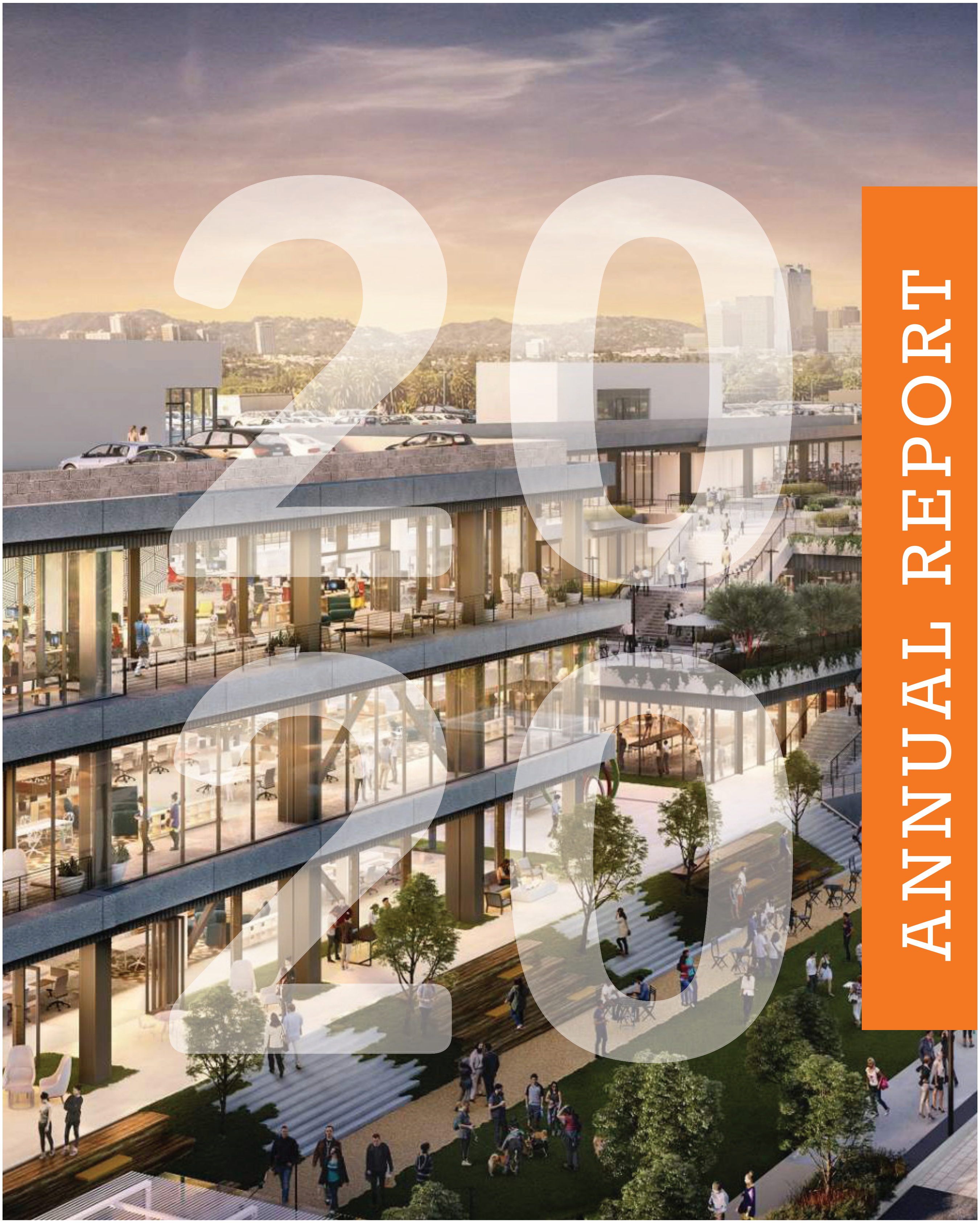

taylor devices inc.

CEO'S LETTER

To our Shareholders,

As I reflect on last year's challenges and accomplishments, I must first acknowledge and thank our employees for their exceptional response to the challenges presented by the Coronavirus Pandemic. Their willingness to work with and support us as we implemented new safety protocols to keep them and their families as safe as possible while we continued to meet our customer commitments as an essential business has been and continues to be both impressive and inspiring.

Overall, we made very good progress this past year relative to our prioritized focus on Continuous Improvement to drive waste out of our business as evidenced by several key performance indicator improvements as compared to the prior year, fiscal year 2019: On-Time Delivery is 20% improved, inventory is reduced by 8%, gross profit improved by 6% as a percentage of sales, operating income improved by 3% as a percentage of sales, net income improved by 3% as a percentage of sales with net cash improved by almost 200%. These improvements were achieved by our Team despite sales volume being down by 16%, R&D investment being up by 183% and capital investments up by 160%.

Sales for the year of $28.4 million are down $5.2 million vs. last year due primarily to the reduction in sales to our Construction/Seismic products customer group which is $4.5 million or 87% of that total. Sales in our Aero/Defense and Industrial customer product groups were also both lower vs. last year but to lesser degrees. The Coronavirus pandemic negative impact to our business during the fourth quarter certainly contributed to these sales reductions however the ongoing negative impact of tariffs on our export sales to Asia also contributed to the reduction vs. the prior year.

The pandemic also had a negative impact on our full year orders and corresponding end of year backlog, which finished at $9.8 million vs. the $13.3 million for fiscal year 2019. The ability of our customers to process the orders for our products at their normal pace was compromised as they implemented their Coronavirus mitigation actions to keep their employees and families safe. Furthermore, the economic uncertainties presented by the Coronavirus pandemic, more so for our non-Aero/Defense customers, also contributed to delayed orders during the last quarter of our fiscal year. That said, our full year orders of $24.3 million finished a half-million dollars better than fiscal year 2019.

Following a rigorous review of the markets we serve, the needs of the customers in those markets and our ability to meet those needs, our top priority for fiscal year 2021 will continue to be improved on-time delivery of high quality existing, new and improved products to our customers. We will accomplish this with further optimization of our business practices, equipment, and facilities along with development of our employees. While the continuing Coronavirus Pandemic presents an unprecedented risk with associated challenges this year, our market and product portfolio diversities supported by our resiliently committed and hard-working team has us well positioned to manage these challenges.

Sincerely,

TAYLOR DEVICES, INC.

Timothy J. Sopko
Chief Executive Officer

PRESIDENT'S LETTER

Dear Shareholders,

As positive change continues at Taylor Devices, I am happy to report another year of improved profitability, despite a downturn in total sales revenue. Additionally, despite some obvious challenges that we experienced, particularly in the 4th quarter of FY2020, our team remains well-aligned to continue the steps necessary to reach our short-term and long-term goals for increased revenue and profitability.

In late March, Taylor Devices received confirmation from the State of New York that we were designated as an "essential business" pursuant to a NY State Executive Order with respect to our business function of supply chain partner for several essential industries including aerospace, defense, construction and industrial products. We were fortunate to be in a position that allowed us to maintain the functional aspects of our Company while still practicing cautious measures to inhibit the spread of the Coronavirus. I am proud of the way that our entire team responded.

Sales for the fiscal year ending May 31, 2020 were $28,381,541 compared to last year's sales of $33,619,031; a decrease of 15.6%. However, operating income increased to $3,302,679 compared to $3,001,792 in 2019. Net income was $3,029,976 compared to $2,544,525 in 2019; an increase of 19.1%. Taylor Devices' firm order backlog at the end of the 2020 fiscal year was $9.8 million compared to $13.3 million at the close of FY2019. The decline in backlog from the previous year has been predominantly caused by the worldwide pandemic. However, many projects that were previously pending have been delayed but not cancelled among the economic uncertainty that continues to exist. We are still forecasting a strong fiscal year for FY2021.

Featured within our 2020 Annual Report is the One Westside Shopping Center. This was a major project for the Company in FY2020 as we supplied 238 large seismic dampers for this shopping center located in Los Angeles between Hollywood and Santa Monica. Another featured building project is 350 California St. in downtown San Francisco. Our dampers are installed in positions throughout the building. Some of them are quite visible to the public from the street level and in the first-floor coffee shop. After stopping there this past January, I can say that the employees are happy to know that they work in such a well-protected building.

Also featured in this Annual Report is the CH-53K King Stallion Helicopter manufactured by Sikorsky Aircraft, a Lockheed Martin Company. For the past several years, we have been supplying specialized bearing components with challenging engineering and manufacturing requirements. We were able to leverage the technology gained through our own development of machined springs and are now supporting the continued production of these components for the most powerful helicopter in the world.

In closing, Management is quite pleased with the efforts that all employees have demonstrated during these trying times and we are looking forward to a strong year.

Sincerely,

TAYLOR DEVICES, INC.

