from changes to specifications, additional work required to be performed by the Company to satisfy customer requests beyond contract scope, failure of customer designed components, and adjustments to contract pricing due to the customer reducing unit quantities. Claims receivable are recorded to the extent of costs incurred, and when, in management's opinion, it is probable that the claim will be collected in full and the amount of the claim can be reasonably estimated.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE:

Included are amounts billed and currently due from customers under all types of contracts, plus amounts earned but unbilled on long-term contracts accounted for under the cost-to-cost type of percentage-of-completion method of accounting.

The Company evaluates all outstanding billed accounts receivable to assess the potential need for an allowance for doubtful accounts. In that assessment, the Company considers the financial condition of its customers and the legal and contractual bases underlying the accounts receivable.

INVENTORIES:

Inventories are composed of raw materials and component parts, work-in-process, and finished goods available for sale. Raw materials and component parts consists of purchased and manufactured parts that are not allocated to an existing production job and are expected to be utilized in anticipated future customer contracts. Work-in-process consists of costs incurred for non-contract jobs in process for manufacturing components and sub-assemblies that do not relate to existing production contracts, but are built in anticipation of future customer contracts. Finished goods consist of completed manufactured products to fulfill future anticipated customer contracts.

Inventory costs for component parts, work-in-process and finished goods include costs for material, direct labor, sub-contracting for manufacturing processes and testing, and manufacturing and engineering overhead. Selling, general and administrative costs are not included in inventory, and are charged to expense as incurred. In accordance with industry practice, inventories are classified as a current asset, and include items that may be allocated to contracts that will not be completed within twelve months. Inventory is valued at the lower of cost or estimated market value, and is determined on a "first-in, first-out" basis.

EQUIPMENT:

Equipment is recorded at cost. The Company also capitalizes certain material and labor incurred in connection with the construction of assets. Depreciation and amortization are charged against income using the straight-line method over the estimated useful service lives of the related assets. The principal lives used in determining depreciation and amortization rates are as follows: machinery and equipment, 3 to 10 years; autos, 5 years; tooling, 3 years; furniture and fixtures, 5 to 10 years.

LAND:

Investment in land is recorded at the lower of cost or net realizable value.

IMPAIRMENT ON LONG-LIVED ASSETS:

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. Assets deemed impaired are recorded to the lower of carrying value or fair value.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES:

Deferred income taxes are provided using the liability method whereby deferred income tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, Accounting for Income Taxes" ("FIN 48"), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on deregulation, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48 on June 1, 2007. The adoption of FIN 48 did not have a significant effect on the Company's financial position and results of operations for the year ended May 31, 2008. Further, the Company is currently under audit by the Internal Revenue Service. The Company's management has considered the various tax positions subject to examination in accordance with FIN 48, and as a result, the Company's management does not anticipate any material adjustments that may arise as the result of the examination. Accordingly, no adjustments have been made to the accompanying financial statements.

EARNINGS PER SHARE:

Earnings per share (EPS) are computed as net income divided by the weighted-average number of common shares outstanding for the period. EPS assuming dilution reflects the potential dilution that could occur from common shares issuable through stock options. The dilutive effect from outstanding options for fiscal years 2008 and 2007 did not change earnings per share.

The following is a reconciliation of the numerators and denominators used to calculate earnings per common share, as presented in the statements of operations:

<TABLE>
<S> <C>

| | YEAR ENDED MAY 31, | |
|--|--------------------|-------------|
| | 2008 | 2007 |
| EARNINGS PER COMMON SHARE - BASIC: | | |
| Numerator: earnings available for common Stockholder | \$3,540,000 | \$3,418,000 |
| Denominator: weighted average shares - basic | 6,808,000 | 6,778,000 |
| EARNINGS PER COMMON SHARE - BASIC | \$ 0.52 | \$ 0.50 |
| EARNINGS PER COMMON SHARE - DILUTED: | | |
| Numerator: earnings available for common Stockholder | \$3,540,000 | \$3,418,000 |
| Denominator: weighted average shares - diluted | 6,825,000 | 6,812,000 |

| | | | | |
|---|----|-----------|----|-----------|
| EARNINGS PER COMMON SHARE - DILUTED | \$ | 0.52 | \$ | 0.50 |
| CALCULATION OF WEIGHTED AVERAGE COMMON SHARE - DILUTED: | | | | |
| Weighted Average # Common Shares Outstanding During the Period | | 6,808,000 | | 6,778,000 |
| Effect of Dilutive Securities Options | | 17,000 | | 34,000 |
| | | ----- | | ----- |
| Weighted # Common Shares and Dilutive Potential Common Stock used in Diluted EPS | | 6,825,000 | | 6,812,000 |
| | | ===== | | ===== |
| Antidilutive shares not included in above calculation because the option price is less than the weighted average 12-month price | | | | |
| Stock options outstanding | | 0 | | 0 |
| | | ===== | | ===== |

</TABLE>

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

The Company periodically has cash on deposit with its bank that exceeds the insurance limits of the FDIC. The Company has not experienced any losses on such deposits.

STOCK-BASED COMPENSATION:

The Company accounts for stock-based employee and non employee transactions under the requirements of SFAS No. 123R "Share Based Payment" which requires compensation to be recorded based on the fair value of the securities issued or the services received, whichever is more reliably measurable.

The Company uses the Black-Scholes option-pricing model to calculate the fair value of the stock options. The fair value of grants is determined by published market values at the date of grant. The adoption of SFAS 123R resulted in additional stock-based compensation of \$110,000 for the year ended May 31, 2008 and \$16,000 for the year ended May 31, 2007.

NEW ACCOUNTING PRONOUNCEMENTS:

In July, 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, Interpretation 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The Company implemented FIN 48 during fiscal year 2008 with no material effect on the Company's financial position, results of operations or cash flows.

In September, 2006, the FASB issued Statement of Financial Accounting Standard 157 (SFAS 157), Fair Value Measurements. SFAS 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles (GAAP). As a result of SFAS 157, there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard

will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS 157 is effective for fiscal years beginning after November, 15, 2007. The Company's management does not expect a material impact on the Company's financial position, results of operations or cash flows as a result of the adoption of SFAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 is not expected to have a material impact on the Company's financial position, results of operations or cash flow.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In December 2007, the SEC released Staff Accounting Bulletin (SAB) 110. SAB 110 specifies the use of a 'simplified' method as described in SAB 107 in developing an estimate of expected term of "plain vanilla" share options in accordance with Statement of Financial Accounting Standards No. 123(R). As of June, 2006 the Company accounts for stock-based employee and non-employee transactions under SFAS 123 (R) and does not expect the implementation of SAB 110 to have a material impact on the Company's financial position, results of operations or cash flow.

In June 2008, the FASB issued Staff Position EITF 03-6-1. This FASB Staff Position (FSP) addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings Per Share. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years; early application is not permitted. The Company intends to implement EITF 03-6-1 during the quarter ended August 31, 2009. Management does not expect the adoption of this Staff Position to have a material effect on the Company's future financial position, results of operations or cash flow.

NOTE 2. FOURTH QUARTER ADJUSTMENTS

There were no material fourth quarter adjustments.

NOTE 3. MAJOR CUSTOMERS AND SUPPLIER CONCENTRATION

The Company derives a major portion of its revenues directly from sales to certain large companies that have operations associated with satellite, launch vehicle and/or government defense contracts, as well as directly from departments and agencies of the United States Government. Sales to these major customers, which provided revenues during fiscal year 2008 in excess of 10% of total revenues, consist of the following:

| | 2008 | 2007 |
|---|-------|-------|
| | ----- | ----- |
| Lockheed Martin | 39% | 37% |
| United States Government (Including NASA) | 19% | 16% |
| Boeing | 13% | 8% |

At May 31, 2008, billed and unpaid accounts receivable included totals of \$3,237,000, or 40% of total billed and unpaid accounts receivable, due from

Lockheed Martin companies, \$1,648,000, or 20% of total billed and unpaid accounts receivable, due from the U.S. Government entities, and \$588,000 or 7% of total billed and unpaid accounts receivable, due from Boeing, respectively.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4. ACCOUNTS RECEIVABLE

| | |
|---|---------------|
| Billed and unpaid receivables at May 31, 2007 | \$ 4,936,000 |
| Billed receivables for fiscal year 2008 | 29,986,000 |
| | ----- |
| | 34,922,000 |
| Collected receivables for fiscal year 2008 | 26,811,000 |
| | ----- |
| Billed and unpaid receivables at May 31, 2008 | 8,111,000 |
| | ----- |
| Unbilled receivables at May 31, 2008: | |
| Unbilled receivables on contracts in process | 6,506,000 |
| Accrued losses on uncompleted contracts | (180,000) |
| | ----- |
| Unbilled receivables on completed contracts | 37,000 |
| | ----- |
| | 6,363,000 |
| | ----- |
| Total gross accounts receivable at May 31, 2008 | 14,474,000 |
| Allowance for doubtful accounts | 0 |
| | ----- |
| Total net accounts receivable at May 31, 2008 | \$ 14,474,000 |
| | ===== |

Accounts receivable consists of billed and unbilled amounts due from the United States Government, prime and subcontractors under long-term contracts. Billed and unbilled accounts receivables at May 31, 2008 were \$8,111,000 and \$6,363,000, respectively.

The billed accounts receivable balance includes \$58,000 for damages awarded to the Company by the jury of a concluded trial of the Company's lawsuit against the United Space Alliance, LLP for alleged breaches of contracts. The Company has filed a Notice of Appeal of that jury verdict (See Note 13).

The Company submits claims for cost reimbursement related to contract requirement changes not yet incorporated into its contract or other contract costs in negotiation. The Company is currently providing effort on one build-to-print contract for which it has a claim. The claim results from flaws on a customer provided build-to-print design. The Company is also providing effort on an aircraft project for which it has a claim. The claim results from a contract received with an additional option quantity priced; this device is procured on an annual basis from the customer. As of May 31, 2008 the Company had incurred additional costs outside the scope of the original contracts totaling \$130,000. Included in revenue for the year ended May 31, 2008 was \$469,000 and is classified as a current unbilled receivable on the balance sheet. Total customer price modifications are expected to be \$648,000 for these contracts; there is currently no progress billings associated with these claims.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4. ACCOUNTS RECEIVABLE (CONTINUED)

Unbilled receivables include revenues recognized from fixed priced contracts under the percentage-of-completion method, but in advance of completing billable events for which invoices are submitted to customers. The total costs and earnings recognized from inception-to-date on contracts in process at May 31, 2008 are as follows:

| | | |
|--|---------------|-------|
| Total contracts in process | \$ 54,990,000 | ===== |
| Total estimated costs | \$ 22,807,000 | |
| Add estimated earnings | 12,201,000 | ----- |
| Total revenue recognized | 35,008,000 | |
| Less amounts billed | 29,669,000 | ----- |
| | \$ 5,339,000 | ===== |
| Unbilled receivables on contracts in process | \$ 6,543,000 | |
| Deferred revenue on contracts in process | (1,204,000) | ----- |
| | \$ 5,339,000 | ===== |

Because of the large amount of contracts in process at any point in time, changes in estimates to complete can have a significant impact on the profitability of the Company. Management estimates that each 1% change in the total estimated costs to complete the contracts in process at May 31, 2008 would change both the recognized revenue and earnings by approximately \$113,000.

During the fiscal years 2008 and 2007, the Company generated revenues of approximately \$2,785,000 and \$2,073,000, respectively, from sources outside of the United States.

NOTE 5. INVENTORIES

| | | |
|-----------------------------------|--------------|-------|
| Raw materials and component parts | \$ 380,000 | |
| Work-in-process | 918,000 | |
| Finished goods | 573,000 | ----- |
| | 1,871,000 | |
| Less inventory reserves | (526,000) | ----- |
| Total net inventory | \$ 1,345,000 | ===== |

Included in inventories recorded and maintained by the Company are purchased and manufactured component parts and finished goods that relate to previously completed contracts. The Company's management periodically assesses the likelihood that those inventory items will be used in future contracts, since many of the Company's past contracts relate to on-going programs, for which it will be awarded similar contracts. The current method utilized in management's assessment is to evaluate items in the inventories and assess current or future contract requirements which may use inventory parts. A reserve is established based on said analysis. Since the inventory reserve methodology is subjective, and subject to changes in estimates based upon updated information, changes in those estimates can be substantial.

| | |
|--|--------------|
| Machinery and equipment | \$ 5,433,000 |
| Office equipment and furniture | 562,000 |
| Leasehold improvements | 369,000 |
| Production and test tooling | 225,000 |
| Automobiles/delivery vehicle | 187,000 |
| Projects in process | 13,000 |
| | ----- |
| | 6,789,000 |
| Less accumulated depreciation and amortization | (4,786,000) |
| | ----- |
| Total net equipment | \$ 2,003,000 |
| | ===== |

For fiscal year 2008, the Company capitalized costs amounting to \$21,000 that were incurred in the purchase or manufacture of production and test tooling related primarily to new products designed and qualified for production by the Company during fiscal year 2008. Each tool, for which costs are capitalized, is expected to be used repeatedly in the production or test of similar parts for multiple orders over an extended period of time of at least three years. Accordingly, capitalized tooling costs are depreciated on a straight-line basis over three years.

Included in automobiles is \$164,000 in capital leases, which is reduced by accumulated depreciation of \$89,000 at May 31, 2008.

NOTE 7. LAND

The Company owns twelve acres of land located in the Santa Clarita Business Park in Santa Clarita, California, on which it has several buildings that it uses for storage and blending of pyrotechnic powders utilized in many of its manufactured products.

NOTE 8. BANK LINE OF CREDIT AND NOTES PAYABLE

The Company has a business loan agreement with a bank for the purpose of obtaining a revolving line of credit and term loans. Borrowings under this business loan agreement are collateralized by the Company's assets.

At May 31, 2008 and throughout fiscal year 2008, the Company did not have outstanding balances on the revolving line of credit.

The revolving line of credit, under which the Company can borrow up to a maximum limit of \$5,000,000, is set to mature on December 15, 2009. Outstanding balances under the line of credit bear interest based on prime less .25% (4.75% at May 31, 2008) or at the Company's option LIBOR plus 2% (4.9% at May 31, 2008).

The Company also has available a \$1,000,000 equipment letter of credit maturing January 31, 2009, and bearing interest under the same terms as the revolving line of credit. As of May 31, 2008, there was no existing balance on this instrument.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 8. BANK LINE OF CREDIT AND NOTES PAYABLE (CONTINUED)

The business loan agreement contains various financial covenants that have been modified during the fiscal year. On June 4th, 2007, the covenant requiring a quarterly certificate of compliance was removed; in addition, the requirement for the bank to pre-approve a dividend prior to payment was removed. Revised language specifies the Company may make periodic distribution of excess capital in the form of dividend to its shareholders if and only if at the time of such payment, the Company is in compliance with all provisions of the loan document, including (without limitation) all financial covenants, and no default under the

agreement has occurred, is continuing or would result from the making of such payment. In June, 2008 the fixed charge coverage ratio was modified effective February 29, 2008. The modification allows cash dividends to be excluded from the calculation if liquid assets on the day of distribution are at least \$750,000. The covenants including current ratio (at least 2 to 1) and the fixed charge coverage ratio (1.25 to 1) shall exist as covenants under the loan agreement (although quarterly reporting is no longer required). At May 31, 2008, the Company was compliant with all of the financial covenants.

NOTE 9. ACCRUED CURRENT LIABILITIES

As of May 31, 2008, accrued current liabilities consist of the following:

| | |
|-----------------------------------|-------------|
| Accrued vacation | \$1,238,000 |
| Accrued salaries, wages and bonus | 653,000 |
| Deferred compensation | 112,000 |
| Accrued commissions | 239,000 |
| Accrued facilities rent | 61,000 |
| Accrued professional fees | 54,000 |
| Accrued Alliance litigation costs | 3,275,000 |
| Accrued income taxes | 218,000 |
| Miscellaneous | 22,000 |
| | ----- |
| Total accrued current liabilities | \$5,872,000 |
| | ===== |

NOTE 10. DEFERRED REVENUE

Deferred revenue is composed of amounts billed to customers in excess of revenues earned and recognized on the related contracts at the end of a financial period. As the Company continues to perform work on those contracts in process, revenue is earned and "deferred revenue" on the balance sheet is reclassified to earned "revenue" on the statements of operations. Deferred revenue was \$1,204,000 at May 31, 2008.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 11. CAPITAL LEASES

The Company leases vehicles under capital leasing agreements which expire at various dates through July 2011. Future minimum lease payments are as follows:

Year ending May 31,

| | |
|---|-----------|
| 2009 | \$ 43,000 |
| 2010 | 36,000 |
| 2011 | 1,000 |
| | ----- |
| Total minimum lease payments | 80,000 |
| Amounts representing interest | 6,000 |
| | ----- |
| Present value of net minimum lease payments | 74,000 |
| Current maturities | (40,000) |
| | ----- |
| | \$ 34,000 |
| | ===== |

NOTE 12. INCOME TAXES

Deferred income taxes at May 31, 2008 consist of the following:

| | |
|--|--------------|
| Current | |
| Deferred income tax asset: | |
| Accrued vacation | \$ 536,000 |
| Supplemental employee retirement plan | 48,000 |
| Inventory reserves | 225,000 |
| Current year state tax expense | 272,000 |
| Accrued bonus | 161,000 |
| Accrued legal fees and litigation costs | 1,403,000 |
| | ----- |
| Total current deferred income tax asset | 2,645,000 |
| Deferred income tax liability: | |
| Prepaid expenses | (68,000) |
| Deferred state taxes | (147,000) |
| | ----- |
| Total current deferred income tax liability | (215,000) |
| | ----- |
| Net current deferred income tax asset | 2,430,000 |
| Non-current | |
| Deferred income tax liability: | |
| Fixed assets | (315,000) |
| | ----- |
| Total net non-current deferred tax liability | (315,000) |
| Total net deferred income taxes | \$ 2,115,000 |
| | ===== |

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 12. INCOME TAXES (CONTINUED)

Realization of deferred income tax assets is primarily dependent upon generating sufficient taxable income to absorb the tax benefit of the deferred income tax assets. Although realization is not assured, management believes it is more likely than not that the net deferred income tax assets will be realized prior to expiration. That assessment is based upon the Company's expectations for a continuation of profitable operations. The amount of the deferred income tax assets considered realizable, however, could be increased or reduced in the near term if estimates of future taxable income during the carryover periods are increased or reduced, or if certain changes in the ownership structure of the Company occur.

