2021 ANNUAL REPORT

taylor devices inc.

CEO'S LETTER

To our Shareholders,

Firstly, and most importantly, despite the negative impacts of the COVID-19 pandemic I am happy to report that Taylor Devices was able to protect the health and safety of our employees and their families this past year while still delivering our critically needed components to customers around the world largely on time. Our team endured wearing masks, social distancing, the frequent disinfecting of work areas, working remotely when viable, working staggered shifts to ensure safe distancing between employees, and quarantining when necessary. Their dedication and resiliency throughout this challenging time has been extraordinary and I am both thankful and proud to be their leader and colleague!

Looking back to the start of our FY21 last June, the cautious optimism we had that the negative impacts of COVID-19 would subside by late summer or early fall turned out to be a bit too optimistic, as it wasn't until mid to late winter, our Q3, that our customers began returning to normal business activity levels. This can be seen most directly in our FY21 full year bookings which finished at $35.0 million, setting a new high record for our company and eclipsing the prior record of $32.0 million in FY16. All three of our customer products groups; Aero/Defense, Structural, and Industrial, finished at or slightly above their historic high levels, thus contributing to the overall record respectively.

That said, the negative impacts of COVID-19 to our FY21 were significant as our full year sales finished at $22.5 million, down $5.87 million vs. the prior year. Most of this difference, $5.5 million or 93% of it, was driven by sales to our Structural products customers which finished at $10.1 million vs. $15.6 million the prior year. Full year sales to our Aero/Defense products customers were $10.2 million which is only down $579 thousand or 5% as compared to the prior year. This is not surprising as most of our customers in this product group serve the essential needs of the US Aero/Defense market which continued to be both well-funded and maintained last year. Industrial, the smallest of our customer product groups, saw its full year sales finish at $2.2 million which is slightly up vs. the prior year's $2.0 million. Our customers in this product group tend to provide essential services which helped minimize the negative impact of COVID-19 for them as well. Lower sales volume, combined with the fact that a high percentage of our Structural products sales were to Asia, where high tariffs reduce margins, significantly impacted our full year net profit which finished at $1.1 million or 4.7% of sales vs. $3.0 million the prior year. This would have been significantly lower if not for the COVID-19 economic aid received from the US Government. Most importantly, this aid enabled us to keep our Taylor Devices workforce at full capacity despite the lower demand from our customers, and provided us with the added benefit of utilizing the excess capacity to accelerate progress on our Continuous Improvement initiatives which are critical to supporting our targeted growth. An On Time Delivery improvement of 8% in FY21 vs. the prior year was realized thanks to the hard work of our entire team. Additionally, upgrades to our production facilities to improve production flow and reduce costs have progressed such that they will be substantially completed by the time this report is printed.

We enter FY22 in a much-improved condition vs. this time last year as our firm order backlog is $22.0 million as compared to $9.8 million the prior year. The markets and customers we serve are operating at more typical levels as the economic recovery from COVID-19 continues. Accordingly, as long as this recovery trend continues, the investments we have continued making throughout this past year in our people, technology, processes, and facilities position us well to achieve our goals for FY22.

Sincerely,

Timothy J. Sopko
Chief Executive Officer
TAYLOR DEVICES, INC.

Dear Shareholders,

After a busy year in which we managed to navigate the challenges of the pandemic while also implementing further changes and improvements, we have emerged in a position that we believe will allow us to maintain our long-term goals for profitable growth. Despite the fact that we finished the fiscal year with a net income of only $1.6 million, we have established positive momentum and are looking forward to a strong year and a bright future ahead.

One year ago, when we were several months into the pandemic, I reported that many projects that were previously pending had been delayed but not cancelled amid the uncertainty. Fortunately, many of these projects did indeed continue to move forward and materialize in terms of firm orders throughout the fiscal year, particularly for structural products. What I refer to as "the COVID gap" in bookings has effectively closed and incoming orders have been consistent.

Throughout fiscal year 2021, we have made some key additions to our Sales & Business Development staff. These additions, among other initiatives and strategies, have already had a significant impact on our ability to increase bookings and sales, key metrics for sustainable profitable growth. This is evident in a FY21 bookings level of $35.0 million and a firm backlog of $22.0 million at the beginning of this fiscal year. The breakdown of bookings includes $13.6 million for Aerospace/Defense Products, $19.4 million for Structural Products, and just shy of $2 million for Industrial Products, thereby maintaining a healthy mix within the 3 major value streams.

A featured project within our FY2021 Annual Report is the Silicon Valley SV1 Data Center located in Santa Clara, California and owned by NTT (Nippon Telegraph and Telephone). This four-story building sits on a base isolation system consisting of friction pendulum bearings and 25 large Taylor Devices' seismic dampers that allow up to 32 inches of motion in any horizontal direction to isolate the building against major earthquakes.

Also featured in this Annual Report is a new product that Taylor Devices is currently testing for shock and vibration isolation called "Pumpkin™ Mounts". A press release covering this was previously published in April. These unique products are designed to protect equipment onboard naval vessels against extreme shock and vibration and offer significant advantages over other competing devices. Initial explosive testing on a floating barge was recently conducted in Scotland and results have demonstrated excellent performance. The testing phase of this project will continue throughout the current fiscal year, and we are hopeful that this product will add yet another unique device to our already large arsenal of products, all of which bring substantial value to our customers.

Overall, our ability to "weather the storm" throughout the pandemic demonstrates the resilience of our employees and our products. Our customers maintain a high level of confidence in us. Interest in our products remains quite high and we are looking forward to sustaining our long-term plans.

Sincerely,

Alan R. Klembczyk
President
TAYLOR DEVICES, INC.

