SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-07-12** | Period of Report: **1995-07-10**
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HARROW INDUSTRIES INC

CIK:**811081**| IRS No.: **521499045** | State of Incorp.:**DE** | Fiscal Year End: **1127**
Type: **10-Q** | Act: **34** | File No.: **001-09440** | Film No.: **95553364**
SIC: **5200** Building materials, hardware, garden supply

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the second thirteen week accounting period ended May 28, 1995	Commission File Number 1-9440

HARROW INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	52-1499045
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2627 East Beltline S.E., Grand Rapids, Michigan	49546
(Address of principal executive officers)	(Zip Code)

(616) 942-1440
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months and; (2) has been subject to such filing requirements for the past ninety (90) days.

Yes X No

The Company has 1,100,000 shares of common stock, par value $.01 a share, issued and outstanding as of July 5, 1995.

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PART I - FINANCIAL INFORMATION

Harrow Industries, Inc. and Subsidiaries

Consolidated Condensed Balance Sheets

	May 28, 1995 (Unaudited)	November 27, 1994 (Audited)
	(Thousands of dollars)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 369	$ 919
Accounts receivable, less allowances (1995--$618; 1994--$614)	15,611	17,484
Inventories:		
Finished products	3,482	3,585
Work-in-process	6,061	4,139
Raw materials	2,031	3,737
	11,574	11,461
Other current assets	2,101	1,366
Total current assets	29,655	31,230
Property, plant and equipment:		
Cost	37,551	41,196
Less accumulated depreciation	20,577	22,422
	16,974	18,774
Other assets:		
Intangible assets, less accumulated amortization (1995--$5,459; 1994--$4,985)	14,201	4,942
Prepaid pension costs	6,564	5,623
Other	909	809
	21,674	11,374
	$68,303	$61,378

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Harrow Industries, Inc. and Subsidiaries

Consolidated Condensed Balance Sheets--Continued

	May 28, 1995 (Unaudited)	November 27, 1994 (Audited)
	(Thousands of dollars)	
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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$13,964	$14,771
Long-term debt	50,039	45,005
Other noncurrent liabilities	6,207	5,332
Stockholders' equity (deficit):		
Junior preferred stock, par value $.01 a share--470,000 shares authorized 399,964 shares issued and outstanding	4	4
Common stock, par value $0.01 a share-- 1,100,000 shares authorized, issued and outstanding	11	11
Additional paid-in capital	4,006	4,006
Retained earnings	8,180	6,485
Accumulated translation adjustments (deduct)		(128)
Deficit arising from restructuring transactions (deduct)	(14,108)	(14,108)
	(1,907)	(3,730)

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	$68,303	$61,378

</TABLE>

See accompanying notes to consolidated condensed financial statements.

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Harrow Industries, Inc. and Subsidiaries

Consolidated Condensed Statements of Operations (Unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	May 28, 1995	May 29, 1994	May 28, 1995	May 29, 1994
	(Thousands of dollars, except per share data)			
<S>	<C>	<C>	<C>	<C>
Net sales	$33,517	$36,042	$65,887	$67,481
Cost of products sold	21,301	24,000	42,619	45,467
Gross margin	12,216	12,042	23,268	22,014
Selling, administrative and general expenses	9,236	9,669	18,099	18,859
Operating income	2,980	2,373	5,169	3,155
Other expense (income):				
Interest expense	1,691	1,599	3,376	3,200
Gain on sale of businesses			(801)	
Other	5	64	(14)	15
	1,696	1,663	2,561	3,215
Earnings (loss) before income taxes	1,284	710	2,608	(60)

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Income taxes (credit)	524	407	712	(32)
Net earnings (loss)	760	303	1,896	(28)
Net earnings (loss) per share	$.64	$.23	$1.63	$(.12)

See accompanying notes to consolidated condensed financial statements.
</TABLE>

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Harrow Industries, Inc. and Subsidiaries