The provision for income taxes consists of the following:

| | 2008 | 2007 |
|--------------------------------|---------------|--------------|
| | ----- | ----- |
| Current tax expense: | | |
| Federal | \$ 2,681,000 | \$ 1,905,000 |
| State | 799,000 | 565,000 |
| | ----- | ----- |
| | \$ 3,480,000 | \$ 2,470,000 |
| | ===== | ===== |
| Deferred tax expense (benefit) | | |
| Federal | \$(1,134,000) | \$ (166,000) |
| State | (300,000) | (49,000) |
| | ----- | ----- |
| | \$(1,434,000) | \$ (215,000) |
| | ===== | ===== |
| Total tax provision | \$ 2,046,000 | \$ 2,255,000 |
| | ===== | ===== |

A reconciliation of actual tax (credit) to the amount computed by applying the

federal statutory income tax rates to income before income taxes is as follows:

| | 2008 | 2007 |
|---|--------------|--------------|
| Federal income tax computed at statutory rate | \$ 1,899,000 | \$ 1,929,000 |
| Permanent differences | (175,000) | 8,000 |
| State taxes, net of federal benefit | 322,000 | 336,000 |
| Other state tax and minimum taxes | 0 | 7,000 |
| Tax Credits | 0 | (25,000) |
| | ----- | ----- |
| | \$ 2,046,000 | \$ 2,255,000 |
| | ===== | ===== |

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities, automobiles and certain equipment under operating lease agreements that expire at various dates through 2013. Rental expense under operating leases for the years ended May 31, 2008 and 2007 was approximately \$656,000 and \$660,000 respectively.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Maximum annual rentals under all non-cancelable operating leases are as follows:

| | |
|------------|-------------|
| 2009 | \$ 629,000 |
| 2010 | 646,000 |
| 2011 | 663,000 |
| 2012 | 681,000 |
| Thereafter | 181,000 |
| | ----- |
| | \$2,800,000 |
| | ===== |

\$2,500,000 of the above lease commitment is for rent of the Company's offices and production facility in Torrance. The lease agreement for the facility extends through August 31, 2012.

Hi-Shear filed suit against United Space Alliance, LLC, a Delaware limited liability company ("Alliance"), and USBI Co., a Delaware corporation ("USBI"), in November 2000 in the Circuit Court of the Eighteenth Judicial Circuit, Brevard County, Florida. Hi-Shear sought to recover damages in excess of \$1,500,000, excluding interest, costs, and attorneys' fees, alleging Alliance and USBI breached contracts for Hi-Shear to manufacture and deliver certain hardware for use on the Space Shuttle. Hi-Shear also sought damages based on claims alleging that Alliance and USBI fraudulently induced Hi-Shear to enter into certain contracts to manufacture and deliver certain hardware for use on the Space Shuttle. In addition, Hi-Shear sought damages for claims that defendants misappropriated Hi-Shear's proprietary information and/or trade secrets in certain technical data and information. Hi-Shear also alleged a claim for a declaratory judgment.

Alliance subsequently filed a counterclaim seeking damages of over \$450,000, excluding interest, costs, and attorneys' fees, alleging Hi-Shear breached its contracts to manufacture and deliver certain hardware for use on the Space Shuttle. Alliance also alleged a claim for conversion and an accounting relating to certain items of alleged government furnished equipment, and a claim for a declaratory judgment. As part of its defense in the litigation, Alliance claimed that it was coerced through duress to enter into a contract with Hi-Shear where Hi-Shear was the qualified successful lowest bidder. In addition, Alliance demanded that Hi-Shear ship uncertified flight hardware to it for use on the United States Space Shuttle, ahead of its normal certification schedule. USBI did not file a counterclaim against the Company.

In July 2004, Hi-Shear filed a separate but related suit against Pacific Scientific Energetic Materials Company, a Delaware corporation, in the Circuit Court of the Eighteenth Judicial Circuit, Brevard County, Florida. Hi-Shear sought to recover damages, alleging that defendant misappropriated Hi-Shear's proprietary information and/or trade secrets in certain technical data and information, conspired to misappropriate trade secrets, and interfered with Hi-Shear's advantageous business relationships. After defendant filed, and the court ruled on a motion to dismiss, and Hi-Shear filed an amended complaint against Pacific Scientific, the court entered an order staying all further proceedings in the case until the appeals from the suit between Hi-Shear and Alliance and USBI are resolved, and the court enters a subsequent order lifting the stay.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Prior to the trial between Hi-Shear, Alliance, and USBI, the court made legal rulings that the Company did not have trade secrets in certain technical data and information, which the Company alleged had been misappropriated by Alliance and USBI. As a result, the court granted in part Alliance's and USBI's motions for summary judgment on that issue. Prior to trial, the court also made legal rulings that USBI did not fraudulently induce Hi-Shear to enter into a contract to manufacture and deliver certain flight hardware for use on the Space Shuttle. As a result, the court granted Alliance's and USBI's motions for summary judgment on that issue.

Trial before a jury of Hi-Shear's remaining claims against Alliance and USBI, and Alliance's counterclaim against Hi-Shear, commenced on July 5, 2005 in Titusville, Florida. Shortly after the trial began, the court made additional legal rulings, which resulted in its granting the remainder of Alliance's and USBI's motions for summary judgment on the trade secrets issues. As a consequence of those rulings and based on other circumstances, Hi-Shear dismissed its remaining claims against USBI. As a result, USBI was no longer a participant in the trial.

The jury trial continued through September 2, 2005. Some of Hi-Shear's claims were disposed of by the court based on legal rulings made during the course of trial. Of the remaining claims that the jury was asked to decide, the jury rendered a verdict in favor of Hi-Shear on one of its breach of contract claims, and awarded the Company damages of \$57,781, exclusive of interest, costs, and attorneys' fees. The jury found in favor of Alliance on Hi-Shear's remaining breach of contract claims and thus awarded Hi-Shear no damages on those claims. The jury also found in favor of Alliance on its counterclaim for breach of contracts but awarded it no damages. In addition, the jury determined that Hi-Shear converted certain government furnished equipment pursuant to Alliance's conversion counterclaim.

In August 2005, the court entered final judgment on Hi-Shear's claims against USBI. After hearing and denying post-trial motions by both Hi-Shear and Alliance, in May 2006 the court entered final judgment on Hi-Shear's and Alliance's respective claims against each other.

In September 2005, Hi-Shear appealed the final judgment entered on its claims against USBI to Florida's Fifth District Court of Appeal. Alliance participated in that appeal as an appellee based on its having joined in the trade secrets and fraudulent inducement summary judgment motions at the trial level. In February 2007, after hearing oral argument, the court of appeal affirmed the trial court's rulings and final judgment in favor of USBI. The appellate court denied motions by Hi-Shear and Alliance to recover attorneys' fees incurred on appeal.

In June 2006, Hi-Shear appealed the final judgment entered on its claims against Alliance, and Alliance's counterclaims against Hi-Shear, to Florida's Fifth District Court of Appeal challenging the legal basis of the lower court's final

judgment including the amounts of the recovery of Hi-Shear's damages on contracts for manufactured components and other claims at trial. The appeal encompasses issues evident throughout the court proceedings, including the legal basis of the trial court's judgments and questionable adverse rulings by the court during the entire course of the trial. Alliance has filed its cross-appeal, parties' briefs on appeal have been filed, and the oral arguments to the appellate court were completed on June 25, 2008. The Florida Fifth District Court of Appeal will issue its decision regarding this appeal in due course. The Company is not able to estimate when the decision will be issued or the ultimate outcome of such decision.

In the final judgments, the trial court retained jurisdiction to consider motions by the parties to recover attorneys' fees and litigation costs. In December 2006, the trial court entered an order denying Hi-Shear's motion for entitlement to recover its attorneys' fees and costs from Alliance, even though Hi-Shear was the only party to have been awarded damages by the jury. In that same order, the court determined that instead,

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Alliance had prevailed on its claims for breach on three of four contracts and thus was entitled to recover from Hi-Shear its reasonable attorneys' fees incurred relating to count I of its counterclaim against Hi-Shear for breach of contracts. The court also ordered that both Alliance and USBI were entitled to recover their respective litigation costs from Hi-Shear. Alliance has claimed the amount of reasonable attorneys' fees it should recover from Hi-Shear is approximately \$2,900,000, and the amount of litigation costs it should recover from Hi-Shear is approximately \$453,000. USBI has claimed the amount of litigation costs it should recover from Hi-Shear is approximately \$48,000. Hi-Shear has opposed these claims, believing that the amounts sought by Alliance and USBI are excessive.

On March 13-14, 2008, the trial court held an evidentiary hearing on the amount of reasonable attorneys' fees to be awarded to Alliance. At the hearing, Hi-Shear offered evidence and expert testimony to establish that Alliance's request for reasonable attorneys' fees and costs are excessive and that they should not have exceeded approximately \$400,000. The trial court also issued an order requiring memoranda of law by the parties on the amount of costs to be awarded to Alliance and USBI.

On July 28, 2008, the trial court sent a letter to Alliance's attorneys asking them to prepare a form of order regarding attorneys' fees. Hi-Shear received a copy of the letter on July 31, 2008. The letter does not specify the final amount of attorneys' fees to be awarded, and it indicates that an additional hearing will be required on specific issues. However, the letter also indicates that the trial court will make favorable rulings for Alliance on several issues, and it appears that the trial court may award to Alliance the preponderance of the attorneys' fees it seeks. On August 7, 2008, the trial court sent an additional letter to Alliance's attorneys addressing taxable costs that Alliance and USBI are entitled to recover.

The final outcome of Hi-Shear's pending appeal and Alliance's pending cross-appeal may have an effect on an award of attorneys' fees and costs to Alliance. Although Hi-Shear believes that it will prevail on its appeal and that the trial court's order that it pay Alliance's and USBI's attorneys' fees and costs will be reversed, Hi-Shear believes that it is appropriate under generally accepted accounting principles to accrue an estimate of the fees and costs described in the court's letters. Although Hi-Shear is unable to determine the precise amount of attorney fees that will be awarded at this time, it believes that it is appropriate under generally accepted accounting principles to accrue approximately \$3,275,000 associated with the litigation for its year ended May 31, 2008. This accrual does not include possible costs for prejudgment interest which may be assessed at the statutory rate dating from December, 2006.

In addition, the Company is subject to other claims and legal actions that may arise in the ordinary course of business. In the opinion of the Company, after consultation with counsel, the ultimate liability, if any, with respect to these other claims and legal actions, will not have a material effect on the financial position or on the results of operations.

NOTE 14. STOCKHOLDERS' EQUITY

The Company had a non-statutory stock option plan, which was in effect from December 23, 1993 through its termination date of December 23, 2003. Under the plan, options to purchase common stock, with a maximum term of 10 years, were granted and vested as determined by the Company's Stock Option Committee. Options for up to 500,000 shares could be granted to employees or directors. Termination of the stock option plan did not nullify stock options previously granted, but not exercised. Those options continue to be exercisable through their expiration dates, which occur ten years after their grant dates.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 14. STOCKHOLDERS' EQUITY (CONTINUED)

On July 31, 2006 the Company's Board of Directors approved the 2006 Stock Award Plan, which was subsequently accepted by Company's shareholders for adoption at the October 16, 2006 annual shareholders' meeting. Under the plan, options to purchase common stock, with a maximum term of 10 years, are granted and vested as determined by the Company's Stock Option Committee. Grants and/or options for up to 500,000 shares could be issued to employees or directors.

Stock options are valid for ten years and have various vesting schedules. Current options have 2 year, 3 year and 4 year vesting schedules. There were 35,500 options granted during fiscal year 2008.

Stock grants have various vesting schedules. Current grants vest 50% each six months following the date of grant. There were 9,750 grants issued during fiscal year 2008. The fair value of grants is determined by published market values at the date of grant.

The fair value of each option is estimated at the issue date using the Black-Scholes option-pricing model. The Black-Scholes option pricing model requires the use of certain assumptions, including fair value, expected terms, expected volatility, expected dividends, risk-free interest rate and expected forfeiture rate to calculate the fair value of stock-based payment awards. The assumptions used in calculating the fair value of stock option awards involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the computed fair value and resulting stock-based compensation expense could be different in the future. Furthermore, the Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If the actual forfeiture rate is materially different from the estimate, the stock based compensation expense could be different from what is recorded in the current period. The fair value of the options granted in 2008 was calculated by using the following weighted-average assumptions: dividend rates of 2.47% and 3.1%; price volatility of 68.93% and 86.5%; risk-free interest rates of 4.21% and 3.28%; and expected life of five years. The fair value of options granted in 2007 was calculated using the following weighted-average assumptions: dividend rate of 4.7%; price volatility of 81.55%; risk-free interest rate of 4.96%; and expected life of six years.

The Company does not have information available which is indicative of future exercise and post-vesting behavior to estimate the expected term. The Company adopted the simplified method of estimating the expected term of a stock option, as permitted by SAB 107. Under this method, the expected term is presumed to be the mid-point between the vesting date and the contractual end of the term.

The expected volatility is derived from historical volatility of the Company's common stock.

The dividend rate is based on the Company's historic dividend rate.

The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with a remaining term approximately equal to the expected life of the Company's stock options.

As the Company has little to no history of actual forfeitures, nor any indication of pending forfeitures, the pre-vesting forfeiture rate is estimated to be zero.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 14. STOCKHOLDERS' EQUITY (CONTINUED)

A summary of the status of the option plan and changes during fiscal years 2008 and 2007 is as follows:

| Fixed Options | 2008 | | 2007 | |
|----------------------------------|----------|---------------------------------|----------|---------------------------------|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 52,834 | \$ 4.20 | 71,500 | \$ 4.32 |
| Granted | 35,500 | 9.75 | 2,000 | 10.94 |
| Exercised | (32,584) | 4.48 | (10,500) | 5.67 |
| Forfeited | (5,281) | 6.75 | (10,166) | 5.95 |
| Outstanding at end of year | 50,469 | 7.66 | 52,834 | 4.20 |
| Exercisable at end of year | 14,969 | 2.69 | 43,584 | 4.14 |

A summary of the status of the grant plan and changes during fiscal year 2008 is as follows:

| Fixed Grants | 2008 |
|----------------------------------|--------|
| | Shares |
| Outstanding at beginning of year | 0 |
| Granted | 9,750 |
| Exercised | 0 |
| Forfeited | 0 |
| Outstanding at end of year | 9,750 |

At the end of fiscal year 2007, there were 498,000 shares available for issue. Including stock option and stock grant activity for the current year, there were 447,719 shares available for issue at the end of fiscal year 2008.

As a result of adopting SFAS 123(R), the Company recorded stock-based compensation of \$110,000 during the year ended May 31, 2008. Stock based compensation of \$56,000 was recorded for the 35,500 options issued during fiscal year 2008; stock based compensation of \$54,000 was recorded for the 9,750 grants issued during fiscal year 2008. The Company elected to recognize stock-based

compensation expense on a straight-line basis over the requisite service period for the entire award.

As of May 31, 2008, total unrecognized compensation costs related to stock options of \$157,000 is expected to be recognized over a weighted-average period of 3 years. As of May 31, 2008, total unrecognized compensation costs related to stock grants of \$54,000 is expected to be recognized over a weighted-average period of 6 months.