VICE PRESIDENT OF OPERATIONS STATUS

TODD J. AVERY
Vice President, Operations

Fiscal Year 2021 proved to be an exciting year as Taylor Devices continued our journey towards Operational Excellence, enabled by Continuous Improvement. Fueled by a second Continuous Improvement hire, over 150 discrete improvements, and the relentless use of Strategy Deployment to tell us the vital few breakthrough initiatives we would focus on, we achieved the following strong results:

- 8% improvement in Customer On-Time Delivery over Fiscal Year 2020
- 30% reduction in Inventory Dollar Value from Fiscal Year 2020
  - 14% from Inventory Reserve
  - 9% from scrapping Obsolete Inventory
  - 7% from improved Buying Practices as well as improved Sales, Inventory & Operations Planning (SIOP)

The entire Taylor Team pulled together to achieve these results, enabled by improved systems, processes, and training as we constantly challenged ourselves to progressively become better on a day-to-day basis. Some of the more significant accomplishments include:

- Deployed an Advanced Planning System to improve execution of customer orders as we grow
- Invested $1.5m on Future State Improvements to the Factory including cleaned and painted ceilings, walls and epoxy floors which will result in a safer, cleaner, brighter work environment
- Implemented a new layout to enable product flow including three enclosed paint booths to improve paint quality while reducing the need to transport material between our facilities that are located approximately 2 miles apart
- Deployed a kitting system for Structural Products that reduces part kitting time by 50%
- Trained our Structural Team on 1-piece flow and commenced deployment in Assembly

Fiscal Year 2022 will see Taylor Devices' improvement journey progress even further as we focus on the following Breakthrough Improvement Initiatives:

- Deployment of Make versus Buy Process to include Supply Chain Development
- Productivity Improvements – Just Do It's, Kaizen Events, Capital Expenditures
- Focus on our People through Strategic Workforce Development, Continuous Improvement Training/Events, and Job Safety Analysis

Our Taylor Team has changed and must continue to change if we are to satisfy our customers through the coming years of growth. We have and will continue to embrace our role as Leaders, as good Team members, and as Continuous Improvement engines. I am proud of how our Team has embraced change and I look forward to seeing them and Taylor Devices grow in Fiscal Year 2022 and beyond.

Pictured here, the floors in warehouse and test areas have been painted and resurfaced, while assembly cells have been moved to their new locations. This new layout puts assembly cells beneficially closer to drill and test areas, and shipping and receiving areas.

FROM THE **CFO**

MARK V. MCDONOUGH
Chief Financial Officer

This past fiscal year turned out to be more challenging than we expected, despite having had a preview of what we were likely to face due to the adverse impacts of the COVID-19 pandemic at the end of the prior year. We complied with the ever-evolving guidelines from Federal and State health authorities, not only preserving the health and safety of our employees and their families, but also making us a more resilient company in many ways.

Fiscal year 2021 revenue finished at $22.5 million which is a 21% decrease in revenue from the prior year. The majority of this reduction was the result of lower sales to our customers who utilize our products for seismic/wind protection, as they were essentially shut down for much of the fiscal year due to COVID-19. Fiscal year 2021 sales to these customers were $10.1 million vs. $15.6 million the prior year and a $15.5 million average over the past four fiscal years. Meanwhile, sales to our Aerospace/Defense customers for fiscal year 2021 were $10.2 million vs. $10.8 million the prior year and a $10.6 million average over the past four fiscal years.

Our gross profit of $3.2 million, or 14% of sales, is significantly lower than last year's 33% of sales. Included were research and development expenditures of $772 thousand this fiscal year in support of our growth strategies which more than doubled the prior year R&D expenditures. The lower gross profit was also affected by our commitment to maintaining a full workforce in the face of lower sales volume. We were able to make the most of this slower period by increasing training and improving processes. Operating expenses, including selling, general and administrative expenses were carefully controlled as we focused on emerging from the pandemic stronger and better prepared for the challenges we were sure to encounter. In exchange for maintaining our full workforce, we were able to participate in the U.S. federal government's various COVID-19 relief programs totaling $2.9 million which helped to mitigate a $2.4 million operating loss for the year. Because of all this, net income for fiscal year 2021 finished at $1.1 million, or 5% of sales, vs. $3.0 million, or 11% of sales the prior year. Earnings per share was 30 cents for fiscal year 2021 compared to 87 cents the prior year.

Our sales order backlog of $22 million on May 31, 2021 is up significantly from the prior year-end of $9.8 million and better than our average level over the past four years of $17 million. This sales order backlog is slightly weighted towards our commercial customers at 57% vs. 43% for our Aerospace/Defense customers, which is a return to our more typical backlog customer mix. With continued investments in R&D, technology, personnel, capital equipment, and improved processes, we are better prepared than ever before to take advantage of the great market positions we have and profitably grow the value of your company.

Among other exciting warehouse developments was the installation of new paint booths. These will support our Future State Painting at 90 Taylor.

In Shipping and Receiving, new organizational and storage solutions have been implemented which are improving material and product flow.

CORPORATE **DATA**

OFFICERS AND DIRECTORS
F. ERIC ARMENAT | Board Member
JOHN BURGESS | Chairman of the Board of Directors
ROBERT M. CAREY | 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
MEGAN BRANT | Accounting Supervisor
STUART BUCKLEY | Vice President of Business Development and Strategy
NATHAN CANNEY | Senior Project Manager
ROBERT CONRAD | Director of Continuous Improvement
PAUL CRVELIN | Vice President, Engineering
KONRAD ERIKSEN | Structural Products Integrated Product Team Lead
SUSAN EWING | Human Resources Manager
ANDREA GREEN | EHS Manager
STEVEN HARDING | Maintenance Manager
DONALD HORNE | Chief Engineer
CHARLES KETCHUM III | Quality Assurance Manager
NICHOLAS MARSOLAIS | Production Control Manager
MICHAEL ROGOWSKI | Supply Chain Manager
ERIC ROTH | Scholl Operations Manager Test Supervision
ROBERT SCHNEIDER | Director of Strategic Sales and Marketing
BILL STREAMS | Machine Shop Manager
MATT STRYCHALSKI | Paint Shop Manager
KEVIN SUPLICKI | Information Systems Manager
COURTNEY TAYLOR | Contracts Administrator
DAVID TAYLOR | Manager of Aerospace and Defense Sales
DENNIS WARMUS | Manufacturing Engineering Manager
CRAIG WINTERS | Director of Program Management, Structural & Industrial Products
MICHAEL YAX | Vice President, Quality and Continuous Improvement

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 Mark McDonough, CFO at Taylor Devices, Inc., 90 Taylor Drive, North Tonawanda, NY 14120.

TAYLOR DEVICES, INC. AND SUBSIDIARY

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

AND

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2021

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, 2021 equaled less than 0.3% of sales for that period. The balance of the valuation allowance has decreased to $7,000 at May 31, 2021 from $211,000 at May 31, 2020. 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.

During fiscal 2021, the Company began a thorough review of the facilities including the flow of inventory through the factory and warehouse areas to determine the most efficient utilization of available space. Inventory purchasing practices and stocking levels were also evaluated and it was determined that a significant portion of the older items would be disposed of while the allowance for potential inventory obsolescence would be increased as more items are identified for disposal. $1,101,000 of inventory was disposed of during the year. The provision for potential inventory obsolescence was $1,500,000 and $180,000 for the years ended May 31, 2021 and 2020.