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Twenty-six weeks ended	
	May 28, 1995	May 29, 1994
	(Thousands of dollars)	
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net earnings (loss)	$1,896	$ (28)
Adjustments necessary to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,888	1,835
Gain on sale of businesses	(801)	
Other	(534)	(82)
Changes in operating assets and liabilities:		
Accounts receivable	(132)	48
Inventories	(2,185)	(1,349)
Other current assets	(380)	(199)

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Accounts payable and accrued expenses	420	457
Net cash provided by operating activities	172	682
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(1,762)	(1,386)
Purchase of business	(9,555)	
Proceeds from sale of businesses	5,998	
Other	(269)	1
Net cash used in investing activities	(5,588)	(1,385)
FINANCING ACTIVITIES		
Proceeds from revolving credit borrowings	12,442	3,402
Payments on revolving credit debt	(7,376)	(3,402)
Cash dividends paid on preferred stock	(200)	(200)
Net cash provided (used in) by financing activities	4,866	(200)
Decrease in cash and cash equivalents	(550)	(903)
Cash and cash equivalents at beginning of year	919	2,303
Cash and cash equivalents at end of period	$369	$1,400

( ) Denotes reduction in cash and cash equivalents.

See accompanying notes to consolidated condensed financial statements.
</TABLE>

Notes to Consolidated Condensed Financial Statements

Harrow Industries, Inc. and Subsidiaries

May 28, 1995

Note A - Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management,

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all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the consolidated condensed financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission.

Note B - Purchase of Business

On January 4, 1995, pursuant to a definitive purchase agreement entered into on November 30, 1994, the Company acquired all of the common stock of Recognition Systems, Inc. (RSI) for a cash purchase price (net of cash acquired) of $9,555,000. RSI manufactures and markets biometric identification devices and had net sales of $3,300,000 in 1994. Operating results of RSI are included in the Company's consolidated results beginning December 1, 1994. Goodwill recognized in connection with the purchase approximated $7,800,000.

Note C - Sale of Business

On February 6, 1995, the Company completed the sale of substantially all of the net assets of its Leigh Products Division and all of the capital stock of its Canadian subsidiary, Leigh Metal Products, Ltd. The sale, which was initiated in November 1994, resulted in a pre-tax gain of $800,000 which includes 1995 operating results of the Leigh businesses for the period from November 28, 1994 to February 6, 1995. Amounts related to the Leigh operations are otherwise excluded from reported amounts for the 1995 period. The cash generated from the sale totalled $5,998,000, after deducting transaction expenses and the amount of cash used in fiscal 1995 operations for the period prior to sale.

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Notes to Consolidated Condensed Financial Statements - continued

Harrow Industries, Inc. and Subsidiaries

May 28, 1995

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Note D - Net Earnings (Loss) Per Share

A summary of the computation of net earnings (loss) per share is as follows:

	Thirteen weeks ended May 28, 1995	Thirteen weeks ended May 29, 1994	Twenty-six weeks ended May 28, 1995	Twenty-six weeks ended May 29, 1994
	(Thousands of dollars, except per share data and weighted average shares outstanding)			
<S>	<C>	<C>	<C>	<C>
Shares outstanding	1,100,000	1,100,000	1,100,000	1,093,343
Net earnings (loss)	$760	$303	$1,896	$ (28)
Dividend requirements of junior preferred stock	(50)	(50)	(100)	(100)
Net earnings (loss) applicable to common stock	$ 710	$253	$1,796	$(128)
Net earnings (loss) per share	$.64	$.23	$1.63	$(.12)

</TABLE>

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's cash requirements relate primarily to the seasonal financing of working capital, the purchase of property, plant and equipment, business acquisition opportunities, the servicing of outstanding debt and cash dividends. Cash provided by operating activities continues to be the major source of the Company's funds and is expected to satisfy a substantial portion of future cash needs. These funds have been augmented by long-term borrowings under a revolving credit agreement.