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 14. STOCKHOLDERS' EQUITY (CONTINUED)

Information relating to stock options at May 31, 2008 summarized by exercised price is as follows:

<TABLE>
<S> <C>

| Options Outstanding | | | | | Options Exercisable | | |
|-------------------------|--------------------|---|---------------------------------|---------------------------|---------------------|---------------------------------|---------------------------|
| Range of Exercise Price | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Aggregate Intrinsic Value | Number Exercisable | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
| \$2.64 - \$6.99 | 14,969 | 5.6 years | \$ 2.69 | \$ 17,168 | 14,969 | \$ 2.69 | \$ 17,168 |
| \$7.00 - \$9.99 | 33,500 | 9.5 years | 9.71 | 186,092 | 0 | 0 | 0 |
| \$10.00 - \$12.00 | 2,000 | 9.0 years | 10.49 | 12,253 | 0 | 0 | 0 |
| | 50,469 | | \$ 7.66 | \$ 215,513 | 14,969 | \$ 2.69 | \$ 17,168 |

</TABLE>

Information relating to stock grants at May 31, 2008 summarized by exercised price is as follows:

| Grants Outstanding | | |
|--------------------|---|---------------------------|
| Number Outstanding | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
| 9,750 | 0.5 years | \$ 107,506 |
| 9,750 | | \$ 107,506 |

Information related to non-vested stock options at May 31, 2008 is as follows:

| | Number of Shares | Weighted Average Issue Date Fair Value Per Share |
|------------------------------------|------------------|--|
| Non-Vested Options at May 31, 2007 | 5,625 | \$ 2.69 |
| Issued | 35,500 | 9.75 |
| Vested | 4,750 | 2.68 |
| Forfeited | 875 | 10.94 |

Non-Vested Options at May 31, 2008

35,500

\$

9.75

=====

=====

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HI-SHEAR TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 14. STOCKHOLDERS' EQUITY (CONTINUED)

Information relating to non-vested stock grants at May 31, 2008 is as follows:

| | Number of Shares | Weighted Average Issue Date Fair Value Per Share |
|-----------------------------------|---------------------|--|
| | ----- | ----- |
| Non-Vested Grants at May 31, 2007 | 0 | \$ 0.00 |
| Issued | 9,750 | 11.76 |
| Vested | 4,875 | 11.76 |
| Forfeited | 0 | 0.00 |
| | ----- | ----- |
| Non-Vested Grants at May 31, 2008 | 4,875 | \$ 11.76 |
| | ===== | ===== |

NOTE 15. RELATED PARTIES

A director of the Company performs consulting services for the Company under a two-year contract that expires February 28, 2009. The Company incurred \$254,000 and \$229,000 of consulting fees for the years ended May 31, 2008 and 2007, respectively.

NOTE 16. 401(k) RETIREMENT PLAN

The Company has a 401(k) Retirement Savings Plan (the "401(k) Plan") that covers substantially all employees. Employees may elect to contribute a percentage of compensation to the maximum deferred amount allowed by tax laws. The Company may make a matching contribution to the 401(k) Plan and/or a profit sharing contribution which is allocated to all eligible participants, whether they made deferral contributions or not. Contributions are made solely at the discretion of the Company's Board of Directors. The Company did not make a matching contribution or a profit sharing contribution to the 401(k) Plan for the fiscal years ended May 31, 2008 and 2007.

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For Bank Use Only

Reviewed by

Due DECEMBER 15, 2009

Customer# 1105510939

Loan # 182

REVOLVING CREDIT NOTE

\$ 5,000,000.00

JANUARY 29, 2008

FOR VALUE RECEIVED, the undersigned borrower (the "Borrower"), promises to pay to the order of U. S. BANK N. A. (the "Bank"), the principal sum of FIVE MILLION AND NO/100 Dollars (\$5,000,000.00), payable DECEMBER 15, 2009 (the "Maturity Date").

Interest.

The unpaid principal balance will bear interest at an annual rate described in the Interest Rate Rider attached to this Note.

Payment Schedule.

Interest is payable beginning FEBRUARY 1, 2008, and on the same date of each consecutive month thereafter (except that if a given month does not have such a date, the last day of such month), plus a final interest payment with the final payment of principal.

Interest will be computed for the actual number of days principal is unpaid, using a daily factor obtained by dividing the stated interest rate by 360.

Notwithstanding any provision of this Note to the contrary, upon any default or at any time during the continuation thereof (including failure to pay upon maturity), the Bank may, at its option and subject to applicable law, increase the interest rate on this Note to a rate of 5% per annum plus the interest rate otherwise payable hereunder. Notwithstanding the foregoing and subject to applicable law, upon the occurrence of a default by the Borrower or any guarantor involving bankruptcy, insolvency, receivership proceedings or an assignment for the benefit of creditors, the interest rate on this Note shall automatically increase to a rate of

5% per annum plus the rate otherwise payable hereunder.

In no event will the interest rate hereunder exceed that permitted by applicable law. If any interest or other charge is finally determined by a court of competent jurisdiction to exceed the maximum amount permitted by law, the interest or charge shall be reduced to the maximum permitted by law, and the Bank may credit any excess amount previously collected against the balance due or refund the amount to the Borrower.

Subject to applicable law, if any payment is not made on or before its due date, the Bank may collect a delinquency charge of 5.00% of the unpaid amount. Collection of the late payment fee shall not be deemed to be a waiver of the Bank's right to declare a default hereunder.

Without affecting the liability of any Borrower, endorser, surety or guarantor, the Bank may, without notice, renew or extend the time for payment, accept partial payments, release or impair any collateral security for the payment of this Note, or agree not to sue any party liable on it.

This Revolving Credit Note constitutes the Note issued under a Revolving Credit Agreement dated as of the date hereof between the Borrower and the Bank, to which Agreement reference is hereby made for a statement of the terms and conditions under which loans evidenced hereby were or may be made and a description of the terms and conditions upon which the maturity of this Note may be accelerated, and for a description of the collateral securing this Note.

This Note is a "transferable record" as defined in applicable law relating to electronic transactions. Therefore, the holder of this Note may, on behalf of Borrower, create a microfilm or optical disk or other electronic image of this Note that is an authoritative copy as defined in such law. The holder of this Note may store the authoritative copy of such Note in its electronic form and then destroy the paper original as part of the holder's normal business practices. The holder, on its own behalf, may control and transfer such authoritative copy as permitted by such law.

All documents attached hereto, including any appendices, schedules, riders, and exhibits to this Revolving Credit Note, are hereby expressly incorporated by reference.

The Borrower hereby acknowledges the receipt of a copy of this Note.

(Individual Borrower)

Hi-Shear Technology Corporation

Borrower Name Organization

a Delaware Corporation

Borrower Name N/A

By /s/ George W. Trahan
Name and Title George W. Trahan
President and CEO

Borrower Name N/A

By /s/ Jan L. Hauhe
Name and Title Jan L. Hauhe CFO

INTEREST RATE RIDER

This Rider is made part of the Revolving Credit Note (the "Note") in the original amount of \$5,000,000.00 by the undersigned borrower (the "Borrower") in favor of U.S. BANK N. A., (the "Bank") as of the date identified below. The following interest rate description is hereby added to the Note:

Interest Rate Options. Interest on each advance hereunder shall accrue at one of the following per annum rates selected by the Borrower ("n/a" indicates rate option is not available, but Prime Rate Loan option must always be selected) (i) upon notice to the Bank, -0.250 % plus the prime rate announced by the Bank from time to time, as and when such rate changes (a "Prime Rate Loan"); (ii) upon a minimum of two New York Banking Days prior notice, 2.000 % plus the 1, 2, 3, 6 or 12 month LIBOR rate quoted by the Bank from Reuters Screen LIBOR01 Page or any successor thereto (which shall be the LIBOR rate in effect two New York Banking Days prior to commencement of the advance), adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation (a "LIBOR Rate Loan"); or (iii) upon notice to the Bank,

n/a % plus the rate, determined solely by the Bank, at which the Bank would be able to borrow funds of comparable amounts in the Money Markets for a 1, 2, 3, 6 or 12 month period, adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation (a "Money Market Rate Loan"). The term "New York Banking Day" means any day (other than a Saturday or Sunday) on which commercial banks are open for business in New York, New York. The term "Money Markets" refers to one or more wholesale funding markets available to the Bank, including negotiable certificates of deposit, commercial paper, eurodollar deposits, bank notes, federal funds, interest rate swaps or others. No LIBOR Rate Loan or Money Market Rate Loan may extend beyond the maturity of this Note. In any event, if the Loan Period for a LIBOR Rate Loan or Money Market Rate Loan should happen to extend beyond the maturity of this Note, such loan must be prepaid at the time this Note matures. If a LIBOR Rate Loan or Money Market Rate Loan is prepaid prior to the end of the Loan Period for such loan, whether voluntarily or because prepayment is required due to the Note maturing or due to acceleration of this Note upon default or otherwise, the Borrower agrees to pay all of the Bank's costs, expenses and Interest Differential (as determined by the Bank) incurred as a result of such prepayment. The term "Loan Period" means the period commencing on the advance date of the applicable LIBOR Rate Loan or Money Market Rate Loan and ending on the numerically corresponding day 1, 2, 3, 6 or 12 months thereafter matching the interest rate term selected by the Borrower; provided, however, (a) if any Loan Period would otherwise end on a day which is not a New York Banking Day, then the Loan Period shall end on the next succeeding New York Banking Day unless the next succeeding New York Banking Day falls in another calendar month, in which case the Loan Period shall end on the immediately preceding New York Banking Day; or (b) if any Loan Period begins on the last New York Banking Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of the Loan Period), then the Loan Period shall end on the last New York Banking Day of the calendar month at the end of such Loan Period. The term "Interest Differential" shall mean that sum equal to the greater of zero or the financial loss incurred by the Bank resulting from prepayment, calculated as the difference between the amount of interest the Bank would have earned (from like investments in the Money Markets as of the first day of the LIBOR Rate Loan or Money Market Rate Loan) had prepayment not occurred and the interest the Bank will actually earn (from like investments in the Money Markets as of the date of prepayment) as a result of the redeployment of funds from the prepayment. Because of the short-term nature of this facility, the Borrower agrees that the Interest Differential shall not be discounted to its present value. Any prepayment of a LIBOR Rate Loan or Money Market Rate Loan shall be in an amount equal to the remaining entire principal balance of such loan.

In the event the Borrower does not timely select another interest

rate option at least two New York Banking Days before the end of the Loan Period for a LIBOR Rate Loan or Money Market Rate Loan, the Bank may at any time after the end of the Loan Period convert the LIBOR Rate Loan or Money Market Rate Loan to a Prime Rate Loan, but until such conversion, the funds advanced under the LIBOR Rate Loan or Money Market Rate Loan shall continue to accrue interest at the same rate as the interest rate in effect for such LIBOR Rate Loan or Money Market Rate Loan prior to the end of the Loan Period.

The Bank's internal records of applicable interest rates shall be determinative in the absence of manifest error. Each LIBOR Rate Loan and each Money Market Rate Loan shall be in a minimum principal amount of \$100,000.

Dated as of: January 29, 2008

(Individual Borrower)

Hi-Shear Technology Corporation

Borrower Name Organization

a Delaware Corporation

Borrower Name N/A

By /s/ George W. Trahan
Name and Title George W. Trahan
President and CEO

Borrower Name N/A

By /s/ Jan L. Hauhe
Name and Title Jan L. Hauhe CFO

REVOLVING CREDIT AGREEMENT

This Revolving Credit Agreement (the "Agreement") is made and entered into by and between the undersigned borrower (the "Borrower") and the undersigned bank (the "Bank") as of the date set forth on the last page of this Agreement.

ARTICLE I. LOANS

1.1 REVOLVING CREDIT LOANS. From time to time prior to December 15, 2009 (the "Maturity Date") or the earlier termination hereof, the Borrower may borrow from the Bank for working capital purposes up to the aggregate principal amount outstanding at any one time of the lesser of (i) \$5,000,000.00 (the "Loan Amount"), less letters of credit issued by the Bank, or (ii) if applicable, the Borrowing Base (defined below). All revolving loans hereunder will be evidenced by a single promissory note of the Borrower payable to the order of the Bank in

the principal amount of the Loan Amount (the "Note"). Although the Note will be expressed to be payable in the full Loan Amount, the Borrower will be obligated to pay only the amounts actually disbursed hereunder, together with accrued interest on the outstanding balance at the rates and on the dates specified therein and such other charges provided for herein. In the event that the principal amount outstanding under the Note exceeds the Borrowing Base at any time, the Borrower will immediately, without request, prepay an amount sufficient to eliminate such excess.

1.2 BORROWING BASE. The Borrowing Base, if any, will be as set forth in an addendum to this Agreement.

1.3. ADVANCES AFTER MATURITY OR IN EXCESS OF MAXIMUM LOAN AMOUNT. The Bank shall have no obligation whatsoever, and the Bank has no present intention, to make any advance after the Maturity Date or which would cause the principal amount outstanding under this Agreement to exceed the maximum loan amount or any other limitations on advances stated in this Agreement. Notwithstanding the foregoing, the Bank may from time to time, in its sole and absolute discretion, agree to make an advance after the Maturity Date or which would cause the principal amount of advances outstanding under this Agreement to exceed the maximum loan amount or any of the other limitations on advances. The Borrower is and shall be and remain unconditionally liable to the Bank for the amount of all advances including, without limitation, advances in excess of the maximum loan amount or any other limitation on advances and advances made after the Maturity Date. Immediately upon the Bank's demand, the Borrower shall pay to the Bank the amount of any advances made after the maturity date or in excess of the maximum loan amount or any other limitation on advances contained in this Agreement, together with interest on the principal amount of such excess advances, for so long as such advances are outstanding, at the highest interest rate from time to time in effect for such advances. Any such advances shall not be deemed an extension of this Agreement nor an increase in the maximum loan amount available for borrowing under this Agreement.

1.4 ADVANCES AND PAYING PROCEDURE. The Bank is authorized and directed to credit any of the Borrower's accounts with the Bank (or to the account the Borrower designates in writing) for all loans made hereunder, and the Bank is authorized to debit such account or any other account of the Borrower with the Bank for the amount of any principal, interest or expenses due under the Note or other amount due hereunder on the due date with respect thereto. If, upon any request by the Borrower to the Bank to issue a wire transfer, there is an inconsistency between the name of the recipient of the wire and its identification number as specified by the Borrower, the Bank may, without liability, transmit the payment via wire based solely upon the identification number.

1.5 CLOSING FEE. The Borrower will pay the Bank a one-time closing fee of \$ n/a contemporaneously with execution of this Agreement. This fee is in addition to all other fees, expenses and other amounts due hereunder.

1.6 LOAN FACILITY FEE. The Borrower will pay a loan facility fee equal to:

_____ \$ n/a per annum, payable annual in advance; (or)

_____ n/a % per annum of the Loan Amount, payable annually or in advance; (or)

_____ n/a % per annum of the difference between the Loan Amount and the actual daily unpaid principal amount of the Note outstanding from time to time, payable quarterly, in arrears, on the last business day of each third calendar month, and at maturity; (or)

_____ n/a % per annum of the actual daily unpaid principal amount of the Note outstanding from time to time, payable quarterly, in arrears, on the last business day of each third calendar month, and at maturity.

The loan facility fee is payable for the entire period that this Agreement is in effect, regardless of whether any amounts are outstanding hereunder at any given time.

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1.7 EXPENSES AND ATTORNEYS' FEES. Upon demand, the Borrower will immediately reimburse the Bank and any participant in the Obligations (defined below) ("Participant") for all attorneys' fees and all other costs, fees and out-of-pocket disbursements incurred by the Bank or any Participant in connection with the preparation, execution, delivery, administration, defense and enforcement of this Agreement or any of the other Loan Documents (defined below), including attorneys' fees and all other costs and fees (a) incurred before or after commencement of litigation or at trial, on appeal or in any other proceeding, (b) incurred in any bankruptcy proceeding and (c) related to any waivers or amendments with respect thereto (examples of costs and fees include but are not limited to fees and costs for: filing, perfecting or confirming the priority of the Bank's lien, title searches or insurance, appraisals, environmental audits and other reviews related to the Borrower, any collateral or the loans, if requested by the Bank). The Borrower will also reimburse the Bank and any Participant for all costs of collection, including all attorneys' fees, before and after judgment, and the costs of preservation and/or liquidation of any collateral.

1.8. COMPENSATING BALANCES. The Borrower will maintain on deposit with the Bank in non-interest bearing accounts average daily collected balances, in excess of that required to support account activity and other credit facilities extended to the Borrower by the Bank, an amount at least equal to the sum of (i) \$ n/a and (ii) n/a % of the Loan Amount as computed on a monthly basis. If the Borrower fails to keep and maintain such balances, it will pay a deficiency fee, payable within five days after receipt of a statement therefor calculated on the amount by which the Borrower's average daily balances are less than the requirements set forth above, computed at a rate equal to the rate set forth in the Note.

1.9 CONDITIONS TO BORROWING. The Bank will not be obligated to make (or continue to make) advances hereunder unless (i) the Bank has received executed originals of the Note and all other documents or agreements applicable to the loans

described herein, including but not limited to the documents specified in Article III (collectively with this Agreement the "Loan Documents"), in form and content satisfactory to the Bank; (ii) if the loan is secured, the Bank has received confirmation satisfactory to it that the Bank has a properly perfected security interest, mortgage or lien, with the proper priority, (iii) the Bank has received certified copies of the Borrower's governance documents and certification of entity status satisfactory to the Bank and all other relevant documents; (iv) the Bank has received a certified copy of a resolution or authorization in form and content satisfactory to the Bank authorizing the loan and all acts contemplated by this Agreement and all related documents, and confirmation of proper authorization of all guaranties and other acts of third parties contemplated hereunder; (v) if required by the Bank, the Bank has been provided with Opinion of the Borrower's counsel in form and content satisfactory to the Bank confirming the matters outlined in Section 2.2 and such other matters as the Bank requests; (vi) no default exists under this Agreement or under any other Loan Documents, or under any other agreements by and between the Borrower and the Bank; and (vii) all proceedings taken in connection with the transactions contemplated by this Agreement (including any required environmental assessments), and all instruments, authorizations and other documents applicable thereto, are satisfactory to the Bank and its counsel.

