TAYLOR DEVICES INC
Form 10-Q
January 04, 2019

0000096536 false --05-31 2019 Q2 Yes no true Non-accelerated Filer 0000096536 2018-06-01 2018-11-30 0000096536 2019-01-04 0000096536 2018-11-30 0000096536 2018-05-31 0000096536 2018-09-01 2018-11-30 0000096536 2017-09-01 2017-11-30 0000096536 2017-06-01 2017-11-30 0000096536 2017-05-31 0000096536 2017-11-30 0000096536 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-05-31 0000096536 us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-06-01 0000096536 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-06-01 0000096536 us-gaap:AccountingStandardsUpdate201409Member 2018-11-30 0000096536 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-11-30 0000096536 us-gaap:AccountingStandardsUpdate201409Member 2018-06-01 2018-11-30 0000096536 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-06-01 2018-11-30 0000096536 us-gaap:AccountingStandardsUpdate201409Member 2018-09-01 2018-11-30 0000096536 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-09-01 2018-11-30 iso4217:USD xbrli:shares iso4217:USD xbrli:shares

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 November 30, 2018

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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]
Emerging growth company [ ]	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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 January 4, 2019, there were outstanding 3,467,923 shares of the registrant's common stock, par value $.025 per share.

Entity public float: $41,500,000

TAYLOR DEVICES, INC.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets	(Unaudited) November 30, 2018	May 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$4,964,376	$2,858,323
Short-term investments	1,047,971	1,039,082
Accounts receivable, net	4,993,920	6,265,864
Inventory	12,081,725	11,317,775
Costs and estimated earnings in excess of billings	5,953,406	6,356,963
Other current assets	481,880	447,162
Total current assets	29,523,278	28,285,169
Maintenance and other inventory, net	870,341	885,651
Property and equipment, net	9,705,412	9,935,625
Other assets	188,388	185,730
Deferred income taxes	219,115	219,115
Total assets	$40,506,534	$39,511,290
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$2,119,545	$1,460,175
Accrued commissions	969,648	983,260
Billings in excess of costs and estimated earnings	793,578	2,043,002
Other current liabilities	1,818,422	1,412,502
Total current liabilities	5,701,193	5,898,939
Stockholders' Equity:		
Common stock and additional paid-in capital	9,554,272	9,482,630
Retained earnings	28,080,428	26,959,080
Stockholders' equity before treasury stock	37,634,700	36,441,710
Treasury stock - at cost	(2,829,359)	(2,829,359)
Total stockholders' equity	34,805,341	33,612,351
Total liabilities and stockholders' equity	$40,506,534	$39,511,290

See notes to condensed consolidated financial statements.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Income	(Unaudited) For the three months ended November 30,		(Unaudited) For the six months ended November 30,	
	2018	2017	2018	2017
Sales, net	$9,479,159	$4,811,774	$16,793,253	$11,379,494
Cost of goods sold	7,329,815	3,550,083	12,337,646	8,500,151
Gross profit	2,149,344	1,261,691	4,455,607	2,879,343
Selling, general and administrative expenses	1,719,418	1,226,607	3,094,035	2,434,175
Operating income	429,926	35,084	1,361,572	445,168
Other income, net	26,591	7,063	13,777	10,726
Income before provision for income taxes	456,517	42,147	1,375,349	455,894
Provision for income taxes (benefit)	81,000	(10,000)	259,000	102,000
Net income	$375,517	$52,147	$1,116,349	$353,894
Basic and diluted earnings per common share	$0.11	$0.02	$0.32	$0.10

See notes to condensed consolidated financial statements.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