Alan R. Klembczyk
President

PHOTO COURTESY

Damper at One Westside | Buzz Harwood

STATUS REPORT

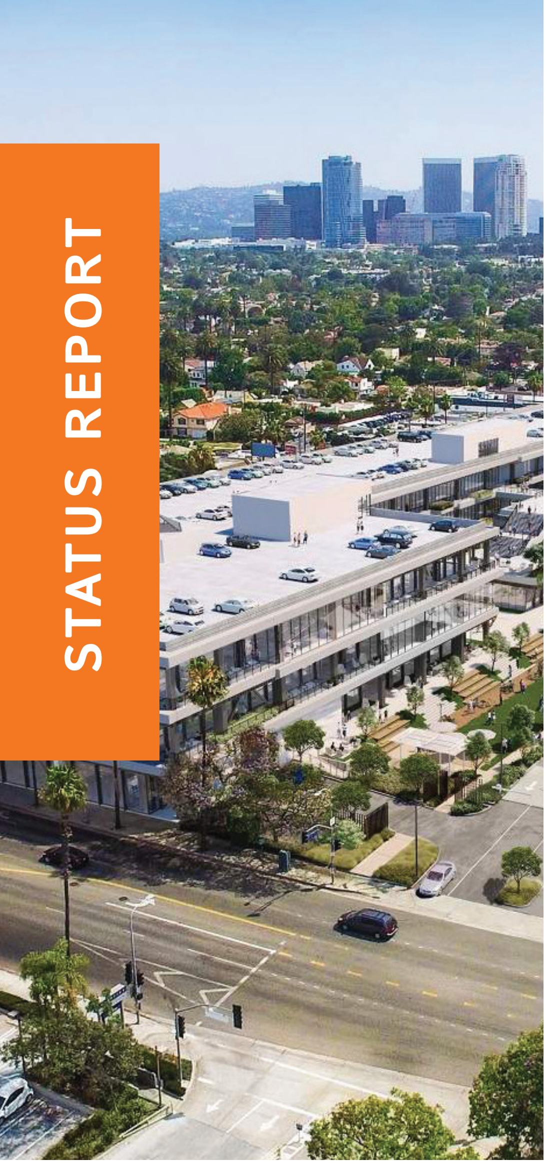

PHOTO COURTESY

One Westside Render | Hudson Pacific Properties

FROM THE VICE PRESIDENT, OPERATIONS

TODD J. AVERY
Vice President, Operations

The start of the Fiscal Year 2021 coincides with my one-year anniversary at Taylor Devices. Before I speak to the new Fiscal year, I would be remiss if I did not celebrate the strong results of the Fiscal year 2020.

- 20% improvement in the on-time delivery of customer orders over previous fiscal years' average
- 76% improvement in the number of past due customer order lines from the end of Fiscal Year 2019
- 8% reduction in inventory, or nearly $1m, in inventory dollar value
- 10% reduction in purchased material as a percentage of sales

The entire Taylor Team pulled together to achieve these results, enabled by better systems, processes, and training as we constantly challenged ourselves to be better tomorrow than we were today.

- Deployed strategy deployment to align company initiatives to achieve breakthrough objectives
- Deployed performance and visual management to identify gaps to plans or standards
- Trained 22 team members on 5 WHYS problem solving to permanently correct gaps
- Deployed sales, inventory, and operations planning to better plan our company resources
- Completed ERP Planning Module Project, to be deployed in Q1 of FY21, which will remove the current wastes and inefficiencies of our manual scheduling process
- Conducted over 50 improvement projects, from just do it to week-long kaizen events
- Commenced a Taylor Safety Committee to ensure we protect our most valuable assets

I have full confidence that the Fiscal Year 2021 will see Taylor's improvement journey progress even further. Our focus will be to design and deploy a future state for both our information and material flows across all value streams, judiciously using capital expenditures to ensure a right first time, on time customer order execution. This focus will enable continued profitable growth.

FROM THE CHIEF FINANCIAL OFFICER

MARK V. MCDONOUGH
Chief Financial Officer

In a very challenging year that will have a strong impact on how Taylor Devices and many other companies operate in the future, we finished the fiscal year with good results. It could have been better with more sales volume, fewer interruptions, and lower unplanned expenses. It could certainly have been worse due to many circumstances that were unforeseen in prior years or if we didn't heed the recommendations of health experts who guided our responses and preparations over the past several months.

The 16% decrease in revenue from a very strong fiscal 2019 was disappointing. It was primarily felt in the level of sales to customers for seismic/wind protection, equally split between domestic customers and customers in Asia. Our gross profit of $9.2 million on sales of $28.4 million is the second highest level we have achieved in our history and negated the lower sales volume. Selling expenses were reduced during the year as we invested in new personnel and processes to improve the flow of production and reduce the lead-time required to get our products to our customers. The net income for fiscal 2020 is the second best in the history of the Company and 27% better than the average of the prior four years. Earnings per share was 87 cents for fiscal 2020 compared to 73 cents for the prior year and 68 cents average for the prior four years.

Our sales order backlog of $9.8 million on May 31, 2020 is down from the prior year-end of $13.3 million. The sales order backlog is weighted heavily towards customers in Aerospace/Defense with three quarters to domestic customers. While the current pandemic has delayed many construction projects around the world, Taylor Devices stands ready to hit the ground running as project managers determine it is safe and feasible to begin their respective construction projects to make their structures safe from seismic and wind events. We have learned much about our abilities and limitations over the past several months. We are confident in our position in the market. As we continue to invest in improved operations in the factory as well as the office, we are optimistic that our profitable growth will continue into fiscal 2021 and beyond.

We will continue to work with our advisors to keep abreast of changes in the regulations and to remain in compliance with them in order to ensure that accurate, reliable financial and business information is provided to investors and other users of this annual report and our interim reports.

FROM AEROSPACE/ DEFENSE PRODUCTS

JOHN C. METZGER
Vice President, Engineering

Sales in the Aerospace/Defense sector for FY20 represented 38% of the total company sales. Sales of $10,771,000 were down 5% compared to $11,383,000 in FY19. Revenue has been stable based on the steady recurring orders for our mature products on long-term US Government programs. This has contributed to help maintain our current backlog. COVID-19 negatively affected aerospace shipments during the last quarter of FY20.

The Company continues to work on new programs that will help sustain continued sales for many years to come. Currently under development is a 6 degree of freedom isolation platform for a new Navy ship board system. This is a full development and qualification program based on new specifications from our customer.

We have an internal R&D project to develop and test new isolation products. Market intelligence shows there may be an immediate need for these products. At the end of FY20 the design was still being refined by our engineering department with the goal to have initial prototypes in early fall of this year.

Our work with United Launch Alliance continues with a contract for a Ground Wind Damper System (GWD) for the new Vulcan rocket. This system was manufactured along with 13 different custom energy absorbers located on the launch pad. An additional order was received to perform system level testing for the GWD to qualify the system that accommodates the release of the system from the rocket at liftoff. Completion of this testing is scheduled for later this year.

The Company continues to work on a substantial contract with the US Government for testing various shock isolation components for naval applications. Our world-class testing capabilities make Taylor Devices stand out and we continue to seek new business for our testing services.

We are currently adding resources to help support future growth in sales. Bid and proposal work for new aerospace applications has added to the need for more engineering resources. Additionally, significant efforts in research & development are underway that will help to ensure our long-term corporate goals.

STATUS REPORT

ROBERT H. SCHNEIDER
Industrial/Seismic Products
Sales Manager

CRAIG W. WINTERS
Industrial/Seismic Products
Sales Manager

FROM INDUSTRIAL/ SEISMIC PRODUCTS

Fiscal Year 2020 did not produce the results we were looking for in terms of bookings for Industrial and Structural products. Overall, Taylor Devices' industrial and construction product lines sales decreased this year by approximately 21% to $17,610,412, with a 23% decrease for our construction related products and a 4% decrease for our Crane Buffers and other industrial items. The total for both product lines represents 62% of the company's sales for the year. Sales in Asia experienced the greatest decline with a decrease of nearly 50% in comparison to Fiscal Year 2019. However, our industrial product diversity, mixed with our other product lines and markets, helps to keep us going strong when other segments of our business faces difficult challenges.

One of the biggest challenges we continue to face are the tariffs placed on our products going into China as well as on imported steel and aluminum. Although Taylor Devices normally uses steel produced in the USA when it is available in the shapes and sizes needed to produce our products, we are now seeing increased material prices for the steel we buy from US steel mills, due to the increased domestic demand, which is a side-effect of the tariffs. This is making it more difficult for us to compete with the manufacturers in China and other parts of Asia that are not subject to the tariffs and already have lower labor and manufacturing costs.

Although sales are down and we are in the middle of a pandemic, things are actually looking rather optimistic. The number of projects in the pipeline that are approaching the order stage are very favorable. Although we are seeing a significant number of projects being pushed out for several months or more due to the COVID-19 pandemic, no projects have been cancelled outright, at the time that this report was written.

New sales and marketing efforts have been initiated to reverse the trend of declining sales of our seismic and wind protection dampers. Our new damper design manual that is used to help provide information to designers for assistance in the implementation of our products has been very well received. We are constantly making improvements to the manual based on feedback received from the people that have downloaded it. We are also looking to further expand our direct sales team by hiring a second new Western US Technical Sales Engineer to collaborate with Aaron Malatesta and enhance the level of support at the structural design level that we provide to our customers along the west coast and other parts of the world. We also continue to expand our marketing efforts through enhancements to our website and social media presence, as well as by expanding our marketing department with another Marketing Specialist to continue to reduce our need to rely on outside marketing agencies. This will allow us to reduce cost and increase our marketing efforts at the same time.

Pete Silva (left) of Olson Steel and Buzz Harwood (right), Taylor Devices' representative, inspect the damper installations inside the One Westside building.

During FY20, new orders for our seismic and wind damping technology remained nearly the same as past years, with 28 new projects, of varying sizes. This puts our total number of seismic and wind projects over the 750 mark.

A notable project won during FY20 and featured within this Annual Report includes 238 dampers for the One Westside project in Los Angeles. This massive project is a conversion and seismic upgrade of the former Westside Pavilion shopping mall into prime office space that will be primarily used by Google. This is a first of its kind transformation of a shopping mall as many of them struggle to remain open throughout the United States.