ARTICLE II. WARRANTIES AND COVENANTS

While any part of the credit granted to the Borrower under this Agreement or the other Loan Documents is available or any obligations under any of the Loan Documents are unpaid or outstanding, the Borrower continuously warrants and agrees as follows:

2.1 ACCURACY OF INFORMATION. All information, certificates or statements given to the Bank pursuant to this Agreement and the other Loan Documents will be true and complete when given.

2.2 ORGANIZATION AND AUTHORITY; LITIGATION. This Agreement and the other Loan Documents are the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their terms. The execution, delivery and performance of this Agreement and all other Loan Documents to which the Borrower is a party (i) are within the borrower's power; (ii) have been duly authorized by all appropriate entity action; (iii) do not require the approval of any governmental agency; and, (iv) will not violate any law, agreement or restriction by which the Borrower is bound. If the Borrower is not an individual, the Borrower is validly existing and in good standing under the laws of its state of organization, has all requisite power and authority and possesses all licenses necessary to conduct its business and own its properties. There is no litigation or administrative proceeding threatened or pending against the Borrower which would, if adversely determined, have a material adverse effect on the Borrowers financial condition or its property.

2.3 EXISTENCE; BUSINESS ACTIVITIES; ASSETS; CHANGE OF CONTROL. The Borrower will (i) preserve its existence, rights and franchises; (ii) not make any material change in the nature or manner of its business activities; (iii) not liquidate, dissolve, acquire another entity or merge or consolidate with or into another

entity or change its form of organization; (iv) not amend its organizational documents in any manner that may conflict with any term or condition of the Loan Documents; and (v) not sell, lease, transfer or otherwise dispose of all or substantially all of its assets. Other than the transfer to a trust beneficially controlled by the transferor, no event shall occur which causes or results in a transfer of majority ownership of the Borrower while any Obligations are outstanding or while the Bank has any obligation to provide funding to the Borrower.

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2.4 USE OF PROCEEDS; MARGIN STOCK; SPECULATION. Advances by the Bank hereunder will be used exclusively by the Borrower for working capital and other regular and valid purposes. The Borrower will not, without the prior written consent of the Bank, redeem, purchase, or retire any of the capital stock or declare or pay any dividends, or make any other payments or distributions of a similar type or nature including withdrawal distributions. The Borrower will not use any of the loan proceeds to purchase or carry "margin" stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System). No part of any of the proceeds will be used for speculative investment purposes, including, without limitation, speculating or hedging in the commodities and/or futures market.

2.5 ENVIRONMENTAL MATTERS. Except as disclosed in a written schedule attached to this Agreement (if no schedule is attached, there are no exceptions), there exists no uncorrected violation by the Borrower of any federal, state or local laws (including statutes, regulations, ordinances or other governmental restrictions and requirements) relating to the discharge of air pollutants, water pollutants or process waste water or otherwise relating to the environment or Hazardous Substances as hereinafter defined, whether such laws currently exist or are enacted in the future (collectively "Environmental Laws"). The term "HAZARDOUS SUBSTANCES" will mean any hazardous or toxic wastes, chemicals or other substances, the generation, possession or existence of which is prohibited or governed by any Environmental Laws. The Borrower is not subject to any judgment, decree, order or citation, or a party to (or threatened with) any litigation or administrative proceeding, which asserts that the Borrower (i) has violated any Environmental Laws; (ii) is required to clean up, remove or take remedial or other action with respect to any Hazardous Substances (collectively "Remedial Action"); or (iii) is required to pay all or a portion of the cost of any Remedial Action, as a potentially responsible party. Except as disclosed on the Borrower's environmental questionnaire provided to the Bank, there are not now, nor to the Borrower's knowledge after reasonable investigation have there ever been, any Hazardous Substances (or tanks or other facilities for the storage of Hazardous Substances) stored, deposited, recycled or disposed of on, under or at any real estate owned or occupied by the Borrower during the periods that the Borrower owned or occupied such real estate, which if present on the real estate or in soils or ground water, could require Remedial Action. To the Borrower's knowledge, there are no proposed or pending changes in Environmental Laws which would adversely affect the Borrower or its business, and there are no conditions existing currently or likely to exist while the Loan Documents are in

effect which would subject the Borrower to Remedial Action or other liability. The Borrower currently complies with and will continue to timely comply with all applicable Environmental Laws; and will provide the Bank, immediately upon receipt, copies of any correspondence, notice, complaint, order or other document from any source asserting or alleging any circumstance or condition which requires or may require a financial contribution by the Borrower or Remedial Action or other response by or on the part of the Borrower under Environmental Laws, or which seeks damages or civil, criminal or punitive penalties from the Borrower for an alleged violation of Environmental Laws.

2.6 COMPLIANCE WITH LAWS. The Borrower has complied with all laws applicable to its business and its properties, and has all permits, licenses and approvals required by such laws, copies of which have been provided to the Bank.

2.7 RESTRICTION ON INDEBTEDNESS. The Borrower will not create, incur, assume or have outstanding any indebtedness for borrowed money (including capitalized leases) except (i) any indebtedness owing to the Bank and its affiliates, and (ii) any other indebtedness outstanding on the date hereof, and shown on the Borrower's financial statements delivered to the Bank prior to the date hereof, provided that such other indebtedness will not be increased.

2.8 RESTRICTION ON LIENS. The Borrower will not create, incur, assume or permit to exist any mortgage, pledge, encumbrance or other lien or levy upon or security interest in any of the Borrower's property now owned or hereafter acquired, except (i) taxes and assessments which are either not delinquent or which are being contested in good faith with adequate reserves provided; (ii) easements, restrictions and minor title irregularities which do not, as a practical matter, have an adverse effect upon the ownership and use of the affected property; (iii) liens in favor of the Bank and its affiliates; and (iv) other liens disclosed in writing to the Bank prior to the date hereof.

2.9 RESTRICTION ON CONTINGENT LIABILITIES. The Borrower will not guarantee or become a surety or, otherwise contingently liable for any obligations of others, except pursuant to the deposit and collection of checks and similar matters in the ordinary course of business.

2.10 INSURANCE. The Borrower will maintain insurance to such extent, covering such risks and with such insurers as is usual and customary for businesses operating similar properties, and as is satisfactory to the Bank, including insurance for fire and other risks insured against by extended coverage, public liability insurance and workers' compensation insurance; and will designate the Bank as loss payee with a "Lender's Loss Payable" endorsement on any casualty policies and take such other action as the Bank may reasonably request to ensure that the Bank will receive (subject to no other interests) the insurance proceeds on the Bank's collateral.

2.11 TAXES AND OTHER LIABILITIES. The Borrower will pay and discharge, when due,

all of its taxes, assessments and other liabilities, except when the payment thereof is being contested in good faith by appropriate procedures which will avoid foreclosure of liens securing such items, and with adequate reserves provided therefor.

2.12 FINANCIAL STATEMENTS AND REPORTING. The financial statements and other information previously provided to the Bank or provided to the Bank in the future are or will be complete and accurate and prepared in accordance with generally accepted accounting principles. There has been no material adverse change in the Borrower's financial condition since such information was provided to the Bank. The Borrower will (i) maintain accounting records in accordance with generally recognized and accepted principles of accounting consistently applied throughout the accounting periods involved; (ii) provide the Bank with such information concerning its business affairs and financial condition (including insurance coverage) as the Bank may request; and (iii) without request, provide the Bank with such specific financial statements, certifications and/or information as may be set forth in an addendum to this Agreement.

2.13 INSPECTION OF PROPERTIES AND RECORDS; FISCAL YEAR. The Borrower will permit representatives of the Bank to visit and inspect any of the properties and examine any of the books and records of the Borrower at any reasonable time and as often as the Bank may reasonably desire. The Borrower will not change its fiscal year.

2.14 FINANCIAL STATUS. Financial Covenants, if any, will be as set forth in an addendum to this Agreement.

2.15 PAID-IN-FULL. ___ If checked here, all revolving loans under this Agreement and the Note must be paid in full for a period of at least n/a consecutive days during each fiscal year.

ARTICLE III. COLLATERAL AND GUARANTIES

3.1 COLLATERAL. This Agreement and the Note are secured by any and all security interests, pledges, mortgages/deeds of trust or (except any mortgage/deed of trust expressly limited by its terms to a specific obligation of Borrower to Bank) or liens now or hereafter in existence granted to the Bank to secure indebtedness of the Borrower to the Bank, including without limitation as described in the following documents:

- Real Estate Mortgage(s)/Deed(s) of Trust dated covering real estate located at
- Security Agreement(s) dated 12/31/01
- Collateral Pledge Agreement(s) dated
- Other

3.2 GUARANTIES. This Agreement and the Note are guarantied by each and every guaranty now or hereafter inexistence guarantying the indebtedness of the Borrower to the Bank (except for any guaranty expressly limited by its terms to a specific separate obligation of Borrower to the Bank) including, without limitation, the following:

3.3 CREDIT BALANCES; SETOFF. As additional security for the payment of the obligations described in the Loan Documents and any other obligations of the Borrower to the Bank of any nature whatsoever (collectively the "Obligations"), the Borrower hereby grants to the Bank a security interest in, a lien on and an express contractual right to set off against all depository account balances, cash and any other property of the Borrower now or hereafter in the possession of the Bank and the right to refuse to allow withdrawals from any account (collectively "Setoff"). The Bank may, at any time upon the occurrence of a default hereunder (notwithstanding any notice requirements or grace/cure periods under this or other agreements between the Borrower, and the Bank) Setoff against the Obligations whether or not the Obligations (including future installments) are then due or have been accelerated, all without any advance or contemporaneous notice or demand of any kind to the Borrower, such notice and demand being expressly waived.

The omission of any reference to an agreement in Sections 3.1 and 3.2 will not affect the validity or enforceability thereof. The rights and remedies of the Bank outlined in this Agreement and the documents identified above are intended to be cumulative.

ARTICLE IV. DEFAULTS

4.1 DEFAULTS. Notwithstanding any cure periods described below, the Borrower will immediately notify the Bank in writing when the Borrower obtains knowledge of the occurrence of any default specified below. Regardless of whether the Borrower has given the required notice, the occurrence of one or more of the following will constitute a default:

(a) NONPAYMENT. The Borrower shall fail to pay (i) any interest due on the Note or any fees, charges, costs or expenses under the Loan Documents by 5 days after the same becomes due; or (ii) any principal amount of the Note when due.

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(b) NONPERFORMANCE. The Borrower or any guarantor of Borrowers Obligations to the Bank ("Guarantor") shall fail to perform or observe any agreement, term, provision, condition, or covenant (other than a default occurring under (a), (c), (d), (e), (f) or (g) of this Section 4.1) required to be performed or observed by the Borrower or any Guarantor hereunder or under any other Loan Document or other agreement with or in favor of the Bank.

(c) MISREPRESENTATION. Any financial information, statement, certificate, representation or warranty given to the Bank by the Borrower or any Guarantor (or any of their representatives) in connection with entering into this Agreement or the other Loan Documents and/or any borrowing thereunder, or required to be furnished under the terms thereof, shall prove untrue or misleading in any material respect (as determined by the

Bank in the exercise of its judgment) as of the time when given.

- (d) DEFAULT ON OTHER OBLIGATIONS. The Borrower or any Guarantor shall be in default under the terms of any loan agreement, promissory note, lease, conditional sale contract or other agreement, document or instrument evidencing, governing or securing any indebtedness owing by the Borrower or any Guarantor to the Bank or any indebtedness in excess of \$10,000 owing by the Borrower to any third party, and the period of grace, if any, to cure said default shall have passed.
- (e) JUDGMENTS. Any judgment shall be obtained against the Borrower or any Guarantor which, together with all other outstanding unsatisfied judgments against the Borrower (or such Guarantor), shall exceed the sum of \$10,000 and shall remain unvacated, unbonded or unstayed for a period of 30 days following the date of entry thereof.
- (f) INABILITY TO PERFORM; BANKRUPTCY/INSOLVENCY. (i) The Borrower or any Guarantor shall die or cease to exist; or (ii) any Guarantor shall attempt to revoke any guaranty of the Obligations described herein, or any guaranty becomes unenforceable in whole or in part for any reason; or (iii) any bankruptcy, insolvency or receivership proceedings, or an assignment for the benefit of creditors, shall be commenced under any Federal or state law by or against the Borrower or any Guarantor; or (iv) the Borrower or any Guarantor shall become the subject of any out-of-court settlement with its creditors; or (v) the Borrower or any Guarantor is unable or admits in writing its inability to pay its debts as they mature; or (vi) if the Borrower is a limited liability company, any member thereof shall withdraw or otherwise become disassociated from the Borrower.
- (g) ADVERSE CHANGE; INSECURITY. (i) There is a material adverse change in the business, properties, financial condition or affairs of the Borrower or any Guarantor, or in any collateral securing the Obligations; or (ii) the Bank in good faith deems itself insecure.

4.2 TERMINATION OF LOANS; ADDITIONAL BANK RIGHTS. Upon the Maturity Date or the occurrence of any of the events identified in Section 4.1, the Bank may at any time (notwithstanding any notice requirements or grace/cure periods under this or other agreements between the Borrower and the Bank) (i) immediately terminate its obligation, if any, to make additional loans to the Borrower; (ii) Setoff; and/or (iii) take such other steps to protect or preserve the Bank's interest in any collateral, including without limitation, notifying account debtors to make payments directly to the Bank, advancing funds to protect any collateral and insuring collateral at the Borrower's expense; all without demand or notice of any kind, all of which are hereby waived.

4.3 ACCELERATION OF OBLIGATIONS. Upon the occurrence of any of the events identified in Sections 4.1 (a) through 4.1 (e) and 4.1 (g), and the passage of any applicable cure periods, the Bank may at any time thereafter, by written notice to the Borrower, declare the unpaid principal balance of any Obligations, together with the interest accrued thereon and other amounts accrued hereunder and under the other Loan Documents, to be immediately due and payable; and the

unpaid balance will thereupon be due and payable, all without presentation, demand, protest or further notice of any kind, all of which are hereby waived, and notwithstanding anything to the contrary contained herein or in any of the other Loan Documents. Upon the occurrence of any event under Section 4.1(f), the unpaid principal balance of any Obligations, together with all interest accrued thereon and other amounts accrued hereunder and under the other Loan Documents, will thereupon be immediately due and payable, all without presentation, demand, protest or notice of any kind, all of which are hereby waived, and notwithstanding anything to the contrary contained herein or in any of the other Loan Documents. Nothing contained in Section 4.1, Section 4.2 or this section will limit the Bank's right to Setoff as provided in Section 3.3 or otherwise in this Agreement.

4.4 OTHER REMEDIES. Nothing in this Article IV is intended to restrict the Bank's rights under any of the Loan Documents or at law, and the Bank may exercise all such rights and remedies as and when they are available.

ARTICLE V. OTHER TERMS

5.1 ADDITIONAL TERMS; ADDENDUM/SUPPLEMENTS. The warranties, covenants, conditions and other terms described in this Section and/or in the Addendum and/or other attached document(s) referenced in this Section are incorporated into this Agreement:

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ARTICLE VI. MISCELLANEOUS

6.1 DELAY; CUMULATIVE REMEDIES. No delay on the part of the Bank in exercising any right, power or privilege hereunder or under any of the other Loan Documents will operate as a waiver thereof, nor will any single or partial exercise of any right, power or privilege hereunder preclude other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein specified are cumulative and are not exclusive of any rights or remedies which the Bank would otherwise have.

6.2 RELATIONSHIP TO OTHER DOCUMENTS. The warranties, covenants and other obligations of the Borrower (and the rights and remedies of the Bank) that are outlined in this Agreement and the other Loan Documents are intended to supplement each other. In the event of any inconsistencies in any of the terms in the Loan Documents, all terms will be cumulative so as to give the Bank the most favorable rights set forth in the conflicting documents, except that if there is a direct conflict between any preprinted terms and specifically negotiated terms (whether included in an addendum or otherwise), the specifically negotiated terms will control.

6.3 SUCCESSORS. The rights, options, powers and remedies granted in this Agreement and the other Loan Documents shall be binding upon the Borrower and the Bank and their respective successors and assigns, and shall inure to the

benefit of Borrower and the Bank and the successors and assigns to the Bank, including without limitation any purchaser or any or all of the rights and obligations of the Bank under the Note and the other Loan Documents. The Borrower may not assign its rights or obligations under this Agreement or any other Loan Documents without the prior written consent of the Bank.

6.4 DISCLOSURE. The Bank may, in connection with any sale or potential sale of all or any interest in the Note and other Loan Documents, disclose any financial information the Bank may have concerning the Borrower to any purchaser or potential purchaser. From time to time, the Bank may, in its discretion and without obligation to the Borrower, any Guarantor or any other third party, disclose information about the Borrower and this loan to any Guarantor, surety or other accommodation party. This provision does not obligate the Bank to supply any information or release the Borrower from its obligation to provide such information, and the Borrower agrees to keep all Guarantors, sureties or other accommodation parties advised of its financial condition and other matters which may be relevant to their obligations to the Bank.

6.5 INDEMNIFICATION. Except for harm arising from the Bank's willful misconduct, the Borrower hereby indemnifies and agrees to defend and hold the Bank harmless from any and all losses, costs, damages, claims and expenses of any kind suffered by or asserted against the Bank relating to claims by third parties arising out of the financing provided under the Loan Documents or related to any collateral (including, without limitation, the Borrower's failure to perform its obligations relating to Environmental Matters described in Section 2.5 above). This indemnification and hold harmless provision will survive the termination of the Loan Documents and the satisfaction of the Obligations due the Bank.

