

TAYLOR DEVICES INC  
Form 10-K  
August 29, 2016

UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**F O R M 10-K**

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended May 31, 2016

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

TAYLOR DEVICES, INC.

(Exact name of registrant as specified in its charter)

New York 16-0797789  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

Edgar Filing: TAYLOR DEVICES INC - Form 10-K

90 Taylor Drive, P.O. Box 748, North Tonawanda, New York 14120-0748  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (716) 694-0800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered  
None None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock (\$.025 par value)

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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  No

Edgar Filing: TAYLOR DEVICES INC - Form 10-K

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Accelerated filer

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter on November 30, 2015 is \$53,508,000.

The number of shares outstanding of each of the registrant's classes of common stock as of August 12, 2016: 3,423,099.

TAYLOR DEVICES, INC.

DOCUMENTS INCORPORATED BY REFERENCE

Documents      Form 10-K Reference

Proxy Statement Part III, Items 10-14

FORM 10-K INDEX

PART I	PAGE
Item 1. Business.	4
Item 1A. Risk Factors.	6
Item 1B. Unresolved Staff Comments.	6
Item 2. Properties.	6
Item 3. Legal Proceedings.	6
Item 4. Mine Safety Disclosures.	6
PART II	
Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	7
Item 6. Selected Financial Data.	8
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.	8
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.	16
Item 8. Financial Statements and Supplementary Data.	16
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	16
Item 9A. Controls and Procedures.	16
Item 9B. Other Information.	16
PART III	

Edgar Filing: TAYLOR DEVICES INC - Form 10-K

Item 10.	Directors, Executive Officers and Corporate Governance.	17
Item 11.	Executive Compensation.	17
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	17
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	17
Item 14.	Principal Accounting Fees and Services.	17
PART IV		
	Item 15 Exhibits and Financial Statement Schedules	17
SIGNATURES		21

## **PART I**

### **Item 1. Business.**

The Company was incorporated in the State of New York on July 22, 1955 and is engaged in the design, development, manufacture and marketing of shock absorption, rate control, and energy storage devices for use in various types of machinery, equipment and structures. In addition to manufacturing and selling existing product lines, the Company continues to develop new and advanced technology products.

### **Principal Products**

The Company manufactures and sells a single group of very similar products that have many different applications for customers. These similar products are included in one of six categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, and Vibration Dampers. Management does not track or otherwise account for sales broken down by these categories. The following is a summary of the capabilities and applications for these products.

Seismic Dampers are designed to ameliorate the effects of earthquake tremors on structures, and represent a substantial part of the business of the Company. Fluidicshoks® are small, extremely compact shock absorbers with up to 19,200 inch-pound capacities, produced in 15 standard sizes for primary use in the defense, aerospace and commercial industry. Crane and industrial buffers are larger versions of the Fluidicshoks® with up to 60,000,000 inch-pound capacities, produced in more than 60 standard sizes for industrial application on cranes, ships, container ships, railroad cars, truck docks, ladle and ingot cars, ore trolleys and car stops. Self-adjusting shock absorbers, which include versions of Fluidicshoks® and crane and industrial buffers, automatically adjust to different impact conditions, and are designed for high cycle application primarily in heavy industry. Liquid die springs are used as component parts of machinery and equipment used in the manufacture of tools and dies. Vibration dampers are used primarily by the aerospace and defense industries to control the response of electronics and optical systems subjected to air, ship, or spacecraft vibration.

### **Distribution**

The Company uses the services of more than 50 sales representatives and distributors in the United States and Canada along with more than 20 representatives and distributors throughout the rest of the world. Specialized technical sales in aerospace and custom marketing activities are serviced by three sales agents, under the direction and with the

assistance of Douglas P. Taylor, the Company's President. Sales representatives typically have non-exclusive, yearly agreements with the Company, which, in most instances, provide for payment of commissions on sales at 10% of the product's net aggregate selling price. Distributors also have non-exclusive, yearly agreements with the Company to purchase the Company's products for resale purposes.