For the six months ended	(Unaudited) November 30, 2018	2017
Operating activities:		
Net income	$1,116,349	$353,894
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	555,967	507,179
Stock options issued for services	57,308	56,497
Changes in other assets and liabilities:		
Accounts receivable	1,271,944	(963,212)
Inventory	352,476	(265,192)
Costs and estimated earnings in excess of billings	77,048	(650,718)
Other current assets	(34,718)	118,519
Accounts payable	659,370	11,605
Accrued commissions	(13,612)	258,473
Billings in excess of costs and estimated earnings	(1,224,319)	(502,917)
Other current liabilities	(388,793)	87,423
Net operating activities	2,429,020	(988,449)
Investing activities:		
Acquisition of property and equipment	(325,754)	(736,843)
Other investing activities	(11,547)	(10,937)
Net investing activities	(337,301)	(747,780)
Financing activities:		
Proceeds from issuance of common stock, net	14,334	124,621
Net change in cash and cash equivalents	2,106,053	(1,611,608)
Cash and cash equivalents - beginning	2,858,323	3,324,934
Cash and cash equivalents - ending	$4,964,376	$1,713,326

See notes to condensed consolidated financial statements.

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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 November 30, 2018 and May 31, 2018, the results of operations for the three and six months ended November 30, 2018 and 2017, and cash flows for the six months ended November 30, 2018 and 2017. 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, 2018.

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 six month periods ended November 30, 2018 and 2017, the net income was divided by 3,467,002 and 3,447,383 respectively, which is net of the Treasury shares, to calculate the net income per share. For the three month periods ended November 30, 2018 and 2017, the net income was divided by 3,466,796 and 3,445,429 respectively, which is net of the Treasury shares, to calculate the net income per share.

5. The results of operations for the three and six month periods ended November 30, 2018 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, as amended, is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2017 (fiscal year 2019 for the Company). Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. We adopted ASU 2014-09 on June 1, 2018 using the modified retrospective method, which required the

recognition of the cumulative effect of the transition as an adjustment to retained earnings. The Company elected to apply the standard only to open contracts as of June 1, 2018. Based on the application of the changes described above, we recognized a transition adjustment of $4,999, which increased our June 1, 2018 retained earnings. ASU 2014-09 is not expected to have a material impact to net earnings for the year ended May 31, 2019. Refer to Note 8 for additional information.

Other recently issued Accounting Standards Codification (ASC) guidance has either been implemented or are not significant to the Company

7. Inventory:

Inventory	November 30, 2018	May 31, 2018
Raw materials	$709,862	$726,852
Work-in-process	10,806,618	9,990,225
Finished goods	665,245	700,698
Gross inventory	12,181,725	11,417,775
Less allowance for obsolescence	100,000	100,000
Net Inventory	$12,081,725	$11,317,775

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8. Revenue Recognition:

As discussed in Note 6, ASU 2014-09 was adopted on June 1, 2018 using the modified retrospective method, which required the recognition of the cumulative effect of the transition as an adjustment to retained earnings.

Revenue is recognized when, or as, the Company transfers control of promised products or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts which are, therefore, not distinct. Promised goods or services that are immaterial in the context of the contract are not separately assessed as performance obligations. In the six months ended November 30, 2018, 47% of revenue was recorded for contracts with a single performance obligation that was satisfied within the period. In the six months ended November 30, 2017, 39% of revenue was recorded for contracts with a single performance obligation that was satisfied within the period.

For contracts with customers in which the Company satisfies a promise to the customer to provide a product that has no alternative use to the Company and the Company has enforceable rights to payment for progress completed to date inclusive of profit, the Company satisfies the performance obligation and recognizes revenue over time, using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material and overhead. In the six months ended November 30, 2018, 53% of revenue was recorded for contracts in which revenue was recognized over time. In the six months ended November 30, 2017, 61% of revenue was recorded for contracts in which revenue was recognized over time.