6.6 NOTICE OF CLAIMS AGAINST BANK; LIMITATION OF CERTAIN DAMAGES. In order to allow the Bank to mitigate any damages to the Borrower from the Bank's alleged breach of its duties under the Loan Documents or any other duty, if any, to the Borrower, the Borrower agrees to give the Bank immediate written notice of any claim or defense it has against the Bank, whether in tort or contract, relating to any action or inaction by the Bank under the Loan Documents, or the transactions related thereto, or of any defense to payment of the Obligations for any reason. The requirement of providing timely notice to the Bank represents the parties' agreed-to standard of performance regarding claims against the Bank. Notwithstanding any claim that the Borrower may have against the Bank, and regardless of any notice the Borrower may have given the Bank, the Bank will not be liable to the Borrower for consequential and/or special damages arising therefrom, except those damages arising from the Bank's willful misconduct.

6.7 NOTICES. Notice of any record shall be deemed delivered when the record has been (a) deposited in the United States Mail, postage pre-paid, (b) received by overnight delivery service, (c) received by telex, (d) received by telecopy, (e) received through the internet, or (f) when personally delivered.

6.8 PAYMENTS. Payments due under the Note and other Loan Documents will be made in lawful money of the United States. All payments may be applied by the Bank to principal, interest and other amounts due under the Loan Documents in any order

which the Bank elects.

6.9 APPLICABLE LAW AND JURISDICTION; INTERPRETATION; JOINT LIABILITY; SEVERABILITY. This Agreement and all other Loan Documents will be governed by and interpreted in accordance with the internal laws of the State of CALIFORNIA except to the extent superseded by Federal law. THE BORROWER HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT SITUATED IN THE COUNTY OR FEDERAL JURISDICTION OF THE BANK'S BRANCH WHERE THE LOAN WAS ORIGINATED, AND WAIVES ANY OBJECTION BASED ON FORUM NON CONVENIENS , WITH REGARD TO ANY ACTIONS,

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CLAIMS, DISPUTES OR PROCEEDINGS RELATING TO THIS AGREEMENT. THE NOTE, THE COLLATERAL, ANY OTHER LOAN DOCUMENT, OR ANY TRANSACTIONS ARISING THEREFROM, OR ENFORCEMENT AND/OR INTERPRETATION OF ANY OF THE FOREGOING. Nothing herein will affect the Bank's rights to serve process in any manner permitted by law, or limit the Bank's right to bring proceedings against the Borrower in the competent courts of any other jurisdiction or jurisdictions. This Agreement, the other Loan Documents and any amendments hereto (regardless of when executed) will be deemed effective and accepted only at the Bank's receipt of the executed originals thereof. If there is more than one Borrower, the liability of the Borrowers will be joint and several, and the reference to "Borrower" will be deemed to refer to all Borrowers. Invalidity of any provision of this Agreement shall not affect the validity of any other provision.

6.10 COPIES; ENTIRE AGREEMENT; MODIFICATION. The Borrower hereby acknowledges the receipt of a copy of this Agreement and all other Loan Documents. This Agreement is a "transferable record" as defined in applicable law relating to electronic transactions. Therefore, the holder of this Agreement may, on behalf of Borrower, create a microfilm or optical disk or other electronic image of this Agreement that is an authoritative copy as defined in such law. The holder of this Agreement may store the authoritative copy of such Agreement in its electronic form and then destroy the paper original as part of the holder's normal business practices. The holder, on its own behalf, may control and transfer such authoritative copy as permitted by such law.

IMPORTANT: READ BEFORE SIGNING. THE TERMS OF THIS AGREEMENT SHOULD BE READ CAREFULLY BECAUSE ONLY THOSE TERMS IN WRITING, EXPRESSING CONSIDERATION AND SIGNED BY THE PARTIES ARE ENFORCEABLE. NO OTHER TERMS OR ORAL PROMISES NOT CONTAINED IN THIS WRITTEN CONTRACT MAY BE LEGALLY ENFORCED. THE TERMS OF THIS AGREEMENT MAY ONLY BE CHANGED BY ANOTHER WRITTEN AGREEMENT. THIS NOTICE SHALL ALSO BE EFFECTIVE WITH RESPECT TO ALL OTHER CREDIT AGREEMENTS NOW IN EFFECT BETWEEN BORROWER AND THE BANK. A MODIFICATION OF ANY OTHER CREDIT AGREEMENTS NOW IN EFFECT BETWEEN BORROWER AND THE BANK, WHICH OCCURS AFTER RECEIPT BY BORROWER OF THIS NOTICE, MAY BE MADE ONLY BY ANOTHER WRITTEN INSTRUMENT. ORAL OR IMPLIED MODIFICATIONS TO SUCH CREDIT AGREEMENTS ARE NOT ENFORCEABLE AND SHOULD NOT BE RELIED UPON.

6.11 Waiver of Jury Trial. TO THE EXTENT PERMITTED BY LAW, THE BORROWER AND THE

BANK HEREBY JOINTLY AND SEVERALLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO ANY OF THE LOAN DOCUMENTS, THE OBLIGATIONS THEREUNDER, ANY COLLATERAL SECURING THE OBLIGATIONS, OR ANY TRANSACTION ARISING THEREFROM OR CONNECTED THERETO. THE BORROWER AND THE BANK EACH REPRESENTS TO THE OTHER THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY GIVEN.

6.12 ATTACHMENTS. All documents attached hereto, including any appendices, schedules, riders, and exhibits to this Agreement, are hereby expressly incorporated by reference.

IN WITNESS WHEREOF, the undersigned have executed this REVOLVING CREDIT AGREEMENT as of JANUARY 29, 2008

(Individual Borrower)

HI-SHEAR TECHNOLOGY, CORP.
Borrower Name (Organization)

a DELAWARE Corporation

Borrower Name N/A

By /s/ George W. Trahan
Name and Title George W. Trahan
President and CEO

Borrower Name N/A

By /s/ Jan L. Hauhe
Name and Title Jan L. Hauhe, CFO

U.S. BANK N.A. (Bank)

By /s/ David J. Clarke
Name and Title David J. Clarke,
Vice President

Borrower Address:

24225 Garnier Street, Torrance, CA 90505-5323

Borrower Telephone No.:

(310) 784-2185

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ADDENDUM TO REVOLVING CREDIT AGREEMENT AND NOTE

This Addendum is made part of the Revolving Credit Agreement and Note (the "Agreement") made and entered into by and between the undersigned borrower (the "Borrower") and the undersigned bank (the "Bank") as of the date identified below. The warranties, covenants and other terms described below are hereby added to the Agreement.

AMENDED AND RESTATED NOTE. The Amended and Restated Note (this "Note") is issued as an amendment and restatement of, but not in payment of, Borrower's promissory note dated MARCH 23, 2000 payable to the order of the Bank in the original principal amount of \$5,500,000.00, as amended, supplemented, extended or

otherwise modified (the "Original Note"). If the existing principal balance of the Original Note exceeds the stated principal amount of this Note, then concurrently with the delivery of this Note, Borrower shall pay to Bank an amount sufficient to reduce said principal amount to the stated principal amount of this Note. All interest accrued but unpaid on the Original Note shall be due and payable in full on the first interest payment date under this Note. All agreements and documents evidencing, securing, guarantying and otherwise related to the Original Note or the indebtedness evidenced thereby, whether or not identified in this Note, continue in full force and effect, except to the extent that any such agreement or document may have been wholly or partially released in a writing signed by the Bank. Any and all references to the Original Note in any agreement or document are hereby amended to refer to this Note. The loan agreement or credit agreement between Borrower and Bank dated of even date with the Original Note, relating to the indebtedness evidenced by the Original Note, as previously amended, supplemented, restated or otherwise modified, is hereby terminated as of the date of this Note.

AMENDED AND RESTATED AGREEMENT. The Amended and Restated Agreement (this "Restated Agreement") is issued as an amendment and restatement of the loan agreement or credit agreement between Borrower and Bank dated FEBRUARY 15, 2001 pertaining to a loan facility in the original principal amount of \$5,500,000.00, as amended, supplemented, extended or otherwise modified (the "Original Agreement"). All agreements and documents evidencing, securing, guarantying and otherwise related to the Original Agreement or the indebtedness evidenced thereby, whether or not identified in this Restated Agreement, continue in full force and effect, except to the extent that any such agreement or document may have been wholly or partially released in a writing signed by the Bank. Any and all references to the Original Agreement in any agreement or document are hereby amended to referred to this Restated Agreement.

FINANCIAL COVENANTS. Financial terms used herein which are not specifically defined herein shall have the meanings ascribed to them under generally accepted accounting principles. For any Borrower who does not have a separate fiscal year end for tax reporting purposes, the fiscal year will be deemed to be the calendar year. Borrower (herein referred to as the "Subject Party") will maintain the following:

CURRENT RATIO at all times of at least 2.0 to 1.

"CURRENT RATIO" shall mean the relationship, expressed as a numerical ratio, between the amount described below in item (i) of the definition of "Net Working Capital" and the amount described below in item (ii) of the definition of "Net Working Capital".

"NET WORKING CAPITAL" shall mean:

(i) the amount of all assets which under generally accepted accounting principles would appear as current assets on the balance sheet of the Subject Party,

Less

(ii) the amount of all liabilities which under generally accepted accounting principles would appear as current liabilities on such balance sheet, including all indebtedness payable on demand or maturing (whether by reason of specified maturity, fixed prepayments, sinking funds or accruals of any kind, or otherwise) within 12 months or less from the date of the relevant statement, including all lease and rental obligations due in 12 calendar months or less under capitalized leases, and including customers' advances and progress billings on contracts.

"DEBT TO TANGIBLE NET WORTH RATIO" as of the end of each fiscal quarter of not more than 1.5 to 1.

"DEBT TO TANGIBLE NET WORTH RATIO: shall mean the relationship, expressed as a numerical ratio, between: (i) the total of all liabilities of the Subject Party which would appear on a balance sheet of the Subject Party in accordance with generally accepted accounting principles; and (ii) Tangible Net Worth.

"TANGIBLE NET WORTH" shall mean the total of all assets properly appearing on the balance sheet of the Subject Party in accordance with generally accepted accounting principles, less the sum of the following:

- (i) the book amount of all such assets which would be treated as intangibles under generally accepted accounting principles, including, without limitation, all such items as goodwill, trademarks, trademark rights, trade names, trade name rights, brands, copyrights, patents, patent rights, licenses, deferred charges and unamortized debt discount and expense;
- (ii) any write-up in the book value of any such assets resulting from a revaluation thereof subsequent to the date of the Agreement;
- (iii) all reserves which have not already been deducted in calculating total assets on the Subject Party's balance sheet, including reserves for depreciation, obsolescence, depletion, insurance, and inventory valuation, but excluding contingency reserves not allocated for any particular purpose and not deducted from assets;
- (iv) the amount, if any, at which any shares of stock of the Subject Party appear on the asset side of such balance sheet;
- (v) all liabilities of the Subject Party shown on such balance sheet;
- (vi) all investments in foreign affiliates and nonconsolidated domestic affiliates; and
- (vii) all accounts or notes due to the Subject Party from any shareholder, director, officer, employee or affiliate of the Subject Party or from any relative of such party.

"FIXED CHARGE COVERAGE RATIO" as of the end of each fiscal quarter for the four (4) fiscal quarters then ended of at least 1.25 to 1.

"FIXED CHARGE COVERAGE RATIO" shall mean (a) EBITDAR minus cash taxes, cash dividends and Maintenance Capital Expenditures divided by (b) the sum of all required principal payments (on short and long term debt and capital leases), interest and rental or lease expense.

"EBITDAR" shall mean net income, plus interest expense, plus income tax expense, plus depreciation expense plus amortization expense plus rent or lease expense.

"MAINTENANCE CAPITAL EXPENDITURES" shall mean 50% of the Subject Party's depreciation expense for the period specified.

"CAPITAL EXPENDITURES" shall mean the aggregate amount of all purchases or acquisitions of fixed assets, including real estate, motor vehicles, equipment, fixtures, leases and any other items that would be capitalized on the books of the Subject Party under generally accepted accounting principles. The term "Capital Expenditures" will not include expenditures or charges for the usual and customary maintenance, repair and retooling of any fixed asset or the acquisition of new tooling in the ordinary course of business.

NET PROFIT BEFORE TAXES of at least \$1.00 each fiscal year.

"NET PROFIT BEFORE TAXES" shall mean, for any time period, the sum of Subject Party's net income (or loss) for such period, plus the amount which in determining net income (or loss) has been deducted (or added) for income tax expense (or benefit).

FINANCIAL INFORMATION AND REPORTING. This provision replaces in its entirety the provision of the Agreement titled "Financial Information and Reporting". Financial terms used herein which are not specifically defined herein shall have the meanings ascribed to them under generally accepted accounting principles. For any Borrower who does not have a separate fiscal year end for tax reporting purposes, the fiscal year will be deemed to be the calendar year. The financial statements and other information previously provided to Bank or provided to Bank in the future are or will be complete and accurate and prepared in accordance with generally accepted accounting principles. There has been no material adverse change in Borrower's financial condition since such information was provided to Bank. Borrower will (i) maintain accounting records in accordance with generally recognized and accepted principles of accounting consistently applied throughout the accounting periods involved; (ii) provide Bank with such information concerning its business affairs and financial condition (including insurance coverage) as Bank may request; and (iii) without request, provide to Bank the following financial information, in form and content acceptable to Bank, pertaining to Borrower:

ANNUAL FINANCIAL STATEMENTS: Not later than 90 days after the end of each fiscal year, annual financial statements, audited by a certified public accounting firm acceptable to Bank.

Interim Financial Statements: Not later than 45 days after the end of each fiscal quarter, interim financial statements, reviewed by certified public accounting firm acceptable to Bank.

Dated as of: January 29, 2008

(Non-Individual)

Hi-Shear Technology, Corporation
a/an Delaware Corporation

By: /s/ George W. Trahan
Name and Title: George W. Trahan, President and CEO

By: /s/ Jan L. Hauhe
Name and Title: Jan L. Hauhe, CFO

Agreed to:
U.S. Bank N.A.

By: /s/ David J. Clarke
Name and Title: David J. Clarke, Vice President

SECOND ADDENDUM TO REVOLVING CREDIT AGREEMENT AND NOTE
By and Between
U.S. Bank N.A. and Hi-Shear Technology Corporation

January 29, 2008

The Second Addendum to Revolving Credit Agreement and Note (this "Addendum") is made part of the Revolving Credit Agreement (the "Agreement") made and entered into by and between the undersigned borrower (the "Borrower") and U.S. Bank N.A. (the "Bank"), and the Addendum to Revolving Credit Agreement and Note (the "First Addendum") by and between Borrower and Bank, both of which documents are dated as of the date hereof. The First Addendum and this Addendum are addendums to the Agreement. The warranties, covenants and other terms of this Addendum hereby (i) supplement, amend or modify the Agreement, the First Addendum, the Loan Documents, and any and all other existing documents by and between Bank and Borrower with respect to the subject matter hereof, and (ii) constitute warranties, covenants and terms of all the extensions of credit made to Bank to Borrower to the fullest extent applicable. Capitalized terms not defined herein or by reference to an existing document shall have the meanings ascribed to them

in the Agreement, or if not defined in the Agreement, in accordance with generally accepted accounting principles ("GAAP"). In the event of any conflict between the provisions of the Addendum, on the one hand, and the Agreement, the First Addendum, any Loan Document or any other document by and between Bank and Borrower, on the other hand, the provisions of this Addendum shall prevail and control.

1. AMENDMENT OF RESTATEMENT OF SECTION 2.4 USE OF PROCEEDS; MARGIN STOCK; SPECULATION. Section 2.4 of the Agreement is hereby amended and restated in its entirety, as follows:

"2.4 USE OF PROCEEDS; MARGIN STOCK; SPECULATION. Advances by the Bank hereunder will be used exclusively by the Borrower for working capital and other regular and valid purposes. The Borrower will not, without the prior written consent of the Bank, redeem, purchase, or retire any of the capital stock or declare or pay any dividends, or make any other payments or distributions of a similar type or nature including withdrawal distributions that would result in Borrower's being in violation of any covenants in this Agreement. The Borrower will not use any of the loan proceeds to purchase or carry "margin" stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System). No part of any of the proceeds will be used for speculative investment purposes, including, without limitation, speculating or hedging in the commodities and/or futures market. NOTWITHSTANDING THE PROHIBITION ON THE PAYMENT OF DIVIDENDS IN THIS SECTION 2.4, BORROWER MAY MAKE PERIODIC DISTRIBUTIONS OF EXCESS CAPITAL IN THE FORM OF DIVIDENDS TO ITS SHAREHOLDERS IF AND ONLY IF AT THE TIME OF EACH SUCH PAYMENT (i) BORROWER IS IN COMPLIANCE WITH ALL THE PROVISIONS OF THE LOAN DOCUMENTS, INCLUDING, WITHOUT LIMITATION, ALL FINANCIAL COVENANTS CONTAINED THEREIN, AND (ii) NO DEFAULT OR EVENT OF DEFAULT UNDER ANY LOAN DOCUMENT HAS OCCURRED AND IS CONTINUING OR WOULD RESULT FROM THE MAKING OF SUCH PAYMENT."