Cash provided by operating activities totaled $172,000 in the 1995 period as compared to $682,000 in the 1994 period. Operating assets increased during the first half of 1995 by approximately $2.7 million compared to $1.5 million during the similar 1994 period. The increase in operating assets follows a normal seasonal pattern resulting from inventory build-ups in anticipation of higher second half sales. The 1995 increase also reflects

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longer lead times in certain purchased components and temporary seasonal increases in certain inventories. This additional increase in cash used for operating assets in fiscal 1995 was partially offset primarily by increases in net earnings. Working capital at May 28, 1995 was $15.7 million compared to $16.5 million at November 27, 1994. The Company's current ratio of 2.1 to 1 at May 28, 1995 remains unchanged from the current ratio at November 27, 1994.

Capital expenditures were $1.8 million in the 1995 period and $1.4 million in the 1994 period. Capital additions for all of 1995 are expected to approximate $5 million and will be primarily for profit improvement, replacement and capacity expansion.

On January 4, 1995, the Company acquired all of the common stock of Recognition Systems, Inc. (RSI) for a cash purchase price (net of cash acquired) of $9.6 million. The acquisition was financed principally through borrowings under the Company's revolving credit facility. Goodwill recognized in connection with the purchase approximated $7.8 million.

On February 6, 1995, the Company completed the sale of substantially all of the net assets of its Leigh Products Division and all of the issued and outstanding capital stock of its wholly-owned Canadian subsidiary, Leigh Metal Products, Ltd. The cash generated from the sale approximated $6.0 million after deducting transaction expenses and the amount used in fiscal 1995 operations for the period prior to sale.

The Senior Subordinated Debentures require annual sinking fund payments; however, as a result of the repurchase of debentures in 1990 and 1991, no principal maturities are due until 1999. Under the terms of the revolving credit agreement, the Company can borrow up to $20 million. As of May 28, 1995, the available unused credit approximated $8 million under the asset-based formula of the agreement.

Results of Operations - Thirteen weeks ended May 28, 1995 compared to thirteen weeks ended May 29, 1994

The comparability of operating results is affected by the acquisition of Recognition Systems, Inc. (RSI) (see Note B to the consolidated condensed financial statements) and the sale of Leigh businesses (see Note C). Operating results of the Leigh businesses are included in consolidated results for 1994 and excluded from 1995 consolidated results. Operating results of RSI are included in consolidated results effective as of December 1, 1994.

Consolidated net sales decreased from $36 million in the 1994 period to $33.5 million in the 1995 period. Sales of continuing operations (excluding the Leigh businesses from 1994 amounts) increased by $2.5 million from $29.8 million in the 1994 period to $32.3 million in the 1995 period. All product lines experienced increases. Sales for the 1995 quarter were strongest in commercial security products and systems, custom cabinetry

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and water source heat pumps. RSI added net sales of $1.2 million in the 1995 period.

Gross margin increased from $12.0 million in the 1994 period to $12.2 million in the 1995 period. As a percentage of net sales, gross margin increased from 33.4% in the 1994 period to 36.4% in the 1995 period. The elimination of the lower margin Leigh businesses combined with the acquisition of RSI contributed significantly to the improvement in gross margin percentages. Higher sales volume of other product lines, particularly custom cabinetry, and improved labor efficiency also contributed to the gross margin improvement. Offsetting these factors were aluminum, brass and copper cost increases which effected builder and consumer hardware gross margins.

Selling, administrative and general expenses decreased $400,000 (4.5%) from $9.6 million in the 1994 period to $9.2 million in the 1995 period. As a percentage of net sales, selling, administrative and general expenses increased from 26.8% in the 1994 period to 27.5% in the 1995 period. Selling, administrative and general expenses for the 1995 period reflect a decrease due to the sale of Leigh businesses of $1.5 million partially offset by volume-related increases for all other operations.

Interest expense increased slightly from $1.6 million in the 1994 period to $1.7 million in the 1995 period. The higher interest expense is due to borrowings under the revolving credit agreement required to finance the acquisition of RSI.