Revenue Recognition

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, 2021, 43% of revenue was recorded for contracts in which revenue was recognized over time while 57% was recognized at a point in time. 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.

For financial statement presentation purposes, the Company nets progress billings against the total costs incurred on uncompleted contracts. The asset, "costs and estimated earnings in excess of billings," represents revenues recognized in excess of amounts billed. The liability, "billings in excess of costs and estimated earnings," represents billings in excess of revenues recognized.

Income Taxes

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

Realization of the deferred tax assets is dependent on generating sufficient taxable income at the time temporary differences become deductible. The Company provides a valuation allowance to the extent that deferred tax assets may not be realized. A valuation allowance has not been recorded against the deferred tax assets since management believes it is more likely than not that the deferred tax assets are recoverable. The Company considers future taxable income and potential tax planning strategies in assessing the need for a potential valuation allowance. In future years the Company will need to generate approximately $3.9 million of taxable income in order to realize our deferred tax assets recorded as of May 31, 2021 of $815,000. This deferred tax asset balance is 2% ($15,000) less than at the end of the prior year. The amount of the deferred tax assets considered realizable however, could be reduced in the near term if estimates of future taxable income are reduced. If actual results differ from estimated results or if the Company adjusts these assumptions, the Company may need to adjust its deferred tax assets or liabilities, which could impact its effective tax rate.

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, 2021, the Company had State investment tax credit carryforwards of approximately $368,000 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, 2021 and 2020

	Increase / (Decrease)
Sales, net	$ (5,872,000)
Cost of goods sold	$ 190,000
Selling, general and administrative expenses	$ (407,000)
Income before provision for income taxes	$ (2,734,000)
Provision for income taxes	$ (767,000)
Net income	$ (1,967,000)

For the year ended May 31, 2021 (All figures being discussed are for the year ended May 31, 2021 as compared to the year ended May 31, 2020.)

	Year ended May 31		**Change**	
	2021	**2020**	**Amount**	**Percent**
Net Revenue	$ 22,510,000	$ 28,382,000	$ (5,872,000)	*-21%*
Cost of sales	19,335,000	19,145,000	190,000	*1%*
Gross profit	$ 3,175,000	$ 9,237,000	$ (6,062,000)	*-66%*
… as a percentage of net revenues	14%	33%		

The Company's consolidated results of operations showed a 21% decrease in net revenues and a decrease in net income of 65%. Revenues recorded in the current period for long-term construction projects (“Project(s)”) were 41% lower than the level recorded in the prior year. We had 41 Projects in process during the current period compared with 41 during the same period last year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were 7% more than the level recorded in the prior year. The number of Projects in-process fluctuates from period to period. The changes from the prior period to the current period are not necessarily representative of future results.

Sales of the Company's products are made to three general groups of customers: industrial, structural and aerospace / defense. The Company saw a 35% decrease from last year’s level in sales to structural customers who were seeking seismic / wind protection for either construction of new buildings and bridges or retrofitting existing buildings and bridges along with a 5% decrease in sales to customers in aerospace / defense offset by a 10% increase in sales to customers using our products in industrial applications. The significant decrease in sales to structural customers is primarily from domestic customers. Many prospective customers in the construction field had been delaying orders for several months as they considered the potential effects of the current COVID pandemic on the economy. Slightly more than half of the sales order bookings to structural customers were recorded in the final four months of the fiscal year, including $6.4 million in the fourth quarter. All of these will be deliverable in fiscal 2022.

A breakdown of sales to these three general groups of customers, as a percentage of total net revenue for fiscal years ended May 31, 2021 and 2020 is as follows:

	Year ended May 31	
	2021	**2020**
Industrial	10%	7%
Structural	45%	55%
Aerospace / Defense	45%	38%

Total sales within North America decreased 34% from last year. Total sales to Asia increased 52% from the prior year. Net revenue by geographic region, as a percentage of total net revenue for fiscal years ended May 31, 2021 and 2020 is as follows:

	Year ended May 31	
	2021	**2020**
North America	70%	85%
Asia	20%	11%
Other	10%	4%

The gross profit as a percentage of net revenue of 14% in the current period is less than the 33% recorded in the same period of the prior year. The significant decrease in gross profit as a percentage of revenue is primarily due to the significant reduction in domestic sales to structural customers along with the 58% increase in research and development costs incurred as discussed above.

At May 31, 2020, we had 102 open sales orders in our backlog with a total sales value of $9.8 million. At May 31, 2021, we had 132 open sales orders in our backlog with a total sales value of $22.0 million. $9.3 million of the current backlog is on Projects already in progress. $2.2 million of the $9.8 million sales order backlog at May 31, 2020 was in progress at that date. 43% of the sales value in the backlog is for aerospace / defense customers compared to 63% at the end of fiscal 2020. As a percentage of the total sales order backlog, orders from structural customers accounted for 55% at May 31, 2021 and 32% at May 31, 2020.

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	
	2021	2020	Amount	Percent
Outside Commissions	$ 719,000	$ 1,081,000	$ (362,000)	*-33%*
Other SG&A	4,808,000	4,853,000	(45,000)	*-1%*
Total SG&A	$ 5,527,000	$ 5,934,000	$ (407,000)	*-7%*
… as a percentage of net revenues	25%	21%		

Selling, general and administrative expenses decreased slightly from the prior year. Outside commission expense decreased 33% 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 decreased only slightly from last year.

The above factors resulted in operating loss of $2,352,000 for the year ended May 31, 2021, down significantly from the $3,303,000 operating income in the prior year.

Other income during the period includes $2,972,000 of financial assistance provided by the U.S. federal government as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and the Consolidated Appropriations Act of 2021 (CAA), discussed below: a.) $1,462,000 of income due to the forgiveness of the loan by the Small Business Administration (SBA) under the Paycheck Protection Program (PPP), and b.) $1,510,000 of Employee Retention Credit income.

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, 2021 is -56%, compared to the ETR for the prior year of 11%.

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

	2021	2020
Computed tax provision at the expected statutory rate	$ 143,000	$ 718,000
Tax effect of permanent differences:		
Research tax credits	(218,000)	(272,000)
Foreign-derived intangible income deduction	-	(100,000)
U.S. Government PPP loan forgiven	(307,000)	-
Other permanent differences	42,000	40,000
Other	(41,000)	-
	$ (381,000)	$ 386,000

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 Cuts and Jobs Act. The legislation that created the PPP and permitted the SBA to forgive loans made through the PPP also directed that the forgiven loan would not be taxable income to the recipient.

