TAYLOR DEVICES INC
Form 10-K
August 29, 2018

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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, 2018

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.)

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 [X] 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 [X] 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.

[X] Yes [ ] No

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).

[X] 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. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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 [X]
Emerging growth company [ ]	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). [ ] Yes [X] 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, 2017 is $50,278,000.

The number of shares outstanding of each of the registrant's classes of common stock as of August 9, 2018: 3,467,560.

Entity Public Float (as of August 9, 2018): 40917000

TAYLOR DEVICES, INC.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Form 10-K Reference
Proxy Statement	Part III, Items 10-14

FORM 10-K INDEX

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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 eight categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, Vibration Dampers , Machined Springs and Custom Actuators. 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. Machined springs are precisely controlled mechanical springs manufactured from a variety of materials. These are used primarily for aerospace applications that require custom features that are not possible with conventional wound coil springs. Custom actuators are typically of the gas-charged type, using high pressure, that have custom features not available from other suppliers. These actuators are used for special military and aerospace applications.

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 several sales agents, under the direction and with the assistance of 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.

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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 five customers approximated 49% (14%, 13%, 9%, 7% and 6%, respectively) of net sales for 2018. 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 2035.

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, 2018 and 2017. No extended payment terms are offered. During the year ended May 31, 2018, 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, 2018 and 2017, the Company expended $263,000 and $903,000, respectively, on manufacturing research. This significant decrease is primarily due to research and development required to meet new types of specifications on certain domestic seismic protection contracts in the prior year. For the years ended May 31, 2018 and 2017, defense sponsored research and development totaled $22,000 and $87,000, 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.

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Employees

Exclusive of Company sales representatives and distributors, as of May 31, 2018, the Company had 111 employees, including three executive officers, and one part time employee. 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 27,000 square foot seismic assembly and test facility. This building contains overhead traveling cranes allows dampers to be built up to 45 ft. in length. It is also the site of a new long bed damper test machine where seismic dampers Taylor Devices manufactures will be tested at maximum force to satisfy customer specifications. Another adjacent building (approximately 2,000 square feet) is used as a training facility. These facilities total more than 54,000 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 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. One building includes a large machine shop containing custom-built machinery for boring, deep-hole drilling and turning of parts. Another is used for painting and packaging parts and completed units.

The Company's real properties are subject to a negative pledge agreement with its lender, M&T 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 M&T 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 Company’s headquarters. The total rental expense incurred by the Company for this facility in fiscal 2018 was $11,700.

The Company believes it carries 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.

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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 2018 and fiscal year 2017 were obtained from NASDAQ.

	Fiscal 2018		Fiscal 2017	
	High	Low	High	Low
First Quarter	$14.12	$10.62	$20.45	$16.10
Second Quarter	$14.00	$10.84	$20.00	$13.10
Third Quarter	$15.14	$11.01	$15.69	$14.25
Fourth Quarter	$12.23	$9.70	$14.52	$12.84

Holders

As of August 9, 2018, the number of issued and outstanding shares of Common Stock was 3,467,560 and the approximate number of record holders of the Company's Common Stock was 531. 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. The Board of Directors is planning to adopt a replacement shareholder rights plan.

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.

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Equity Compensation Plan Information

The following table sets forth information regarding equity compensation plans of the Company as of May 31, 2018.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights *(a)*	Weighted-average exercise price of outstanding options, warrants and rights *(b)*	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column *(a)*) *(c)*
Equity compensation plans approved by security holders:			
2005 Stock Option Plan	10,750	$ 3.05	-
2008 Stock Option Plan	63,000	$ 8.07	-
2012 Stock Option Plan	103,250	$12.00	-
2015 Stock Option Plan	94,750	$13.72	64,500

Equity compensation plans not approved by security holders: 2004 Employee Stock Purchase Plan (1)	-	-	223,169
Total	271,750		287,669

(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, 2018, 223,169 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.

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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, 2018 equaled less than 0.1% of sales for that period. The balance of the valuation allowance has remained at slightly less than $110,000 since May 31, 2017. 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 $60,000 and$180,000 for the years ended May 31, 2018 and 2017.

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.