We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to our consolidated June 1, 2018 balance sheet for the adoption of ASU 2014-09, were as follows:

Balance Sheet	Balance at May 31, 2018	Adjustments Due to ASU 2014-09	Balance at June 1, 2018
Assets			
Inventory	$11,317,775	$1,101,116	$12,418,891
Costs and estimated earnings in excess of billings	$6,356,963	(326,509)	$6,030,454
Liabilities			
Billings in excess of costs and estimated earnings	$2,043,002	(25,105)	$2,017,897

Other accrued expenses	$1,412,502	$794,713	$2,207,215
Equity			
Retained earnings	$26,959,080	$4,999	$26,964,079

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In accordance with the new revenue standard requirements, the disclosure of the impact of adoption of ASU 2014-09 on our consolidated balance sheet and income statement was as follows:

	November 30, 2018		
Balance Sheet	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
Assets			
Inventory	$12,081,725	$ —	$12,081,725
Costs and estimated earnings in excess of billings	$5,953,406	$ —	$5,953,406
Other current assets	$481,880	$ —	$481,880
Liabilities			
Other accrued expenses	$1,818,422	$ —	$1,818,422
Equity			
Retained earnings	$28,080,428	$ —	$28,080,428

	For the Six Months ended November 30, 2018		
Income Statement	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
Revenues			
Sales, net	$16,793,253	$ 1,096,117	$15,697,136
Costs and Expenses			
Cost of goods sold	$12,337,646	$ 1,101,116	$11,236,530
Provision for income taxes	$259,000	$ —	$259,000
Net income (loss)	$1,116,349	$ (4,999)	$1,121,348

	For the Three Months ended November 30, 2018		
Income Statement	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
Revenues			

Sales, net	$9,479,159	$ 1,022,674	$8,456,485
Costs and Expenses			
Cost of goods sold	$7,329,815	$ 1,065,474	$6,264,341
Provision for income taxes	$81,000	$ (8,000)	$89,000
Net income (loss)	$375,517	$ (34,800)	$410,317

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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 and its Exhibits 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 six months ended November 30, 2018 and 2017		
	Increase / (Decrease)	
Sales, net	$	5,414,000
Cost of goods sold	$	3,838,000
	$	660,000

Selling, general and administrative expenses		
Income before provision for income taxes	$	919,000
Provision for income taxes	$	157,000
Net income	$	762,000

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.

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For the six months ended November 30, 2018 (All figures discussed are for the six months ended November 30, 2018 as compared to the six months ended November 30, 2017).

	Six months ended November 30		Change	
	2018	2017	Amount	Percent
Net Revenue	$16,793,000	$11,379,000	$5,414,000	48 %
Cost of sales	12,338,000	8,500,000	3,838,000	45 %
Gross profit	$4,455,000	$2,879,000	$1,576,000	55 %
… as a percentage of net revenues	27 %	25 %		

The Company's consolidated results of operations showed a 48% increase in net revenues and an increase in net income of 215%. Revenues recorded in the current period for long-term construction projects (“Project(s)”) were 29% more than the level recorded in the prior year. We had 34 Projects in process during the current period as well as during the same period last year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were 76% more than the level recorded in the prior year. Total sales within the U.S. increased 70% from the same period last year. Total sales to Asia decreased 29% from the same period of the prior year. Sales increases were recorded over the same period last year to customers involved in construction of buildings and bridges (76%), as well as in sales to customers in aerospace / defense (23%). The significant increase in sales to construction customers was the result of several factors including 1.) an increase in domestic spending on infrastructure for seismic protection, and 2.) an increase in domestic buildings being retrofitted for seismic protection. The impact of adoption of accounting regulation ASU 2014-09 increased revenue for the period by $1,096,000 or about 10% of the prior period’s level of revenue. Please refer to the charts, below, which show the breakdown of sales. The gross profit as a percentage of net revenue of 27% in the current period is slightly higher than the 25% recorded in the same period of the prior year.

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:

	Six months ended November 30	
	2018	2017
Industrial	6 %	9 %
Construction	60%	50%
Aerospace / Defense	34%	41%

At November 30, 2017, the Company had 139 open sales orders in our backlog with a total sales value of $20.4 million. At November 30, 2018, the Company has slightly less open sales orders in our backlog (130 orders), and the total sales value is $18.0 million.