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 $154,000 and $143,000 of compensation cost for the years ended May 31, 2021 and 2020.

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 2020 and April 2021. 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 2020	April 2021
Risk-free interest rate:	1.750%	2.625%
Expected life of the options:	3.9 years	4.0 years
Expected share price volatility:	34%	32%
Expected dividends:	zero	zero
These assumptions resulted in estimated fair-market value per stock option:	$2.88	$3.49

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, 2021 is presented below.

	Number of Options	Weighted-Average Exercise Price
Options outstanding and exercisable at May 31, 2020:	252,250	$ 11.52
Options granted:	47,250	$ 11.26
Less: Options exercised:	13,000	$ 6.34
Less: Options expired:	18,750	$ 13.31
Options outstanding and exercisable at May 31, 2021:	267,750	$ 11.60
Closing value per share on NASDAQ at May 31, 2021:		$ 11.85

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, 2021 were $1,622,000 compared to $1,231,000 in the prior year. Current year capital expenditures included new manufacturing machinery, testing equipment, paint booths system, upgrades to technology equipment and assembly / test facility improvements. The Company has commitments to make capital expenditures of approximately $400,000 as of May 31, 2021.

During fiscal 2020, the Company received a loan totaling $1,462,000 from the SBA under the Paycheck Protection Program of the CARES Act, in response to the Coronavirus pandemic described below. The total amount of the loan was forgiven during fiscal 2021 under provisions of the CARES Act.

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, 2021 or May 31, 2020. 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, 2021		May 31, 2020		Increase /(Decrease)	
Raw materials	$ 503,000		$ 658,000		$ (155,000)	*-24%*
Work in process	5,076,000		8,586,000		(3,510,000)	*-41%*
Finished goods	256,000		863,000		(607,000)	*-70%*
Inventory	5,835,000	78%	10,107,000	92%	(4,272,000)	*-42%*
Maintenance and other inventory	1,613,000	22%	879,000	8%	734,000	*84%*
Total	$ 7,448,000	100%	$10,986,000	100%	$ (3,538,000)	*-32%*
Inventory turnover	2.1		1.7			

Inventory, at $5,835,000 as of May 31, 2021, is 42% less than the prior year-end. Of this, approximately 87% is work in process, 4% is finished goods, and 9% 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. During fiscal 2021, the Company began a thorough review of the inventory to identify and dispose of items that had not been used for several years and were unlikely to be used in the foreseeable future. The Company disposed of approximately $1,101,000 and $46,000 of obsolete inventory during the years ended May 31, 2021 and 2020, respectively.

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

	May 31, 2021	May 31, 2020	Increase /(Decrease)	
Accounts and other receivables	$ 4,121,000	$ 5,819,000	$ (1,698,000)	*-29%*
Less: Other receivable	741,000	-	741,000	
Accounts receivable	3,380,000	5,819,000	(2,439,000)	*-42%*
CIEB	1,500,000	1,755,000	(255,000)	*-15%*
Less: BIEC	1,362,000	737,000	625,000	*85%*
Net	$ 3,518,000	$ 6,837,000	$ (3,319,000)	*-49%*
Number of an average day's sales outstanding in accounts receivable (DSO)	42	68		

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 $3,380,000 as of May 31, 2021 includes approximately $201,000 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) decreased to 42 days at May 31, 2021 from 68 days as of May 31, 2020. The DSO is a function of 1.) the level of sales for an average day (for example, total sales for the past three months divided by 90 days) and 2.) the level of accounts receivable at the balance sheet date. The level of sales for an average day in the fourth quarter of the current fiscal year is only 6% less than in the fourth quarter of the prior year. The level of accounts receivable at the end of the current fiscal year is 42% less than the level at the end of the prior year. The level of accounts receivable at the end of the current year is significantly less that last year due to 1.) the collection in the current year of amounts owed on some larger Projects that had been completed in the prior year and 2.) the lower level of sales in the current year. The combination of the decrease in the level of an average day's sales along with the decrease in the level of accounts receivable caused the DSO to decrease by 26 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.

Other receivable is an amount of Employee Retention Credit claimed by the Company for the second calendar quarter of 2021 and is expected to be received in the third calendar quarter of 2021.

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:

	2021	2020
Number of projects in progress at year-end	14	15
Aggregate percent complete at year-end	32%	80%
Average total value of projects in progress at year-end	$963,000	$830,000
Percentage of total value invoiced to customer	30%	74%

There is one fewer project 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 increased by 16% 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 $1,500,000 balance in this account at May 31, 2021 is a 15% decrease from the prior year-end. This decrease reflects the lower aggregate level of the percentage of completion of these Projects as of the current year end as compared with the Projects in process at the prior year end. Generally, if progress billings are permitted under the terms of a project sales agreement, then the more complete the project is, the more progress billings will be permitted. The Company expects to bill the entire amount during the next twelve months. 42% of the CIEB balance as of the end of the last fiscal quarter, February 28, 2021, was billed to those customers in the current fiscal quarter ended May 31, 2021. 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, 2021	May 31, 2020
Costs	$ 2,362,000	$ 2,615,000
Estimated earnings	410,000	540,000
Less: Billings to customers	1,272,000	1,400,000
CIEB	$ 1,500,000	$ 1,755,000
Number of projects in progress	9	10

As noted above, BIEC represents billings to customers in excess of revenues recognized. The $1,362,000 balance in this account at May 31, 2021 is in comparison to a $737,000 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, 2021	May 31, 2020
Billings to customers	$ 2,741,000	$ 7,794,000
Less: Costs	1,011,000	3,781,000
Less: Estimated earnings	368,000	3,276,000
BIEC	$ 1,362,000	$ 737,000
Number of projects in progress	5	5

Accounts payable, at $1,787,000 as of May 31, 2021, is 30% more than the prior year-end. This significant increase is due to the increase in customer orders received during the final months of the current fiscal year that will be manufactured and shipped to the customers in the coming months. 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, 2021 are $269,000. This is 12% less than the $306,000 accrued at the prior year-end. This decrease is generally due to the decrease in the level of sales, discussed above. The Company expects the current accrued amount to be paid during the next twelve months.

Other accrued expenses of $1,715,000 increased slightly from the prior year level of $1,664,000.