## **Competition**

The Company faces competition on mature aerospace and defense programs which may use more conventional products manufactured under less stringent government specifications. Two foreign companies are the Company's competitors in the production of crane buffers.

The Company's principal competitor for the manufacture of products in the aerospace and commercial aerospace industries field is UTC Aerospace Systems Division of United Technologies in Ft. Worth, Texas. While the Company is competitive with this company in the areas of pricing, warranty and product performance, due to limited financing and manufacturing facilities, the Company cannot compete in the area of volume production.

The Company competes directly against two other firms supplying seismic damping devices, as well as numerous other firms which supply alternative seismic protection technologies.

## **Raw Materials and Supplies**

The principal raw materials and supplies used by the Company in the manufacture of its products are provided by numerous U.S. and foreign suppliers. The loss of any one of these would not materially affect the Company's operations.

### **Dependence Upon Major Customers**

The Company is not dependent on any one or a few major customers. Sales to seven customers approximated 55% (10%, 8%, 8%, 8%, 7%, 7% and 7%, respectively) of net sales for 2016. The loss of any or all of these customers, unless the business is replaced by the Company, could result in an adverse effect on the results for the Company.

### **Patents, Trademarks and Licenses**

The Company holds 12 patents expiring at different times until the year 2034.

### **Terms of Sale**

The Company does not carry significant inventory for rapid delivery to customers, and goods are not normally sold with return rights such as are available for consignment sales. The Company had no inventory out on consignment and no consignment sales for the years ended May 31, 2016 and 2015. No extended payment terms are offered. During the year ended May 31, 2016, delivery time after receipt of orders averaged 8 to 10 weeks for the Company's standard products. Due to the volatility of construction and aerospace/defense programs, progress payments are usually required for larger projects using custom designed components of the Company.

### **Need for Government Approval of Principal Products or Services**

Contracts between the Company and the federal government or its independent contractors are subject to termination at the election of the federal government. Contracts are generally entered into on a fixed price basis. If the federal government should limit defense spending, these contracts could be reduced or terminated, which management believes would have a materially adverse effect on the Company.

### **Research and Development**

The Company does not generally engage in major product research and development activities in connection with the design of its products, except when funded by aerospace customers or the federal government. The Company,



however, engages in research testing of its products. For the fiscal years ended May 31, 2016 and 2015, the Company expended \$428,000 and \$268,000, respectively, on manufacturing research. For the years ended May 31, 2016 and 2015, defense sponsored research and development totaled \$56,000 and \$49,000, respectively.

## **Government Regulation**

Compliance with federal, state and local laws and regulations which have been enacted or adopted regulating the discharge of materials into the environment has had no material effect on the Company, and the Company believes that it is in substantial compliance with such provisions.

The Company is subject to the Occupational Safety and Health Act ("OSHA") and the rules and regulations promulgated thereunder, which establish strict standards for the protection of employees, and impose fines for violations of such standards. The Company believes that it is in substantial compliance with OSHA provisions and does not anticipate any material corrective expenditures in the near future. The Company currently incurs only moderate costs with respect to disposal of hazardous waste and compliance with OSHA regulations.

The Company is also subject to regulations relating to production of products for the federal government. These regulations allow for frequent governmental audits of the Company's operations and fairly extensive testing of Company products. The Company believes that it is in substantial compliance with these regulations and does not anticipate corrective expenditures in the future.

## **Employees**

Exclusive of Company sales representatives and distributors, as of May 31, 2016, the Company had 114 employees, including three executive officers, and four part time employees. The Company has good relations with its employees.