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 six month periods ended November 30, 2018 and November 30, 2017 is as follows:

	Six months ended November 30	
	2018	2017
USA	84%	73%
Asia	11%	23%
Other	5 %	4 %

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Selling, General and Administrative Expenses

	Six months ended November 30		Change	
	2018	2017	Amount	Percent
Outside Commissions	$977,000	$589,000	$388,000	66 %
Other SG&A	2,117,000	1,845,000	272,000	15 %
Total SG&A	$3,094,000	$2,434,000	$660,000	27 %
… as a percentage of net revenues	18 %	21 %		

Selling, general and administrative expenses increased by 27% from the prior year. Outside commission expense increased by 66% from last year's level due to higher levels of commissionable sales. Other selling, general and administrative expenses increased 15% from last year to this. This increase is primarily due to increased freight cost associated with the increased shipment of product to customers as well as an increase in accrued incentive compensation resulting from the improved profitability of the Company.

The above factors resulted in operating income of $1,362,000 for the six months ended November 30, 2018, 206% more than the $445,000 in the same period of the prior year.

Summary comparison of the three months ended November 30, 2018 and 2017		
	Increase / (Decrease)	
Sales, net	$	4,667,000
Cost of goods sold	$	3,780,000
Selling, general and administrative expenses	$	493,000
Income before provision for income taxes	$	414,000
Provision for income taxes	$	91,000
Net income	$	323,000

For the three months ended November 30, 2018 (All figures discussed are for the three months ended November 30, 2018 as compared to the three months ended November 30, 2017).

	Three months ended November 30		Change	
	2018	2017	Amount	Percent
Net Revenue	$9,479,000	$4,812,000	$4,667,000	97 %
Cost of sales	7,330,000	3,550,000	3,780,000	106 %
Gross profit	$2,149,000	$1,262,000	$887,000	70 %
… as a percentage of net revenues	23 %	26 %		

The Company's consolidated results of operations showed a 97% increase in net revenues and an increase in net income of 620%. Revenues recorded in the current period for long-term construction projects (“Project(s)”) were double the level recorded in the prior year. We had 26 Projects in process during the current period compared with 31 during the same period last year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were 93% more than the level recorded in the prior year. Total sales within the U.S. increased 109% from the same period last year. Total sales to Asia increased 30% from the same period of the prior year. Sales increases were recorded over the same period last year to customers involved in construction of buildings and bridges (224%), as well as in sales to industrial customers (26%) and customers in aerospace / defense (5%). The significant increase in sales to construction customers was the result of several factors including 1.) an increase in domestic spending on infrastructure for seismic protection, and 2.) an increase in domestic buildings being retrofitted for seismic protection. The impact of adoption of accounting regulation ASU 2014-09 increased revenue for the period by $850,000 or about 17% of the prior period’s level of revenue.

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Please refer to the charts, below, which show the breakdown of sales. The gross profit as a percentage of net revenue of 23% in the current period is slightly lower than the 26% recorded in the same period of the prior year. The reduction in gross profit as a percentage of revenue is primarily due to the impact of adoption of ASU 2014-09 as the gross profit on the affected revenue was actually a slight loss.

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 November 30	
	2018	2017
Industrial	5 %	9 %
Construction	68%	41%
Aerospace / Defense	27%	50%

Net revenue by geographic region, as a percentage of total net revenue for the three month periods ended November 30, 2018 and November 30, 2017 is as follows:

	Three months ended November 30	
	2018	2017
USA	84%	80%
Asia	11%	16%
Other	5 %	4 %

Selling, General and Administrative Expenses

	Three months ended November 30		Change	
	2018	2017	Amount	Percent
Outside Commissions	$627,000	$309,000	$318,000	103 %
Other SG&A	1,092,000	918,000	174,000	19 %
Total SG&A	$1,719,000	$1,227,000	$492,000	40 %
… as a percentage of net revenues	18 %	25 %		

Selling, general and administrative expenses increased by 40% from the prior year. Outside commission expense increased by 103% from last year's level due to higher levels of commissionable sales. Other selling, general and administrative expenses increased 19% from last year to this. This increase is primarily due to increased freight cost associated with the increased shipment of product to customers as well as an increase in accrued incentive compensation resulting from the improved profitability of the Company.

