TAYLOR DEVICES INC
Form 10QSB
April 13, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10 QSB

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

For quarter ended February 28, 2006

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 Number)

90 TAYLOR DRIVE, NORTH TONAWANDA, NEW YORK 14120-0748
Address of principal executive offices

716 694 0800
Registrant's Telephone Number

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the last 12 months and (2) has been subject to the filing requirements for the past 90 days.

Yes X No ___

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

Yes ___ No X

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date:

CLASS	Outstanding at April 13, 2006
Common Stock (2 1/2 cents par value)	3,126,002

TAYLOR DEVICES, INC.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets	**(Unaudited) February 28, 2006**	May 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	**$ 82,545**	$ 63,397
Accounts receivable, net	**1,120,320**	2,718,902
Inventory	**4,442,952**	4,771,086
Costs and estimated earnings in excess of billings	**4,372,314**	1,657,170

Other current assets	**1,023,469**	920,638
Total current assets	**11,041,600**	10,131,193
Maintenance and other inventory, net	**588,489**	661,500
Property and equipment, net	**3,360,215**	3,477,672
Investment in affiliate, at equity	**444,088**	451,877
Intangible and other assets	**166,314**	168,376
	$ 15,600,706	$ 14,890,618
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	**$ 1,986,527**	$ 1,621,119
Payables - trade	**1,116,919**	770,330
Accrued commissions	**881,407**	576,550
Billings in excess of costs and estimated earnings	**54,000**	288,003
Other current liabilities	**455,377**	386,586
Total current liabilities	**4,494,230**	3,642,588
Long-term liabilities	**810,239**	998,719
Payables - affiliate	**298,551**	589,976
Minority stockholder's interest	**474,567**	450,991
Stockholders' Equity:		
Common stock and additional paid-in capital	**4,397,167**	4,391,001
Retained earnings	**6,018,921**	5,710,312
	10,416,088	10,101,313
Treasury stock - at cost	**(892,969)**	(892,969)
Total stockholders' equity	**9,523,119**	9,208,344
	$ 15,600,706	$ 14,890,618

See notes to condensed consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Income	**(Unaudited)**		**(Unaudited)**	
	For the three months ended February 28,		For the nine months ended February 28,	
	2006	2005	**2006**	2005
Sales, net	**$ 4,114,446**	$ 2,619,488	**$ 10,594,573**	$ 7,720,634
Cost of goods sold	**2,997,885**	1,937,083	**7,425,852**	5,387,173

Gross profit	**1,116,561**	682,405	**3,168,721**	2,333,461
Selling, general and administrative expenses	**950,870**	701,495	**2,547,335**	2,149,215
Operating income (loss)	**165,691**	(19,090)	**621,386**	184,246
Other expense, net	**(26,837)**	(35,719)	**(77,413)**	(104,781)
Income (loss) before provision for income taxes, equity in net income of affiliate and minority stockholder's interest	**138,854**	(54,809)	**543,973**	79,465
Provision for income taxes (benefit)	**50,000**	(16,700)	**204,000**	21,300
Income (loss) before equity in net income of affiliate and minority stockholder's interest	**88,854**	(38,109)	**339,973**	58,165
Equity in net income (loss) of affiliate	**(1,337)**	1,804	**(7,789)**	9,622
Income (loss) before minority stockholder's interest	**87,517**	(36,305)	**332,184**	67,787
Minority stockholder's interest	**(8,974)**	(6,240)	**(23,576)**	(23,245)
Net income (loss)	**$ 78,543**	$ (42,545)	**$ 308,608**	$ 44,542
Basic and diluted earnings (loss) per common share	**$ 0.03**	$ (0.01)	**$ 0.10**	$ 0.01

See notes to condensed consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

	(Unaudited)	
	February 28,	
For the nine months ended	**2006**	2005
Cash flows from operating activities:		
Net income	**$ 308,608**	$ 44,542
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	**242,603**	266,292
Gain on sale of equipment		
Bad debts expense	**9,157**	16,000

Equity in net income (loss) of affiliate	**7,789**	(9,622)
Deferred income taxes		
Minority stockholder's interest	**23,576**	23,245
Changes in other assets and liabilities:		
Accounts receivable	**1,589,425**	(146,684)
Inventory	**401,145**	(718,627)
Costs and estimated earnings in excess of billings	**(2,715,144)**	(792,504)
Other current assets	**(110,163)**	(112,406)
Payables - trade	**346,589**	(175,111)
Accrued commissions	**304,857**	(14,561)
Billings in excess of costs and estimated earnings	**(234,003)**	319,666
Other current liabilities	**68,791**	(168,026)
Net cash flows from (for) operating activities	**243,230**	(1,467,796)
Cash flows from investing activities:		
Acquisition of property and equipment	**(118,845)**	(130,198)
Other investing activities	**3,094**	(16,585)
Net cash flows for investing activities	**(115,751)**	(146,783)
Cash flows from financing activities:		
Net short-term borrowings and repayments on long-term debt	**176,928**	1,433,710
Payables - affiliate	**(291,425)**	(175,764)
Proceeds from long-term debt		
Proceeds from issuance of common stock	**6,166**	300,526
Net cash flows from (for) financing activities	**(108,331)**	1,558,472
Net increase (decrease) in cash and cash equivalents	**19,148**	(56,107)
Cash and cash equivalents - beginning	**63,397**	88,390
Cash and cash equivalents - ending	**$ 82,545**	$ 32,283

