TAYLOR DEVICES INC
Form 10-Q
April 14, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2011

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 0-3498

TAYLOR DEVICES, INC.

(Exact name of registrant as specified in its charter)

NEW YORK (State or other jurisdiction of incorporation or organization)	16-0797789 (I.R.S. Employer Identification No.)
90 Taylor Drive, North Tonawanda, New York (Address of principal executive offices)	14120-0748 (Zip Code)

716-694-0800

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

As of April 14, 2011, there were outstanding 3,231,199 shares of the registrant's common stock, par value $.025 per share.

TAYLOR DEVICES, INC.
Index to Form 10-Q

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets	**(Unaudited) February 28, 2011**	May 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,498,578**	$ 197,587
Accounts receivable, net	**1,992,861**	5,033,395
Inventory	**6,720,131**	6,474,148
Costs and estimated earnings in excess of billings	**3,095,412**	1,051,354
Other current assets	**1,364,132**	1,485,015
Total current assets	**14,671,114**	14,241,499
Maintenance and other inventory, net	**819,259**	718,749
Property and equipment, net	**3,414,629**	3,497,800
Other assets	**146,623**	142,355
	$ 19,051,625	$ 18,600,403
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	**$ 5,485**	$ 5,485
Accounts payable	**1,470,084**	1,096,289
Accrued commissions	**371,177**	380,448
Billings in excess of costs and estimated earnings	**200,466**	367,764

Other current liabilities	**1,158,356**	1,548,655
Total current liabilities	**3,205,568**	3,398,641
Long-term liabilities	**254,513**	313,626
Stockholders' Equity:		
Common stock and additional paid-in capital	**6,652,019**	6,611,906
Retained earnings	**11,201,227**	10,507,514
	17,853,246	17,119,420
Treasury stock - at cost	**(2,261,702)**	(2,231,284)
Total stockholders' equity	**15,591,544**	14,888,136
	$ 19,051,625	$ 18,600,403

See notes to condensed consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Income

	(Unaudited) For the three months ended February 28,		**(Unaudited)** For the nine months ended February 28,	
	2011	2010	**2011**	2010
Sales, net	**$ 4,979,343**	$ 4,783,353	**$ 13,781,168**	$ 13,285,823
Cost of goods sold	**3,636,424**	3,283,576	**10,259,685**	8,639,332
Gross profit	**1,342,919**	1,499,777	**3,521,483**	4,646,491
Selling, general and administrative expenses	**946,168**	956,089	**2,702,976**	3,268,512
Operating income	**396,751**	543,688	**818,507**	1,377,979
Other income, net	**25,349**	2,786	**86,206**	5,182
Income before provision for income taxes	**422,100**	546,474	**904,713**	1,383,161
Provision for income taxes	**36,000**	221,700	**211,000**	235,700

Net income	**$ 386,100**	$ 324,774	**$ 693,713**	$ 1,147,461
Basic and diluted earnings per common share	**$ 0.12**	$ 0.10	**$ 0.21**	$ 0.36

See notes to condensed consolidated financial statements.

4

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

	(Unaudited)	
For the nine months ended	**February 28, 2011**	February 28, 2010
Operating activities:		
Net income	**$ 693,713**	$ 1,147,461
Adjustments to reconcile net income to net cash flows from		
operating activities:		
Depreciation and amortization	**351,205**	340,170
Stock options issued for services	**30,463**	19,851
Deferred income taxes	**(8,000)**	-
Changes in other assets and liabilities:		
Accounts receivable	**3,040,534**	(243,817)
Inventory	**(346,493)**	(3,783)
Costs and estimated earnings in excess of billings	**(2,044,058)**	(496,615)
Other current assets	**73,883**	69,282
Accounts payable	**373,795**	292,255
Accrued commissions	**(9,271)**	(136,839)
Billings in excess of costs and estimated earnings	**(167,298)**	(26,702)
Other current liabilities	**(390,299)**	224,207
Net operating activities	**1,598,174**	1,185,470
Investing activities:		
Acquisition of property and equipment	**(268,034)**	(180,655)
Other investing activities	**(4,268)**	33,654
Net investing activities	**(272,302)**	(147,001)
Financing activities:		
Net short-term borrowings and repayments on long-term debt	**(4,113)**	(878,113)
Proceeds from issuance of common stock, net	**9,650**	10,487
Acquisition of treasury stock	**(30,418)**	-