The above factors resulted in operating income of $430,000 for the three months ended November 30, 2018, significantly more than the $35,000 in the same period of the prior year.

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 FASB ASC. The Company recognized $57,000 and $56,000 of compensation cost for the six month periods ended November 30, 2018 and 2017.

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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 to estimate the fair market value of the Company's stock option grants:

	November 2018	November 2017
Risk-free interest rate:	2.625 %	2.250 %
Expected life of the options:	3.7 years	3.6 years
Expected share price volatility:	31 %	28 %
Expected dividends:	zero	zero
These assumptions resulted in estimated fair-market value per stock option:	$3.18	$3.01

The ultimate value of the options will depend on the future price of the Company's common stock, which cannot be forecast with reasonable accuracy.

A summary of changes in the stock options outstanding during the six month period ended November 30, 2018 is presented below:

	Number of Options	Weighted-Average Exercise Price
Options outstanding and exercisable at May 31, 2018:	271,750	$ 11.33
Options granted:	18,000	$ 11.79
Options exercised:	750	$ 6.04
Options expired:	60,000	$ 11.10
Options outstanding and exercisable at November 30, 2018:	229,000	$ 11.44
Closing value per share on NASDAQ at November 30, 2018:		$ 12.25

Capital Resources, Line of Credit and Long-Term Debt

The Company's primary liquidity is dependent upon the working capital needs. These are mainly inventory, accounts receivable, costs and estimated earnings in excess of billings, accounts payable, accrued commissions, and billings in excess of costs and estimated earnings. The Company's primary source of liquidity has been operations.

Capital expenditures for the six months ended November 30, 2018 were $326,000 compared to $737,000 in the same period of the prior year. As of November 30, 2018, the Company has commitments for capital expenditures totaling $15,000 during the next twelve months. These costs are primarily related to acquisition of new equipment used to test the function of products prior to shipment to customers.

The Company believes it is carrying adequate insurance coverage on its facilities and their contents.

Effective August 30, 2017, the Company replaced its bank credit facility with a $10,000,000 bank demand line of credit, with interest payable at the Company's option of 30, 60 or 90 day LIBOR rate plus 2.25%. There is no balance outstanding as of November 30, 2018 or as of May 31, 2018. The line is unsecured and includes a negative pledge of substantially all of the Company’s property. This line of credit is subject to the usual terms and conditions applied by the bank, is subject to renewal annually, and is not subject to an express requirement on the bank’s part to lend.

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Inventory and Maintenance Inventory

	November 30, 2018		May 31, 2018		Increase /(Decrease)	
Raw materials	$710,000		$727,000		$(17,000)	-2%
Work-in-process	10,807,000		9,990,000		817,000	8 %
Finished goods	565,000		601,000		(36,000)	-6%
Inventory	12,082,000	93 %	11,318,000	93 %	764,000	7 %
Maintenance and other inventory	870,000	7 %	886,000	7 %	(16,000)	-2%
Total	$12,952,000	100%	$12,204,000	100%	$748,000	6 %
Inventory turnover	2.0		1.5			

NOTE: Inventory turnover is annualized for the six month period ended November 30, 2018.

Inventory, at $12,082,000 as of November 30, 2018, is $764,000, or 7%, more than the prior year-end level of $11,318,000. Approximately 89% of the current inventory is work in process, 5% is finished goods, and 6% is raw materials.

Maintenance and other inventory represent stock that is estimated to have a product life cycle in excess of twelve months. This stock represents certain items the Company is required to maintain for service of products sold and items that are generally subject to spontaneous ordering. This inventory is particularly sensitive to technological obsolescence in the near term due to its use in industries characterized by the continuous introduction of new product lines, rapid technological advances and product obsolescence. Management of the Company has recorded an allowance for potential inventory obsolescence. The provision for potential inventory obsolescence was $85,000 and $60,000 for the six month periods ended November 30, 2018 and 2017. The Company continues to rework slow-moving inventory, where applicable, to convert it to product to be used on customer orders.

