TAYLOR DEVICES INC
Form 10-Q
January 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[x] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended November 30, 2008

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File Number 0-3498
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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)

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

Indicate by check mark whether the registrant 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. (Check one):

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

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

As of January 1, 2009, there were outstanding 3,222,095 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) November 30, 2008**	May 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 10,595**	$ 110,720
Accounts receivable, net	**3,060,865**	2,109,157
Inventory	**7,057,806**	6,625,168
Costs and estimated earnings in excess of billings	**2,150,637**	1,756,164
Other current assets	**1,177,579**	1,360,736
Total current assets	**13,457,482**	11,961,945
Maintenance and other inventory, net	**844,624**	887,588
Property and equipment, net	**3,565,420**	3,425,910
Intangible and other assets	**137,957**	139,207
	$ 18,005,483	$ 16,414,650
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	**$ 1,974,667**	$ 1,016,621
Payables - trade	**1,199,142**	1,186,249
Accrued commissions	**876,876**	392,693
Billings in excess of costs and estimated earnings	**45,585**	-
Other current liabilities	**843,432**	934,514
Total current liabilities	**4,939,702**	3,530,077
Long-term liabilities	**277,452**	335,485
Stockholders' Equity:		

Common stock and additional paid-in capital	**6,460,714**	6,425,490
Retained earnings	**8,552,680**	8,348,663
	15,013,394	14,774,153
Treasury stock - at cost	**(2,225,065)**	(2,225,065)
Total stockholders' equity	**12,788,329**	12,549,088
	$ 18,005,483	$ 16,414,650

See notes to condensed consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Income	**(Unaudited)**		**(Unaudited)**	
	For the three months ended November 30,		For the six months ended November 30,	
	2008	2007	**2008**	2007
Sales, net	**$ 3,757,731**	$ 4,276,406	**$ 8,561,233**	$ 8,684,591
Cost of goods sold	**2,803,564**	3,011,531	**6,327,279**	5,730,645
Gross profit	**954,167**	1,264,875	**2,233,954**	2,953,946
Selling, general and administrative expenses	**845,187**	1,056,093	**1,888,169**	2,124,596
Operating income	**108,980**	208,782	**345,785**	829,350
Other expense, net	**(23,115)**	(10,428)	**(23,368)**	(55,957)
Income before provision for income taxes, equity in net income (loss) of affiliate and minority stockholder's interest	**85,865**	198,354	**322,417**	773,393
Provision for income taxes	**30,500**	74,000	**118,400**	295,700
Income before equity in net income (loss) of affiliate and minority stockholder's interest	**55,365**	124,354	**204,017**	477,693
Equity in net income (loss) of affiliate	**-**	(782)	**-**	3,807

Income before minority stockholder's interest	**55,365**	123,572	**204,017**	481,500
Minority stockholder's interest	**-**	(10,263)	**-**	(19,961)
Net income	**$ 55,365**	$ 113,309	**$ 204,017**	$ 461,539
Basic and diluted earnings per common share	**$ 0.02**	$ 0.04	**$ 0.06**	$ 0.15

See notes to condensed consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

	(Unaudited)	
For the six months ended	**November 30, 2008**	November 30, 2007
Cash flows from operating activities:		
Net income	**$ 204,017**	$ 461,539
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	**200,105**	179,323
Gain of sale of equipment	**(350)**	(890)
Stock options issued for services	**28,114**	37,741
Bad debts expense	**(250,000)**	(68,105)
Equity in net (income) loss of affiliate	**-**	(3,807)
Deferred income taxes	**300**	-
Minority stockholder's interest	**-**	19,961
Changes in other assets and liabilities:		
Accounts receivable	**(701,708)**	1,653,581
Inventory	**(389,674)**	(1,311,140)
Costs and estimated earnings in excess of billings	**(394,473)**	548,766
Other current assets	**168,250**	(236,548)
Payables - trade	**12,893**	411,330
Accrued commissions	**484,183**	(92,370)
Billings in excess of costs and estimated earnings	**45,585**	112,598
Other current liabilities	**(91,082)**	(306,709)
Net cash flows from (for) operating activities	**(683,840)**	1,405,270
Cash flows from investing activities:		