**Item 1A. Risk Factors.**

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

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties**

The Company's production facilities occupy approximately six acres on Tonawanda Island in North Tonawanda, New York and are comprised of four interconnected buildings and two adjacent buildings. The production facilities consist of a small parts plant (approximately 4,400 square feet), a large parts plant (approximately 13,500 square feet), and include a facility of approximately 7,000 square feet comprised of a test facility, storage area, pump area and the Company's general offices. One adjacent building is a 17,000 square foot seismic assembly test facility. Another adjacent building (approximately 2,000 square feet) is used as a training facility. These facilities total more than 45,000 square feet. Adjacent to these facilities, the Company has a remote test facility used for shock testing. This state-of-the-art test facility is 1,200 square feet. The small parts plant consists of a complete small machine shop and tool room that produces all of the Company's product items which are less than two inches in diameter. The large parts plant consists of a complete large machine shop and tool room. Both plants contain custom-built machinery for boring, deep-hole drilling and turning of parts.

The Company owns three additional industrial buildings on nine acres of land in the City of North Tonawanda located 1.4 miles from the Company's headquarters on Tonawanda Island. Total area of the three buildings is 46,000 square feet. The Company's production machinery was relocated from the Company's Tonawanda Island site in the autumn of 2013 and overhead cranes have been installed to move large parts from machine to machine. This allowed the former machining areas at the Tonawanda Island site to house greatly expanded assembly and product testing areas. All corporate and engineering offices were unaffected by the change and remain on Tonawanda Island.

The Company's real properties are subject to a negative pledge agreement with its lender, First Niagara Bank. The Company has agreed with the lender that, for so long as the credit facilities with the lender are outstanding, the Company will not sell, lease or mortgage any of its real properties. Additional information regarding the Company's agreement with First Niagara Bank is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, at "Capital Resources, Line of Credit and Long-Term Debt."

The Company leases a separate warehouse for storage from an unrelated third party, consisting of approximately 3,600 square feet at \$975 per month. The warehouse is located approximately one-quarter mile from the above-referenced production facilities and office space. The total rental expense incurred by the Company for this facility in fiscal 2016 was \$11,700.

The Company is constructing a 10,000 square foot addition at the present Tonawanda Island site. This will greatly increase the product size capability and productivity for our seismic damper product lines. The new addition with its overhead traveling cranes will allow dampers to be built up to 45 ft. in length. This will support customer orders now in process, and anticipates what the Company believes will be a new trend in very large damper sizes for major building and bridge projects. The new addition will also be the site of a new long bed damper test machine – since each seismic damper Taylor Devices ships must be tested at maximum force to satisfy customer specifications. Major portions of the new test machine will be fabricated in-house, with a computerized control system and ancillary equipment purchased from commercial sources.

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

**Item 3. Legal Proceedings.**

There are no legal proceedings at present.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases Of Equity Securities.**

**Market Information**

The Company's Common Stock trades on the NASDAQ Capital Market of the National Association of Securities Dealers Automated Quotation ("NASDAQ") stock market under the symbol TAYD. The high and low sales information noted below for the quarters of fiscal year 2016 and fiscal year 2015 were obtained from NASDAQ.

	Fiscal 2016		Fiscal 2015	
	High	Low	High	Low
First Quarter	\$14.4500	\$12.2000	\$ 9.1000	\$ 8.1900
Second Quarter	\$17.4390	\$12.5000	\$11.0000	\$ 8.5000
Third Quarter	\$16.8390	\$12.7240	\$12.1600	\$ 9.3900
Fourth Quarter	\$17.0099	\$13.4500	\$13.3500	\$11.1000

**Holdings**

As of August 12, 2016, the number of issued and outstanding shares of Common Stock was 3,423,099 and the approximate number of record holders of the Company's Common Stock was 645. Due to a substantial number of shares of the Company's Common Stock held in street name, the Company believes that the total number of beneficial owners of its Common Stock exceeds 2,000.

**Dividends**

No cash or stock dividends have been declared during the last two fiscal years. The Company plans to retain cash in the foreseeable future to fund working capital needs.