Other projects worth mentioning include a seismic upgrade of the Central Building in Seattle, WA, replacement cable dampers for a cable stayed bridge in Ohio and the voluntary seismic upgrade of an Ex Northrop Grumman building at 101 Continental Boulevard in El Segundo, California, using 120 dampers with integral long extenders as part of an upgrade to convert the building into 4-Star office space.

Despite the unknown consequences of the COVID-19 pandemic, we still have reason to expect a positive outlook for FY21. Our recognized ability to suit the customer's needs with technical assistance and with special products and the flexibility to continually adapt to the requirements of the market remain our most valuable assets.

CORPORATE DATA

OFFICERS AND DIRECTORS

F. ERIC ARMENAT | Board Member
JOHN BURGESS | Chairman of the Board of Directors
RANDALL L. CLARK | Board Member
ALAN R. KLEMBCZYK | President and Board Member
MARK V. MCDONOUGH | Chief Financial Officer and Corporate Secretary
TIMOTHY J. SOPKO | Chief Executive Officer and Board Member

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Lumsden & McCormick, LLP
Cyclorama Building
369 Franklin Street
Buffalo, NY 14202-1702

GENERAL COUNSEL

Barclay Damon, LLP
Barclay Damon Tower
125 East Jefferson Street
Syracuse, NY 13202

MANAGERS

TODD AVERY | Vice President, Operations
SUSAN EWING | Human Resources Manager
DONALD HORNE | Chief Engineer
CHARLES KETCHUM III | Quality Assurance/Quality Control Manager
NICHOLAS MARSOLAIS |Production Control Manager
JOHN METZGER | Vice President, Engineering
PETER MILICIA | Accounting / Shareholder Relations Manager
MICHAEL ROGOWSKI | Supply Chain Manager
ERIC ROTH | Scholl Operations Manager
ROBERT SCHNEIDER | Industrial/Seismic Products Sales Manager
BILL STREAMS | Machine Shop Supervisor
KEVIN SUPLICKI | Information Systems Manager
DAVID TAYLOR | Contracts Manager
DENNIS WARMUS | Manufacturing Engineering Manager
CRAIG WINTERS | Industrial/Seismic Products Sales Manager

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services
150 Royall Street
Canton, MA 02021
800-522-6645
www.computershare.com

FINANCIAL REPORT – BY WRITTEN REQUEST

A copy of the financial report on form 10-K can be obtained by written request to the attention of Peter Milicia at Taylor Devices, Inc., 90 Taylor Drive, North Tonawanda, NY 14120.

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 2020 and fiscal year 2019 were obtained from NASDAQ.

HOLDERS

As of May 31, 2020, the number of issued and outstanding shares of Common Stock was 3,486,871 and the approximate number of record holders of the Company's Common Stock was 495. 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 is less than 1,300.

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.

NOTICE OF ANNUAL MEETING

Taylor Devices' Annual Shareholder's Meeting will be held virtually on October 23, 2020, at 11:00 am, through a passcode protected link on the "Investors" page of our website (taylordevices.com) under the tab "About Us". Due to the COVID-19 pandemic and in compliance with NYS Senate Bill 8412 signed by Governor Cuomo on June 17, 2020, there will not be a physical meeting. For shareholders who would like to request a passcode for the virtual meeting, please send an email to shareholderrelations@taylordevices.com. Thank you.

PHOTO COURTESY

Sikorsky CH-53K King Stallion | Lockheed Martin

FISCAL 2020

Quarter	High	Low
FIRST	$11.45	$10.54
SECOND	$11.10	$10.11
THIRD	$13.39	$10.10
FOURTH	$11.57	$6.61

FISCAL 2019

Quarter	High	Low
FIRST	$12.62	$9.99
SECOND	$12.70	$10.80
THIRD	$13.29	$11.50
FOURTH	$12.75	$10.42

350 CALIFORNIA STREET

350 California Street Voluntary Seismic Retrofit consists of the addition of 136 Taylor Fluid Viscous Dampers along with column strengthening in multiple phases to bring the 23-story, 1977 office building into compliance with current San Francisco building code.

OWNER
Mitsubishi UFJ Financial Group (MUFG) Union Bank

STRUCTURAL ENGINEER
Degenkolb Engineers

GENERAL CONTRACTOR
Plant Construction Company, L.P.

STEEL SUBCONTRACTOR
Viking Steel

PHOTO COURTESY

LEFT: 350 California Street | Craig Winters

TOP RIGHT: With a Taylor Devices' Damper in the background, an employee in the coffee shop at 350 California Street is happy to know that she is well protected in the event of an earthquake | Alan Klembczyk

BOTTOM RIGHT: Taylor Devices' Damper inside 350 California Street | Robert Schneider

ONE WESTSIDE

The first-of-its-kind transformation and seismic upgrade of the landmark Westside Pavilion shopping mall into a 584,000 square foot urban creative office campus called One Westside. A total of 238 large dampers and spring dampers known as Fluid Viscoelastic Dampers will be used to enhance the seismic performance of one of the future homes of Google. The project repurposes high ceilings and a multi-level atrium and skylight, allowing for natural light-filled interiors. Massive floor plates provide very flexible open layouts coupled with expansive exterior terraces and patios with 15-foot wide folding glass walls create a seamless indoor-outdoor environment. The property also features a rooftop amenity space with a garden deck and direct bridge access to the Landmark Theatre, Westside Tavern restaurant and in-line retail shops.

OWNER
Hudson Pacific Properties

STRUCTURAL ENGINEER
Englekirk Structural Engineers

GENERAL CONTRACTOR
Matt Construction

STEEL SUBCONTRACTOR
Olson Steel

PHOTO COURTESY

TOP LEFT: Damper at One Westside | Buzz Harwood

TOP RIGHT: One Westside Render | Hudson Pacific Properties

BOTTOM: One Westside Render | Hudson Pacific Properties

JOHN BURGESS
Chairman of the Board of Directors

Mr. Burgess gained his international strategy, manufacturing operations and organizational development expertise from his more than 40 years experience with middle market public and privately-owned companies. Mr. Burgess served as President and CEO of Reichert, Inc. a leading provider of ophthalmic instruments, and spearheaded the acquisition of the company from Leica Microsystems in 2002, leading the company until its sale in January 2007. Prior to the acquisition, Mr. Burgess served as President of Leica's Ophthalmic and Educational Division before leading the buyout of the Ophthalmic Division and formation of Reichert, Inc.

From 1996 to 1999, Mr. Burgess was COO of International Motion Controls (IMC), a $200 million diversified manufacturing firm. During his tenure there, he led a significant acquisition strategy that resulted in seven completed acquisitions and sixteen worldwide businesses in the motion control market. Previously, Mr. Burgess operated a number of companies for Moog, Inc. and Carleton Technologies, including six years as President of Moog's Japanese subsidiary, Nihon Moog K.K. located in Hiratsuka, Japan. Moog, Inc. is the global leader in electro-hydraulic servo control technology with focus on the aerospace and defense sectors and was recognized as one of The 100 Best Companies to Work For in America by Fortune Magazine.

Mr. Burgess earned a BS in Engineering from Bath University in England, and an MBA from Canisius College.

Currently Mr. Burgess is an Operating Partner of Summer Street Capital LLC and Director of Bird Technologies Corporation of Solon, Ohio.

ALAN R. KLEMBCZYK
President and Board Member

After graduating from the University of Buffalo in 1987 with a degree in Mechanical Engineering, Mr. Klembczyk has held key positions in Sales, Engineering and Executive Management at Taylor Devices over the last 32 years including Design Engineer, Assistant Chief Engineer, Chief Engineer, Vice President of Sales & Engineering and was appointed President of the Company and Member of the Board of Directors in June 2018.

Mr. Klembczyk has been responsible for establishing new Sales & Marketing policies and has been directly involved with defining internal Company policy and strategic direction in cooperation with all levels of Taylor Devices' Management. He has been an integral part of the team that managed upgrades to the Quality System and obtaining 3rd party certification to International Standards ISO 9001, ISO 14000 and Aerospace Standard AS9100.

Mr. Klembczyk has served for many years on the Technical Advisory Group for the US Shock and Vibration Information & Analysis Center (SAVIAC) and the Shock and Vibration Exchange (SAVE). In 2019, he received the Distinguished Service Award from SAVE. Additionally, he has been a tutorial and course instructor for various organizations internationally and has participated in technical conferences and symposia. He is a founding member and first co-chair of the Industry Partner Committee of the US Resilience Council.

Mr. Klembczyk has participated in many research projects for products for military & aerospace, industrial, and structural applications. He has served as Program Manager for many of these projects and has worked with academia including the University at Buffalo's MCEER: Earthquake Engineering to Extreme Events, among others.

He has published several papers describing unique applications for structural dampers, tuned mass dampers, vibration isolators, shock absorbers, and shock isolators and holds US Patents for some of these components. These papers have been published by SAVE, SAVIAC, the Society for Experimental Mechanics (SEM) and the Applied Technology Council (ATC).

F. ERIC ARMENAT
Board Member

Mr. Armenat's career has spanned more than 40 years in a variety of middle market organizations both public and privately owned. Mr. Armenat most recently served as President and Chief Executive officer of Multisorb Filtration Group which he successfully spearheaded the sale of in early 2018 from a private equity owner. Multisorb is the world leader in the active packaging industry solving complex technical challenges in the pharmaceutical, food, and industrial markets.