2. ADDITION OF NEW COVENANT PROHIBITING CONSECUTIVE QUARTERLY LOSSES. The following covenant is hereby added to the Agreement:

"NO TWO CONSECUTIVE QUARTERLY LOSSES. Borrower shall not have or report losses during any two consecutive fiscal quarters, as reported to Bank pursuant to the quarterly financial statements required by the First Addendum to be delivered by Borrower to Bank."

3. CONTINUING VALIDITY. Except as inconsistent with the provisions of this Addendum, or as expressly modified above or in other agreements between Bank and Borrower, the terms of the Agreement, the First Addendum and the other Loan Documents shall remain unchanged and in full force and effect.

Dated as of January 29, 2008

Hi-Shear Technology Corporation,
a Delaware corporation

By: /s/ George W. Trahan

George W. Trahan, President and CEO

By: /s/ Jan L. Hauhe

Jan L. Hauhe, CFO

U.S. Bank N.A.

By: /s/ David J. Clarke

David J. Clarke, Vice President

INSURANCE COVERAGE FOR THE BENEFIT OF BANK

TO: INSURANCE AGENT

OWNER:

Policy Number

Hi-Shear Technology Corporation
Name

Telephone Number

24225 Garnier St.

Insurance Company Name

Address

Torrance, CA 90505-5323

Insurance Agent's Name

City State Zip Code

Address

City State Zip Code

As set forth below, this is a request and authorization that you name " U.S. BANK N.A." (the "Bank") as "Lenders Loss Payee" and/or "Mortgagee Payee" under our property coverage from (insert name of insurance company) as follows:

[Fill Out the Appropriate Sections]

Lenders Loss Payee on all our tangible personal property in the minimum amount of \$ 6,000,000.00 and on any Business Interruption Insurance we have bound.

Lenders Loss Payee on that equipment described below or on the attached sheet in the minimum amount of \$

Lenders Loss Payee on motor vehicles up to their insurable value, as described below or on the attached sheet,

| Year | Make | Model | VIN/Serial Number |
|------|------|-------|-------------------|
| Year | Make | Model | VIN/Serial Number |

[] Mortgagee Payee on real estate at the following locations with coverage in the amounts specified:

| Address | City | State | Amount of Coverage |
|---------|------|-------|--------------------|
| Address | City | State | Amount of Coverage |
| Address | City | State | Amount of Coverage |

The Bank will require a binder or certificate showing such coverage and listing the Bank as Lenders Loss Payee and/or Mortgagee Payee as stated above, or, alternatively, please provide the Bank with language from the policy showing its "Lender Loss Payee" and/or "Mortgagee Payee" coverage. Such coverage should insure that the Bank is paid in the event of loss despite any neglect on our part, and that the Bank is given prior notice of cancellation.

Lastly, the Bank requires that there be no other loss payee and/or mortgagee payee on its collateral without its consent. If there presently exists any other loss payee and/or mortgagee payee on such collateral, please itemize such parties and their insured collateral on a separate attachment.

Please send the binder/certificate and any applicable loss payee/mortgagee list to:
U.S. Bank N/A.
Attn: Corporate Loan Servicing Center
Corporate Collateral
#1105510939182
P.O. Box 5308
Portland, OR 97228-5308

Please direct any questions regarding this request to Jan L. Hauhe. Thank you for your assistance.

Hi-Shear Technology Corporation
(Owner Name)
By: /s/ George W. Trahan
(Owner's Signature)
Name and Title: George W. Trahan,
President and CEO
(For Company Only)

CALIFORNIA JUDICIAL REFERENCE AGREEMENT

This California Judicial Reference Agreement ("Agreement") is entered into in connection with any existing financing (other than consumer purpose financing) ("Financing") provided by U.S. BANK N.A. ("Bank") to HI-SHEAR TECHNOLOGY CORPORATION ("Borrower") evidenced, secured and/or supported by one or more promissory notes, loan agreements, security agreements, mortgages/deeds of trust, guaranties and/or other documents signed by the undersigned parties (said promissory note and such other agreements, together with amendments, modifications, substitutions and replacements thereto, are hereinafter referred to as the "Loan Documents").

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto (collectively, the "Parties") agree as follows:

1. Any and all disputes, claims and controversies arising out of the Loan Documents or the transactions contemplated thereby (including, but not limited to, actions arising in contract or tort and any claims by a Party against Bank related in any way to the Financing) (individually, a "Dispute") that are brought before a forum in which pre-dispute waivers of the right to trial by jury are invalid under applicable law shall be subject to the terms of this Agreement in lieu of the jury trial waivers otherwise provided in the Loan Documents.
2. Any and all Disputes shall be heard by a referee and resolved by judicial reference pursuant to California Code of Civil Procedure Sections 638 et seq.
3. The referee shall be a retired California state court judge or an attorney licensed to practice law in the State of California with at least ten (10) years' experience practicing commercial law. The Parties shall not seek to appoint a referee that may be disqualified pursuant to California Code of Civil Procedure Section 641 or 641.2 without the prior written consent of all Parties.
4. If the Parties are unable to agree upon a referee within ten (10) calendar days after one Party serves a written notice of intent for judicial reference upon the other Party or Parties, then the referee will be selected by the court in accordance with California Code of Civil Procedure Section 640(b).
5. The referee shall render a written statement of decision and shall conduct the proceedings in accordance with the California Code of Civil Procedure, the Rules of Court, and California Evidence Code, except as otherwise specifically agreed by the parties and approved by the referee. The referee's statement of decision shall set forth findings of fact and conclusions of law. The decision of the referee shall be entered as a judgment in the court in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645. The decision of the referee shall be appealable to the same extent and in the same manner that such decision would be appealable if rendered by a judge of the superior court.
6. Nothing in this Agreement shall be deemed to apply to or limit the right of Bank (a) to exercise self help remedies such as (but not limited to) setoff, or (b) to foreclose judicially or nonjudicially against any real or personal property collateral, or to exercise judicial or nonjudicial power of sale rights, (c) to obtain from a court provisional or ancillary remedies (including, but not limited to, injunctive relief, a writ of possession, prejudgment attachment, a protective order or the appointment of a receiver), or (d) to pursue rights against a Party in a third-party proceeding in any action brought against Bank (including actions in bankruptcy court). Bank may exercise the rights set forth in the foregoing clauses (a) through (d), inclusive, before, during or after the pendency of any judicial reference proceeding. Neither the exercise of self help remedies nor the institution or maintenance of an action for foreclosure or provisional or ancillary remedies or the opposition to any such provisional remedies shall constitute a waiver of the right of any Party, including,

but not limited to, the claimant in any such action, to require submission to judicial reference the merits of the Dispute occasioning resort to such remedies. No provision in the Loan Documents regarding submission to jurisdiction and/or venue in any court is intended or shall be construed to be in derogation of the provisions in any Loan Document for judicial reference of any of Dispute.

7. If a Dispute includes multiple claims, some of which are found not subject to this Agreement, the Parties shall stay the proceedings of the Disputes or part or parts thereof not subject to this Agreement until all other Disputes or parts thereof are resolved in accordance with this Agreement. If there are Disputes by or against multiple parties, some of which are not subject to this Agreement, the Parties shall sever the Disputes subject to this Agreement and resolve them in accordance with this Agreement.

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8. During the pendency of any Dispute which is submitted to judicial reference in accordance with this Agreement, each of the Parties to such Dispute shall bear equal shares of the fees charged and costs incurred by the referee in performing the services described in this Agreement. The compensation of the referee shall not exceed the prevailing rate for like services. The prevailing party shall be entitled to reasonable court costs and legal fees, including customary attorney fees, expert witness fees, paralegal fees, the fees of the referee and other reasonable costs and disbursements charged to the party by its counsel, in such amount as is determined by the Referee.
9. In the event of any challenge to the legality or enforceability of this Agreement, the prevailing Party shall be entitled to recover the costs and expenses from the non-prevailing Party, including reasonable attorneys' fees, incurred by it in connection therewith.
10. THIS AGREEMENT CONSTITUTES A "REFERENCE AGREEMENT" BETWEEN OR AMONG THE PARTIES WITHIN THE MEANING OF AND FOR PURPOSES OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638.

Dated as of: JANUARY 29, 2008

Agreed to:

U.S. BANK N.A.
(Bank)

By: /s/ David J. Clarke

Name and Title: David J. Clarke, Vice President

(Individual)

Hi-Shear Technology Corporation
Name (Organization)
a Delaware Corporation

Printed Name:

(Individual)

By: /s/ George W. Trahan
Name and Title: George W. Trahan President
and CEO

Printed Name

(Individual)

By: /s/ Jan L. Hauhe
Name and Title: Jan L. Hauhe CFO

Printed Name

(Individual)

By:
Name and Title:

Printed Name

(Individual)

By:
Name and Title:

Printed Name

(Individual)

By:
Name and Title:

Printed Name

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For Bank Use Only

Reviewed by

Due_JANUARY 31, 2009

Customer # 1105510939

Loan # _

INSTALLMENT OR SINGLE PAYMENT NOTE

\$ 1,000,000.00

JANUARY 29, 2008

FOR VALUE RECEIVED, the undersigned borrower (the "Borrower"), promises to pay to the order of U.S. BANK N.A. (the "Bank"), the principal sum of ONE MILLION AND NO/100 Dollars (\$ 1,000,000.00) (the "Loan Amount").

1. Terms for Advance(s). [Choose One:]

Single Advance.

[X] Multiple Advances. Prior to JANUARY 31, 2009 or the earlier termination hereof, the Borrower may obtain advances from the Bank under this Installment or Single Payment Note (the "Note") in an aggregate amount not exceeding the Loan Amount. Although this Note is

expressed as payable in the full Loan Amount, the Borrower will be obligated to pay only the amounts actually disbursed hereunder, together with accrued interest on the outstanding balance at the rates and on the dates specified therein and such other charges provided for herein.

2. Interest.

The unpaid principal balance will bear interest at an annual rate described in the Interest Rate Rider attached to this Note.

3. Payment Schedule.

Interest is payable beginning FEBRUARY 1, 2008, and on the same date of each consecutive month thereafter (except that if a given month does not have such a date, the last day of such month), plus a final interest payment with the final payment of principal.

Principal is payable on JANUARY 31, 2009.

4. Closing Fee. If checked here, the Borrower will pay the Bank a one-time closing fee of \$ n/a contemporaneously with execution of this Note. This fee is in addition to all other fees, expenses and other amounts due hereunder.

5. Late Payment Fee. Subject to applicable law, if any payment is not made on or before its due date, the Bank may collect a delinquency charge of 5.00 % of the unpaid amount. Collection of the late payment fee shall not be deemed to be a waiver of the Bank's right to declare a default hereunder.

6. Calculation of Interest. Interest will be computed for the actual number of days principal is unpaid, using a daily factor obtained by dividing the stated interest rate by 360.

7. Default Interest Rate. Notwithstanding any provision of this Note to the contrary, upon any default or at any time during the continuation thereof (including failure to pay upon maturity), the Bank may, at its option and subject to applicable law, increase the interest rate on this Note to a rate of 5% per annum plus the interest rate otherwise payable hereunder. Notwithstanding the foregoing and subject to applicable law, upon the occurrence of a default by the Borrower or any guarantor involving bankruptcy, insolvency, receivership proceedings or an assignment for the benefit of creditors, the interest rate on this Note shall automatically increase to a rate of 5% per annum plus the rate otherwise payable hereunder.

8. Maximum Rate. In no event will the interest rate hereunder exceed that permitted by applicable law. If any interest or other charge is finally determined by a court of competent jurisdiction to exceed the maximum amount permitted by law, the interest or charge shall be reduced to the maximum permitted by law, and the Bank may credit any excess amount previously collected against the balance due or refund the amount to the Borrower.

9. Additional Terms.

10. Financial Information. The Borrower will (i) maintain accounting records in accordance with generally recognized and accepted principles of accounting consistently applied throughout the accounting periods involved; (ii) provide the Bank with such information concerning its business affairs and financial condition (including insurance coverage) as the Bank may reasonably request and (iii) without request, provide the Bank with annual financial statements prepared by an accounting firm acceptable to the Bank within 120 days of the end of each fiscal year.

11. Credit Balances; Setoff. As additional security for the payment of the obligations described in this Note or any document securing or related to the loan evidenced by this Note (collectively the "Loan Documents") and any other obligations of the Borrower to the Bank of any nature whatsoever (collectively the "Obligations"), the Borrower hereby grants to the Bank a security interest in, a lien on and an express contractual right to set off against all depository account balances, cash and any other property of the Borrower now or hereafter in the possession of the Bank and the right to refuse to allow withdrawals from any account (collectively "Setoff"). The Bank may, at any time upon the occurrence of a default hereunder (notwithstanding any notice requirements or grace/cure periods under this or other agreements between the Borrower and the Bank) Setoff against the Obligations whether or not the Obligations (including future installments) are then due or have been accelerated, all without any advance or contemporaneous notice or demand of any kind to the Borrower, such notice and demand being expressly waived.

12. Advances and Paying Procedure. The Bank is authorized and directed to credit any of the Borrower's accounts with the Bank (or to the account the Borrower designates in writing) for all loans made hereunder, and the Bank is authorized to debit such account or any other account of the Borrower with the Bank for the amount of any principal, interest or expenses due under the Note or other amount due hereunder on the due date with respect thereto. Payments due under the Note and other Loan Documents will be made in lawful money of the United States. All payments may be applied by the Bank to principal, interest and other amounts due under the Loan Documents in any order which the Bank elects. If, upon any request by the Borrower to the Bank to issue a wire transfer, there is an inconsistency between the name of the recipient of the wire and its identification number as specified by the Borrower, the Bank may, without liability, transmit the payment via wire based solely upon the identification number.

13. Defaults. Notwithstanding any cure periods described below, the Borrower

shall immediately notify the Bank in writing when the Borrower obtains knowledge of the occurrence of any default specified below. Regardless of whether the Borrower has given the required notice, the occurrence of one or more of the following shall constitute a default:

- (a) Nonpayment. The Borrower shall fail to pay (i) any interest due on this Note or any fees, charges, costs or expenses under the Loan Documents by 5 days after the same becomes due; or (ii) any principal amount of this Note when due.
- (b) Nonperformance. The Borrower or any guarantor of the Borrower's Obligations to the Bank ("Guarantor") shall fail to perform or observe any agreement, term, provision, condition, or covenant (other than a default occurring under (a), (c), (d), (e), (f) or (g) of this paragraph 13) required to be performed or observed by the Borrower or any Guarantor hereunder or under any other Loan Document or other agreement with or in favor of the Bank.
- (c) Misrepresentation. Any financial information, statement, certificate, representation or warranty given to the Bank by the Borrower or any Guarantor (or any of their representatives) in connection with entering into this Note or the other Loan Documents and/or any borrowing thereunder, or required to be furnished under the terms thereof, shall prove untrue or misleading in any material respect (as determined by the Bank in the exercise of its judgment) as of the time when given.
- (d) Default on Other Obligations. The Borrower or any Guarantor shall be in default under the terms of any loan agreement, promissory note, lease, conditional sale contract or other agreement, document or instrument evidencing, governing or securing any indebtedness owing by the Borrower or any Guarantor to the Bank or any indebtedness in excess of \$10,000 owing by the Borrower to any third party, and the period of grace, if any, to cure said default shall have passed.
- (e) Judgments. Any judgment shall be obtained against the Borrower or any Guarantor which, together with all other outstanding unsatisfied judgments against the Borrower (or such Guarantor), shall exceed the sum of \$10,000 and shall remain unvacated, unbonded or unstayed for a period of 30 days following the date of entry thereof.
- (f) inability to Perform; Bankruptcy/Insolvency. (i) The Borrower or any Guarantor shall die or cease to exist; or (ii) any Guarantor shall

Page 2 of 5

attempt to revoke any guaranty of the Obligations described herein, or any guaranty becomes unenforceable in whole or in part for any reason; or (iii) any bankruptcy, insolvency or receivership proceedings, or an assignment for the benefit of creditors, shall be commenced under any Federal or state law by or against the Borrower or any Guarantor; or (iv) the Borrower or any Guarantor shall become the subject of any out-of-court settlement with its creditors; or (v) the Borrower or any Guarantor is unable or admits in writing its inability to pay Its debts as they mature; or (vi) if the Borrower is

a limited liability company, any member thereof shall withdraw or otherwise become disassociated from the Borrower.

- (g) Adverse Change; Insecurity. (i) There is a material adverse change in the business, properties, financial condition or affairs of the Borrower or any Guarantor, or in any collateral securing the Obligations; or (ii) the Bank in good faith deems itself insecure.

14. Termination of Loans; Additional Bank Rights. Upon the occurrence of any of the events identified in paragraph 13, the Bank may at any time (notwithstanding any notice requirements or grace/cure periods under this or other agreements between the Borrower and the Bank) (i) immediately terminate its obligation, if any, to make additional loans to the Borrower; (ii) Setoff; and/or (iii) take such other steps to protect or preserve the Bank's interest in any collateral, including without limitation, notifying account debtors to make payments directly to the Bank, advancing funds to protect any collateral and insuring collateral at the Borrower's expense; all without demand or notice of any kind, all of which are hereby waived,

15. Acceleration of Obligations. Upon the occurrence of any of the events identified in paragraph 13(a) through 13(e) and 13(g), and the passage of any applicable cure periods, the Bank may at any time thereafter, by written notice to the Borrower, declare the unpaid principal balance of any Obligations, together with the interest accrued thereon and other amounts accrued hereunder and under the other Loan Documents, to be immediately due and payable; and the unpaid balance shall thereupon be due and payable, all without presentation, demand, protest or further notice of any kind, all of which are hereby waived, and notwithstanding anything to the contrary contained herein or in any of the other Loan Documents. Upon the occurrence of any event under paragraph 13(f), the unpaid principal balance of any Obligations, together with all interest accrued thereon and other amounts accrued hereunder and under the other Loan Documents, shall thereupon be immediately due and payable, all without presentation, demand, protest or notice of any kind, all of which are hereby waived, and notwithstanding anything to the contrary contained herein or in any of the other Loan Documents. Nothing contained in paragraph 13 or 14 or this paragraph shall limit the Bank's right to Setoff as provided in this Note.