## **Rights Plan**

As of September 15, 2008, the Company's Board of Directors adopted a shareholder rights plan designed to deter coercive or unfair takeover tactics and prevent an acquirer from gaining control of the Company without offering a fair price to shareholders. Under the plan, certain rights ("Rights") were distributed as a dividend on each share of Common Stock (one Right for each share of Common Stock) held as of the close of business on October 3, 2008. Each whole Right entitles the holder, under certain defined conditions, to buy one two-thousandths (1/2000) of a newly issued share of the Company's Series 2008 Junior Participating Preferred Stock ("Series 2008 Preferred Stock") at a purchase price of \$5.00 per unit of one two-thousandths of a share. Rights attach to and trade with the shares of Common Stock, without being evidenced by a separate certificate. No separate Rights certificates will be issued unless and until the Rights detach from Common Stock and become exercisable for shares of the Series 2008 Preferred Stock.

The Rights become exercisable to purchase shares of Preferred Stock (or, in certain circumstances, Common Stock) only if (i) a person acquired 15% or more of the Company's Common Stock, or (ii) a person commenced a tender or exchange offer for 10% or more of the Company's Common Stock, or (iii) the Board of Directors determined that the beneficial owner of at least 10% of the Company's Common Stock intended to cause the Company to take certain actions adverse to it and its shareholders or that such ownership would have a material adverse effect on the Company. The Rights Plan will expire on October 5, 2018.

## **Issuer Purchases of Equity Securities**

The share repurchase agreement with a major broker-dealer, under which the Company repurchased shares of its common stock on the open market, has been terminated by the Company. No shares have been purchased since August 2011.

**Equity Compensation Plan Information**

The following table sets forth information regarding equity compensation plans of the Company as of May 31, 2016.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights <i>(a)</i>	Weighted-average exercise price of outstanding options, warrants and rights <i>(b)</i>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column <i>(a)</i> ) <i>(c)</i>
Equity compensation plans approved by security holders:			
2005 Stock Option Plan	44,500		-
2008 Stock Option Plan	69,500	\$ 4.99	-
2012 Stock Option Plan	127,250	\$ 8.30	-
2015 Stock Option Plan	2,250	\$11.67	157,750
		\$16.40	

Equity compensation

plans not  
approved by  
security  
holders:

2004  
Employee  
Stock  
Purchase  
Plan (1)  
Total

Purchase	-	-	226,502
Total	243,500		384,252

(1) The Company's 2004 Employee Stock Purchase Plan (the "Employee Plan") permits eligible employees to purchase shares of the Company's common stock at fair market value through payroll deductions and without brokers' fees. Such purchases are without any contribution on the part of the Company. As of May 31, 2016, 226,502 shares were available for issuance.

Item 6. Selected Financial Data

The Company qualifies as a smaller reporting company, as defined by 17 CFR §229.10(f)(1), and is not required to provide the information required by this Item.

Item 7. 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 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this 10-K 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," "assume" and "optimistic" 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; variations in timing and amount of customer orders; 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.



## Application of Critical Accounting Policies and Estimates

The Company's consolidated financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. The preparation of the Company's financial statements requires management to make estimates, assumptions and judgments that affect the amounts reported. These estimates, assumptions and judgments are affected by management's application of accounting policies, which are discussed in Note 1, "Summary of Significant Accounting Policies", and elsewhere in the accompanying consolidated financial statements. As discussed below, our financial position or results of operations may be materially affected when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. Management believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's financial statements.

### Accounts Receivable

Our ability to collect outstanding receivables from our customers is critical to our operating performance and cash flows. Accounts receivable are stated at an amount management expects to collect from outstanding balances. Management provides for probable uncollectible accounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts after considering the age of each receivable and communications with the customers involved. Balances that are collected, for which a credit to a valuation allowance had previously been recorded, result in a current-period reversal of the earlier transaction charging earnings and crediting a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable in the current period. The actual amount of accounts written off over the five year period ended May 31, 2016 equaled less than 0.1% of sales for that period. The balance of the valuation allowance has increased since May 31, 2015 to the current level of slightly less than \$20,000. Management does not expect the valuation allowance to materially change in the next twelve months for the current accounts receivable balance.