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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, 2018, 60% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 40% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2017, 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.

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 $3.2 million of taxable income in order to realize our deferred tax assets recorded as of May 31, 2018 of $663,000. This deferred tax asset balance is 46% ($564,000) less 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. In December 2017, the Tax Cuts and Jobs Act (the 2017 Act) became law. It includes a broad range of tax reform proposals affecting businesses, including corporate tax rates, business deductions, and international tax provisions. Among the changes, the 2017 Act reduces the corporate rate from 34% to 21% for periods beginning after

December 31, 2017. Because of the rate change, the Company recorded a non-cash write down of deferred tax assets and recognized incremental deferred tax expense of $164,000 during the year ended May 31, 2018.

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, 2018, the Company had State investment tax credit carryforwards of approximately $369,000 expiring through May 2024.

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:

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Summary comparison of the years ended May 31, 2018 and 2017

	Increase / (Decrease)
Sales, net	$(1,173,000)
Cost of goods sold	$889,000
Selling, general and administrative expenses	$212,000
Income before provision for income taxes	$(2,311,000)
Provision for income taxes	$(424,000)
Net income	$(1,887,000)

For the year ended May 31, 2018 (All figures being discussed are for the year ended May 31, 2018 as compared to the year ended May 31, 2017.)

	Year ended May 31		Change	
	2018	2017	Amount	Percent
Net Revenue	$24,364,000	$25,537,000	$(1,173,000)	-5 %
Cost of sales	18,440,000	17,551,000	889,000	5 %
Gross profit	$5,924,000	$7,986,000	$(2,062,000)	-26 %
… as a percentage of net revenues	24 %	31 %		

The Company's consolidated results of operations showed a 5% decrease in net revenues and a decrease in net income of 81%. Revenues recorded in the current period for long-term construction projects (“Project(s)”) were 13% less than the level recorded in the prior year. We had 50 Projects in process during the current period compared with 55 during the same period last year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were 13% more than the level recorded in the prior year. The number of projects in-process fluctuates from period to period. 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 slightly from last year. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. The Company saw a 12% decrease 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. This was offset by a 27% increase in sales to customers using our products in industrial applications and a 1% increase in sales to customers in aerospace / defense. The significant reduction in sales to construction customers was the result of several factors including 1.) scheduling delays at customer construction sites, 2.) delays in receiving custom components from vendors, 3.) quality issues from a subcontractor, and 4.) testing bottlenecks caused by delays in getting a new test machine operating. These issues are resolved and management is optimistic that the sales volume will continue to improve. A breakdown of sales to these three general groups of customers, as a percentage of total net revenue for fiscal years ended May 31, 2018 and 2017 is as follows:

	Year ended May 31	
	2018	2017
Industrial	8 %	7 %
Construction	50%	54%
Aerospace / Defense	42%	39%

Total sales within North America decreased 13% from last year. Total sales to Asia increased 57% from the prior year. Net revenue by geographic region, as a percentage of total net revenue for fiscal years ended May 31, 2018 and 2017 is as follows:

	Year ended May 31	
	2018	2017
North America	74%	81%
Asia	21%	13%
Other	5 %	6 %

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The gross profit as a percentage of net revenue of 24% in the current period is seven percentage points less than the prior year. This difference is primarily due to 1.) a lower total volume of product sales in the current period to cover non-variable manufacturing costs, and 2.) several projects in the current period that were very competitively bid.

At May 31, 2017, we had 116 open sales orders in our backlog with a total sales value of $21.6 million. At May 31, 2018, we had 121 open sales orders in our backlog and the total sales value is $23.1 million. $8.8 million of the current backlog is on projects already in progress. $10.7 million of the $21.6 million sales order backlog at May 31, 2017 was in progress at that date. 33% of the sales value in the backlog is for aerospace / defense customers compared to 56% at the end of fiscal 2017. As a percentage of the total sales order backlog, orders from customers in construction accounted for 65% at May 31, 2018 and 42% at May 31, 2017.

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.