Accounts Receivable, Costs and Estimated Earnings in Excess of Billings (“CIEB"), and Billings in Excess of Costs and Estimated Earnings ("BIEC")

	November 30, 2018	May 31, 2018	Increase /(Decrease)	
Accounts receivable	$4,994,000	$6,266,000	$(1,272,000)	-20%
CIEB	5,953,000	6,357,000	(404,000)	-6 %

Less: BIEC	794,000	2,043,000	(1,249,000)	-61%
Net	$10,153,000	$10,580,000	$(427,000)	-4 %
Number of an average day's sales outstanding in accounts receivable	47	88		

The Company combines the totals of accounts receivable, the current asset, CIEB, and the current liability, BIEC, to determine how much cash the Company will eventually realize from revenue recorded to date. As the accounts receivable figure rises in relation to the other two figures, the Company can anticipate increased cash receipts within the ensuing 30-60 days.

Accounts receivable of $4,994,000 as of November 30, 2018 includes approximately $1,029,000 of amounts retained by customers on Projects. It is expected that amounts retained by customers under contracts will be released in the normal course of the business in accordance with the related contracts. Accounts receivable also includes $110,000 of an allowance for doubtful accounts ("Allowance"). The accounts receivable balance as of May 31, 2018 of $6,266,000 included an Allowance of $110,000.

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The number of an average day's sales outstanding in accounts receivable (“DSO”) decreased significantly from 88 days at May 31, 2018 to 47 at November 30, 2018. The DSO is a function of 1.) the level of sales for an average day (for example, total sales for the past three months divided by 90 days) and 2.) the level of accounts receivable at the balance sheet date. The level of sales for an average day in the second quarter of the current fiscal year is 48% more than in the fourth quarter of the prior year. The level of accounts receivable at the end of the current fiscal quarter is 20% less than the level at the end of the prior year. The significant decrease in the level of accounts receivable combined with the increase in the level of an average day’s sales caused the DSO to decrease from last year end to this quarter-end. The primary reasons for the decrease in the level of accounts receivable from last year end to this quarter-end was significantly lower billings for Projects in November 2018 ($1.2 million) compared to May 2018 ($2.6 million). The Company expects to collect the net accounts receivable balance, including the retainage, during the next twelve months.

As noted above, CIEB represents revenues recognized in excess of amounts billed. Whenever possible, the Company negotiates a provision in sales contracts to allow the Company to bill, and collect from the customer, payments in advance of shipments. Unfortunately, such provisions are often not possible. The $5,953,000 balance in this account at November 30, 2018 is 6% less than the prior year-end balance. This decrease is the result of normal flow of the projects through production with billings to the customers as permitted in the related contracts. The Company expects to bill the entire amount during the next twelve months. 19% of the CIEB balance as of the end of the last fiscal quarter, August 31, 2018, was billed to those customers in the current fiscal quarter ended November 30, 2018. The remainder will be billed as the Projects progress, in accordance with the terms specified in the various contracts.

The balances in this account are comprised of the following components:

	November 30, 2018	May 31, 2018
Costs	$10,319,000	$9,939,000
Estimated Earnings	3,091,000	3,529,000
Less: Billings to customers	7,457,000	7,111,000
CIEB	$5,953,000	$6,357,000
Number of Projects in progress	16	19

As noted above, BIEC represents billings to customers in excess of revenues recognized. The $794,000 balance in this account at November 30, 2018 is down 61% from the $2,043,000 balance at the end of the prior year.

The balance in this account fluctuates in the same manner and for the same reasons as the account “costs and estimated earnings in excess of billings”, discussed above. Final delivery of product under these contracts is expected to occur during the next twelve months.