From 2012 to 2016, Mr. Armenat served as President and Chief Executive Officer for several companies owned by private equity. These companies included healthcare delivery, medical waste collection and disposal as well as active packaging. He was responsible for the successful business improvement and eventual divestiture of the companies.

From 2009 to 2012, Mr. Armenat served as Chief Operating Officer of Avox Systems (Zodiac Aerospace), a leading supplier of aircraft oxygen systems. From 1994 to 2009, he served as Vice President of Operations and then President and General Manager of Carleton Technologies (Cobham Mission Systems), a global leader of technology for the military and commercial aviation markets. Mr. Armenat also worked as an Operations Management Consultant with Ernst and Young beginning in 1984.

Mr. Armenat earned his Bachelor of Science Degree in Industrial Engineering from Southern Illinois University and his MBA in Finance and Accounting from St. Bonaventure University. He also proudly served in the United States Airforce.

RANDALL L. CLARK
Board Member

Mr. Clark holds a Bachelor of Arts degree from the University of Pennsylvania, and earned his Masters of Business Administration from the Wharton School of Finance and Commerce. He is and has been the Chairman of Dunn Tire LLC since 1996. From 1992 to 1996, Mr. Clark was Executive Vice President and Chief Operating Officer of Pratt & Lambert, until it was purchased by Sherwin-Williams.

Mr. Clark has been employed in the tire industry for many years. He was named President of the Dunlop Tire Corporation in 1980, was appointed to the Board of Directors in 1983, and named President and Chief Executive Officer in 1984. He was one of seven Chief Executives of operating companies appointed to the Group Management Board of Dunlop Holdings, PLC., and was Chairman of the Board and Chief Executive Officer of Dunlop Tire Corporation in North America from 1985 to 1991. In 2012 he was inducted into the Tire Industry Association Hall of Fame.

From 1977 to 1980, Mr. Clark was Vice President of Marketing for the Dunlop Tire Division. From 1973 to 1977, he was employed by Dunlop as Director of Marketing at the company's Buffalo, NY headquarters. From 1968 to 1973, Mr. Clark was employed by the B.F. Goodrich Company.

Mr. Clark is currently a Director of Merchants Mutual Insurance Company. He recently retired as a Director of Computer Task Group, a publicly traded company, and The Ten Eleven Group. He is a past President of the International Trade Council of Western New York, past Chairman of the Buffalo Chamber of Commerce, and past Chairman of Invest Buffalo Niagara. He is also a past Chairman of AAA of Western and Central New York. Mr. Clark was appointed by Governor George Pataki and served on the Council for the State University of New York at Buffalo. Recently he was appointed to the Board of Trustees of the University at Buffalo Foundation.

TIMOTHY J. SOPKO
Chief Executive Officer and
Board Member

Mr. Sopko's business experience spans more than thirty years in Aerospace (Military and Civil), Industrial as well as Commercial markets with a primary focus in the areas of Engineering, Product Development, Program Management, Operations, and Business Management.

Prior to joining Taylor Devices as CEO in April 2019, Mr. Sopko was Vice President and General Manager of Carleton Technologies Inc. (d.b.a. Cobham Mission Systems) in Orchard Park, New York, a Department of Defense Contractor where he also held the positions of General Manager, Director of Engineering and Programs, Director of Engineering and Director of Business Development. Under Mr. Sopko's leadership as VP and GM, Carleton successfully grew annual sales from $110m to over $200m.

After nine years of Design Engineering and Program Management in industry (1988-1997), Mr. Sopko co-founded Comprehensive Technical Solutions Inc., a New York State S-corporation which provides product design engineering services to companies across the United States as well as producing and supporting a portfolio of internally funded products.

Mr. Sopko is a Mechanical Engineering graduate of The State University of New York at Buffalo and has been a member of The University's Mechanical and Aerospace Dean's Advisory Board since 2012. Mr. Sopko is also an author and/or co-author on several US Patents.

MARK V. McDONOUGH
Chief Financial Officer and
Corporate Secretary

Mr. McDonough, who joined Taylor Devices in June 2003, is a Certified Public Accountant in New York State and holds a BBA degree from Niagara University, awarded in 1982. He has been involved in financial management of various Western New York manufacturing organizations for over twenty-five years. He has extensive experience in international operations coupled with a long history of implementing systems of internal controls. From 1986 to 1989 he was an auditor with the Buffalo office of Ernst & Young, LLP.

Mr. McDonough is a member of the New York State Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

SIKORSKY CH-53K KING STALLION

The CH-53K is arguably the most powerful helicopter in the world. It can travel unrivaled in extreme environments with triple the cargo capacity of its predecessor and nearly double when compared to its nearest competitor. Built for the modern battlefield (land or sea), the CH-53K is a highly reliable aircraft that offers a low-maintenance design that keeps aircraft downtime to a minimum. The interior offers configuration flexibility to adapt to the specific needs of the mission and allow for effective travel in fewer trips, with minimal hardship and troop support. It was built to the exacting standards of the U.S. Marine Corps and will allow for movement of troops and equipment from ship to shore more quickly and effectively than ever before.

Crew: 5: 2 pilots, 1 crew chief/right gunner, 1 left gunner, 1 tail gunner (combat crew)

Capacity: 37 troops (55 with centerline seats installed)

Payload: 35,000 lbs. (15,900 kg)

Cruise Speed: 170 knots (196 mph, 315 km/h)

Range: 460 nautical miles (852 km)

Combat Radius: 110 nautical miles (126 mi, 204 km)

Service Ceiling: 14,400 feet (4,380 m)

Rate of Climb: 2,500 feet/minute (13 meters/second)

Empty Weight: 33,226 lbs. (15,071 kg)

Loaded Weight: 74,000 lbs. (33,600 kg)

Max. Takeoff Weight: 84,700 lbs. (38,400 kg)

Rotor Systems: 7 blades on main rotor (each 35 ft × 35 in), 4 blades on tail rotor

Powerplant: 3 × 7,500 horsepower (5,600 kW) each

PHOTO COURTESY

Sikorsky CH-53K King Stallion | Lockheed Martin

TAYLOR DEVICES, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

AND

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020

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, 2020 equaled less than 0.1% of sales for that period. The balance of the valuation allowance has increased to $211,000 at May 31, 2020 from $110,000 at May 31, 2019. 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 and $175,000 for the years ended May 31, 2020 and 2019.

Revenue Recognition

Accounting Standard Update (ASU) 2014-09 was adopted on June 1, 2018 using the modified retrospective method, which required the recognition of the cumulative effect of the transition as an adjustment to retained earnings.

Revenue is recognized when, or as, the Company transfers control of promised products or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts which are, therefore, not distinct. Promised goods or services that are immaterial in the context of the contract are not separately assessed as performance obligations.

For contracts with customers in which the Company satisfies a promise to the customer to provide a product that has no alternative use to the Company and the Company has enforceable rights to payment for progress completed to date inclusive of profit, the Company satisfies the performance obligation and recognizes revenue over time (generally less than one year), using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material and overhead. 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 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. Other sales to customers are recognized upon shipment to the customer based on contract prices and terms. In the year ended May 31, 2020, 57% of revenue was recorded for contracts in which revenue was recognized over time while 43% was recognized at a point in time. In the year ended May 31, 2019, 55% of revenue was recorded for contracts in which revenue was recognized over time while 45% was recognized at a point in time.

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.

We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to our consolidated June 1, 2018 balance sheet for the adoption of ASU 2014-09, were as follows:

Balance Sheet	Balance at May 31, 2018	Adjustments Due to ASU 2014-09	Balance at June 1, 2018
Assets			
Inventory	$ 11,317,775	$ 1,101,116	$ 12,418,891
Costs and estimated earnings in excess of billings	$ 6,356,963	$ (326,509)	$ 6,030,454
Liabilities			
Billings in excess of costs and estimated earnings	$ 2,043,002	$ (25,105)	$ 2,017,897
Other accrued expenses (customer advances)	$ 1,412,502	$ 794,713	$ 2,207,215
Equity			
Retained earnings	$ 26,959,080	$ 4,999	$ 26,964,079

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption of ASU 2014-09 on our consolidated balance sheet and income statement was as follows:

	May 31, 2019		
Balance Sheet	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
Assets			
Inventory	$ 11,239,331	$ -	$ 11,239,331
Costs and estimated earnings in excess of billings	$ 7,572,490	$ -	$ 7,572,490
Liabilities			
Other accrued expenses (customer advances)	$ 1,532,271	$ -	$ 1,532,271
Equity			
Retained earnings	$ 29,508,604	$ -	$ 29,508,604

	For the year ended May 31, 2019		
Income Statement	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
Revenues			
Sales, net	$ 33,619,031	$ 1,096,117	$ 32,522,914
Costs and Expenses			
Cost of goods sold	$ 24,571,255	$ 1,101,116	$ 23,470,139
Provision for income taxes	$ 515,000	$ -	$ 515,000
Net income (loss)	$ 2,544,525	$ (4,999)	$ 2,549,524

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 $4.0 million of taxable income in order to realize our deferred tax assets recorded as of May 31, 2020 of $830,000. This deferred tax asset balance is 9% ($69,000) 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.

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, 2020, the Company had State investment tax credit carryforwards of approximately $369,000 expiring through May 2026.