### Inventory

Inventory is stated at the lower of average cost or net realizable value. Average cost approximates first-in, first-out cost.

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 technical 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. Therefore, management of the Company has recorded an allowance for potential inventory obsolescence. Based on certain assumptions and judgments made from the information available at that time, we determine the amount in the inventory allowance. If these estimates and related assumptions or the market changes, we may be required to record additional reserves. Historically, actual results have not varied materially from the Company's estimates.

The provision for potential inventory obsolescence was \$180,000 for each of the years ended May 31, 2016 and 2015.

### Revenue Recognition

Sales are recognized when units are delivered or services are performed. Sales under fixed-price contracts are recorded as deliveries are made at the contract sales price of the units delivered. 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. Other expenses are charged to operations as incurred. Total estimated costs for each of the contracts are estimated based on a combination of historical costs of manufacturing similar products and estimates or quotes from vendors for supplying parts or services towards the completion of the manufacturing process. Adjustments to cost and profit estimates are made periodically due to changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements. These changes may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Any losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined.

If total costs calculated upon completion of the manufacturing process in the current period for a contract are more than the estimated total costs at completion used to calculate revenue in a prior period, then the revenue and profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion. Historically, actual results have not varied materially from the Company's estimates. In the fiscal year ended May 31, 2016, 66% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 34% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2015, 70% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 30% of revenue was recorded as deliveries were made to our customers.

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.

#### Income Taxes

The provision for income taxes provides for the tax effects of transactions reported in the financial statements regardless of when such taxes are payable. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax and financial statement basis of assets and liabilities. The deferred tax assets relate principally to asset valuation allowances such as inventory obsolescence reserves and bad debt reserves and also to liabilities including warranty reserves, accrued vacation, accrued commissions and others. The deferred tax liabilities relate primarily to differences between financial statement and tax depreciation. Deferred taxes are based on tax laws currently enacted with tax rates expected to be in effect when the taxes are actually paid or recovered.

Realization of the deferred tax assets is dependent on generating sufficient taxable income at the time temporary differences become deductible. The Company provides a valuation allowance to the extent that deferred tax assets may not be realized. A valuation allowance has not been recorded against the deferred tax assets since management believes it is more likely than not that the deferred tax assets are recoverable. The Company considers future taxable income and potential tax planning strategies in assessing the need for a potential valuation allowance. In future years the Company will need to generate approximately \$2.8 million of taxable income in order to realize our deferred tax assets recorded as of May 31, 2016 of \$965,000. This deferred tax asset balance is 12% (\$106,000) more than at the end of the prior year. The amount of the deferred tax assets considered realizable however, could be reduced in the near term if estimates of future taxable income are reduced. If actual results differ from estimated results or if the Company adjusts these assumptions, the Company may need to adjust its deferred tax assets or liabilities, which could impact its effective tax rate. Historically, actual results have not varied materially from the Company's estimates.

The Company's practice is to recognize interest related to income tax matters in interest income / expense and to recognize penalties in selling, general and administrative expenses.

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2016, the Company had State investment tax credit carryforwards of approximately \$262,000 expiring through May 2022.

## 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 years ended May 31, 2016 and 2015

	<b>Increase / (Decrease)</b>
Sales, net	\$ 5,091,000
Cost of goods sold	\$ 1,399,000
Selling, general and administrative expenses	\$ 1,005,000
Income before provision for income taxes	\$ 2,692,000
Provision for income taxes	\$ 659,000
Net income	\$ 2,033,000

**For the year ended May 31, 2016** (All figures being discussed are for the year ended May 31, 2016 as compared to the year ended May 31, 2015.)