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

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 fluctuated significantly during this time. The extent of the impact of COVID-19 on the Company's operational and financial performance was significant in fiscal 2021. While the use of vaccinations world-wide have apparently slowed spread of the disease, the extent of the impact of COVID-19 on the Company's operational and financial performance in fiscal 2022 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.

Company management currently does not have reason to believe that the COVID-19 pandemic will adversely affect our ability to meet our obligations to our customers. Our top priorities continue to be the health and safety of our employees and their families along with supporting our customers. Thanks to the careful adherence to our COVID-19 safety measures by our workforce as well as our customers and suppliers, 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. Our high-spirited, healthy workforce continues to adjust their work schedules as the needs arise.

The majority of our customers remain open to continue to receive shipments from us and issue new purchase orders to us. Many of our domestic structural customers froze operations while they attempted to determine the extent and impact of the pandemic on their projects. We noticed a thawing in this domestic market during the final four months of the fiscal year as customers appeared to gain confidence in the future of our economy. This has resulted in an increase in the volume of domestic sales orders. While these new orders had very little impact on the 2021 fiscal year, they have provided a strong base for the next fiscal year.

The liquidity of the Company remains strong at this time. However, the pandemic is not over and the economy has not fully recovered yet. Management remains concerned about variants of the virus as well as the uncertainty of the when or how the virus may affect some of our customers' purchasing plans. The economic downturn did have a negative impact on our operations and for this reason, we have applied for and have received assistance from the federal government under various provisions of the CARES Act and CAA, 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. Increases in global demand for materials such as steel have caused sharp cost increases as the various economies improve around the world. We have faced longer lead times to procure some materials. Management is monitoring this situation and adjusting our sourcing as necessary.

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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, 2021 and 2020, 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, 2021 and 2020, 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.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Cost Estimates for Long-Term Contracts and Related Revenue Recognition

Description of the Matter

As more fully described in Note 1 to the consolidated financial statements, the Company recognizes revenue over time for long-term contracts as goods are produced. The Company uses costs incurred as the method for determining progress, and revenue is recognized based on costs incurred to date plus an estimate of margin at completion. The process of estimating margin at completion involves estimating the costs to complete production of goods and comparing those costs to the estimated final revenue amount. Long-term contracts are inherently uncertain in that revenue is fixed while the estimates of costs required to complete these contracts are subject to significant variability. Due to the technical performance requirements in many of these contracts, changes to cost estimates could occur, resulting in higher or lower margins when the contracts are completed.

Given the inherent uncertainty and significant judgments necessary to estimate future costs at completion, auditing these estimates involved a focused audit effort and a high degree of auditor judgment.

How We Addressed the Matter in Our Audit

Our auditing procedures related to the cost estimates for long-term contracts and related revenue recognition included the following, among others:

- We evaluated the appropriateness and consistency of management's methods used to develop its estimates.
- We evaluated the reasonableness of judgments made and significant assumptions used by management relating to key estimates.
- We selected a sample of executed contracts to understand the contract, perform an independent assessment of the appropriate timing of revenue recognition, and test the mathematical accuracy of revenue recognized based on costs incurred to date relative to total estimated costs at completion.
- We performed inquiries of the Company's project managers and others directly involved with the contracts to evaluate project status and project challenges which may affect total estimated costs to complete. We also observed the project work site when key estimates related to tangible or physical progress of the project.
- We tested the accuracy and completeness of the data used in developing key estimates, including material, labor, overhead, and sub-contractor costs.
- We performed retrospective reviews of prior year long-term contracts, comparing actual performance to estimated performance and the related financial statement impact, when evaluating the thoroughness and precision of management's estimation process in previous years.

Valuation of Inventory

Description of the Matter

As of May 31, 2021, the Company's inventory balance was $5.8 million, net of a $100,000 allowance for obsolescence, its maintenance and other inventory balance was $1.6 million, net of a $2.0 million allowance for obsolescence, and its provision for obsolescence for the year ended was $1.5 million. As discussed in Note 5, maintenance and other inventory represents certain items that are estimated to have a product life-cycle in excess of twelve months the Company is required to maintain for service of products sold and items that are generally subject to spontaneous ordering. The Company evaluates its inventory for obsolescence on an ongoing basis by considering historical usage as well as requirements for future orders.

Given the inherent uncertainty and significant judgments necessary to estimate potential inventory obsolescence, auditing management's estimates involved a high degree of auditor judgment.

How We Addressed the Matter in Our Audit

Our auditing procedures related to valuation of inventory included the following, among others:

- We evaluated the appropriateness and consistency of management's methods used to develop its estimates.
- We evaluated the reasonableness of judgments made and significant assumptions used by management relating to key estimates.
- We inquired of management relative to write-offs of inventory during the year.
- We tested the completeness and accuracy of management's schedule of inventory.
- We developed an independent expectation of the obsolescence reserve based on our knowledge of the Company's inventory, including analysis of slow-moving items and historical usage and compared it to actual.
- We examined management's lower of cost or net realizable value analysis and performed procedures to test its completeness and accuracy.
- We selected a sample of material purchases made during the year to ensure they were included in inventory at the proper value.
- During our physical inventory observation, we toured the Company's warehouses and examined inventory on hand for any indications of obsolescence.

Lumsden & McCormick, LLP

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

Buffalo, New York
August 27, 2021

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

May 31,	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	$ 20,581,604	$ 15,159,827
Short-term investments	1,097,012	1,071,950
Accounts and other receivables, net (Note 2)	4,120,564	5,819,471
Inventory (Note 3)	5,835,596	10,107,437
Prepaid expenses	522,747	460,212
Prepaid income taxes	454,778	50,148
Costs and estimated earnings in excess of billings (Note 4)	1,499,604	1,754,573
Total current assets	34,111,905	34,423,618
Maintenance and other inventory, net (Note 5)	1,612,839	879,050
Property and equipment, net (Note 6)	9,816,594	9,407,490
Cash value of life insurance, net	200,538	195,621
Deferred income taxes (Note 10)	190,115	170,115
	$ 45,931,991	$ 45,075,894
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings (Note 7)	$ -	$ 1,461,500
Accounts payable	1,787,325	1,370,175
Accrued commissions	269,064	305,885
Other accrued expenses	1,715,409	1,663,914
Billings in excess of costs and estimated earnings (Note 4)	1,361,985	736,866
Total current liabilities	5,133,783	5,538,340
Stockholders' Equity:		
Common stock, $.025 par value, authorized 8,000,000 shares, issued 4,055,275 and 4,040,805 shares	101,305	100,943
Paid-in capital	10,010,430	9,759,063
Retained earnings	33,601,475	32,538,580
	43,713,210	42,398,586
Treasury stock – 558,834 and 553,934 shares at cost	(2,915,002)	(2,861,032)
Total stockholders' equity	40,798,208	39,537,554
	$ 45,931,991	$ 45,075,894

See notes to consolidated financial statements.