16. Collateral. This Note is secured by any and all security interests, pledges, mortgages/deeds of trust (except any mortgage/deed of trust expressly limited by its terms to a specific obligation of Borrower to Bank) or liens now or hereafter in existence granted to the Bank to secure indebtedness of the Borrower to the Bank (unless prohibited by law), including, without limitation, as described in the following documents: Business Security Agreement dated December 31, 2001.

17. Guaranties. This Note is guarantied by each and every guaranty now or hereafter in existence guarantying the indebtedness of the Borrower to the Bank (except for any guaranty expressly limited by its terms to a specific separate obligation of Borrower to the Bank) including, without limitation, the following:

18. Additional Bank Rights. Without affecting the liability of any Borrower,

endorser, surety or guarantor, the Bank may, without notice, renew or extend the time for payment, accept partial payments, release or impair any collateral security for the payment of this Note, or agree not to sue any party liable on it.

19. Warranties, The Borrower makes the following warranties: (A) This Note and the other Loan Documents are the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their terms. (B) The execution, delivery and performance of this Note and all other Loan Documents to which the Borrower is a party (i) are within the borrower's power; (ii) have been duly authorized by all appropriate entity action; (iii) do not require the approval of any governmental agency; and (iv) will not violate any law, agreement or restriction by which the Borrower is bound. (C) If the Borrower is not an individual, the Borrower is validly existing and in good standing under the laws of its state of organization, has all requisite power and authority and possesses all licenses necessary to conduct its business and own its properties.

20. Waivers; Relationship to Other Documents. All Borrowers, endorsers, sureties and guarantors waive presentment, protest, demand, and notice of dishonor. No delay on the part of the Bank in exercising any right, power or privilege hereunder or under any of the other Loan Documents will operate as a waiver thereof, nor will any single or partial exercise of any right, power or privilege hereunder preclude other or further exercise thereof or the exercise of any other right, power or privilege. The warranties, covenants and other obligations of the Borrower (and rights and remedies of the Bank) in this Note and all related documents are intended to be cumulative and to supplement each other.

21. Expenses and Attorneys' Fees. Upon demand, the Borrower will immediately reimburse the Bank and any participant in the Obligations ("Participant") for

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all attorneys' fees and all other costs, fees and out-of-pocket disbursements incurred by the Bank or any Participant in connection with the preparation, execution, delivery, administration, defense and enforcement of this Note or any of the other Loan Documents, including attorneys' fees and all other costs and fees (a) incurred before or after commencement of litigation or at trial, on appeal or in any other proceeding, (b) incurred in any bankruptcy proceeding and (c) related to any waivers or amendments with respect thereto (examples of costs and fees include but are not limited to fees and costs for: filing, perfecting or confirming the priority of the Bank's lien, title searches or insurance, appraisals, environmental audits and other reviews related to the Borrower, any collateral or the loans, if requested by the Bank). The Borrower will also reimburse the Bank and any Participant for all costs of collection before and after judgment, and the costs of preservation and/or liquidation of any collateral.

22. Applicable Law and Jurisdiction; Interpretation; Joint Liability; Severability. This Note and all other Loan Documents shall be governed by and interpreted in accordance with the internal laws of the State of California, except to the extent superseded by Federal law. THE BORROWER HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT SITUATED IN THE COUNTY OR FEDERAL JURISDICTION OF THE BANK'S BRANCH WHERE THE LOAN WAS ORIGINATED, AND WAIVES ANY OBJECTION BASED ON FORUM NON CONVENIENS, WITH REGARD TO ANY ACTIONS, CLAIMS, DISPUTES OR PROCEEDINGS RELATING TO THIS NOTE, THE COLLATERAL, ANY OTHER LOAN DOCUMENT, OR ANY TRANSACTIONS ARISING THEREFROM, OR ENFORCEMENT AND/OR INTERPRETATION OF ANY OF THE FOREGOING. Nothing herein shall affect the Bank's rights to serve process in any manner permitted by law, or limit the Bank's right to bring proceedings against the Borrower in the competent courts of any other jurisdiction or jurisdictions. This Note, the other Loan Documents and any amendments hereto (regardless of when executed) will be deemed effective and accepted only upon the Bank's receipt of the executed originals thereof. If there is more than one Borrower, the liability of the Borrowers shall be joint and several, and the reference to "Borrower" shall be deemed to refer to all Borrowers. Invalidity of any provision of this Note shall not affect the validity of any other provision.

23. Successors. The rights, options, powers and remedies granted in this Note and the other Loan Documents shall be binding upon the Borrower and the Bank and their respective successors and assigns, and shall inure to the benefit of the Borrower and the Bank and the successors and assigns of the Bank, including without limitation any purchaser of any or all of the rights and obligations of the Bank under the Note and the other Loan Documents. The Borrower may not assign its rights or obligations under this Note or any other Loan Documents without the prior written consent of the Bank.

24. Disclosure. The Bank may, in connection with any sale or potential sale of all or any interest in the Note and other Loan Documents, disclose any financial information the Bank may have concerning the Borrower to any purchaser or potential purchaser. From time to time, the Bank may, in its discretion and without obligation to the Borrower, any Guarantor or any other third party, disclose information about the Borrower and this loan to any Guarantor, surety or other accommodation party. This provision does not obligate the Bank to supply any information or release the Borrower from its obligation to provide such information, and the Borrower agrees to keep all Guarantors, sureties or other accommodation parties advised of its financial condition and other matters which may be relevant to their obligations to the Bank.

25. Copies; Entire Agreement; Modification. The Borrower hereby acknowledges the receipt of a copy of this Note and all other Loan Documents. This Note is a "transferable record" as defined in applicable law relating to electronic transactions. Therefore, the holder of this Note may, on behalf of Borrower, create a microfilm or optical disk or other electronic image of this Note that is an authoritative copy as defined in such law. The holder of this Note may store the authoritative copy of such Note in its electronic form and then destroy the paper original as part of the holder's normal business practices. The holder, on its own behalf, may control and transfer such authoritative copy as permitted by such law.

IMPORTANT: READ BEFORE SIGNING. THE TERMS OF THIS AGREEMENT SHOULD BE READ CAREFULLY BECAUSE ONLY THOSE TERMS IN WRITING, EXPRESSING CONSIDERATION AND SIGNED BY THE PARTIES ARE ENFORCEABLE. NO OTHER TERMS OR ORAL PROMISES NOT CONTAINED IN THIS WRITTEN CONTRACT MAY BE LEGALLY ENFORCED. THE TERMS OF THIS AGREEMENT MAY ONLY BE CHANGED BY ANOTHER WRITTEN AGREEMENT. THIS NOTICE SHALL ALSO BE EFFECTIVE WITH RESPECT TO ALL OTHER CREDIT AGREEMENTS NOW IN EFFECT BETWEEN BORROWER AND THE BANK. A MODIFICATION OF ANY OTHER CREDIT AGREEMENTS NOW IN EFFECT BETWEEN BORROWER AND THE BANK, WHICH OCCURS AFTER RECEIPT BY BORROWER OF THIS NOTICE, MAY BE MADE ONLY BY ANOTHER WRITTEN INSTRUMENT. ORAL OR IMPLIED MODIFICATIONS TO SUCH CREDIT AGREEMENTS ARE NOT ENFORCEABLE AND SHOULD NOT BE RELIED UPON.

26. Waiver of Jury Trial. TO THE EXTENT PERMITTED BY LAW, THE BORROWER AND THE BANK HEREBY JOINTLY AND SEVERALLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO ANY OF THE LOAN DOCUMENTS, THE OBLIGATIONS THEREUNDER, ANY COLLATERAL SECURING THE OBLIGATIONS, OR ANY TRANSACTION ARISING THEREFROM OR CONNECTED THERETO. THE BORROWER AND THE BANK EACH REPRESENTS TO THE OTHER THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY GIVEN.

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27. Attachments. All documents attached hereto, including any appendices, schedules, riders, and exhibits to this Installment or Single Payment Note, are hereby expressly incorporated by reference.

(Individual Borrower)

HI-SHEAR TECHNOLOGY, CORP.
Borrower Name (Organization)

a DELAWARE Corporation

Borrower Name N/A

By /s/ George W. Trahan
Name and Title George W. Trahan
President and CEO

Borrower Name N/A

By /s/ Jan L. Hauhe
Name and Title Jan L. Hauhe, CFO

Borrower Address:

24225 Garnier Street, Torrance, CA
90505-5323

Borrower Telephone No.:

(310) 784-2185

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INTEREST RATE RIDER

This Rider is made part of the Installment or Single Payment (the "Note") in the original amount of \$1,000,000.00 by the undersigned borrower (the "Borrower") in favor of U.S. BANK N. A. (the "Bank") as of the date identified below. The following interest rate description is hereby added to the Note:

Interest Rate Options. Interest on each advance hereunder shall accrue at one of the following per annum rates selected by the Borrower ("n/a" indicates rate option is not available, but Prime Rate Loan option must always be selected) (i) upon notice to the Bank, -0.250 % plus the prime rate announced by the Bank from time to time, as and when such rate changes (a "Prime Rate Loan"); (ii) upon a minimum of two New York Banking Days prior notice, 2.000 % plus the 1, 2, 3, 6 or 12 month LIBOR rate quoted by the Bank from Reuters Screen LIBOR01 Page or any successor thereto (which shall be the LIBOR rate in effect two New York Banking Days prior to commencement of the advance), adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation (a "LIBOR Rate Loan"); or (iii) upon notice to the Bank, n/a % plus the rate, determined solely by the Bank, at which the Bank would be able to borrow funds of comparable amounts in the Money Markets for a 1, 2, 3, 6 or 12 month period, adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation (a "Money Market Rate Loan"). The term "New York Banking Day" means any day (other than a Saturday or Sunday) on which commercial banks are open for business in New York, New York. The term "Money Markets" refers to one or more wholesale funding markets available to the Bank, including negotiable certificates of deposit, commercial paper, eurodollar deposits, bank notes, federal funds, interest rate swaps or others. No LIBOR Rate Loan or Money Market Rate Loan may extend beyond the maturity of this Note. In any event, if the Loan Period for a LIBOR Rate Loan or Money Market Rate Loan should happen to extend beyond the maturity of this Note, such loan must be prepaid at the time this Note matures. If a LIBOR Rate Loan or Money Market Rate Loan is prepaid prior to the end of the Loan Period for such loan, whether voluntarily or because prepayment is required due to the Note maturing or due to acceleration of this Note upon default or otherwise, the Borrower agrees to pay all of the Bank's costs, expenses and Interest Differential (as determined by the Bank) incurred as a result of such prepayment. The term "Loan Period" means the period commencing on the advance date of the applicable LIBOR Rate Loan or Money Market Rate Loan and ending on the numerically corresponding day 1, 2, 3, 6 or 12 months thereafter matching the interest rate term selected by the Borrower; provided, however, (a) if any Loan Period would otherwise end on a day which is not a New York Banking Day, then the Loan Period shall end on the next succeeding New York Banking Day unless the next succeeding New York Banking Day falls in another calendar month, in which case the Loan Period shall end on the immediately preceding New York Banking Day; or (b) if any Loan Period begins on the last New York Banking Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of the Loan Period), then the Loan Period shall end on the last New York Banking Day of the calendar month at the end of such Loan Period. The term "Interest Differential" shall mean that sum equal to the greater of zero or the financial loss incurred by the Bank resulting from prepayment, calculated as the difference between the amount of interest the Bank would have earned (from like investments in the Money Markets as of the first day of the LIBOR Rate Loan or Money Market Rate

Loan) had prepayment not occurred and the interest the Bank will actually earn (from like investments in the Money Markets as of the date of prepayment) as a result of the redeployment of funds from the prepayment. Because of the short-term nature of this facility, the Borrower agrees that the Interest Differential shall not be discounted to its present value. Any prepayment of a LIBOR Rate Loan or Money Market Rate Loan shall be in an amount equal to the remaining entire principal balance of such loan.

In the event the Borrower does not timely select another interest rate option at least two New York Banking Days before the end of the Loan Period for a LIBOR Rate Loan or Money Market Rate Loan, the Bank may at any time after the end of the Loan Period convert the LIBOR Rate Loan or Money Market Rate Loan to a Prime Rate Loan, but until such conversion, the funds advanced under the LIBOR Rate Loan or Money Market Rate Loan shall continue to accrue interest at the same rate as the interest rate in effect for such LIBOR Rate Loan or Money Market Rate Loan prior to the end of the Loan Period.

The Bank's internal records of applicable interest rates shall be determinative in the absence of manifest error. Each LIBOR Rate Loan and each Money Market Rate Loan shall be in a minimum principal amount of \$100,000.

Dated as of: January 29, 2008

(Individual Borrower)

Hi-Shear Technology Corporation

Borrower Name Organization

a Delaware Corporation

Borrower Name N/A

By /s/ George W. Trahan
Name and Title George W. Trahan
President and CEO

Borrower Name N/A

By /s/ Jan L. Hauhe
Name and Title Jan L. Hauhe CFO

CALIFORNIA JUDICIAL REFERENCE AGREEMENT

This California Judicial Reference Agreement ("Agreement") is entered into in connection with any existing financing (other than consumer purpose financing) ("Financing") provided by U.S. BANK N.A. ("Bank") to HI-SHEAR TECHNOLOGY CORPORATION ("Borrower") evidenced, secured and/or supported by one or more promissory notes, loan agreements, security agreements, mortgages/deeds of trust, guaranties and/or other documents signed by the undersigned parties (said promissory note and such other agreements, together with amendments, modifications, substitutions and replacements thereto, are hereinafter referred to as the "Loan Documents").

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto (collectively, the "Parties") agree as follows:

1. Any and all disputes, claims and controversies arising out of the Loan Documents or the transactions contemplated thereby (including, but not limited to, actions arising in contract or tort and any claims by a Party against Bank related in any way to the Financing) (individually, a "Dispute") that are brought before a forum in which pre-dispute waivers of the right to trial by jury are invalid under applicable law shall be subject to the terms of this Agreement in lieu of the jury trial waivers otherwise provided in the Loan Documents.
2. Any and all Disputes shall be heard by a referee and resolved by judicial reference pursuant to California Code of Civil Procedure Sections 638 et seq.
3. The referee shall be a retired California state court judge or an attorney licensed to practice law in the State of California with at least ten (10) years' experience practicing commercial law. The Parties shall not seek to appoint a referee that may be disqualified pursuant to California Code of Civil Procedure Section 641 or 641.2 without the prior written consent of all Parties.
4. If the Parties are unable to agree upon a referee within ten (10) calendar days after one Party serves a written notice of intent for judicial reference upon the other Party or Parties, then the referee will be selected by the court in accordance with California Code of Civil Procedure Section 640(b).
5. The referee shall render a written statement of decision and shall conduct the proceedings in accordance with the California Code of Civil Procedure, the Rules of Court, and California Evidence Code, except as otherwise specifically agreed by the parties and approved by the referee. The referee's statement of decision shall set forth findings of fact and conclusions of law, The decision of the referee shall be entered as a judgment in the court in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645. The decision of the referee shall be appealable to the same extent and in the same manner that such decision would be appealable if rendered by a judge of the superior court.
6. Nothing in this Agreement shall be deemed to apply to or limit the right of Bank (a) to exercise self help remedies such as (but not limited to) setoff, or (b) to foreclose judicially or nonjudicially against any real or personal property collateral, or to exercise judicial or nonjudicial power of sale rights, (c) to obtain from a court provisional or ancillary remedies (including, but not limited to, injunctive relief, a writ of possession, prejudgment attachment, a protective order or the appointment of a receiver), or (d) to pursue rights against a Party in a third-party proceeding in any action brought against Bank (including actions in

bankruptcy court). Bank may exercise the rights set forth in the foregoing clauses (a) through (d), inclusive, before, during or after the pendency of any judicial reference proceeding. Neither the exercise of self help remedies nor the institution or maintenance of an action for foreclosure or provisional or ancillary remedies or the opposition to any such provisional remedies shall constitute a waiver of the right of any Party, including, but not limited to, the claimant in any such action, to require submission to judicial reference the merits of the Dispute occasioning resort to such remedies. No provision in the Loan Documents regarding submission to jurisdiction and/or venue in any court is intended or shall be construed to be in derogation of the provisions in any Loan Document for judicial reference of any of Dispute.

7. If a Dispute includes multiple claims, some of which are found not subject to this Agreement, the Parties shall stay the proceedings of the Disputes or part or parts thereof not subject to this Agreement until all other Disputes or parts thereof are resolved in accordance with this Agreement. If there are Disputes by or against multiple parties, some of which are not subject to this Agreement, the Parties shall sever the Disputes subject to this Agreement and resolve them in accordance with this Agreement.

