TAYLOR DEVICES INC
Form 10-Q
October 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended August 31, 2014

OR

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

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of October 14, 2014, there were outstanding 3,343,694 shares of the registrant’s common stock, par value $.025 per share.

TAYLOR DEVICES, INC.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets	**(Unaudited) August 31, 2014**	May 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,501,822**	$ 2,793,642
Accounts receivable, net	**3,260,899**	2,894,344
Inventory	**8,752,800**	8,978,302
Costs and estimated earnings in excess of billings	**3,521,890**	2,373,791
Other current assets	**1,531,106**	1,521,832
Total current assets	**20,568,517**	18,561,911
Maintenance and other inventory, net	**730,580**	836,569
Property and equipment, net	**7,792,488**	7,867,728
Other assets	**165,903**	164,568
	$ 29,257,488	$ 27,430,776
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 1,786,998**	$ 1,166,162
Accrued commissions	**453,130**	429,839
Billings in excess of costs and estimated earnings	**1,388,506**	850,531
Other current liabilities	**1,554,759**	1,343,788
Total current liabilities	**5,183,393**	3,790,320
Long-term liabilities	**558,485**	558,485
Stockholders' Equity:		
Common stock and additional paid-in capital	**7,820,327**	7,778,994
Retained earnings	**18,194,266**	17,801,960
	26,014,593	25,580,954
Treasury stock - at cost	**(2,498,983)**	(2,498,983)
Total stockholders' equity	**23,515,610**	23,081,971
	$ 29,257,488	$ 27,430,776

See notes to condensed consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Income (Unaudited)

For the three months ended	August 31, **2014**	2013
Sales, net	**$ 6,551,382**	$ 5,296,666
Cost of goods sold	**4,866,275**	4,017,565
Gross profit	**1,685,107**	1,279,101
Selling, general and administrative expenses	**1,086,679**	1,025,186
Operating income	**598,428**	253,915
Other income, net	**3,878**	8,348
Income before provision for income taxes	**602,306**	262,263
Provision for income taxes	**210,000**	61,000
Net income	**$ 392,306**	$ 201,263
Basic and diluted earnings per common share	**$ 0.12**	$ 0.06

See notes to condensed consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

	(Unaudited)	
	August 31,	
For the three months ended	**2014**	2013
Operating activities:		
Net income	**$ 392,306**	$ 201,263
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	**185,628**	178,110
Stock options issued for services	**37,112**	43,301
Changes in other assets and liabilities:		
Accounts receivable	**(366,555)**	(392,649)
Inventory	**331,491**	339,314
Costs and estimated earnings in excess of billings	**(1,148,099)**	(664,096)
Other current assets	**(9,274)**	(80,341)
Accounts payable	**620,836**	(144,866)
Accrued commissions	**23,291**	79,386
Billings in excess of costs and estimated earnings	**537,975**	(4,041)
Other current liabilities	**210,971**	(970,687)
Net operating activities	**815,682**	(1,415,306)
Investing activities:		
Acquisition of property and equipment	**(110,388)**	(667,389)
Other investing activities	**(1,335)**	(1,350)
Net investing activities	**(111,723)**	(668,739)
Financing activities:		
Proceeds from issuance of common stock, net	**4,221**	160,558
Net financing activities	**4,221**	160,558
Net change in cash and cash equivalents	**708,180**	(1,923,487)
Cash and cash equivalents - beginning	**2,793,642**	1,997,874
Cash and cash equivalents - ending	**$ 3,501,822**	$ 74,387

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 August 31, 2014 and May 31, 2014, the results of operations for the three months ended August 31, 2014 and 2013, and cash flows for the three months ended August 31, 2014 and 2013. 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, 2014.

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 month periods ended August 31, 2014 and August 31, 2013, the net income was divided by 3,342,934 and 3,318,602 respectively, which is net of the Treasury shares, to calculate the net income per share.

5. The results of operations for the three month periods ended August 31, 2014 are not necessarily indicative of the results to be expected for the full year.

6. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2016 (fiscal year 2018 for the Company) and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not yet determined the potential effects of the adoption of ASU 2014-09 on its Consolidated Financial Statements. Other recently issued Accounting Standards Codification (ASC) guidance

has either been implemented or are not significant to the Company.

7. The effective tax rate of 23% for the three month period ended August 31, 2013 reflects research & development tax credits that were permitted by federal legislation in place at that time. The legislation was allowed to expire on December 31, 2013. As a result, the effective tax rate of 35% for the three months ended August 31, 2014 includes no research & development tax credit in the provision for income taxes.

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, 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; the kind, frequency and intensity of natural disasters that affect 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 three months ended August 31, 2014 and 2013

	Increase / (Decrease)
Sales, net	$ 1,254,000
Cost of goods sold	$ 848,000
Selling, general and administrative expenses	$ 61,000
Income before provision for income taxes	$ 340,000
Provision for income taxes	$ 149,000
Net income	$ 191,000

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 three months ended August 31, 2014 (All figures discussed are for the three months ended August 31, 2014 as compared to the three months ended August 31, 2013.)

	Three months ended August 31		Change	
	2014	2013	Amount	Percent
Net Revenue	$ 6,551,000	$ 5,297,000	$ 1,254,000	24%
Cost of sales	4,866,000	4,018,000	848,000	21%
Gross profit	$ 1,685,000	$ 1,279,000	$ 406,000	32%
… as a percentage of net revenues	26%	24%		

The Company's consolidated results of operations showed a 24% increase in net revenues and an increase in net income of 95%. Revenues recorded in the current period for long-term construction projects (“Project(s)”) were 58% more than the level recorded in the prior year. We had 32 Projects in process during the current period compared with 24 during the same period last year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were 15% less than the level recorded in the prior year. Total sales within the U.S. increased 5% from the same period last year. Total sales to Asia are up 80% from the same period of the prior year. Sales increases recorded over the same period last year to customers involved in construction of buildings and bridges (17%) and aerospace / defense (46%), were slightly offset by a decrease in sales to industrial customers (10%). Please refer to the charts, below, which show the breakdown of sales.

Sales of the Company’s products are made to three general groups of customers: industrial, construction and aerospace / defense. A breakdown of sales to the three general groups of customers is as follows:

	Three months ended August 31	
	2014	2013
Industrial	7%	10%
Construction	54%	57%
Aerospace / Defense	39%	33%

At August 31, 2013, the Company had 98 open sales orders in our backlog with a total sales value of $15.4 million. At August 31, 2014, the Company has slightly fewer open sales orders in our backlog (95 orders) and the total sales value is $24.1 million or 56% more than the prior year value.

The Company's backlog, revenues, commission expense, gross margins, gross profits, and net income fluctuate from period to period. The changes in the current period, compared to the prior period, are not necessarily representative of future results.

Net revenue by geographic region, as a percentage of total net revenue for the three month periods ended August 31, 2014 and August 31, 2013 is as follows:

	Three months ended August 31	
	2014	2013
USA	53%	62%
Asia	42%	