Net financing activities	**(24,881)**	(867,626)
Net change in cash and cash equivalents	**1,300,991**	170,843
Cash and cash equivalents - beginning	**197,587**	45,297
Cash and cash equivalents - ending	**$ 1,498,578**	$ 216,140

See notes to condensed consolidated financial statements.

TAYLOR DEVICES, INC.

Notes to Condensed Consolidated Financial Statements

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of February 28, 2011 and May 31, 2010, the results of operations for the three and nine months ended February 28, 2011 and February 28, 2010, and cash flows for the nine months ended February 28, 2011 and February 28, 2010. These financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report to Shareholders for the year ended May 31, 2010. There have been no updates or changes to our audited financial statements for the year ended May 31, 2010.

2. The Company has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were issued.

3. There is no provision nor shall there be any provisions for profit sharing, dividends, or any other benefits of any nature at any time for this fiscal year.

4. For the three and nine month periods ended February 28, 2011 and February 28, 2010, the net income was divided by 3,228,120 and 3,223,317, respectively, which is net of the Treasury shares, to calculate the net income per share.

5. The results of operations for the nine month period ended February 28, 2011 are not necessarily indicative of the results to be expected for the full year.

6. Recently issued Financial Accounting Standards Board Accounting Standards Codification guidance has either been implemented or is not significant to the Company.

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

Cautionary Statement

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Information in this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this 10-Q that does not consist of historical facts, are "forward-looking statements." Statements accompanied or qualified by, or containing, words such as "may," "will," "should," "believes," "expects," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," and "assume" constitute forward-looking statements and, as such, are not a guarantee of future performance. The statements involve factors, risks and uncertainties, the impact or occurrence of which can cause actual results to differ materially from the expected results described in such statements. Risks and uncertainties can include, among others, uncertainty regarding how long the worldwide economic recession will continue and whether the recession will deepen; reductions in capital budgets by our customers and potential customers; changing product demand and industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for the Company's products; and other factors, many or all of which are beyond the Company's control. Consequently, investors should not place undue reliance on forward-looking statements as predictive of future results. The Company disclaims any obligation to release publicly any updates or revisions to the forward-looking statements herein to reflect any change in the Company's expectations with regard thereto, or any changes in events, conditions or circumstances on which any such statement is based.

Results of Operations

A summary of the period to period changes in the principal items included in the condensed consolidated statements of income is shown below:

Summary comparison of the nine months ended February 28, 2011 and February 28, 2010

	Increase / (Decrease)
Sales, net	$ 495,000
Cost of goods sold	$ 1,620,000
Selling, general and administrative expenses	$ (566,000)
Income before provision for income taxes	$ (478,000)
Provision for income taxes	$ (25,000)
Net income	$ (454,000)

Sales under certain fixed-price contracts, requiring substantial performance over several periods prior to commencement of deliveries, are accounted for under the percentage-of-completion method of accounting whereby revenues are recognized based on estimates of completion prepared on a ratio of cost to total estimated cost basis. Costs include all material and direct and indirect charges related to specific contracts.

Adjustments to cost estimates are made periodically and any losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. However, any profits expected on contracts in progress are recognized over the life of the contract.

For financial statement presentation purposes, the Company nets progress billings against the total costs incurred on uncompleted contracts. The asset, "costs and estimated earnings in excess of billings," represents revenues recognized in excess of amounts billed. The liability, "billings in excess of costs and estimated earnings," represents billings in excess of revenues recognized.