Consolidated Statements of Income

For the years ended May 31,	**2021**	2020
Sales, net (Note 9)	**$ 22,509,641**	$ 28,381,541
Cost of goods sold	**19,334,950**	19,144,451
Gross profit	**3,174,691**	9,237,090
Selling, general and administrative expenses	**5,526,774**	5,934,410
Operating income (loss)	**(2,352,083)**	3,302,680
Other income		
Interest, net	**53,654**	111,054
Paycheck Protection Program loan forgiveness (Note 7)	**1,461,500**	-
Employee Retention Credit (Note 20)	**1,510,131**	-
Miscellaneous	**8,693**	2,242
Total other income	**3,033,978**	113,296
Income before provision for income taxes	**681,895**	3,415,976
Provision for income taxes (benefit) (Note 10)	**(381,000)**	386,000
Net income	**$ 1,062,895**	$ 3,029,976
Basic and diluted earnings per common share (Note 11)	**$ 0.30**	$ 0.87

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

For the years ended May 31,	2021	2020
Common Stock		
Beginning of period	$ 100,943	$ 100,735
Issuance of shares for employee stock purchase plan	37	34
Issuance of shares for employee stock option plan	325	174
End of period	101,305	100,943
Paid-in Capital		
Beginning of period	9,759,063	9,538,892
Issuance of shares for employee stock purchase plan	14,954	13,824
Issuance of shares for employee stock option plan	82,070	63,250
Stock options issued for services	154,343	143,097
End of period	10,010,430	9,759,063
Retained Earnings		
Beginning of period	32,538,580	29,508,604
Net income	1,062,895	3,029,976
End of period	33,601,475	32,538,580
Treasury Stock		
Beginning of period	(2,861,032)	(2,829,359)
Issuance of shares for employee stock option plan	(53,970)	(31,673)
End of period	(2,915,002)	(2,861,032)
Total stockholders' equity	$ 40,798,208	$ 39,537,554

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the years ended May 31,	**2021**	2020
Operating activities:		
Net income	**$ 1,062,895**	$ 3,029,976
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	**1,212,713**	1,141,110
Stock options issued for services	**154,343**	143,097
Bad debt expense	**134,000**	-
Provision for inventory obsolescence	**1,500,000**	180,000
Deferred income taxes	**(20,000)**	19,000
Paycheck Protection Program debt forgiveness	**(1,461,500)**	-
Changes in other current assets and liabilities:		
Accounts and other receivables	**1,564,907**	(540,169)
Inventory	**2,038,052**	804,721
Prepaid expenses	**(62,535)**	(148,052)
Prepaid income taxes	**(404,630)**	186,869
Costs and estimated earnings in excess of billings	**254,969**	5,817,917
Accounts payable	**417,150**	(32,517)
Accrued commissions	**(36,821)**	(1,003,473)
Other accrued expenses	**51,495**	131,644
Billings in excess of costs and estimated earnings	**625,119**	103,163
Net operating activities	**7,030,157**	9,833,286
Investing activities:		
Acquisition of property and equipment	**(1,621,817)**	(1,231,158)
Increase in short-term investments	**(25,062)**	(16,359)
Increase in cash value of life insurance	**(4,917)**	(4,872)
Net investing activities	**(1,651,796)**	(1,252,389)
Financing activities:		
Short-term borrowings	**-**	1,461,500
Proceeds from issuance of common stock	**43,416**	45,608
Net financing activities	**43,416**	1,507,108
Net change in cash and cash equivalents	**5,421,777**	10,088,005
Cash and cash equivalents - beginning	**15,159,827**	5,071,822
Cash and cash equivalents - ending	**$ 20,581,604**	$ 15,159,827

See 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.

68% of the Company's 2021 revenue was generated from sales to customers in the United States and 20% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe, Australia and South America.

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 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, 2021 and May 31, 2020 include "available for sale" corporate bonds stated at fair value, which approximates cost. The bonds (16) mature on various dates during the period August 2021 to September 2025. 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:

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, 2021, 43% of revenue was recorded for contracts in which revenue was recognized over time while 57% was recognized at a point in time. 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.

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, 2021 and 2020, 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.

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 $146,878 and $420,786 for the years ended May 31, 2021 and 2020. 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 $924,000 and $585,000 for the years ended May 31, 2021 and 2020.

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, 2021 or 2020. The Company recorded no interest expense or penalties in its consolidated statements of income during the years ended May 31, 2021 and 2020.

The Company believes it is no longer subject to examination by federal and state taxing authorities for years prior to May 31, 2018.

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, 2021 and 2020 was $154,343 and $143,097.

New Accounting Standards:

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

2. Accounts and Other Receivables:

	2021	2020
Customers	**$ 3,184,970**	$ 5,399,915
Customers – retention	**200,956**	630,823
	3,385,926	6,030,738
Less Allowance for doubtful accounts	**6,781**	211,267
Add Other receivables	**741,419**	-
	$ 4,120,564	$ 5,819,471

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.

Other receivable is an amount of Employee Retention Credit claimed by the Company for the second calendar quarter of 2021 and is expected to be received in the third calendar quarter of 2021.

3. Inventory:

	2021	2020
Raw materials	**$ 503,344**	$ 658,024
Work-in-process	**5,076,377**	8,586,404
Finished goods	**355,875**	963,009
	5,935,596	10,207,437
Less allowance for obsolescence	**100,000**	100,000
	$ 5,835,596	$10,107,437

4. Costs and Estimated Earnings on Uncompleted Contracts:

	2021	2020
Costs incurred on uncompleted contracts	**$ 3,372,276**	$ 6,395,550
Estimated earnings	**778,011**	3,816,527
	4,150,287	10,212,077
Less billings to date	**4,012,668**	9,194,370
	$ 137,619	$ 1,017,707

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

	2021	2020
Costs and estimated earnings in excess of billings	**$ 1,499,604**	$ 1,754,573
Billings in excess of costs and estimated earnings	**1,361,985**	736,866
	$ 137,619	$ 1,017,707

The following summarizes the status of Projects in progress as of May 31, 2021 and 2020:

	2021	2020
Number of Projects in progress	**14**	15
Aggregate percent complete	**32%**	80%
Aggregate amount remaining	**$9,333,701**	$2,234,962
Percentage of total value invoiced to customer	**30%**	74%

The Company expects to recognize the entire remaining revenue on all open projects during the May 31, 2022 fiscal year.