The 1995 provision for income taxes exceeds the amount expected using the statutory federal income rate of 34% due to primarily to state taxes and the tax effect of nondeductible goodwill amortization. The 1994 provision for income taxes was based on an estimated annual effective rate of approximately 57% which was revised downward in subsequent quarters to an annual rate which approximated the statutory rate.

Net earnings were $760,000 ($.64 per share) in the 1995 period compared to $303,000 ($.23 per share) in the 1994 period.

Results of Operations - Twenty-six weeks ended May 28, 1995 compared to twenty-six weeks ended May 29, 1994

The comparability of operating results if affected by the acquisition of Recognition Systems, Inc. (RSI) (see Note B to the consolidated condensed financial statements) and the sale of Leigh businesses (see Note C). Operating results of the Leigh businesses are included in consolidated results for 1994 and, except for the gain on the sale of $800,000, are excluded from 1995 consolidated results. Operating results of RSI are included in consolidated results effective as of December 1, 1994.

Consolidated net sales decreased from $67.5 million in the 1994 period to $65.9 million in the 1995 period. Sales of continuing operations (excluding the Leigh businesses from 1994 amounts) increased by $7.7 million from $55.9

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million in the 1994 period to $63.6 million in the 1995 period. All product lines experienced increases. Sales for the 1995 first half were particularly strong in consumer pruning and harvesting tools, commercial security products and systems, custom cabinetry and water source heat pumps. RSI added net sales of $2.3 million in the 1995 period.

Gross margin increased $1.3 million (5.7%) from $22.0 million in the 1994 period to $23.3 million in the 1995 period. As a percentage of net sales, gross margin increased from 32.6% in the 1994 period to 35.3% in the 1995 period. The elimination of the lower margin Leigh businesses combined with the acquisition of RSI contributed significantly to the improvement in gross margin percentages. Higher sales volume of other product lines, particularly custom cabinetry and consumer pruning tools, and improved labor efficiency, also contributed to the gross margin improvement. Offsetting these factors were aluminum, brass and copper cost increases which effected builder and consumer hardware gross margins.

Selling, administrative and general expenses decreased $800,000 (4.0%) from $18.9 million in the 1994 period to $18.1 million in the 1995 period. As a percentage of net sales, selling, administrative and general expenses decreased from 27.9% in the 1994 period to 27.5% in the 1995 period. Selling, administrative and general expenses for the 1995 period reflect a decrease of $3.0 million due to the sale of the Leigh businesses partially offset by volume-related increases for all other operations.

Interest expense increased from $3.2 million in the 1994 period to $3.4 million in the 1995 period. The higher interest expense is due to borrowings under the revolving credit agreement required to finance the acquisition of Recognition Systems, Inc.

The 1995 provision for income taxes in less than the amount expected using the statutory federal income rate of 34% due to the tax effect of the gain on the sale of the Leigh businesses, which more than offsets the effect of state income taxes and nondeductible items (principally goodwill amortization). The 1994 provision for income taxes was based on an estimated annual effective rate of approximately 53% which was revised downward in subsequent quarters to an annual rate which approximated the statutory rate.

Net earnings were $1.9 million ($1.63 per share) in the 1995 period compared to a net loss of $28,000 ($(.12) per share) in the 1994 period.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

The registrant filed a Form 8-K/A on April 12, 1995 to provide pro forma financial information reflecting the effect of the February 6, 1995 sale of

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the Leigh Products Division and Leigh Metal Products, Ltd. Pursuant to Item 601(c) of Regulation SK, a financial data schedule is being submitted as an exhibit to this Form 10Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARROW INDUSTRIES, INC.

Date : July 5, 1995

By: /s/ John S. Hogan
John S. Hogan
Vice President and
Chief Financial Officer

Date: July 5, 1995

By: /s/ Gary L. Humpreys
Gary L. Humphreys
Vice President,
Corporate Controller and
Chief Accounting Officer

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