For the nine months ended February 28, 2011 (All figures discussed are for the nine months ended February 28, 2011 as compared to the nine months ended February 28, 2010.)

Nine months ended	Change

	February 28, 2011	February 28, 2010	Increase / (Decrease)	Percent Change
Net Revenue	$13,781,000	$13,286,000	$ 495,000	*4%*
Cost of sales	10,260,000	8,640,000	1,620,000	*19%*
Gross profit	$ 3,521,000	$ 4,646,000	$(1,125,000)	*-24%*
....as a percentage of net revenues	*26%*	*35%*		

The Company's consolidated results of operations showed a 4% increase in net revenues and a decrease in net income of 40%. Revenues recorded in the current period for long-term construction projects ("Project(s)") were 8% higher than the level recorded in the prior year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were lower by 2% from the level recorded in the prior year. The gross profit as a percentage of net revenues for the current and prior year periods was 26% and 35%. This fluctuation is attributable primarily to a.) three large export Projects in the prior year period had higher than average margins, b.) three large Projects in the prior year with aerospace / defense customers that had higher margins than average Projects for construction customers, and c.) in the current period, there were more Projects sold directly to representatives in two different Asian countries, net of their normal commission, which resulted in lower sales, gross margins and commission expense.

While the overall sales figures showed only a slight increase from the prior year, the mix of customers buying our products changed. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. An unusually high percentage of sales were to customers in the aerospace and defense markets last year. The negative effect of the slow global construction market last fiscal year was offset by an increase in our global sales to customers in the aerospace and defense markets. A breakdown of sales to the three general groups of customers is as follows:

	First Nine Months Fiscal 2011	First Nine Months Fiscal 2010
Industrial	8%	9%
Construction	60%	38%
Aerospace / Defense	32%	53%

At February 28, 2010, we had 124 open sales orders in our backlog with a total sales value of $13 million. At February 28, 2011, we have 11% fewer open sales orders in our backlog (110 orders) but the total sales value is $13.6 million or approximately 5% higher than the prior year.

The Company's revenues and net income fluctuate from period to period. The fluctuations in comparing the current period to the prior period are not necessarily representative of future results.

8

Selling, General and Administrative Expenses

	Nine months ended		Change	
	February 28, 2011	February 28, 2010	Increase/ (Decrease)	Percent Change
Outside Commissions	$ 466,000	$ 615,000	$ (149,000)	*-24%*
Other SG&A	2,237,000	2,654,000	(417,000)	*-16%*
Total SG&A	$2,703,000	$3,269,000	$ (566,000)	*-17%*
...as a percentage of net revenues	*20%*	*25%*		

Selling, general and administrative expenses decreased by 17% from the prior year. Outside commission expense decreased by 24% from last year's level. This fluctuation was primarily due to a single, high value, non-project, commissionable sales order recorded in the prior year period, as well as three Projects in an Asian country that included higher than average commissions in the prior year period. Additionally, of the 34 Projects in process during the nine months ended February 28, 2011, only 11 had related outside commissions recorded. This compares with

14 of 31 Projects having related outside commissions recorded in the prior year period. The primary reason for this is, in the current period, there were more Projects sold to representatives in two different Asian countries net of their normal commission. Other selling, general and administrative expenses decreased 16% from last year to this. This decrease is primarily due to a.) a decrease in estimated incentive compensation expense in the current period related to the lower level of operating results and lower level of aerospace sales, and b.) a decrease in professional fees in the current period related to the research tax credit study completed last year and the workers' compensation suit discussed, below, in Part II, Item 1.

The above factors resulted in operating income of $819,000 for the nine months ended February 28, 2011, down 41% from the $1,378,000 in the same period of the prior year.