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, 2020 and 2019

	Increase / (Decrease)
Sales, net	$ (5,237,000)
Cost of goods sold	$ (5,426,000)
Selling, general and administrative expenses	$ (112,000)
Income before provision for income taxes	$ 356,000
Provision for income taxes	$ (129,000)
Net income	$ 485,000

For the year ended May 31, 2020 (All figures being discussed are for the year ended May 31, 2020 as compared to the year ended May 31, 2019.)

	Year ended May 31		Change	
	2020	2019	Amount	Percent
Net Revenue	$ 28,382,000	$ 33,619,000	$ (5,237,000)	*-16%*
Cost of sales	19,145,000	24,571,000	(5,426,000)	*-22%*
Gross profit	$ 9,237,000	$ 9,048,000	$ 189,000	*2%*
… as a percentage of net revenues	33%	27%		

The Company's consolidated results of operations showed a 16% decrease in net revenues and an increase in net income of 19%. Revenues recorded in the current period for long-term construction projects (“Project(s)”) were 12% lower than the level recorded in the prior year. We had 41 Projects in process during the current period compared with 48 during the same period last year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were 20% lower 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 23% 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 along with a 4% decrease in sales to customers using our products in industrial applications and a 5% decrease in sales to customers in aerospace / defense. Decreases in revenue from sales to construction customers accounted for the drop in sales to Asia as well as 75% of the decrease in domestic sales, nearly all occurring in the second quarter. Asian sales were hindered by tariffs as well as strong competition from local manufacturers. The decrease in sales to domestic construction customers was affected by unanticipated delays in the start of various projects in the second quarter. Competing technologies used in domestic construction with lower initial-costs are expected to continue to have a negative impact on the use of our products in new buildings. However, efforts continue to enact performance based design legislation to require a building to be able to be occupied following a significant seismic event. Our products are designed to provide this level of protection and demand for them would be expected to increase following such an upgrade in domestic building codes. A breakdown of sales to these three general groups of customers, as a percentage of total net revenue for fiscal years ended May 31, 2020 and 2019 is as follows:

	Year ended May 31	
	2020	2019
Industrial	7%	6%
Construction	55%	60%
Aerospace / Defense	38%	34%

Total sales within North America decreased 9% from last year. Total sales to Asia decreased 47% from the prior year. Net revenue by geographic region, as a percentage of total net revenue for fiscal years ended May 31, 2020 and 2019 is as follows:

	Year ended May 31	
	2020	2019
North America	85%	79%
Asia	11%	17%
Other	4%	4%

The gross profit as a percentage of net revenue of 33% in the current period is higher than the 27% recorded in the same period of the prior year. The increase in gross profit as a percentage of revenue is primarily due to improved margins realized on domestic construction Projects.

At May 31, 2019, we had 153 open sales orders in our backlog with a total sales value of $13.3 million. At May 31, 2020, we had 102 open sales orders in our backlog with a total sales value of $9.8 million. $2.2 million of the current backlog is on Projects already in progress. $6.7 million of the $13.3 million sales order backlog at May 31, 2019 was in progress at that date. 63% of the sales value in the backlog is for aerospace / defense customers compared to 43% at the end of fiscal 2019. As a percentage of the total sales order backlog, orders from customers in construction accounted for 32% at May 31, 2020 and 52% at May 31, 2019.

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	
	2020	2019	Amount	Percent
Outside Commissions	$ 1,081,000	$ 1,815,000	$ (734,000)	*-40%*
Other SG&A	4,853,000	4,231,000	622,000	*15%*
Total SG&A	$ 5,934,000	$ 6,046,000	$ (112,000)	*-2%*
… as a percentage of net revenues	21%	18%		

Selling, general and administrative expenses decreased slightly from the prior year. Outside commission expense decreased 40% from last year's level due to the significant decrease in the level of commissionable sales recorded in the current period as compared to the prior period. Other selling, general and administrative expenses increased by 15% from last year primarily due to increases in freight, advertising and personnel costs.

The above factors resulted in operating income of $3,303,000 for the year ended May 31, 2020, up 10% from the $3,002,000 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, 2020 is 11%, compared to the ETR for the prior year of 17%.

A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

	2020	2019
Computed tax provision at the expected statutory rate	$ 718,000	$ 643,000
Tax effect of permanent differences:		
Research tax credits	(272,000)	(166,000)
Foreign-derived intangible income deduction	(100,000)	-
Other permanent differences	40,000	29,000
Other	-	9,000
	$ 386,000	$ 515,000

The foreign-derived intangible income deduction is a tax deduction provided to corporations that sell goods or services to foreign customers. It became available through Public Law 115-97, known as the Tax Cut and Jobs Act

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 $143,000 and $138,000 of compensation cost for the years ended May 31, 2020 and 2019.

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 2019 and April 2020. 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 2019	April 2020
Risk-free interest rate:	1.750%	2.125%
Expected life of the options:	3.8 years	3.9 years
Expected share price volatility:	30%	33%
Expected dividends:	zero	zero
These assumptions resulted in estimated fair-market value per stock option:	$2.84	$2.85

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, 2020 is presented below.

	Number of Options	Weighted-Average Exercise Price
Options outstanding and exercisable at May 31, 2019:	224,000	$ 11.71
Options granted:	50,250	$ 10.30
Less: Options exercised:	10,000	$ 6.35
Less: Options expired:	12,000	$ 14.34
Options outstanding and exercisable at May 31, 2020:	252,250	$ 11.52
Closing value per share on NASDAQ at May 31, 2020:		$ 10.99

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, 2020 were $1,231,000 compared to $473,000 in the prior year. Current year capital expenditures included new manufacturing machinery, testing equipment, material movement equipment, upgrades to technology equipment and building roof replacement. The Company has commitments to make capital expenditures of approximately $200,000 as of May 31, 2020.

During 2020, the Company received a loan totaling $1,462,000 from the Small Business Administration (SBA) under the Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act, in response to the Coronavirus pandemic described below. Some or all of the loan may be forgiven if certain criteria are met. Otherwise, the loan is unsecured, has a deferment on payments for 6 months after a decision on forgiveness has been made, then is payable over a negotiable period of time, and bears interest at 1%.

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, 2020 or May 31, 2019. 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, 2020		May 31, 2019		Increase /(Decrease)	
Raw materials	$ 658,000		$ 679,000		$ (21,000)	*-3%*
Work in process	8,586,000		9,905,000		(1,319,000)	*-13%*
Finished goods	863,000		655,000		208,000	*32%*
Inventory	10,107,000	92%	11,239,000	94%	(1,132,000)	*-10%*
Maintenance and other inventory	879,000	8%	732,000	6%	147,000	*20%*
Total	$10,986,000	100%	$11,971,000	100%	$ (985,000)	*-8%*
Inventory turnover	1.7		2.0			

Inventory, at $10,107,000 as of May 31, 2020, is 10% less than the prior year-end. Of this, approximately 85% is work in process, 9% is finished goods, and 6% 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 $122,000 of slow-moving inventory used during the year ended May 31, 2020. The Company disposed of approximately $46,000 and $111,000 of obsolete inventory during the years ended May 31, 2020 and 2019, respectively.

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

	May 31, 2020	May 31, 2019	Increase /(Decrease)	
Accounts receivable	$ 5,819,000	$ 5,279,000	$ 540,000	*10%*
CIEB	1,755,000	7,572,000	(5,817,000)	*-77%*
Less: BIEC	737,000	634,000	103,000	*16%*
Net	$ 6,837,000	$ 12,217,000	$ (5,380,000)	*-44%*
Number of an average day’s sales outstanding in accounts receivable (DSO)	68	53		

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 $5,819,000 as of May 31, 2020 includes approximately $631,000 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 68 days at May 31, 2020 from 53 days as of May 31, 2019. 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 14% less than in the fourth quarter of the prior year. The level of accounts receivable at the end of the current fiscal year is 10% more than the level at the end of the prior year. The combination of the decrease in the level of an average day’s sales along with the increase in the level of accounts receivable caused the DSO to increase by 15 days from last year-end to this year-end. 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:

	2020	2019
Number of projects in progress at year-end	15	22
Aggregate percent complete at year-end	80%	77%
Average total value of projects in progress at year-end	$830,000	$1,358,000
Percentage of total value invoiced to customer	74%	54%

There are seven fewer 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 39% 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 $1,755,000 balance in this account at May 31, 2020 is a 77% decrease from the prior year-end. 71% of this decrease is from three large Projects that completed and shipped during this fiscal year. 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. 60% of the CIEB balance as of the end of the last fiscal quarter, February 29, 2020, was billed to those customers in the current fiscal quarter ended May 31, 2020. The remainder will be billed as the projects progress, in accordance with the terms specified in the various contracts.

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

	May 31, 2020	May 31, 2019
Costs	$ 2,615,000	$ 15,035,000
Estimated earnings	540,000	4,815,000
Less: Billings to customers	1,400,000	12,278,000
CIEB	$ 1,755,000	$ 7,572,000
Number of projects in progress	10	18

As noted above, BIEC represents billings to customers in excess of revenues recognized. The $737,000 balance in this account at May 31, 2020 is in comparison to a $634,000 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, 2020	May 31, 2019
Billings to customers	$ 7,794,000	$ 3,910,000
Less: Costs	3,781,000	1,565,000
Less: Estimated earnings	3,276,000	1,711,000
BIEC	$ 737,000	$ 634,000
Number of projects in progress	5	4

Accounts payable, at $1,370,000 as of May 31, 2020, is 2% less than the prior year-end. 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, 2020 are $306,000. This is 77% less than the $1,309,000 accrued at the prior year-end. This decrease is due to the decrease in the CIEB, discussed above. As the Company was able to bill and collect from the customers on these long-term projects, accrued commissions were paid. The Company expects the current accrued amount to be paid during the next twelve months.