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-QSB and Regulation S-B. 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, 2006 and May 31, 2005, the results of operations for the three and nine months ended February 28, 2006 and February 28, 2005, and cash flows for the nine months ended February 28, 2006 and February 28, 2005. 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, 2005. There have been no updates or changes to our audited financial statements for the year ended May 31, 2005.

2. 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.

3. For the three and nine month periods ended February 28, 2006 and 2005 the net income was divided by 3,102,603 and 3,033,761, respectively, which is net of the Treasury shares, to calculate the net income per share.

4. The results of operations for the nine month period ended February 28, 2006 are not necessarily indicative of the results to be expected for the full year.

5. Significant Equity Investee: The Company owns approximately a 23% equity investment in Tayco Developments, Inc. (Developments). For the nine months ended February 28, 2006, Developments had revenues of $177,000 and net income of $37,000. The carrying amount of the investment in Developments as of February 28, 2006 and May 31, 2005 was $444,000 and $452,000.

TAYLOR DEVICES, INC.

Item 2. Management's Discussion and Analysis or Plan of Operation

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 or Plan of Operation," and elsewhere in this 10-QSB 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, fluctuations in general business cycles and changing economic conditions; changing product demand and industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for the Company's products, as well as other factors, many or all of which may be 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 consolidated statements of income is shown below:

Summary comparison of the nine months ended February 28, 2006 and 2005

	Increase / (Decrease)
Sales, net	$ 2,874,000
Cost of goods sold	$ 2,039,000
Selling, general and administrative expenses	$ 398,000
Other expense, net	$ (27,000)

Income (loss) before provision for income taxes, equity in net income of affiliate and minority stockholder's interest	$ 465,000
Provision for income taxes (benefit)	$ 183,000
Income (loss) before equity in net income of affiliate and minority stockholder's interest	$ 282,000
Equity in net income (loss) of affiliate	$ (17,000)
Net income (loss)	$ 264,000

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, 2006 (All figures being discussed are for the nine months ended February 28, 2006 as compared to the nine months ended February 28, 2005.)

	Nine months ended		**Change**	
	February 28, 2006	**February 28, 2005**	**Increase / (Decrease)**	**Percent Change**
Net Revenue	$10,595,000	$7,721,000	$ 2,874,000	*37%*
Cost of sales	7,426,000	5,387,000	2,039,000	*38%*
Gross profit	$ 3,169,000	$2,334,000	$ 835,000	*36%*
…as a percentage of net revenues	*30%*	*30%*		

The Company's consolidated results of operations showed a 37% increase in net revenues and an increase in net income of 593%. Gross profit increased by 36%. Revenues recorded in the current period for long-term construction projects increased by 84% over the unusually low level recorded in the prior year. The increase in revenue in the current year is attributable to 1.) a 52% increase in the quantity of long-term construction projects this year compared to last year, and 2.) a 42% increase in the average total sales value of long-term construction projects this year compared to last year. Management has noticed an increase in the global level of construction activity of structures requiring seismic protection. This has resulted in an increased number of inquiries and quotes for our products. Many of our bids to supply our products for these projects have been successful this year. These current year's projects contributed a gross profit margin of 33% as compared to 30% in the prior year's period. The overall gross profit as a percentage of net revenues for the current and prior year periods was 30%. Management is optimistic that the level of construction activity of structures requiring seismic protection will remain strong through the fiscal year. Based on this and our current sales order backlog of $13.2 million, management expects that the results achieved year-to-date will continue through the end of the current fiscal year.

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

Selling, General and Administrative Expenses

	Nine months ended		**Change**	
	February 28, 2006	**February 28, 2005**	**Increase / (Decrease)**	**Percent Change**
Outside Commissions	$ 706,000	$ 305,000	$ 401,000	*131%*
Royalties	80,000	122,000	(42,000)	*-34%*
Other SG&A	1,761,000	1,722,000	39,000	*2%*
Total SG&A	$2,547,000	$2,149,000	$ 398,000	*19%*
…as a percentage of net revenues	*24%*	*28%*		

Selling, general and administrative expenses increased by 19% from the prior year. Commission expense increased by 131% over last year's level. Commission expense was higher in this period due to higher commission rates on a few large, long-term construction projects in production, in addition to a higher volume of sales subject to commission. Royalty expense is 34% less than the amount recorded in the prior year period. There were fewer shipments that were subject to royalty during the current year. Other selling, general and administrative expenses increased by only 2% from last year to this.

The above factors resulted in operating income of $621,000 for the nine months ended February 28, 2006, up 237% from the $184,000 in the same period of the prior year.