Acquisition of property and equipment	**(335,415)**	(370,266)
Other investing activities	**12,307**	15,329
Net cash flows for investing activities	**(323,108)**	(354,937)
Cash flows from financing activities:		
Net short-term borrowings and repayments on long-term debt	**899,713**	(875,058)
Payables - affiliate	**-**	(71,845)
Proceeds from issuance of common stock	**7,110**	8,940
Net cash flows from (for) financing activities	**906,823**	(937,963)
Net increase (decrease) in cash and cash equivalents	**(100,125)**	112,370
Cash and cash equivalents - beginning	**110,720**	22,748
Cash and cash equivalents - ending	**$ 10,595**	$ 135,118

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, 2008 and May 31, 2008, the results of operations for the three and six months ended November 30, 2008 and November 30, 2007, and cash flows for the six months ended November 30, 2008 and November 30, 2007. 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, 2008. There have been no updates or changes to our audited financial statements for the year ended May 31, 2008.

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 six month periods ended November 30, 2008 and November 30, 2007 the net income was divided by 3,219,784 and 3,145,692, respectively, which is net of the Treasury shares, to calculate the net income per share.

4. The results of operations for the six month period ended November 30, 2008 are not necessarily indicative of the results to be expected for the full year.

5. Effective April 1, 2008, the Company merged with Tayco Developments, Inc. (Developments) following approval from shareholders of both companies. The Company is the surviving corporation.   Under the terms of the Plan of Merger, each share of Developments' common stock was converted into one share of the Company's common stock. The Company had approximately a 23% equity investment in Developments prior to the merger.

6. In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements," to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. The FASB issued FASB Staff Positions (FSP) 157-1 and 157-2 and 157-3. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, "Accounting for Leases," and its related interpretive accounting pronouncements that address leasing transactions, while FSP 157-2 delays the effective date of the application for SFAS No. 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis. FSP 157-3 addresses considerations in determining fair value of a financial asset when the market for that asset is not active. The Company adopted SFAS No. 157 as of June 1, 2008 with the exception of the application of the statement to nonfinancial assets and liabilities. The Company does not believe that the adoption of SFAS No. 157 for its nonfinancial assets and liabilities, effective June 1, 2009, will have a material impact on its consolidated financial statements. The impact of adopting SFAS No. 157 on our consolidated financial statements was not significant.

   In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities -- an Amendment of SFAS No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by mitigating volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company adopted SFAS No. 159 as of June 1, 2008 and elected not to measure any additional financial instruments and other items at fair value, therefore, the adoption of SFAS No. 159 had no effect on our consolidated financial statements.

   Other recently issued FASB Statements or Interpretations, SEC Staff Accounting Bulletins, and AICPA Emerging Issue Task Force Consensuses have either been implemented or are 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, 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 condensed consolidated statements of income is shown below:

Summary comparison of the six months ended November 30, 2008 and November 30, 2007

	Increase / (Decrease)
Sales, net	$ (123,000)
Cost of goods sold	$ 597,000
Selling, general and administrative expenses	$ (236,000)
Other expense, net	$ 33,000

Income before provision for income taxes, equity in net income (loss) of affiliate and minority stockholder's interest	$ (451,000)
Provision for income taxes	$ (177,000)
Net income	$ (258,000)

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, 2008 (All figures discussed are for the six months ended November 30, 2008 as compared to the six months ended November 30, 2007.)

	Six months ended		Change	
	November 30, 2008	**November 30, 2007**	**Increase / (Decrease)**	**Percent Change**
Net Revenue	$ 8,561,000	$ 8,684,000	$ (123,000)	*-1%*
Cost of sales	6,327,000	5,730,000	597,000	*10%*
Gross profit	$ 2,234,000	$ 2,954,000	$ (720,000)	*-24%*
...as a percentage of net revenues	*26%*	*34%*		

The Company's consolidated results of operations showed a 1% decrease in net revenues and a decrease in net income of 56%. Revenues recorded in the current period for long-term construction projects were 20% less than the level recorded in the prior year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were up 18% over the level recorded in the prior year. The gross profit as a percentage of net revenues for the current and prior year periods was 26% and 34%. This fluctuation is attributable to a.) one large, domestic current year project that has a very low margin and b.) a few of the bigger non-project shipments in the current period had low margins.

