

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  
(State or other jurisdiction of incorporation or organization)

16 0797789  
(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  No

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

Yes  No

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

<u>CLASS</u>	<u>Outstanding at April 13, 2006</u>
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

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

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Other current assets	<b>1,023,469</b>	920,638
<b>Total current assets</b>	<b>11,041,600</b>	10,131,193
Maintenance and other inventory, net	<b>588,489</b>	661,500
Property and equipment, net	<b>3,360,215</b>	3,477,672
Investment in affiliate, at equity	<b>444,088</b>	451,877
Intangible and other assets	<b>166,314</b>	168,376
	<b>\$ 15,600,706</b>	\$ 14,890,618
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Short-term borrowings and current portion of long-term debt	<b>\$ 1,986,527</b>	\$ 1,621,119
Payables - trade	<b>1,116,919</b>	770,330
Accrued commissions	<b>881,407</b>	576,550
Billings in excess of costs and estimated earnings	<b>54,000</b>	288,003
Other current liabilities	<b>455,377</b>	386,586
<b>Total current liabilities</b>	<b>4,494,230</b>	3,642,588
Long-term liabilities	<b>810,239</b>	998,719
Payables - affiliate	<b>298,551</b>	589,976
Minority stockholder's interest	<b>474,567</b>	450,991
<b>Stockholders' Equity:</b>		
Common stock and additional paid-in capital	<b>4,397,167</b>	4,391,001
Retained earnings	<b>6,018,921</b>	5,710,312
	<b>10,416,088</b>	10,101,313
Treasury stock - at cost	<b>(892,969)</b>	(892,969)
<b>Total stockholders' equity</b>	<b>9,523,119</b>	9,208,344
	<b>\$ 15,600,706</b>	\$ 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,	
	<b>2006</b>	2005	<b>2006</b>	2005
Sales, net	<b>\$ 4,114,446</b>	\$ 2,619,488	<b>\$ 10,594,573</b>	\$ 7,720,634
Cost of goods sold	<b>2,997,885</b>	1,937,083	<b>7,425,852</b>	5,387,173

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<b>Gross profit</b>	<b>1,116,561</b>	682,405	<b>3,168,721</b>	2,333,461
Selling, general and administrative expenses	<b>950,870</b>	701,495	<b>2,547,335</b>	2,149,215
<b>Operating income (loss)</b>	<b>165,691</b>	(19,090)	<b>621,386</b>	184,246
Other expense, net	<b>(26,837)</b>	(35,719)	<b>(77,413)</b>	(104,781)
Income (loss) before provision for income taxes, equity in net income of affiliate and minority stockholder's interest	<b>138,854</b>	(54,809)	<b>543,973</b>	79,465
Provision for income taxes (benefit)	<b>50,000</b>	(16,700)	<b>204,000</b>	21,300
Income (loss) before equity in net income of affiliate and minority stockholder's interest	<b>88,854</b>	(38,109)	<b>339,973</b>	58,165
Equity in net income (loss) of affiliate	<b>(1,337)</b>	1,804	<b>(7,789)</b>	9,622
Income (loss) before minority stockholder's interest	<b>87,517</b>	(36,305)	<b>332,184</b>	67,787
Minority stockholder's interest	<b>(8,974)</b>	(6,240)	<b>(23,576)</b>	(23,245)
<b>Net income (loss)</b>	<b>\$ 78,543</b>	\$ (42,545)	<b>\$ 308,608</b>	\$ 44,542
Basic and diluted earnings (loss) per common share	<b>\$ 0.03</b>	\$ (0.01)	<b>\$ 0.10</b>	\$ 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	<b>\$ 308,608</b>	\$ 44,542
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	<b>242,603</b>	266,292
Gain on sale of equipment		
Bad debts expense	<b>9,157</b>	16,000

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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)
<b>Net cash flows from (for) operating activities</b>	<b>243,230</b>	<b>(1,467,796)</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(118,845)	(130,198)
Other investing activities	3,094	(16,585)
<b>Net cash flows for investing activities</b>	<b>(115,751)</b>	<b>(146,783)</b>
<b>Cash flows from financing activities:</b>		
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
<b>Net cash flows from (for) financing activities</b>	<b>(108,331)</b>	<b>1,558,472</b>
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.