Other accrued expenses of $1,664,000 increased by 9% from the prior year level of $1,532,000.

Management believes that the Company's cash on hand, cash flows from operations, proceeds from the SBA loan 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.

Coronavirus Pandemic

On January 31, 2020, the United States Secretary of Health and Human Services (HHS) declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World Health Organization in February 2020. Efforts to fight the widespread disease included limiting or closing many businesses and resulted in a severe disruption of operations for many organizations. Financial markets also experienced a significant decline in value. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, impact on customers, employees, and vendors, all of which cannot be predicted.

In late March, Taylor Devices received confirmation from the State of New York that we are designated as an "essential business" pursuant to the revised New York State Executive Order 202.6 with respect to our business function of supply chain partner for several essential industries. Company management currently does not have reason to believe that the situation will adversely affect our ability to meet our obligations to our customers. We have a high-spirited, healthy workforce that has adjusted their work schedules as the need arose. We remain in a strong position with respect to being able to process existing orders and we are quite prepared to process new orders as they are secured.

While many of our customers remain open to continue to receive shipments from us and issue new purchase orders to us, we have learned of many construction projects that have delayed ordering materials while they attempt to determine the extent and impact of the pandemic on their project. This has resulted in a lower level in our backlog of sales orders.

The liquidity of the Company remains strong at this time. Management, however, is concerned about the uncertainty of the length of time during which the virus will continue to spread throughout the world before effective vaccines have been developed, distributed and administered, as well as the level of impact it will have on the various economies of the world. A prolonged economic downturn would have a negative impact on our operations and our liquidity. For this reason, we have applied for and have received assistance from the federal government under provisions of the CARES Act, as discussed above.

Our Supply Chain Management team is in communication with our partners around the globe so that we can be updated on any delays that may occur. To date, there have been no significant delays in receiving our raw materials, purchased components or outside services that affect our final product.

To properly maintain all our operations while keeping our employees safe and to help stop the spread of the Coronavirus, some employees have changed shifts and have adjusted their working hours while still adhering to the recommendations of our government health officials. Most of our office staff continues to work remotely and our sales staff continues to keep in regular contact with our representatives and customers. Our on-site workforce is practicing the required social distancing mandates including wearing masks, as necessary. There have been no furloughs or layoffs at our Company. We are fortunate to be in a position that allows us to maintain the functional aspects of our Company while still practicing cautious measures to inhibit the spread of the virus. Employee morale is high, and we are confident in our ability to take on this challenge.

Other steps taken to maintain a safe workplace and a healthy workforce:

- We have added a formal visitor pre-screening process that we now require all visitors that enter our facilities to complete.

- Our cleaning service at our factory and headquarters is stepping up cleaning and disinfecting, especially in high-use common areas.

- We have temporarily discontinued non-essential travel that does not affect production schedules.

Management will continue to monitor and adhere to the advice of the appropriate public health agencies. Taylor Devices maintains its status as an "essential business" pursuant to a NY State Executive Order due to the nature of our products for Aerospace, Defense, Construction, and Industrial applications.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Taylor Devices, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Taylor Devices, Inc. and Subsidiary (the Company) as of May 31, 2020 and 2019, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial condition of the Company as of May 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of ASU No. 2014-09

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for recognizing revenue as a result of the adoption of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and the amendments in ASUs 2015-14, 2016-08, 2016-10, and 2016-12, effective June 1, 2018.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Lumsden & McCormick, LLP

We have served as the Company’s auditor since 1998.

Buffalo, New York
August 7, 2020

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

May 31,	**2020**	2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 15,159,827**	$ 5,071,822
Short-term investments	**1,071,950**	1,055,591
Accounts and other receivables, net (Note 2)	**5,819,471**	5,279,302
Inventory (Note 3)	**10,107,437**	11,239,331
Prepaid expenses	**460,212**	312,160
Prepaid income taxes	**50,148**	237,017
Costs and estimated earnings in excess of billings (Note 4)	**1,754,573**	7,572,490
Total current assets	**34,423,618**	30,767,713
Maintenance and other inventory, net (Note 5)	**879,050**	731,877
Property and equipment, net (Note 6)	**9,407,490**	9,317,442
Cash value of life insurance, net	**195,621**	190,749
Deferred income taxes (Note 10)	**170,115**	189,115
	$ 45,075,894	$ 41,196,896
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings (Note 7)	**$ 1,461,500**	$ -
Accounts payable	**1,370,175**	1,402,692
Accrued commissions	**305,885**	1,309,358
Other accrued expenses	**1,663,914**	1,532,271
Billings in excess of costs and estimated earnings (Note 4)	**736,866**	633,703
Total current liabilities	**5,538,340**	4,878,024
Stockholders' Equity:		
Common stock, $.025 par value, authorized 8,000,000 shares, issued 4,040,805 and 4,029,431 shares	**100,943**	100,735
Paid-in capital	**9,759,063**	9,538,892
Retained earnings	**32,538,580**	29,508,604
	42,398,586	39,148,231
Treasury stock – 553,934 and 550,872 shares at cost	**(2,861,032)**	(2,829,359)
Total stockholders' equity	**39,537,554**	36,318,872
	$ 45,075,894	$ 41,196,896

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the years ended May 31,	**2020**	2019
Sales, net (Note 9)	**$ 28,381,541**	$ 33,619,031
Cost of goods sold	**19,144,451**	24,571,255
Gross profit	**9,237,090**	9,047,776
Selling, general and administrative expenses	**5,934,410**	6,045,984
Operating income	**3,302,680**	3,001,792
Other income		
Interest, net	**111,054**	69,006
Miscellaneous	**2,242**	(11,273)
Total other income	**113,296**	57,733
Income before provision for income taxes	**3,415,976**	3,059,525
Provision for income taxes (Note 10)	**386,000**	515,000
Net income	**$ 3,029,976**	$ 2,544,525
Basic and diluted earnings per common share (Note 11)	**$ 0.87**	$ 0.73

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

For the years ended May 31, 2020 and 2019

	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock
Balance, May 31, 2018	$ 100,428	$ 9,382,202	$ 26,959,080	$ (2,829,359)
Net income for the year ended May 31, 2019	-	-	2,544,525	-
Common stock issued for employee stock option plan (Note 14)	269	32,561	-	-
Common stock issued for employee stock purchase plan (Note 13)	38	17,473	-	-
Adjustments Due to ASU 2014-09	-	-	4,999	-
Stock options issued for services	-	106,656	-	-
Balance, May 31, 2019	100,735	9,538,892	29,508,604	(2,829,359)
Net income for the year ended May 31, 2020	-	-	3,029,976	-
Common stock issued for employee stock option plan (Note 14)	174	63,250	-	(31,673)
Common stock issued for employee stock purchase plan (Note 13)	34	13,824	-	-
Stock options issued for services	-	143,097	-	-
Balance, May 31, 2020	**$ 100,943**	**$ 9,759,063**	**$ 32,538,580**	**$ (2,861,032)**

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the years ended May 31,	**2020**	2019
Operating activities:		
Net income	**$ 3,029,976**	$ 2,544,525
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	**1,141,110**	1,072,959
Stock options issued for services	**143,097**	106,656
Loss on disposal of property and equipment	**-**	18,061
Provision for inventory obsolescence	**180,000**	175,000
Deferred income taxes	**19,000**	30,000
Changes in other current assets and liabilities:		
Accounts and other receivables	**(540,169)**	986,562
Inventory	**804,721**	1,158,334
Prepaid expenses	**(148,052)**	(67,517)
Prepaid income taxes	**186,869**	(34,498)
Costs and estimated earnings in excess of billings	**5,817,917**	(1,542,036)
Accounts payable	**(32,517)**	(57,483)
Accrued commissions	**(1,003,473)**	326,098
Other accrued expenses	**131,644**	(674,944)
Billings in excess of costs and estimated earnings	**103,163**	(1,384,194)
Net operating activities	**9,833,286**	2,657,523
Investing activities:		
Acquisition of property and equipment	**(1,231,158)**	(472,837)
Increase in short-term investments	**(16,359)**	(16,509)
Increase in cash value of life insurance	**(4,872)**	(5,019)
Net investing activities	**(1,252,389)**	(494,365)
Financing activities:		
Short-term borrowings	**1,461,500**	-
Proceeds from issuance of common stock	**45,608**	50,341
Net financing activities	**1,507,108**	50,341
Net change in cash and cash equivalents	**10,088,005**	2,213,499
Cash and cash equivalents - beginning	**5,071,822**	2,858,323
Cash and cash equivalents - ending	**$ 15,159,827**	$ 5,071,822

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Operations:

Taylor Devices, Inc. (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 for use in various types of machinery, equipment and structures, primarily to customers which are located throughout the United States and several foreign countries. The products are manufactured at the Company's sole operating facility in the United States where all of the Company's long-lived assets reside. Management does not track or otherwise account for sales broken down by these categories.

83% of the Company's 2020 revenue was generated from sales to customers in the United States and 11% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe, Australia and South America.

78% of the Company's 2019 revenue was generated from sales to customers in the United States and 17% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe and South America.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Tayco Realty Corporation (Realty). All inter-company transactions and balances have been eliminated in consolidation.

Subsequent Events:

The Company has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were issued.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents:

The Company includes all highly liquid investments in money market funds in cash and cash equivalents on the accompanying balance sheets.