Selling, General and Administrative Expenses

	Year ended May 31		Change	
	2018	2017	Amount	Percent
Outside Commissions	$1,254,000	$1,336,000	$(82,000)	-6 %
Other SG&A	4,023,000	3,729,000	294,000	8 %
Total SG&A	$5,277,000	$5,065,000	$212,000	4 %
… as a percentage of net revenues	22 %	20 %		

Selling, general and administrative expenses increased by 4% from the prior year. Outside commission expense decreased 6% from last year's level. Other selling, general and administrative expenses increased by 8% from last year.

The above factors resulted in operating income of $648,000 for the year ended May 31, 2018, down 78% from the $2,921,000 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, 2018 is 34%, twelve percentage points more than the ETR for the prior year of 22%. A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

	2018	2017
Computed tax provision at the expected statutory rate	$194,000	$1,016,000
Tax effect of permanent differences:		
Research tax credits	(110,000)	(273,000)
Tax rate change on deferred taxes	164,000	—
Other permanent differences	(3,000)	(94,000)
Other	(12,000)	8,000
	$233,000	$657,000

Stock Options

The Company has stock option plans which provide for the granting of nonqualified or incentive stock options to officers, key employees and non-employee directors. Options granted under the plans are exercisable over a ten year term. Options not exercised by the end of the term expire.

The Company measures compensation cost arising from the grant of share-based payments to employees at fair value and recognizes such cost in income over the period during which the employee is required to provide service in exchange for the award. The Company recognized $125,000 and $178,000 of compensation cost for the years ended May 31, 2018 and 2017.

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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. The Company used a weighted average expected term. Expected volatility assumptions used in the model were based on volatility of the Company's stock price for the thirty month period immediately preceding the granting of the options. The Company issued stock options in August 2017 and April 2018. The risk-free interest rate is derived from the U.S. treasury yield.

The following assumptions were used in the Black-Scholes model in estimating the fair market value of the Company's stock option grants:

	August 2017		April 2018	
Risk-free interest rate:	2.25	%	2.125	%
Expected life of the options:	3.6 years		3.7 years	
Expected share price volatility:	28	%	31	%
Expected dividends:	zero		zero	
These assumptions resulted in estimated fair-market value per stock option:	$3.01		$2.74	

The ultimate value of the options will depend on the future price of the Company's common stock, which cannot be forecast with reasonable accuracy. A summary of changes in the stock options outstanding during the year ended May 31, 2018 is presented below.

	Number of Options	Weighted-Average Exercise Price
Options outstanding and exercisable at May 31, 2017:	253,500	$ 10.93
Options granted:	43,750	$ 11.15
Less: Options exercised:	24,750	$ 6.67
Less: Options expired:	750	$ 19.26
Options outstanding and exercisable at May 31, 2018:	271,750	$ 11.33
Closing value per share on NASDAQ at May 31, 2018:		$ 10.26

Capital Resources, Line of Credit and Long-Term Debt

The Company's primary liquidity is dependent upon its 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 year ended May 31, 2018 were $937,000 compared to $1,869,000 in the prior year. The Company has commitments to make capital expenditures of approximately $530,000 as of May 31, 2018.

The Company has a $10,000,000 demand line of credit from a bank, with interest payable at the Company's option of 30, 60 or 90 day LIBOR rate plus 2.25% . There is no outstanding balance at May 31, 2018. There was no outstanding balance as of May 31, 2017. The outstanding balance on the line of credit fluctuates as the Company's various long-term projects progress. The line is secured by a negative pledge of the Company's real and personal property. This line of credit is subject to the usual terms and conditions applied by the bank and is subject to renewal annually.

The bank is not committed to make loans under this line of credit and no commitment fee is charged.

Inventory and Maintenance Inventory

	May 31, 2018		May 31, 2017		Increase /(Decrease)	
Raw materials	$727,000		$710,000		$17,000	2 %
Work in process	9,990,000		10,071,000		(81,000)	-1 %
Finished goods	601,000		708,000		(107,000)	-15%
Inventory	11,318,000	93 %	11,489,000	93 %	(171,000)	-1 %
Maintenance and other inventory	886,000	7 %	879,000	7 %	7,000	1 %
Total	$12,204,000	100%	$12,368,000	100%	$(164,000)	-1 %
Inventory turnover	1.5		1.5			

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Inventory, at $11,318,000 as of May 31, 2018, is 1% less than the prior year-end. Of this, approximately 88% is work in process, 5% is finished goods, and 7% is raw materials. All of the current inventory is expected to be consumed or sold within twelve months. The level of inventory will fluctuate from time to time due to the stage of completion of the non-project sales orders in progress at the time.