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

Selling, General and Administrative Expenses

	Six months ended		Change	
	November 30, 2008	**November 30, 2007**	**Increase / (Decrease)**	**Percent Change**
Outside Commissions	$ 364,000	$ 593,000	$ (229,000)	*-39%*
Other SG&A	1,524,000	1,531,000	(7,000)	-
Total SG&A	$1,888,000	$2,124,000	$ (236,000)	*-11%*
...as a percentage of net revenues	*22%*	*24%*		

Selling, general and administrative expenses decreased by 11% from the prior year. Outside commission expense decreased by 39% from last year's level. As a percentage of sales, outside commissions were 4.3% compared with 6.8% last year. This fluctuation was primarily due to a higher than normal commission on an Asian order last year. This year's commissions are slightly lower than historical averages. Other selling, general and administrative expenses remained relatively constant from last year to this.

The above factors resulted in operating income of $346,000 for the six months ended November 30, 2008, down 58% from the $829,000 in the same period of the prior year.

Other expense, net, of $23,000 is primarily interest expense and is $33,000 less than in the prior year. The average level of use of the Company's operating line of credit during the period increased by about $500,000 as compared to the prior year period. The line of credit is used primarily to fund the production of larger projects that do not allow for advance payments or progress payments. Long-term debt is just under half of what it was as of November 30, 2007. Interest rates on the line of credit and most of the long-term debt is 3.5 percentage points lower than the rates in effect at November 30, 2007. These factors combined to lower our interest expense for the quarter.

Summary comparison of the three months ended November 30, 2008 and November 30, 2007

	Increase / (Decrease)
Sales, net	$ (519,000)
Cost of goods sold	$ (208,000)
Selling, general and administrative expenses	$ (211,000)
Other expense, net	$ (13,000)
Income before provision for income taxes, equity in net income (loss) of affiliate and minority stockholder's interest	$ (112,000)
Provision for income taxes	$ (44,000)
Net income	$ (58,000)

For the three months ended November 30, 2008 (All figures discussed are for the three months ended November 30, 2008 as compared to the three months ended November 30, 2007.)

	Three months ended		**Change**	
	November 30, 2008	**November 30, 2007**	**Increase / (Decrease)**	**Percent Change**
Net Revenue	$ 3,758,000	$ 4,277,000	$ (519,000)	*-12%*
Cost of sales	2,804,000	3,012,000	(208,000)	*-7%*
Gross profit	$ 954,000	$ 1,265,000	$ (311,000)	*-25%*
...as a percentage of net revenues	*25%*	*30%*		

The Company's consolidated results of operations showed a 12% decrease in net revenues and a decrease in net income of 51%. Revenues recorded in the current period for long-term construction projects were 22% less than the level recorded in the prior year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were lower by 3% over the level recorded in the prior year. Gross profit decreased by 25%. The gross profit as a percentage of net revenues for the current and prior year periods was 25% and 30%. This fluctuation is attributable to a.) one large, domestic project that has a very low margin in the current period, b.) a few of the bigger projects in the same period last year had higher than normal margins and c.) a few of the bigger non-project shipments in the quarter had low margins.

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

Selling, General and Administrative Expenses

	Three months ended		Change	
	November 30, 2008	**November 30, 2007**	**Increase / (Decrease)**	**Percent Change**
Outside Commissions	$ 162,000	$ 343,000	$ (181,000)	*-53%*
Other SG&A	683,000	713,000	(30,000)	*-4%*
Total SG&A	$ 845,000	$1,056,000	$ (211,000)	*-20%*
...as a percentage of net revenues	*22%*	*25%*		

Selling, general and administrative expenses decreased by 20% from the prior year. Outside commission expense decreased by 53% from last year's level. As a percentage of sales, outside commissions were 4.3% compared with 8% last year. This fluctuation was primarily due to a higher than normal commission on an Asian order last year. This year's commissions are slightly lower than historical averages. Other selling, general and administrative expenses are slightly lower from last year to this.

The above factors resulted in operating income of $109,000 for the three months ended November 30, 2008, down 48% from the $209,000 in the same period of the prior year.

Other expense, net, of $23,000 is primarily interest expense and is $13,000 more than in 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 applies the stock option expensing rules of Statement of Financial Accounting Standards (SFAS) No. 123R, "Share Based Payment," using the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company recognized $28,000 and $38,000 of compensation cost for the six month periods ended November 30, 2008 and November 30, 2007.

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 utilized in the model were based on volatility of the Company's stock price for the thirty month period ending on the date of grant. The risk-free interest rate is derived from the U.S. treasury yield. The Company used a weighted average expected term. The following assumptions were used in the Black-Scholes model in estimating the fair market value of the Company's stock option grants:

	2008	2007
Risk-free interest rate:	5.000%	3.625%
Expected life of the options:	2.5 years	2.5 years