Summary comparison of the three months ended February 28, 2011 and February 28, 2010

	Increase / (Decrease)
Sales, net	$ 196,000
Cost of goods sold	$ 353,000
Selling, general and administrative expenses	$ (10,000)
Income before provision for income taxes	$ (124,000)
Provision for income taxes	$ (186,000)
Net income	$ 61,000

For the three months ended February 28, 2011 (All figures discussed are for the three months ended February 28, 2011 as compared to the three months ended February 28, 2010.)

	Three months ended		**Change**	
	February 28, 2011	**February 28, 2010**	**Increase / (Decrease)**	**Percent Change**
Net Revenue	$ 4,979,000	$ 4,783,000	$ 196,000	*4%*
Cost of sales	3,636,000	3,283,000	353,000	*11%*
Gross profit	$ 1,343,000	$ 1,500,000	$ (157,000)	*-10%*
...as a percentage of net revenues	*27%*	*31%*		

The Company's consolidated results of operations showed a 4% increase in net revenues and an increase in net income of 19%. Revenues recorded in the current period for long-term construction projects were 36% higher than

the level recorded in the prior year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were down 29% from the level recorded in the prior year. The gross profit as a percentage of net revenues for the current and prior year periods was 27% and 31%.

A breakdown of sales to the three general groups of customers is as follows:

	Third Quarter Fiscal 2011	**Third Quarter Fiscal 2010**
Industrial	9%	11%
Construction	62%	33%
Aerospace / Defense	29%	56%

The Company's revenues and net income fluctuate from period to period. The fluctuations in comparing the current period to the prior period are not necessarily representative of future results.

Selling, General and Administrative Expenses

	Three months ended February 28, 2011	Three months ended February 28, 2010	Change Increase/ (Decrease)	Change Percent Change
Outside Commissions	$ 182,000	$ 141,000	$ 41,000	*29%*
Other SG&A	764,000	815,000	(51,000)	*-6%*
Total SG&A	$ 946,000	$ 956,000	$ (10,000)	*-1%*
...as a percentage of net revenues	*19%*	*20%*		

Selling, general and administrative expenses decreased by 1% from the prior year. Outside commission expense increased by 29% from last year's level even though there was only a 4% increase in Net Revenue. This fluctuation was primarily due to a 71% increase in the level of sales subject to outside commission in the three month period ending February 28, 2011. Other selling, general and administrative expenses decreased only slightly from last year to this.

The above factors resulted in operating income of $397,000 for the three months ended February 28, 2011, down 27% from the $544,000 in the same period of the prior year.

The provision for income taxes in the current period is significantly (84%) less than in the prior period even though the income before the provision for income taxes is only 23% less than in the prior period. The primary reason for this reduction is the completion of a research and development tax credit study for the interim nine month period ended February 28, 2011 which indicates available tax credits will reduce the Company's tax expense in the current year. The information needed to complete the study and calculate the credits was not readily available in previous interim periods so the reduction in tax expense recorded in the current period is the result of activities during the entire nine month period ended February 28, 2011.

10

Stock Options

The Company has a stock option plan which provides for the granting of nonqualified or incentive stock options to officers, key employees and non-employee directors. Options granted under the plan are exercisable over a ten year term. Options not exercised at the end of the term expire.

The Company expenses stock options using the fair value recognition provisions of the ASC. The Company recognized $30,000 and $20,000 of compensation cost for the nine month periods ended February 28, 2011 and February 28, 2010.

The fair value of each stock option grant has been determined using the Black-Scholes model. The model considers assumptions related to exercise price, expected volatility, risk-free interest rate, and the weighted average expected term of the stock option grants. Expected volatility assumptions used in the model were based on volatility of the Company's stock price for the thirty month period ending on the date of grant. The risk-free interest rate is derived from the U.S. treasury yield. The Company used a weighted average expected term. The following assumptions were used in the Black-Scholes model in estimating the fair market value of the Company's stock option grants:

	2011	2010
Risk-free interest rate:	2.75%	4.875%
Expected life of the options:	2.5 years	2.5 years
Expected share price volatility:	60.27%	57.57%

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