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**Notes to Condensed Consolidated Financial Statements**

- 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

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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.

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### 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)

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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%
<i>...as a percentage of net revenues</i>	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%
<i>...as a percentage of net revenues</i>	24%	28%		

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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%



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Royalties	22,000	30,000	(8,000)	-27%
Other SG&A	588,000	547,000	41,000	7%
<b>Total SG&amp;A</b>	<b>\$ 951,000</b>	<b>\$ 701,000</b>	<b>\$ 250,000</b>	<b>36%</b>

*...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**

	<b>February 28, 2006</b>		<b>May 31, 2005</b>		<b>Increase</b>
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%
<b>Total</b>	<b>\$5,031,000</b>	<b>100%</b>	<b>\$5,433,000</b>	<b>100%</b>	<b>\$(402,000) -7%</b>
Inventory turnover	1.9		1.5		

*NOTE: Inventory turnover is annualized for the nine-month period ending February 28, 2006.*

Inventory, at \$4,443,000 as of February 28, 2006, is 7% lower than the prior year-end. Of this, approximately 83% is work in process, 8% is finished goods, and 9% is raw materials.

Maintenance and other inventory represent stock that is estimated to have a product life cycle in excess of twelve months. This stock represents certain items that 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. Management of the Company has recorded an allowance for potential inventory obsolescence. The provision for potential inventory obsolescence was \$95,000 for the nine-month period ended February 28, 2006 and \$42,000 for the same period last year. The Company continues to rework slow-moving inventory, where applicable, to convert it to product to be used on customer orders.

### **Accounts Receivable, Costs and Estimated Earnings in Excess of Billings, and Billings in Excess of Costs and Estimated Earnings**

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	February 28, 2006	May 31, 2005	Increase / (Decrease)	
Accounts receivable	\$1,120,000	\$2,719,000	\$ (1,599,000)	-59%
Costs and estimated earnings in excess of billings	4,372,000	1,657,000	2,715,000	164%
Less: Billings in excess of costs and estimated earnings	54,000	288,000	(234,000)	-81%
Net	\$5,438,000	\$4,088,000	\$ 1,350,000	33%

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

Accounts receivable of \$1,120,000 as of February 28, 2006 includes approximately \$405,000 of amounts retained by customers on long-term construction projects. Management expects this balance to increase significantly during the next three months as progress billings on certain long-term construction projects increase as the projects move closer to completion. The Company expects to collect all of these amounts, including the retainage, during the next twelve months.

As noted above, the current asset, "costs and estimated earnings in excess of billings," represents revenues recognized in excess of amounts billed. Whenever possible, the Company negotiates a provision in sales contracts to allow the Company to bill, and collect from the customer, payments in advance of shipments. Unfortunately, provisions such as this are often not possible. The \$4,372,000 balance in this account at February 28, 2006 is a 164% increase from the prior year-end. This significant increase from last year-end is a reflection of 1.) the increase in the number of projects in progress at the two balance sheet dates (24 at February 28, 2006 compared to 16 at May 31, 2005) and 2.) the amount of progress billings permitted per the terms of the various sales agreements for the projects ( 14% of the aggregate order value of the projects in progress at February 28, 2006 has been invoiced to the customers compared to 37% at May 31, 2005.) In the aggregate, the projects in progress at February 28, 2006 are 44% complete at that date while the projects in progress at May 31, 2005 were 54% complete at that date. Generally, if progress billings are permitted under the terms of a project sales agreement, the more complete the project is, the more progress billings will be permitted. The Company expects to bill the entire amount during the next twelve months.

As noted above, the current liability, "billings in excess of costs and estimated earnings", represents billings to customers in excess of revenues recognized. The \$54,000 balance in this account at February 28, 2006 is a \$234,000 decrease from the balance at the end of the prior year. The balance in this account fluctuates in the same manner and for the same reasons as the account "costs and estimated earnings in excess of billings", discussed above. Final delivery of product under these contracts is expected to occur during the next twelve months.