	<b>Year ended May 31</b>		<b>Change</b>	
	<b>2016</b>	<b>2015</b>	<b>Amount</b>	<b>Percent</b>
Net Revenue	\$ 35,680,000	\$ 30,589,000	\$ 5,091,000	17%
Cost of sales	23,243,000	21,844,000	1,399,000	6%
Gross profit	\$ 12,437,000	\$ 8,745,000	\$ 3,692,000	42%
... as a percentage of net revenue	35%	29%		

The Company's consolidated results of operations showed a 17% increase in net revenues and an increase in net income of 93%. Gross profit increased by 42%. The growth in net revenue is due to increased construction activity in the U.S. for new and retrofitted buildings and bridges requiring seismic protection. In the current period, revenues accounted for under the percentage-of-completion method of accounting increased by 11% from the level recorded in the prior year. Revenues recorded for all other product sales increased by 29% from last year. The gross profit as a percentage of net revenues for the current and prior year periods was 35% and 29%, respectively. This difference is primarily due to a combination of a.) certain larger construction Projects in the current period for which the Company was able to negotiate higher than typical selling prices; b.) several smaller, aerospace / defense Projects in the current period that have margins higher than the Company's average; and c.) greater total volume of product sales in the current period to cover non-variable manufacturing costs.

The number of projects in-process fluctuates from period to period, as does the average value of projects in-process. The changes from the prior period to the current period are not necessarily representative of future results.

The mix of customers buying our products changed from last year. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. A 26% increase from last year's level in sales to construction customers who were seeking seismic / wind protection for either construction of new buildings and bridges or retrofitting existing buildings and bridges far surpassed a 3% increase in sales to customers in aerospace / defense and a 22% increase in sales to customers using our products in industrial applications. A breakdown of sales to these three general groups of customers is as follows:

	<b>Year ended May 31</b>	
	<b>2016</b>	<b>2015</b>
Industrial	6%	7%
Construction	59%	54%
Aerospace / Defense	35%	39%

Edgar Filing: TAYLOR DEVICES INC - Form 10-K

At May 31, 2015, we had 139 open sales orders in our backlog with a total sales value of \$25.2 million. At May 31, 2016, we had 115 open sales orders in our backlog and the total sales value is \$21.5 million. \$11.7 million of the current backlog is on projects already in progress. \$16.0 million of the \$25.2 million sales order backlog at May 31, 2015 was in progress at that date. 38% of the sales value in the backlog is for aerospace / defense customers compared to 44% at the end of fiscal 2015. As a percentage of the total sales order backlog, orders from customers in construction accounted for 61% at May 31, 2016 and 55% at May 31, 2015.

The Company's backlog, revenues, commission expense, gross margins, gross profits, and net income fluctuate from period to period. Total sales in the current period and 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 fiscal years ended May 31, 2016 and 2015 is as follows:

	<b>Year ended May 31 20162015</b>	
North America	73%	66%
Asia	22%	31%
Other	5%	3%

**Selling, General and Administrative Expenses**

	<b>Year ended May 31</b>		<b>Change</b>	
	<b>2016</b>	<b>2015</b>	<b>Amount</b>	<b>Percent</b>
Outside Commissions	\$ 2,068,000	\$ 1,748,000	\$ 320,000	18%
Other SG&A	4,620,000	3,935,000	685,000	17%
Total SG&A	\$ 6,688,000	\$ 5,683,000	\$ 1,005,000	18%
... as a percentage of net revenues	9%	19%		

Selling, general and administrative expenses increased by 18% from the prior year. Outside commission expense increased 18% from last year's level. This fluctuation was primarily due to the increase in the level of sales from last year to this. Other selling, general and administrative expenses increased by 17% from last year. This increase is primarily due to an increase in incentive compensation expense from the prior period related to the higher level of sales and operating results.

The above factors resulted in operating income of \$5,748,000 for the year ended May 31, 2016, up 88% from the \$3,061,000 in the prior year.

The Company's effective tax rate (ETR) is calculated based upon current assumptions relating to the year's operating results and various tax related items. The ETR for the fiscal year ended May 31, 2016 is 27.0%, slightly less than the ETR for the prior year of 29.2%. A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

**2016 2015**