The Company continues to rework slow-moving inventory, where applicable, to convert it to product to be used on customer orders. There was approximately $148,000 of slow-moving inventory used during the year ended May 31, 2018. The Company disposed of approximately $41,000 and $56,000 of obsolete inventory during the years ended May 31, 2018 and 2017, respectively.

Accounts Receivable, Costs and Estimated Earnings in Excess of Billings (“CIEB”) and Billings in Excess of Costs and Estimated Earnings (“BIEC”)

	May 31, 2018	May 31, 2017	Increase /(Decrease)	
Accounts receivable	$6,266,000	$2,546,000	$3,720,000	146%
CIEB	6,357,000	6,868,000	(511 ,000)	-7 %
Less: BIEC	2,043,000	1,296,000	747,000	58 %
Net	$10,580,000	$8,118,000	$2,462,000	30 %
Number of an average day’s sales outstanding in accounts receivable (DSO)	88	36		

The Company combines the totals of accounts receivable, the asset CIEB, and the liability BIEC, 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 $6,266,000 as of May 31, 2018 includes approximately $860,000 of amounts retained by customers on long-term construction projects. The Company expects to collect all of these amounts, including the retained amounts, during the next twelve months. The number of an average day's sales outstanding in accounts receivable (DSO) increased to 88 days at May 31, 2018 from 36 days as of May 31, 2017. The DSO is a function of 1.) the level of sales for an average day (for example, total sales for the past three months divided by 90 days) and 2.) the level of accounts receivable at the balance sheet date. The level of sales for an average day in the fourth quarter of the current fiscal year is only slightly more than in the fourth quarter of the prior year. The level of accounts receivable at the end of the current fiscal quarter is significantly more than the level at the end of the prior year. The significant increase in the level of accounts receivable caused the DSO to increase from last year end to this year-end.

The primary reason for the increase in the level of accounts receivable from last year end to this quarter-end was significantly higher billings for Projects in May 2018 ($2.6 million) compared to May 2017 ($0.5 million). The Company expects to collect the net accounts receivable balance, including the retainage, during the next twelve months.

The status of the projects in-progress at the end of the current and prior fiscal years have changed in the factors affecting the year-end balances in the asset CIEB, and the liability BIEC:

	2018	2017
Number of projects in progress at year-end	26	24
Aggregate percent complete at year-end	72%	66%
Average total value of projects in progress at year-end	$942,000	$1,289,000
Percentage of total value invoiced to customer	55%	47%

There are 2 more projects in-process at the end of the current fiscal year as compared with the prior year end and the average value of those projects has decreased by 27% between those two dates.

As noted above, CIEB 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 $6,357,000 balance in this account at May 31, 2018 is a 7% decrease from the prior year-end. Generally, if progress billings are permitted under the terms of a project sales agreement, then 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. 41% of the CIEB balance as of the end of the last fiscal quarter, February 28, 2018, was billed to those customers in the current fiscal quarter ended May 31, 2018. The remainder will be billed as the projects progress, in accordance with the terms specified in the various contracts.

As of May 31, 2018, there are sales orders for four projects that are not yet in progress. These projects average $2,198,000 each in value upon completion. This compares to four such projects as of the prior year end with an average value of $259,000.

The year-end balances in the CIEB account are comprised of the following components:

	May 31, 2018	May 31, 2017
Costs	$9,939,000	$9,675,000
Estimated earnings	3,529,000	3,757,000
Less: Billings to customers	7,111,000	6,564,000
CIEB	$6,357,000	$6,868,000
Number of projects in progress	19	21

As noted above, BIEC represents billings to customers in excess of revenues recognized. The $2,043,000 balance in this account at May 31, 2018 is in comparison to a $1,296,000 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 year-end balances in this account are comprised of the following components:

	May 31, 2018	May 31, 2017

Billings to customers	$6,246,000	$8,133,000
Less: Costs	2,574,000	4,522,000
Less: Estimated earnings	1,629,000	2,315,000
BIEC	$2,043,000	$1,296,000
Number of projects in progress	7	3

Accounts payable, at $1,460,000 as of May 31, 2018, is 10% more than the prior year-end. This small increase is simply due to recent purchases. The Company expects the current accounts payable amount to be paid during the next twelve months.