The balances in this account are comprised of the following components:

	November 30, 2018	May 31, 2018
Billings to customers	$4,776,000	$6,246,000
Less: Costs	2,676,000	2,574,000
Less: Estimated Earnings	1,306,000	1,629,000
BIEC	$794,000	$2,043,000
Number of Projects in progress	5	7

Summary of factors affecting the balances in CIEB and BIEC:

	November 30, 2018	May 31, 2018
Number of Projects in progress	21	26
Aggregate percent complete	64 %	72 %
Average total sales value of Projects in progress	$1,215,000	$942,000
Percentage of total value invoiced to customer	47 %	55 %

The Company's backlog of sales orders at November 30, 2018 is $18.0 million, 22% less than the $23.1 million at the end of the prior year. $9.1 million of the current backlog is on Projects already in progress.

Other Balance Sheet Items

Accounts payable, at $2,120,000 as of November 30, 2018, is 45% more than the prior year-end. This significant increase reflects a significant increase in material purchases in November 2018 over May 2018 in order to manufacture product for customer orders. Commission expense on applicable sales orders is recognized at the time revenue is recognized. The commission is paid following receipt of payment from the customers. Accrued commissions as of November 30, 2018 are $970,000, down 1% from the $983,000 accrued at the prior year-end. Other current liabilities increased 29% from the prior year-end, to $1,818,000. The Company expects the current accrued amounts to be paid during the next twelve months.

Management believes the Company's cash flows from operations and borrowing capacity under the bank line of credit are sufficient to fund ongoing operations and capital improvements for the next twelve months.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Smaller reporting companies are not required to provide the information called for by this item.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.*

The Company's principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of November 30, 2018 and have concluded that as of the evaluation date, the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms and that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure.

(b) *Changes in internal control over financial reporting*.

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended November 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

Part II - Other Information

ITEM 1 Legal Proceedings

There are no other legal proceedings except for routine litigation incidental to the business.

ITEM 1A Risk Factors

Smaller reporting companies are not required to provide the information called for by this item.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

(a) The Company sold no equity securities during the fiscal quarter ended November 30, 2018 that were not registered under the Securities Act.

(b) Use of proceeds following effectiveness of initial registration statement: Not Applicable

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(c) Repurchases of Equity Securities – Quarter Ended November 30, 2018

Period	*(a) Total Number of Shares Purchased*	*(b) Average Price Paid Per Share*	*(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	*(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs*
September 1, 2018 - September 30, 2018	-	-	-	-
October 1, 2018 - October 31, 2018	-	-	-	-
November 1, 2018 - November 30, 2018	-	-	-	-
Total	-	-	-	-

ITEM 3 Defaults Upon Senior Securities

None

ITEM 4 Mine Safety Disclosures

Not applicable

ITEM 5 Other Information

(a) Information required to be disclosed in a Report on Form 8-K, but not reported

None

(b) Material changes to the procedures by which Security Holders may recommend nominees to the Registrant's Board of Directors

None

ITEM 6 Exhibits

20	News from Taylor Devices, Inc. Shareholder Letter, Winter 2018-2019
31(i)	Rule 13a-14(a) Certification of Chief Executive Officer.
31(ii)	Rule 13a-14(a) Certification of Chief Financial Officer.
32(i)	Section 1350 Certification of Chief Executive Officer.
32(ii)	Section 1350 Certification of Chief Financial Officer.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Taylor Devices, Inc.

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated balance sheet of Taylor Devices, Inc. and Subsidiary (the Company) as of November 30, 2018, and the related condensed consolidated statements of income for the three and six months ended November 30, 2018 and 2017 and cash flows for the six months ended November 30, 2018 and 2017, and the related notes (collectively referred to as the interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of May 31, 2018, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated August 9, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of May 31, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Company's management. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Lumsden & McCormick, LLP

Buffalo, New York

January 4, 2019

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TAYLOR DEVICES, INC.

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.

TAYLOR DEVICES, INC.
(Registrant)

Date: January 4, 2019 /s/Alan R. Klembczyk

Alan R. Klembczyk

President

(Principal Executive Officer)

Date: January 4, 2019 /s/Mark V. McDonough

Mark V. McDonough

Chief Financial Officer