8. During the pendency of any Dispute which is submitted to judicial reference in accordance with this Agreement, each of the Parties to such Dispute shall bear equal shares of the fees charged and costs incurred by the referee in performing the services described in this Agreement. The compensation of the referee shall not exceed the prevailing rate for like services. The prevailing party shall be entitled to reasonable court costs and legal fees, including customary attorney fees, expert witness fees, paralegal fees, the fees of the referee and other reasonable costs and disbursements charged to the party by its counsel, in such amount as is determined by the Referee.

9. In the event of any challenge to the legality or enforceability of this Agreement, the prevailing Party shall be entitled to recover the costs and expenses from the non-prevailing Party, including reasonable attorneys' fees, incurred by it in connection therewith.

10. THIS AGREEMENT CONSTITUTES A "REFERENCE AGREEMENT" BETWEEN OR AMONG THE PARTIES WITHIN THE MEANING OF AND FOR PURPOSES OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638.

Dated as of: JANUARY 29, 2008

Agreed to:
U.S. BANK N.A.

(Bank)

By: /s/ David J. Clarke

Name and Title: David J. Clarke, Vice President

(Individual)

Hi-Shear Technology Corporation
Name (Organization)
a Delaware Corporation

Printed Name:

(Individual)

By: /s/ George W. Trahan
Name and Title: George W. Trahan
President and CEO

Printed Name

(Individual)

By: /s/ Jan L. Hauhe
Name and Title: Jan L. Hauhe CFO

Printed Name

(Individual)

By:
Name and Title:

Printed Name

(Individual)

By:
Name and Title:

Printed Name

(Individual)

By:
Name and Title:

Printed Name

ADDENDUM TO INSTALLMENT OR SINGLE PAYMENT NOTE
Between
U.S. Bank N.A. and Hi-Shear Technology Corporation

January 29, 2008

This Addendum to Installment or Single Payment Note (this "Addendum") is made part of that certain Installment or Single Payment Note in the original principal amount of \$1,000,000.00 of even date herewith (the "January 2008 Term Note") by Hi-Shear Technology Corporation (the "Borrower") in favor of U.S. Bank N.A. (the "Bank"). The warranties, covenants and other terms of this Addendum (i) supplement, amend or modify the January 2008 Term Note and to the extent inconsistent herewith, any and all other documents in connection with extensions of credit made by Bank to Borrower, and (ii) to the extent applicable, constitute warranties, covenants and terms of all the extensions of credit

made by Bank to Borrower, including, without limitation, extensions of credit made pursuant to January 2008 Term Note. This Addendum is an addendum to the January 2008 Term Note. Capitalized terms and financial terms not defined herein shall have the meanings ascribed to them in the January 2008 Term Note or, if not defined in the January 2008 Term Note, the meanings ascribed to them by generally accepted accounting principles. In the event of any conflict between the provisions of the January 2008 Term Note or any other document by and between Bank and Borrower or by Borrower in favor of Bank, on the one hand, and the provisions of this Addendum on the other, the provisions of this Addendum shall prevail and control.

1. Extension of January 2008 Term Note Option. Borrower and Bank agree that, so long as no default or Event of Default under any Loan Document has occurred and is continuing, Borrower shall have the following option with respect to the January 2008 Term Note:

Borrower may extend the maturity date of the January 2008 Term Note from January 31, 2009 (the "Original Maturity Date") to January 31, 2014 (the "Extended Maturity Date"). This option may be exercised only: (a) once during the term of the January 2008 Term Note, on or before the Original Maturity Date; (b) upon actual receipt by Bank of written notice of exercise from Borrower to Bank received no later than December 31, 2008; (c) after all loan proceeds that Borrower has requested to be advanced and that Bank has agreed to advance under the January 2008 Term Note have been fully advanced; and (d) as to the entire then-outstanding principal balance of the January 2008 Term Note.

Following extension of the maturity date of the January 2008 Term Note from the Original Maturity Date to the Extended Maturity Date as provided above, the repayment schedule for the January 2008 Term Note shall be revised so that the remaining principal and interest shall be payable in equal monthly installments, each in an amount sufficient to amortize the remaining principal balance of the January 2008 Term Note plus interest thereon over the remaining term of the January 2008 Term Note, as extended to the Extended Maturity Date.

If Borrower is eligible and elects to extend the maturity date of the January 2008 Term Note from the Original Maturity Date to the Extended Maturity Date as provided hereby, Borrower shall execute an amendment to the January 2008 Term Note or, at Bank's option, an amended and restated promissory note reflecting the extension of the maturity date thereof and the change in the repayment schedule, and describing Bank's applicable prepayment indemnity, if any, in effect at the time of conversion. Depending upon the applicable prepayment indemnity option following conversion, Borrower acknowledges that prepayment may be prohibited except with the consent of Bank.

No additional advances shall be made under the January 2008 Term Note after extension of the maturity date of the January 2008 Term Note from the Original Maturity Date to the Extended Maturity Date as provided above, even if less than all proceeds evidenced by the January 2008 Term Note have been advanced prior to such conversion.

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If Borrower is not eligible to exercise or chooses not to exercise its option to extend the maturity date of the January 2008 Term Note to the Extended Maturity Date, as provided herein, Borrower shall repay all outstanding and unpaid principal and interest on the Original Maturity Date.

2. Incorporation of Revolving Loan Agreement and Revolving Loan Documents.

2.1 Bank and Borrower hereby agree that all extensions of credit by Bank to Borrower, including, without limitation, extensions of credit made by Bank to Borrower pursuant to the January 2008 Term Note, shall be subject to all the financial covenant provisions and financial reporting requirements contained in (i) that certain Revolving Credit Agreement of even date herewith by and between Borrower and Bank, as such agreement has been or may in the future be amended, modified, extended, supplemented, restated or replaced (collectively, the "Revolving Loan Agreement") and (ii) any and all addendums and other documents that have been or may in the future be executed that by their terms amend, modify, extend, supplement, restate or replace the Revolving Loan Agreement (such documents and the Revolving Loan Agreement collectively, the "Revolving Loan Documents"). All the financial covenant provisions and financial reporting requirements contained in the Revolving Loan Agreement or the Revolving Loan Documents apply to and are incorporated by this reference into all such extensions of credit by Bank to Borrower and all documents entered into in connection with such extensions of credit and all of the provisions of the Revolving Loan Agreement and the Revolving Loan Documents shall remain in full force and effect with respect to any and all such extensions of credit by Bank to Borrower (a) regardless of whether the advances and extensions of credit evidenced by that certain promissory note in the original principal amount of \$5,000,000.00 dated of even date herewith by Borrower in favor of Bank, as such note has been or may in the future be amended, modified, extended, supplemented, restated or replaced (collectively, the "January 2008 Revolving Note") has been repaid and (ii) notwithstanding termination of the Revolving Loan Agreement or the Revolving Loan Documents unless

documentation terminating the Revolving Loan Agreement or the Revolving Loan Documents expressly states that the provisions of the Revolving Loan Agreement and the Revolving Loan Documents no longer apply to such extensions of credit.

2.2 Without limitation on the generality of the foregoing Section 2.1, each and every loan document entered into in connection with any extension of credit by Bank to Borrower, including, without limitation, each of the Revolving Loan Documents, shall constitute a "Loan Document" as defined in the Revolving Loan Agreement.

3. Continuing Validity. Except as expressly modified above or in other agreements between Borrower and Bank, the terms of the January 2008 Term Note, the Revolving Loan Agreement, the Revolving Loan Documents, and the other Loan Documents shall remain unchanged and in full force and effect.

[Signature Page Follows]

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Dated as of January 29, 2008

Hi-Shear Technology Corporation,
a Delaware corporation

By: /s/ George W. Trahan
Name and Title: George W. Trahan

President and CEO

By: /s/ Jan L. Hauhe
Name and Title: Jan L. Hauhe

CFO

U.S. Bank N.A.

By: /s/ David J. Clarke
David J. Clarke,
Vice President

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AMENDMENT TO REVOLVING CREDIT AGREEMENT
AND LOAN DOCUMENTS

This Amendment to Revolving Credit Agreement and Loan Documents (this "AMENDMENT"), is entered into as of June 4, 2008, by and between Hi-Shear Technology Corporation ("BORROWER") and U.S. Bank N.A., a national banking association ("BANK").

RECITALS

A. Borrower and Bank are parties to a Revolving Credit Agreement dated as of January 29, 2008 (as such document may have previously been amended, modified, extended, supplemented, restated or replaced, the "EXISTING CREDIT AGREEMENT"). Borrower and Bank are also parties to (i) an Addendum to Revolving Credit Agreement and Note dated as of January 29, 2008 (as such document may have previously been amended, modified, extended, supplemented, restated or replaced, the "EXISTING FIRST REVOLVER ADDENDUM") and (ii) a Second Addendum to Revolving Credit Agreement and Note dated as of January 29, 2008 (as such document may have previously been amended, modified, extended, supplemented, restated or replaced, the "SECOND REVOLVER ADDENDUM").

B. The current outstanding and unpaid indebtedness of Borrower to Bank under the Existing Credit Agreement is evidenced by a Revolving Credit Note dated as of January 29, 2008 in the original principal amount of Five Million and No/100 Dollars (\$5,000,000.00) by Borrower in favor of Bank, with an Interest Rate Rider by Borrower in favor of Bank attached thereto (such note and rider, as they may have previously been amended, modified, extended, supplemented, restated or replaced, collectively, the "NOTE").

C. Borrower and Bank desire to amend the Existing Credit Agreement and the Existing First Revolver Addendum to modify a financial covenant contained therein and to, to the extent necessary, to provide a waiver of a certain violation of a financial covenant.

D. The Existing Credit Agreement and the Existing First Revolver Addendum, as amended and modified by this Amendment, are referred to hereinafter as the "CREDIT AGREEMENT" and the "FIRST REVOLVER ADDENDUM," respectively.

AGREEMENT

1. RECITALS. The Recitals above are incorporated herein by this reference as if fully set forth herein. Capitalized terms not otherwise defined in the Recitals or otherwise in this Amendment shall have the meanings ascribed to them in the Existing Credit Agreement.

2. AMENDMENT AND RESTATEMENT OF DEFINITION OF "FIXED CHARGE COVERAGE RATIO." The definition of "Fixed Charge Coverage Ratio," which consists of three lines of text on the second page of the Existing First Revolver Addendum, is hereby amended and restated in its entirety, effective beginning with the period ending and ended February 29, 2008, as follows:

"Fixed Charge Coverage Ratio" shall mean (a) EBITDAR minus cash taxes, cash dividends, cash distributions and Maintenance Capital Expenditures divided by (b) the sum of all required principal payments (on short and long term debt and capital leases), interest and rental or lease expense; PROVIDED, HOWEVER, a cash dividend shall not be subtracted from EBITDAR as provided in clause (a) of this definition with respect to any period of measurement in and only if:

(i) such dividend is issued as permitted by the terms and conditions of the Loan Documents;

(ii) Borrower has maintained LIQUID ASSETS (as defined below) in an amount if no less than \$750,000.00 with Bank as of the last day of the period on which such dividend is paid; and

(iii) there is no outstanding and unpaid balance under the Note on the day such dividend is paid.

"LIQUID ASSETS" shall mean unencumbered cash and unencumbered cash equivalents (which may include, without limitation, highly marketable securities, securities issued by the United States Treasury, and similar investments) as determined by Bank in its sole discretion.

3. WAIVER.

3.1 Borrower acknowledges that Borrower committed the following violation of the Fixed Charge Coverage Ratio as set forth on the second page of the Existing First Revolver Addendum (the "FCCR COVENANT VIOLATION"): Borrower permitted the First Charge Coverage Ratio to be less than 1.25 to 1.00 for the rolling four-quarter period ending and ended February 29, 2008.

3.2 To the extent necessary notwithstanding the retroactive amendment of the Fixed Charge Ratio contained in Section 2 above, Bank hereby waives the FCCR Covenant Violation and, notwithstanding any of the terms of the Existing First Revolver Addendum or any of the other Loan Documents, the FCCR Covenant Violation shall not constitute a violation of, or Event of Default under, any of the provisions of the Existing Credit Agreement or any of the other Loan Documents. Except as expressly set forth herein, the waiver in this Section 3.2 shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights or remedies of Bank under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in

the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle Borrower to a waiver, amendment, modification or other change of any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document in similar or different circumstances. The waiver in this Section 3.2 shall apply and be effective only with respect to the specific FCCR Covenant Violation described in this Amendment and shall not constitute a forbearance, waiver or consent by Bank with respect to any other violation, default or Event of Default under the Credit Agreement or any of the other Loan Documents, including, without limitation, any failure of Borrower to satisfy any covenant set forth in the Credit Agreement or other Loan Document as of any other date on which such covenant shall be measured in accordance with the Credit Agreement or other Loan Document.

4. REPRESENTATIONS, WARRANTIES AND COVENANTS. Before and after giving effect to this Amendment, the representations and warranties in Article II or elsewhere in the Existing Credit Agreement shall be true and correct as though such representations and warranties were made on the date hereof. The execution by the Borrower of this Amendment shall be deemed a representation that the Borrower has complied with the foregoing conditions. In addition, Borrower reaffirms all covenants contained in Article II or elsewhere in the Credit Agreement (including such covenants as have been amended by this Amendment) as though such covenants were made on the date hereof. All of the terms of the Existing Credit Agreement, except as expressly amended by this Amendment, shall remain unchanged and in full force and effect, and the remaking of the representations and warranties, and reaffirmation of the covenants, does not in any way limit the continued applicability of all the provisions of the Existing Credit Agreement, as amended by this Amendment.

5. CONDITIONS TO EFFECTIVENESS. This Agreement shall become effective upon the occurrence of each of the following on or before June 10, 2008:

5.1 Execution of this Amendment by Borrower and Bank, and the delivery to Bank of such fully-executed Amendment.

5.2 Payment by Borrower of Bank's fees incurred in connection with this Amendment.

6. MISCELLANEOUS.

6.1 CONTINUING VALIDITY. Except as expressly modified above, the terms of the Existing Credit Agreement, the Existing First Revolver Addendum, the Second Revolver Addendum, the Note and the other Loan Documents shall remain unchanged and in full force and effect. Consent by Bank to this Amendment does not waive Bank's right to require strict performance of any and all the documents executed in connection with any credit extended pursuant to the Credit Agreement or the other Loan Documents nor does Bank's consent obligate Bank to

make any future modifications. Nothing in this Amendment shall constitute a satisfaction of the Credit Agreement, the First Revolver Addendum, the Second Revolver Addendum, the Note or any of the Loan Documents.

6.2 TERM LOAN. The provisions of this Amendment shall apply to the term loan evidenced by that certain Installment or Single Payment Note in the original principal amount of \$1,000,000.00 dated as of January 29, 2008 by Borrower in favor of Bank, as provided in that certain Addendum to Installment or Single Payment Note dated as of January 29, 2008 by and between Borrower and Bank.

6.3 UNDERSTANDING OF BORROWER.

PRIOR TO SIGNING THIS AMENDMENT, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS AMENDMENT AND ANY AND ALL LOAN DOCUMENTS AND RELATED DOCUMENTS.

[signature page follows]

IN WITNESS WHEREOF, each of Borrower and Bank agree to the terms and conditions of this Amendment as set forth above.

Borrower:

Hi-Shear Technology Corporation,
a Delaware corporation

By: /S/ JAN L. HAUHE

Name and Title: Jan L. Hauhe
Chief Financial Officer

By: /S/ GEORGE W. TRAHAN

Name and Title: George W. Trahan
Chief Executive Officer

Bank:

U.S. Bank N.A.

By: /S/ DAVID J. CLARKE

David J. Clarke,

Vice President

EXHIBIT 31.1

CERTIFICATIONS

I, George W. Trahan, certify that:

1. I have reviewed this Form 10-KSB of Hi-Shear Technology Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent

functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: August 29, 2008

/s/ George W. Trahan

George W. Trahan
President, Chief Executive Officer and Chairman

EXHIBIT 31.2

CERTIFICATIONS

I, Jan L. Hauhe, certify that:

1. I have reviewed this Form 10-KSB of Hi-Shear Technology Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent

functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: August 29, 2008

/s/ Jan L. Hauhe

Jan L. Hauhe
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying Annual Report on Form 10-KSB of Hi-Shear Technology Corporation for the year ended May 31, 2008, I, George W. Trahan, President, Chief Executive Officer and Chairman of Hi-Shear Technology Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Annual Report on Form 10-KSB for the year ended May 31, 2008, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in such Annual Report on Form 10-KSB for the year ended May 31, 2008, fairly presents, in all material respects, the financial condition and results of operations of Hi-Shear Technology Corporation.

/s/ George W. Trahan

George W. Trahan
President, Chief Executive Officer and Chairman

August 29, 2008

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Hi-Shear Technology Corporation and will be retained by Hi-Shear Technology Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying Annual Report on Form 10-KSB of Hi-Shear Technology Corporation for the year ended May 31, 2008, I, Jan L. Hauhe, Chief Financial Officer of Hi-Shear Technology Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Annual Report on Form 10-KSB for the year ended May 31, 2008, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in such Annual Report on Form 10-KSB for the year ended May 31, 2008, fairly presents, in all material respects, the financial condition and results of operations of Hi-Shear Technology Corporation.

/s/ Jan L. Hauhe

Jan L. Hauhe
Chief Financial Officer

August 29, 2008

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Hi-Shear Technology Corporation and will be retained by Hi-Shear Technology Corporation and furnished to the Securities and Exchange Commission or its staff upon request.