Revenue recognized during the years ended May 31, 2021 and 2020 for amounts included in billings in excess of costs and estimated earnings as of the beginning of the year amounted to $736,866 and $633,703.

5. Maintenance and Other Inventory:

	2021	2020
Maintenance and other inventory	**$ 3,612,000**	$ 2,479,497
Less allowance for obsolescence	**1,999,161**	1,600,447
	$ 1,612,839	$ 879,050

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.

During fiscal 2021, the Company began a thorough review of the facilities including the flow of inventory through the factory and warehouse areas to determine the most efficient utilization of available space. Inventory purchasing practices and stocking levels were also evaluated and it was determined that a significant portion of the older items would be disposed of while the allowance for potential inventory obsolescence would be increased as more items are identified for disposal. $1,101,000 of inventory was disposed of during the year. The provision for potential inventory obsolescence was $1,500,000 and $180,000 for the years ended May 31, 2021 and 2020.

6. Property and Equipment:

	2021	2020
Land	**$ 195,220**	$ 195,220
Buildings and improvements	**9,584,087**	9,457,142
Machinery and equipment	**12,366,569**	11,242,667
Office furniture and equipment	**2,536,688**	2,209,382
Autos and trucks	**24,818**	24,818
Land improvements	**476,429**	455,429
	25,183,811	23,584,658
Less accumulated depreciation	**15,367,217**	14,177,168
	$ 9,816,594	$ 9,407,490

Depreciation expense was $1,212,713 and $1,141,110 for the years ended May 31, 2021 and 2020.

The Company has commitments to make capital expenditures of approximately $400,000 as of May 31, 2021.

7. Short-Term Borrowings:

During 2020, the Company received a loan totaling $1,461,500 from the Small Business Administration (SBA) under the Paycheck Protection Program (PPP) of the Coronavirus Aid, Relief and Economic Security (CARES) Act, in response to the pandemic described in Note 20. The total amount of the loan was forgiven during fiscal 2021 under provisions of the CARES Act. The amount of the loan forgiveness is included in Other income on the Consolidated Statements of Income.

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, 2021 or May 31, 2020.

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 $366,209 and $523,344 as of May 31, 2021 and 2020. 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, structural and aerospace / defense. A breakdown of sales to these three general groups of customers is as follows:

	2021	2020
Structural	**$ 10,137,468**	$ 15,621,784
Aerospace / Defense	**10,183,399**	10,771,129
Industrial	**2,188,774**	1,988,628
	$ 22,509,641	$ 28,381,541

Sales to two customers approximated 21% (11% and 10%, respectively) of net sales for 2021. Sales to a single customer approximated 10% of net sales for 2020.

10. Income Taxes:

	2021	2020
Current tax provision (benefit):		
Federal	**$ (361,000)**	$ 375,000
State	**-**	-
	(361,000)	375,000
Deferred tax provision (benefit):		
Federal	**(20,000)**	11,000
State	**-**	-
	(20,000)	11,000
	$ (381,000)	$ 386,000

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

	2021	2020
Computed tax provision at the expected statutory rate	**$ 143,200**	$ 717,400
State income tax - net of Federal tax benefit	**-**	500
Tax effect of permanent differences:		
Research tax credits	**(218,000)**	(272,000)
Foreign-derived intangible income deduction	**-**	(99,739)
PPP loan forgiveness	**(306,900)**	-
Other permanent differences	**41,500**	40,200
Other	**(40,800)**	(361)
	$ (381,000)	$ 386,000
Effective income tax rate	**(55.9%)**	11.3%

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

	2021	2020
Deferred tax assets:		
Allowance for doubtful receivables	**$ 1,400**	$ 44,400
Tax inventory adjustment	**22,900**	94,000
Allowance for obsolete inventory	**440,800**	357,100
Accrued vacation	**81,400**	60,500
Accrued commissions	**5,900**	3,900
Warranty reserve	**23,900**	39,400
Stock options issued for services	**238,500**	230,200
	814,800	829,500
Deferred tax liabilities:		
Excess tax depreciation	**(624,685)**	(659,385)
Net deferred tax assets	**$ 190,115**	$ 170,115

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 $3.9 million in taxable income in future years in order to realize the deferred tax assets recorded as of May 31, 2021 of $814,800.

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2021, the Company had State investment tax credit carryforwards of approximately $368,000 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:

	2021	2020
Average common shares outstanding	**3,490,213**	3,481,128
Common shares issuable under stock option plans	**1,674**	8,663
Average common shares outstanding assuming dilution	**3,491,887**	3,489,791

12. Related Party Transactions:

The Company had no related party transactions for the years ended May 31, 2021 and 2020.

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, 2021 and 2020, 1,470 ($9.20 to $11.40 price per share) and 1,374 ($8.63 to $11.00 price per share) common shares, respectively, were issued to employees. As of May 31, 2021, 218,783 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 76,000 shares have been granted as of May 31, 2021. 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 $3.27 during 2021 and $2.85 during 2020. 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.

	2021	2020
Risk-free interest rate	**2.31%**	1.98%
Expected life in years	**4.0**	3.9
Expected volatility	**33%**	32%
Expected dividend yield	**0%**	0%

The following is a summary of stock option activity:

	Shares	Weighted Average Exercise Price	Intrinsic Value
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
Options granted	**47,250**	$ 11.26	
Less: options exercised	**13,000**	$ 6.34	
Less: options expired	**18,750**	$ 13.31	
Outstanding - May 31, 2021	**267,750**	$ 11.60	$ 271,426

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 (137,750 at May 31, 2021 and 98,000 at May 31, 2020.) The Company's closing stock price was $11.85 and $10.99 as of May 31, 2021 and 2020. As of May 31, 2021, there are 84,000 options available for future grants under the 2018 stock option plan. $28,425 and $31,750 was received from the exercise of share options during the fiscal years ended May 31, 2021 and 2020.