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 May 31, 2018 are $983,000. This is 16% more than the $847,000 accrued at the prior year-end. This increase is due to the increase in the accounts receivable, discussed above. The Company expects the current accrued amount to be paid during the next twelve months.

Other accrued expenses of $1,413,000 increased by 70% from the prior year level of $832,000. This increase is primarily due to increases in a.) accrued tax obligations, b.) accrued postemployment benefits, and c.) customer prepayments. The increase in accrued taxes is due to more sales orders subject to state sales tax. The accrued postemployment benefits are related to recently retired Company executives.

Management believes that the Company's cash on hand, 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 (if any) for the next twelve months.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data required pursuant to this Item 8 are included in this Form 10-K as a separate section commencing on page 23 and are incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

There have been no disagreements between the Company and its accountants as to matters which require disclosure.

Item 9A. 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 May 31, 2018 and have concluded that, as of the evaluation date, the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and that information required to be disclosed in the reports the Company files or submits under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

(b) *Management's report on internal control over financial reporting.*

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of May 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control -- Integrated Framework, updated in 2013. Based on this assessment management has concluded that, as of May 31, 2018, the Company's internal control over financial reporting is effective based on those criteria.

(c) *Changes in internal control over financial reporting.*

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal year ended May 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

Item 9B. Other Information.

None.

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PART III

The information required by Items 10, 11, 12, 13 and 14 of this part will be presented in the Company's Proxy Statement to be issued in connection with the Annual Meeting of Shareholders to be held on November 2, 2018, which information is hereby incorporated by reference into this Annual Report. The proxy materials, including the Proxy Statement and form of proxy, will be filed within 120 days after the Company's fiscal year end.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

DOCUMENTS FILED AS PART OF THIS REPORT:

Index to Financial Statements:

(i) Report of Independent Registered Public Accounting Firm

(ii) Consolidated Balance Sheets as of May 31, 2018 and 2017

(iii) Consolidated Statements of Income for the years ended May 31, 2018 and 2017

(iv) Consolidated Statements of Stockholders' Equity for the years ended May 31, 2018 and 2017

(v) Consolidated Statements of Cash Flows for the years ended May 31, 2018 and 2017

(vi) Notes to Consolidated Financial Statements - May 31, 2018 and 2017

EXHIBITS:

3 Articles of incorporation and by-laws

(i) Restated Certificate of Incorporation incorporated by reference to Exhibit (3)(i) of Annual Report on Form 10-K, dated August 24, 1983.

(ii) Amendment to Certificate of Incorporation incorporated by reference to Exhibit (3)(iv) to Form 8 [Amendment to Application or Report], dated September 24, 1993.

(iii) Amendment to Certificate of Incorporation eliminating and re-designating the Series A Junior Preferred Stock and creating 5,000 Series 2008 Junior Participating Preferred Stock, at $.05 par value, as filed by the Secretary of State of the State of New York on September 16, 2008, and incorporated by reference to Exhibit (3)(i) of Form 8-K, dated as of September 15, 2008 and filed September 18, 2008.

(iv) Certificate of Change incorporated by reference to Exhibit (3)(i) to Quarterly Report on Form 10-QSB for the period ending November 30, 2002.

(v) By-laws and Proxy Review Guidelines incorporated by reference to Exhibit (3) to Quarterly Report on Form 10-Q for the period ending February 28, 2015, filed April 14, 2015.

4 Instruments defining rights of security holders, including indentures

(i) Rights Agreement by and between registrant and Regan & Associates, Inc, dated as of October 5, 2008 and letter to shareholders (including Summary of Rights), dated October 5, 2008, attached as Exhibits 4 and 20, respectively to Registration Statement on Form 8-A 12G, filed with the Securities and Exchange Commission on October 3, 2008.