Cash and cash equivalents in financial institutions may exceed insured limits at various times during the year and subject the Company to concentrations of credit risk.

Short-term Investments:

At times, the Company invests excess funds in liquid interest earning instruments. Short-term investments at May 31, 2020 and May 31, 2019 include “available for sale” corporate bonds stated at fair value, which approximates cost. The bonds (19) mature on various dates during the period July 2020 to September 2024. Unrealized holding gains and losses would be presented as a separate component of accumulated other comprehensive income, net of deferred income taxes. Realized gains and losses on the sale of investments are determined using the specific identification method.

The bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Accounts and Other Receivables:

Accounts and other receivables 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. 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 the receivable.

Inventory:

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

Property and Equipment:

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is provided primarily using the straight-line method for financial reporting purposes and accelerated methods for income tax reporting purposes. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Cash Value of Life Insurance:

Cash value of life insurance is stated at the surrender value of the contracts.

Revenue Recognition:

As noted below, ASU 2014-09 was adopted on June 1, 2018 using the modified retrospective method, which required the recognition of the cumulative effect of the transition as an adjustment to retained earnings.

Revenue is recognized (generally at fixed prices) when, or as, the Company transfers control of promised products or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts which are, therefore, not distinct. Promised goods or services that are immaterial in the context of the contract are not separately assessed as performance obligations.

For contracts with customers in which the Company satisfies a promise to the customer to provide a product that has no alternative use to the Company and the Company has enforceable rights to payment for progress completed to date inclusive of profit, the Company satisfies the performance obligation and recognizes revenue over time (generally less than one year), using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material and overhead. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. Other sales to customers are recognized upon shipment to the customer based on contract prices and terms. In the year ended May 31, 2020, 57% of revenue was recorded for contracts in which revenue was recognized over time while 43% was recognized at a point in time. In the year ended May 31, 2019, 55% of revenue was recorded for contracts in which revenue was recognized over time while 45% was recognized at a point in time.

Progress payments are typically negotiated for longer term projects. Payments are otherwise due once performance obligations are complete (generally at shipment and transfer of title). 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.

If applicable, the Company recognizes an asset for the incremental, material costs of obtaining a contract with a customer if the Company expects the benefit of those costs to be longer than one year and the costs are expected to be recovered. As of May 31, 2020 and May 31, 2019, the Company does not have material incremental costs on any open contracts with an original expected duration of greater than one year, and therefore such costs are expensed as incurred. These incremental costs include, but are not limited to, sales commissions incurred to obtain a contract with a customer.

We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings primarily because certain longer term contracts accounted for on the percentage of completion method did not contain "enforceable right to payment" terms, as defined. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to our consolidated June 1, 2018 balance sheet for the adoption of ASU 2014-09, were as follows:

Balance Sheet	Balance at May 31, 2018	Adjustments Due to ASU 2014-09	Balance at June 1, 2018
Assets			
Inventory	$ 11,317,775	$ 1,101,116	$ 12,418,891
Costs and estimated earnings in excess of billings	$ 6,356,963	$ (326,509)	$ 6,030,454
Liabilities			
Billings in excess of costs and estimated earnings	$ 2,043,002	$ (25,105)	$ 2,017,897
Other accrued expenses (customer advances)	$ 1,412,502	$ 794,713	$ 2,207,215
Equity			
Retained earnings	$ 26,959,080	$ 4,999	$ 26,964,079

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption of ASU 2014-09 on our consolidated balance sheet and income statement was as follows:

	May 31, 2019		
Balance Sheet	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
Assets			
Inventory	$ 11,239,331	$ -	$ 11,239,331
Costs and estimated earnings in excess of billings	$ 7,572,490	$ -	$ 7,572,490
Liabilities			
Other accrued expenses (customer advances)	$ 1,532,271	$ -	$ 1,532,271
Equity			
Retained earnings	$ 29,508,604	$ -	$ 29,508,604

Income Statement	For the year ended May 31, 2019 As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
Revenues			
Sales, net	$ 33,619,031	$ 1,096,117	$ 32,522,914
Costs and Expenses			
Cost of goods sold	$ 24,571,255	$ 1,101,116	$ 23,470,139
Provision for income taxes	$ 515,000	$ -	$ 515,000
Net income (loss)	$ 2,544,525	$ (4,999)	$ 2,549,524

Shipping and Handling Costs:

Shipping and handling costs on incoming inventory items are classified as a component of cost of goods sold, while shipping and handling costs on outgoing shipments to customers are classified as a component of selling, general and administrative expenses. The amounts of these costs classified as a component of selling, general and administrative expenses were $420,786 and $268,847 for the years ended May 31, 2020 and 2019. Shipping and handling activities that occur after the customer has obtained control of the product are considered fulfillment activities, not performance obligations.

Research and Development Costs:

Research and development costs are classified as a component of cost of sales. The amounts of these costs were $585,000 and $319,000 for the years ended May 31, 2020 and 2019.

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. 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.

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 did not have any accrued interest or penalties included in its consolidated balance sheets at May 31, 2020 or 2019. The Company recorded no interest expense or penalties in its consolidated statements of income during the years ended May 31, 2020 and 2019.

The Company believes it is no longer subject to examination by federal and state taxing authorities for years prior to May 31, 2017.

Sales Taxes:

Certain jurisdictions impose a sales tax on Company sales to nonexempt customers. The Company collects these taxes from customers and remits the entire amount as required by the applicable law. The Company excludes from revenues and expenses the tax collected and remitted.

Stock-Based Compensation:

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 stock-based compensation expense for the years ended May 31, 2020 and 2019 was $143,097 and $137,655.

New Accounting Standards:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09, as amended, is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2017 (fiscal year 2019 for the Company). Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company adopted ASU 2014-09 on June 1, 2018 using the modified retrospective method, which required the recognition of the cumulative effect of the transition as an adjustment to retained earnings. The effect of the adoption is detailed above.

Other recently issued Accounting Standards Codification (ASC) guidance has either been implemented or are not significant to the Company.

2. Accounts and Other Receivables:

	2020	2019
Customers	**$ 5,399,915**	$ 4,438,373
Customers - retention	**630,823**	950,684
	6,030,738	5,389,057
Less allowance for doubtful accounts	**211,267**	109,755
	$ 5,819,471	$ 5,279,302

Retention receivable from customers represents amounts invoiced to customers where payments have been partially withheld pending completion of the project. All amounts are expected to be collected within the next fiscal year.

3. Inventory:

	2020	2019
Raw materials	**$ 658,024**	$ 679,018
Work-in-process	**8,586,404**	9,905,495
Finished goods	**963,009**	754,818
	10,207,437	11,339,331
Less allowance for obsolescence	**100,000**	100,000
	$10,107,437	$11,239,331

4. Costs and Estimated Earnings on Uncompleted Contracts:

	2020	2019
Costs incurred on uncompleted contracts	**$6,395,550**	$16,599,307
Estimated earnings	**3,816,527**	6,526,707
	10,212,077	23,126,014
Less billings to date	**9,194,370**	16,187,227
	$ 1,017,707	$ 6,938,787

Amounts are included in the accompanying balance sheets under the following captions:

	2020	2019
Costs and estimated earnings in excess of billings	**$ 1,754,573**	$ 7,572,490
Billings in excess of costs and estimated earnings	**736,866**	633,703
	$ 1,017,707	$ 6,938,787

The following summarizes the status of Projects in progress as of May 31, 2020 and 2019:

	2020	2019
Number of Projects in progress	**15**	22
Aggregate percent complete	**80%**	77%
Aggregate amount remaining	**$2,234,962**	$6,748,520
Percentage of total value invoiced to customer	**74%**	54%

The Company expects to recognize the entire remaining revenue on all open projects during the May 31, 2021 fiscal year.

Revenue recognized during the years ended May 31, 2020 and 2019 for amounts included in billings in excess of costs and estimated earnings as of the beginning of the year amounted to $1,481,320 and $4,187,015.

5. Maintenance and Other Inventory:

	2020	2019
Maintenance and other inventory	**$ 2,479,497**	$ 2,197,958
Less allowance for obsolescence	**1,600,447**	1,466,081
	$ 879,050	$ 731,877

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.

The provision for potential inventory obsolescence was $180,000 and $175,000 for the years ended May 31, 2020 and 2019.

6. Property and Equipment:

	2020	2019
Land	**$ 195,220**	$ 195,220
Buildings and improvements	**9,457,142**	9,342,431
Machinery and equipment	**11,242,667**	10,390,610
Office furniture and equipment	**2,209,382**	1,975,392
Autos and trucks	**24,818**	24,818
Land improvements	**455,429**	455,429
	23,584,658	22,383,900
Less accumulated depreciation	**14,177,168**	13,066,458
	$ 9,407,490	$ 9,317,442

Depreciation expense was $1,141,110 and $1,072,959 for the years ended May 31, 2020 and 2019.

The Company has commitments to make capital expenditures of approximately $200,000 as of May 31, 2020.

7. Short-Term Borrowings:

During 2020, the Company received a loan totaling $1,461,500 from the Small Business Administration under the Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act, in response to the pandemic described in Note 20. Some or all of the loan may be forgiven if certain criteria are met. Otherwise, the loan is unsecured, has a deferment on payments for 6 months after a decision on forgiveness has been made, then is payable over a negotiable period of time, and bears interest at 1%.

The Company has available 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%. 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 subject to renewal annually.