The Company's backlog of sales orders at February 28, 2006 is \$13.2 million, up from the backlog at the end of the prior year of \$7.3 million. \$8.1 million of the current backlog is on projects already in progress.

Accounts payable, at \$1,117,000 as of February 28, 2006, is approximately \$347,000 more than the prior year-end. This significant increase is attributable due to the increase in production activity to manufacture the products for which the Company has sales orders.

Commission expense on applicable sales orders is recognized at the time revenue is recognized. The commission is paid following receipt of payment from the customers. Accrued commissions as of February 28, 2006 are \$881,000. This is 53% higher than the \$577,000 accrued at the prior year-end. This significant increase was expected and is reasonable due to the increase in the current asset, "costs and estimated earnings in excess of billings". Commission expense related to the long-term construction projects is recorded at the same time as revenue on the projects is recorded. This liability will not decrease until progress billings on the projects have been issued by the Company and are paid by our customers. The Company expects the current accrued amount to be paid during the next twelve months. Other current liabilities increased by only \$69,000 from the prior year-end, to \$455,000.

The Company paid \$285,000 to Developments during the nine months ended February 28, 2006, reducing the principal balance on the note payable to \$299,000.

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

TAYLOR DEVICES, INC.

Cautionary Statement

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**Item 3. Controls and Procedures**

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

The Company's principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of February 28, 2006 and have concluded that as of the evaluation date, the disclosure controls and procedures were effective to ensure that material information relating to the Company was made known to the officers by others within the Company.

- (b)
- Changes in internal controls.*

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

TAYLOR DEVICES, INC.

**Part II - Other Information**

## ITEM 1 Legal Proceedings

None

## ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

- (a) The Company sold no equity securities during the fiscal quarter ended February 28, 2006 that were not registered under the Securities Act.

- (b) Use of proceeds following effectiveness of initial registration statement:

Not Applicable

- (c) Repurchases of Equity Securities

<i>Period</i>	<i>(a) Total Number of Shares Purchased</i>	<i>(b) Average Price Paid Per Share</i>	<i>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</i>	<i>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</i>
December 1, 2005 - December 31, 2005	-	-	-	
January 1, 2006 - January 31, 2006	-	-	-	
February 1, 2006 - February 28, 2006	-	-	-	

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Total - - - \$160,802 (1)

(1) In 1998, the Company initiated a plan to purchase shares of its outstanding common stock through open market purchases, with an initial deposit to the program of \$225,000. Additional deposits totaling \$435,000 have been made to the plan, with expenditures of \$499,198. To date, a total of 164,696 shares have been purchased at an average price per share of \$3.03.

(d) Under the terms of the Company's credit arrangements with its primary lender, the Company is prohibited from issuing cash dividends. In addition, the credit arrangements require the Company to maintain net working capital of at least \$2,000,000 and tangible net worth of at least \$6,000,000, as such terms are defined in the credit documents. On February 28, 2006, under such definitions the Company's net working capital and tangible net worth were significantly in excess of such limits.

### ITEM Defaults Upon Senior Securities

3

None

### ITEM 4 Submission of Matters to Vote of Securities Holders

None

### ITEM 5 Other Information

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

None

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

None

### ITEM 6 Exhibits

20 News from Taylor Devices, Inc. Shareholder Letter, Spring 2006.

31(i) Rule 13a-14(a) Certification of Chief Executive Officer.

31(ii) Rule 13a-14(a) Certification of Chief Financial Officer.

32(i) Section 1350 Certification of Chief Executive Officer.

32(ii) Section 1350 Certification of Chief Financial Officer.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Taylor Devices, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Taylor Devices, Inc. and Subsidiary as of February 28, 2006, the related condensed consolidated statements of income 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 interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of May 31, 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated July 22, 2005, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of May 31, 2005 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Lumsden & McCormick, LLP  
Buffalo, New York  
March 29, 2006

TAYLOR DEVICES, INC.

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**Signatures**

Pursuant to the requirements of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TAYLOR DEVICES, INC.  
(Registrant)

By: s/Douglas P. Taylor  
Douglas P. Taylor  
President  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: April 13, 2006

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AND

By: s/Mark V. McDonough  
Mark V. McDonough  
Chief Financial Officer

Date: April 13, 2006