TAYLOR DEVICES INC
Form 10-Q
January 14, 2013

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, 2012

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 January 11, 2013, there were outstanding 3,310,677 shares of the registrant’s common stock, par value $.025 per share.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets	(Unaudited) November 30, 2012	May 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 32,808	$ 73,952
Accounts receivable, net	6,666,965	5,610,328
Inventory	9,033,483	8,372,535
Costs and estimated earnings in excess of billings	2,279,006	5,492,028
Other current assets	1,336,825	1,432,717
Total current assets	19,349,087	20,981,560
Maintenance and other inventory, net	970,869	844,834
Property and equipment, net	5,838,794	4,481,953
Other assets	156,477	153,550
	$ 26,315,227	$ 26,461,897
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	$ 1,452,000	$ 261,657
Accounts payable	1,510,485	3,361,742
Accrued commissions	748,041	631,221
Billings in excess of costs and estimated earnings	131,588	668,900
Other current liabilities	1,773,917	2,257,732
Total current liabilities	5,616,031	7,181,252
Long-term liabilities	283,985	283,985
Stockholders' Equity:		
Common stock and additional paid-in capital	7,414,062	7,372,689
Retained earnings	15,500,132	14,122,954
	22,914,194	21,495,643
Treasury stock - at cost	(2,498,983)	(2,498,983)
Total stockholders'equity	20,415,211	18,996,660
	$ 26,315,227	$ 26,461,897

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, 2012	2011	(Unaudited) For the six months ended November 30, 2012	2011
Sales, net	$ 6,508,172	$ 6,781,754	$ 13,824,839	$11,354,456
Cost of goods sold	4,025,199	5,129,566	8,723,256	7,864,149
Gross profit	2,482,973	1,652,188	5,101,583	3,490,307
Selling, general and administrative expenses	1,311,096	1,037,625	3,033,769	2,323,526
Operating income	1,171,877	614,563	2,067,814	1,166,781
Other income, net	(15,516)	3,178	(8,636)	39,077
Income before provision for income taxes	1,156,361	617,741	2,059,178	1,205,858
Provision for income taxes	387,000	204,000	682,000	384,000
Net income	$ 769,361	$ 413,741	$ 1,377,178	$ 821,858
Basic and diluted earnings per common share	$ 0.23	$ 0.13	$ 0.42	$ 0.25

See notes to condensed consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

	(Unaudited) November 30,	
For the six months ended	2012	2011
Operating activities:		
Net income	$ 1,377,178	$ 821,858
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	271,159	262,707
Stock options issued for services	35,599	26,502
Changes in other assets and liabilities:		
Accounts receivable	(1,056,637)	(1,117,512)
Inventory	(786,983)	(1,889,876)
Costs and estimated earnings in excess of billings	3,213,022	(481,482)
Other current assets	95,892	232,832
Accounts payable	(1,851,257)	394,568
Accrued commissions	116,820	507,158
Billings in excess of costs and estimated earnings	(537,312)	1,121,671
Other current liabilities	(483,815)	230,362
Net operating activities	393,666	108,788
Investing activities:		
Acquisition of property and equipment	(1,628,000)	(461,497)
Other investing activities	(2,927)	(2,945)
Net investing activities	(1,630,927)	(464,442)
Financing activities:		
Net short-term borrowings and repayments on long-term debt	1,190,343	(2,743)
Proceeds from issuance of common stock, net	5,774	143,085
Acquisition of treasury stock	-	(49,767)
Net financing activities	1,196,117	90,575
Net change in cash and cash equivalents	(41,144)	(265,079)
Cash and cash equivalents - beginning	73,952	2,193,534
Cash and cash equivalents - ending	$ 32,808	$ 1,928,455

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 November 30, 2012 and May 31, 2012, the results of operations for the three and six months ended November 30, 2012 and November 30, 2011, and cash flows for the six months ended November 30, 2012 and November 30, 2011. 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, 2012. Certain amounts have been reclassified in the prior period financial statements to conform with the presentation adopted for November 30, 2012.
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, 2012 and November 30, 2011, the net income was divided by 3,309,924 and 3,237,093, respectively, which is net of the Treasury shares, to calculate the net income per share. For the three month periods ended November 30, 2012 and November 30, 2011, the net income was divided by 3,309,841 and 3,233,056, 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, 2012 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 six months ended November 30, 2012 and 2011

	Increase / (Decrease)
Sales, net	$ 2,470,000
Cost of goods sold	$ 859,000
Selling, general and administrative expenses	$ 710,000
Income before provision for income taxes	$ 853,000
Provision for income taxes	$ 298,000
Net income	$ 555,000

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 six months ended November 30, 2012 (All figures discussed are for the six months ended November 30, 2012 as compared to the six months ended November 30, 2011.)

	Six months ended November 30		Change	
	2012	2011	Amount	Percent
Net Revenue	$ 13,825,000	$ 11,355,000	$ 2,470,000	22%
Cost of sales	8,723,000	7,864,000	859,000	11%
Gross profit	$ 5,102,000	$ 3,491,000	$ 1,611,000	46%
… as a percentage of net revenues	37%	31%		

The Company's consolidated results of operations showed a 22% increase in net revenues and an increase in net income of 68%. Revenues recorded in the current period for long-term construction projects ("Project(s)") were 13% 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 44% higher than the level recorded in the prior year. The gross profit as a percentage of net revenues for the current and prior year periods was 37% and 31%. We had 42 Projects in process during the current period compared with 52 during the same period last 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	
	2012	2011
Industrial	10%	8%
Construction	64%	64%
Aerospace / Defense	26%	28%

At November 30, 2011, the Company had 108 open sales orders in our backlog with a total sales value of $25.5 million. At November 30, 2012, the Company has 31% more open sales orders in our backlog (142 orders) and the total sales value is $13.0 million or 49% less than the prior year value. Last year's backlog included a small number of orders, with high sales values, for a single customer to provide seismic protection to buildings in Asia.

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 three month periods ended November 30, 2012 and November 30, 2011 is as follows:

	Six months ended November 30	
	2012	2011
USA	57%	41%
Asia	38%	50%
Other	5%	9%

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Selling, General and Administrative Expenses

	Six months ended November 30		Change	
	2012	2011	Amount	Percent
Outside Commissions	$ 562,000	$ 456,000	$ 106,000	23%
Other SG&A	2,472,000	1,868,000	604,000	32%
Total SG&A	$ 3,034,000	$ 2,324,000	$ 710,000	31%
… as a percentage of net revenues	22%	20%		

Selling, general and administrative expenses increased by 31% from the prior year. Outside commission expense increased by 23% from last year's level. This fluctuation was primarily due to: 1.) the significant increase in commissionable sales in the current year, and, 2.) in the current year there is a lower percentage of Project sales sold through our Asian Representatives net of commissions. Other selling, general and administrative expenses increased 32% from last year to this. This increase is primarily due to an increase in air-freight charges incurred in order to meet contractual obligations to deliver products on schedule along with an increase in estimated incentive compensation expense in the current period related to the higher level of sales and operating results.

The above factors resulted in operating income of $2,068,000 for the six months ended November 30, 2012, up 77% from the $1,167,000 in the same period of the prior year.

Summary comparison of the three months ended November 30, 2012 and 2011

	Increase / (Decrease)
Sales, net	$ (274,000)
Cost of goods sold	$ (1,105,000)
Selling, general and administrative expenses	$ 273,000
Income before provision for income taxes	$ 539,000
Provision for income taxes	$ 183,000
Net income	$ 356,000