There is no amount outstanding under the line of credit at May 31, 2020 or May 31, 2019.

The Company uses a cash management facility under which the bank draws against the available line of credit to cover checks presented for payment on a daily basis. Outstanding checks under this arrangement totaled $523,344 and $292,002 as of May 31, 2020 and 2019. These amounts are included in accounts payable.

8. Legal Proceedings:

There are no legal proceedings except for routine litigation incidental to the business.

9. Sales:

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. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. A breakdown of sales to these three general groups of customers is as follows:

	2020	2019
Construction	**$ 15,621,784**	$ 20,168,587
Aerospace / Defense	**10,771,129**	11,383,374
Industrial	**1,988,628**	2,067,070
	$ 28,381,541	$ 33,619,031

Sales to six customers approximated 41% (10%, 9%, 6%, 6%, 5% and 5% respectively) of net sales for 2020. Sales to four customers approximated 36% (17%, 8%, 6% and 5% respectively) of net sales for 2019.

10. Income Taxes:

	2020	2019
Current tax provision:		
Federal	**$ 375,000**	$ 521,000
State	**-**	-
	375,000	521,000
Deferred tax provision:		
Federal	**11,000**	(6,000)
State	**-**	-
	11,000	(6,000)
	$ 386,000	$ 515,000

A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

	2020	2019
Computed tax provision at the expected statutory rate	**$ 717,400**	$ 642,500
State income tax - net of Federal tax benefit	**500**	500
Tax effect of permanent differences:		
Research tax credits	**(272,000)**	(166,000)
Foreign-derived intangible income deduction	**(99,739)**	-
Other permanent differences	**40,200**	28,700
Other	**(361)**	9,300
	$ 386,000	$ 515,000
Effective income tax rate	**11.3%**	16.8%

Significant components of the Company's deferred tax assets and liabilities consist of the following:

	2020	2019
Deferred tax assets:		
Allowance for doubtful receivables	**$ 44,400**	$ 23,000
Tax inventory adjustment	**94,000**	99,700
Allowance for obsolete inventory	**357,100**	328,900
Accrued vacation	**60,500**	50,200
Accrued commissions	**3,900**	19,800
Warranty reserve	**39,400**	30,300
Stock options issued for services	**230,200**	208,600
	829,500	760,500
Deferred tax liabilities:		
Excess tax depreciation	**(659,385)**	(571,385)
Net deferred tax assets	**$ 170,115**	$ 189,115

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. 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. The Company will need to generate approximately $4.0 million in taxable income in future years in order to realize the deferred tax assets recorded as of May 31, 2020 of $829,500.

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2020, the Company had State investment tax credit carryforwards of approximately $369,000 expiring through May 2026.

11. Earnings Per Common Share:

Basic earnings per common share is computed by dividing income available to common stockholders by the weighted-average common shares outstanding for the period. Diluted earnings per common share reflects the weighted-average common shares outstanding and dilutive potential common shares, such as stock options.

A reconciliation of weighted-average common shares outstanding to weighted-average common shares outstanding assuming dilution is as follows:

	2020	2019
Average common shares outstanding	**3,481,128**	3,470,595
Common shares issuable under stock option plans	**8,663**	17,043
Average common shares outstanding assuming dilution	**3,489,791**	3,487,638

12. Related Party Transactions:

The Company had no related party transactions for the years ended May 31, 2020 and 2019.

13. Employee Stock Purchase Plan:

In March 2004, the Company reserved 295,000 shares of common stock for issuance pursuant to a non-qualified employee stock purchase plan. Participation in the employee stock purchase plan is voluntary for all eligible employees of the Company. Purchase of common shares can be made by employee contributions through payroll deductions. At the end of each calendar quarter, the employee contributions will be applied to the purchase of common shares using a share value equal to the mean between the closing bid and ask prices of the stock on that date. These shares are distributed to the employees at the end of each calendar quarter or upon withdrawal from the plan. During the years ended May 31, 2020 and 2019, 1,374 ($8.63 to $11.00 price per share) and 1,542 ($10.235 to $12.28 price per share) common shares, respectively, were issued to employees. As of May 31, 2020, 220,253 shares were reserved for further issue.

14. Stock Option Plans:

In 2018, the Company adopted a stock option plan which permits the Company to grant both incentive stock options and non-qualified stock options. The incentive stock options qualify for preferential treatment under the Internal Revenue Code. Under this plan, 160,000 shares of common stock have been reserved for grant to key employees and directors of the Company and 28,750 shares have been granted as of May 31, 2020. Under the plan, the option price may not be less than the fair market value of the stock at the time the options are granted. Options vest immediately and expire ten years from the date of grant.

Using the Black-Scholes option pricing model, the weighted average estimated fair value of each option granted under the plan was $2.85 during 2020 and $3.20 during 2019. The pricing model uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of options granted is derived from previous history of stock exercises from the grant date and represents the period of time that options granted are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination assumptions under the valuation model. The Company has never paid dividends on its common stock and does not anticipate doing so in the foreseeable future.

	2020	2019
Risk-free interest rate	**1.98%**	2.48%
Expected life in years	**3.9**	3.8
Expected volatility	**32%**	31%
Expected dividend yield	**0%**	0%

The following is a summary of stock option activity:

	Shares	**Weighted Average Exercise Price**	**Intrinsic Value**
Outstanding - May 31, 2018	**271,750**	$ 11.33	$ 304,252
Options granted	**43,000**	$ 11.90	
Less: options exercised	**10,750**	$ 3.05	
Less: options expired	**80,000**	$ 11.68	
Outstanding - May 31, 2019	**224,000**	$ 11.71	$ 228,132
Options granted	**50,250**	$ 10.30	
Less: options exercised	**10,000**	$ 6.35	
Less: options expired	**12,000**	$ 14.34	
Outstanding - May 31, 2020	**252,250**	$ 11.52	$ 209,835

We calculated intrinsic value for those options that had an exercise price lower than the market price of our common shares as of the balance sheet dates. The aggregate intrinsic value of outstanding options as of the end of each fiscal year is calculated as the difference between the exercise price of the underlying options and the market price of our common shares for the options that were in-the-money at that date (98,000 at May 31, 2020 and 77,250 at May 31, 2019.) The Company's closing stock price was $10.99 and $11.08 as of May 31, 2020 and 2019. As of May 31, 2020, there are 131,250 options available for future grants under the 2018 stock option plan. $31,750 and $32,830 was received from the exercise of share options during the fiscal years ended May 31, 2020 and 2019.

The following table summarizes information about stock options outstanding at May 31, 2020:

Outstanding and Exercisable			
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
\$ 5.01-\$ 6.00	10,000	0.9	\$ 5.69
\$ 7.01-\$ 8.00	15,000	2.9	\$ 7.74
\$ 8.01-\$ 9.00	27,250	3.6	\$ 8.69
\$ 9.01-\$10.00	30,750	9.9	\$ 9.85
\$10.01-\$11.00	15,000	7.9	\$10.30
\$11.01-\$12.00	68,750	7.8	\$11.57
\$12.01-\$13.00	40,500	5.8	\$12.38
\$13.01-\$14.00	15,000	6.9	\$13.80
\$16.01-\$17.00	15,000	5.9	\$16.40
\$19.01-\$20.00	15,000	6.2	\$19.26
\$ 5.00-\$20.00	252,250	6.5	\$11.52

The following table summarizes information about stock options outstanding at May 31, 2019:

Outstanding and Exercisable			
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
\$ 5.01-\$ 6.00	10,000	1.9	\$ 5.69
\$ 6.01-\$ 7.00	10,000	0.9	\$ 6.35
\$ 7.01-\$ 8.00	15,000	3.9	\$ 7.74
\$ 8.01-\$ 9.00	27,250	4.6	\$ 8.69
\$10.01-\$11.00	15,000	8.9	\$10.30
\$11.01-\$12.00	53,000	8.4	\$11.79
\$12.01-\$13.00	45,000	6.9	\$12.38
\$13.01-\$14.00	15,000	7.9	\$13.80
\$16.01-\$17.00	15,000	6.9	\$16.40
\$19.01-\$20.00	18,750	7.2	\$19.26
\$ 5.00-\$20.00	224,000	6.5	\$11.71

15. Preferred Stock:

The Company has 2,000,000 authorized but unissued shares of preferred stock which may be issued in series. The shares of each series shall have such rights, preferences, and limitations as shall be fixed by the Board of Directors.

16. Treasury Stock:

Treasury shares are 553,934 and 550,872 at May 31, 2020 and 2019.

17. Retirement Plan:

The Company maintains a retirement plan for essentially all employees pursuant to Section 401(k) of the Internal Revenue Code. The Company matches a percentage of employee voluntary salary deferrals subject to limitations. The Company may also make discretionary contributions as determined annually by the Company's Board of Directors. The amount expensed under the plan was \$158,191 and \$71,222 for the years ended May 31, 2020 and 2019.

18. Fair Value of Financial Instruments:

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments.

The fair values of short-term investments were determined as described in Note 1.

19. Cash Flows Information:

	2020	2019
Interest paid	**none**	none
Income taxes paid	**$ 180,131**	$ 550,498

20. Risks and Uncertainties:

On January 31, 2020, the United States Secretary of Health and Human Services (HHS) declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World Health Organization in February 2020. Efforts to fight the widespread disease included limiting or closing many businesses and resulted in a severe disruption of operations for many organizations. Financial markets also experienced a significant decline in value. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, impact on customers, employees, and vendors, all of which cannot be predicted.

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