Other expense, net, of $77,000 is primarily interest expense and is 26% less than in the prior year. Interest expense decreased by $31,000 from the prior year. The average level of use of the Company's operating line of credit decreased significantly as compared to last year. The line of credit is used primarily to fund the production of larger projects that do not allow for advance payments or progress payments.

For the three months ended February 28, 2006 (All figures being discussed are for the three months ended February 28, 2006 as compared to the three months ended February 28, 2005.)

Summary comparison of the three months ended February 28, 2006 and 2005

	Increase / (Decrease)
Sales, net	$ 1,495,000
Cost of goods sold	$ 1,061,000
Selling, general and administrative expenses	$ 249,000
Other expense, net	$ (9,000)
Income (loss) before provision for income taxes, equity in net income of affiliate and minority stockholder's interest	$ 194,000
Provision for income taxes (benefit)	$ 67,000
Income (loss) before equity in net income of affiliate and minority stockholder's interest	$ 127,000
Equity in net income (loss) of affiliate	$ (3,000)
Net income (loss)	$ 121,000

	Three months ended		**Change**	
	February 28, 2006	**February 28, 2005**	**Increase / (Decrease)**	**Percent Change**
Net Revenue	$4,114,000	$2,619,000	$ 1,495,000	*57%*
Cost of sales	2,998,000	1,937,000	1,061,000	*55%*
Gross profit	$1,116,000	$ 682,000	$ 434,000	*64%*
…as a percentage of net revenues	*27%*	*26%*		

The Company's consolidated results of operations showed a 57% increase in net revenues with an increase in net income from a loss of $43,000 to income of $78,000. Gross profit increased by 64%. Revenues recorded in the current period for long-term construction projects increased by 106% over the level recorded in the prior year. The reasons for the increase are the same as stated above for the nine-month period. These current year's projects contributed a gross profit margin of 31% as compared to an unusually low 24% in the prior year's period. The overall gross profit as a percentage of net revenues for the quarter was 27% as compared to 26% for the same period in the prior year.

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

Selling, General and Administrative Expenses

	Three months ended		**Change**	
	February 28, 2006	**February 28, 2005**	**Increase / (Decrease)**	**Percent Change**
Outside Commissions	$ 341,000	$ 124,000	$ 217,000	*175%*

Royalties	22,000	30,000	(8,000)	*-27%*
Other SG&A	588,000	547,000	41,000	*7%*
Total SG&A	$ 951,000	$ 701,000	$ 250,000	*36%*
…as a percentage of net revenues	*23%*	*27%*		

Selling, general and administrative expenses increased by 36% from the prior year. Commission expense increased by $217,000 over last year's level. Commission expense was higher in this period due to higher commission rates on a few large, long-term construction projects in production, in addition to a higher volume of sales subject to commission. Royalty expense is 27% less than the amount recorded in the prior year period. There were fewer shipments that were subject to royalty during the current year. Other selling, general and administrative expenses increased by only 7% from last year to this.

The above factors resulted in an operating income of $166,000 for the three months ended February 28, 2006 as compared to an operating loss of $19,000 in the same period of the prior year.

Other expense, net, of $26,000 is primarily interest expense and is 25% less than in the prior year. Interest expense decreased by $14,000 from the prior year for the same reasons noted above for the nine month period.

Capital Resources, Line of Credit and Long-Term Debt

The Company's primary liquidity is dependent upon the working capital needs. These are primarily inventory, accounts receivable, costs and estimated earnings in excess of billings, accounts payable, accrued commissions, billings in excess of costs and estimated earnings, and debt service. The Company's primary sources of liquidity have been operations and bank financing.

Capital expenditures for the nine months ended February 28, 2006 were $119,000 compared to $130,000 in the same period of the prior year. The Company has commitments to pay $154,000 for production machinery in the quarter ending May 31, 2006.

The Company has a $5,000,000 line of credit with a bank. There is a $1,739,000 principal balance outstanding as of February 28, 2006, which is up from the $1,390,000 balance outstanding as of May 31, 2005. The outstanding balance on the line of credit will fluctuate as the Company's various long-term projects progress. The Company is in compliance with restrictive covenants under the line of credit. Additional information regarding the covenants appears in Part II, item 2(d) of this Report.

Principal maturities of long-term debt for the remainder of the current fiscal year and the subsequent five years are as follows: 2006 - $52,000; 2007 - $241,000; 2008 - $232,000; 2009 - $138,000; 2010 - $72,000; and 2011 - $27,000.

Inventory and Maintenance Inventory

	February 28, 2006		**May 31, 2005**		**Increase**	
Raw Materials	$ 380,000		$ 404,000		$ (24,000)	*-6%*
Work in process	3,688,000		4,029,000		(341,000)	*-8%*
Finished goods	375,000		338,000		37,000	*11%*
Inventory	4,443,000	*88%*	4,771,000	*88%*	(328,000)	*-7%*
Maintenance and other inventory	588,000	*12%*	662,000	*12%*	(74,000)	*-11%*
Total						