The following table summarizes information about stock options outstanding at May 31, 2021:

Outstanding and Exercisable			
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
$ 7.01-$ 8.00	15,000	1.6	$ 7.74
$ 8.01-$ 9.00	24,250	2.1	$ 8.71
$ 9.01-$10.00	30,000	7.6	$ 9.85
$10.01-$11.00	32,250	7.2	$10.17
$11.01-$12.00	91,250	7.4	$11.71
$12.01-$13.00	33,750	4.3	$12.36
$13.01-$14.00	15,000	4.2	$13.80
$16.01-$17.00	15,000	3.6	$16.40
$19.01-$20.00	11,250	5.2	$19.26
$ 7.01-$20.00	267,750	5.7	$11.60

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
$ 5.01-$20.00	252,250	6.5	$11.52

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 558,834 and 553,934 at May 31, 2021 and 2020.

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 $288,470 and $158,191 for the years ended May 31, 2021 and 2020.

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:

	2021	2020
Interest paid	**none**	none
Income taxes paid	**$ 43,630**	$ 180,131

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 fluctuated significantly during this time. The extent of the impact of COVID-19 on the Company’s operational and financial performance was significant in fiscal 2021. While the use of vaccinations world-wide have apparently slowed spread of the disease, the extent of the impact of COVID-19 on the Company’s operational and financial performance in fiscal 2022 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.

As a result of the pandemic described above, the Company applied for, and received, financial assistance from the U.S. federal government as part of the CARES Act and the Consolidated Appropriations Act of 2021 (CAA) including: a.) $1,461,500 of income due to the forgiveness of the PPP loan by the SBA (discussed previously in Note 7), and b.) $1,510,131 of Employee Retention Credit income. These amounts are included in Other income on the Consolidated Statements of Income.

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 2021 and fiscal year 2020 were obtained from NASDAQ.

HOLDERS

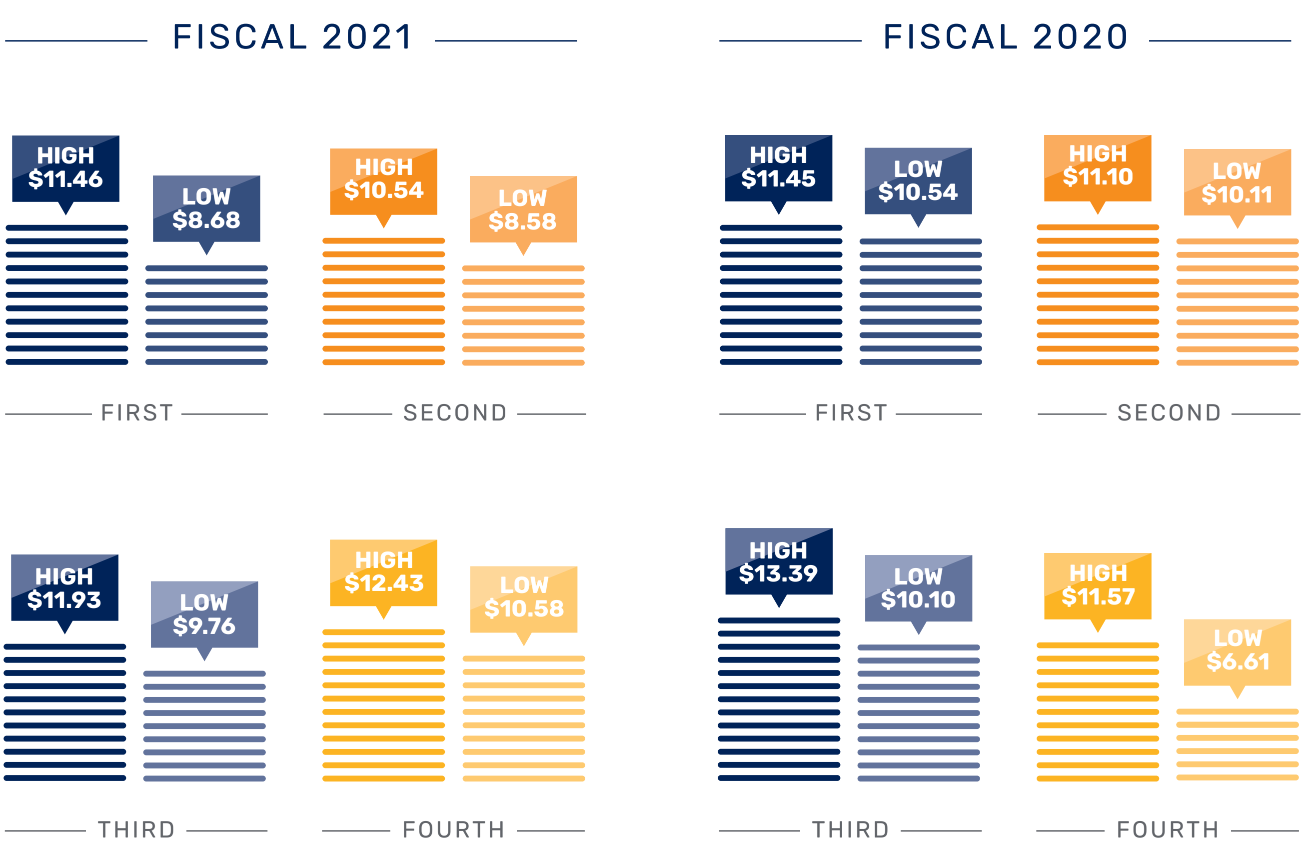
As of May 31, 2021, the number of issued and outstanding shares of Common Stock was 3,496,441 and the approximate number of record holders of the Company's Common Stock was 456. Due to a substantial number of shares of the Company's Common Stock held in street name, the Company believes that the total 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 2021 VIRTUAL ANNUAL SHAREHOLDERS MEETING

Taylor Devices' Annual Shareholders Meeting will be held virtually on **Friday, October 22, 2021, at 11:00 a.m.** All shareholders who wish to attend the 2021 Virtual Annual Shareholders Meeting **MUST PRE-REGISTER** for this event. The online shareholder pre-registration will close promptly on Thursday, October 21, 2021 at 12:00 p.m.

Go to the link provided below for the mandatory, online pre-registration form and the virtual meeting information:
www.taylordevices.com/annual-shareholders-meeting/



NTT

OWNER
NTT

STRUCTURAL ENGINEER
Paradigm Structural Engineers

GENERAL CONTRACTOR
Holder Construction

STEEL SUBCONTRACTOR
DPR Construction

Data centers have become a vital part of our modern lives with the rise of cloud computing and the IoT (Internet of Things), creating a global infrastructure of always connected devices.

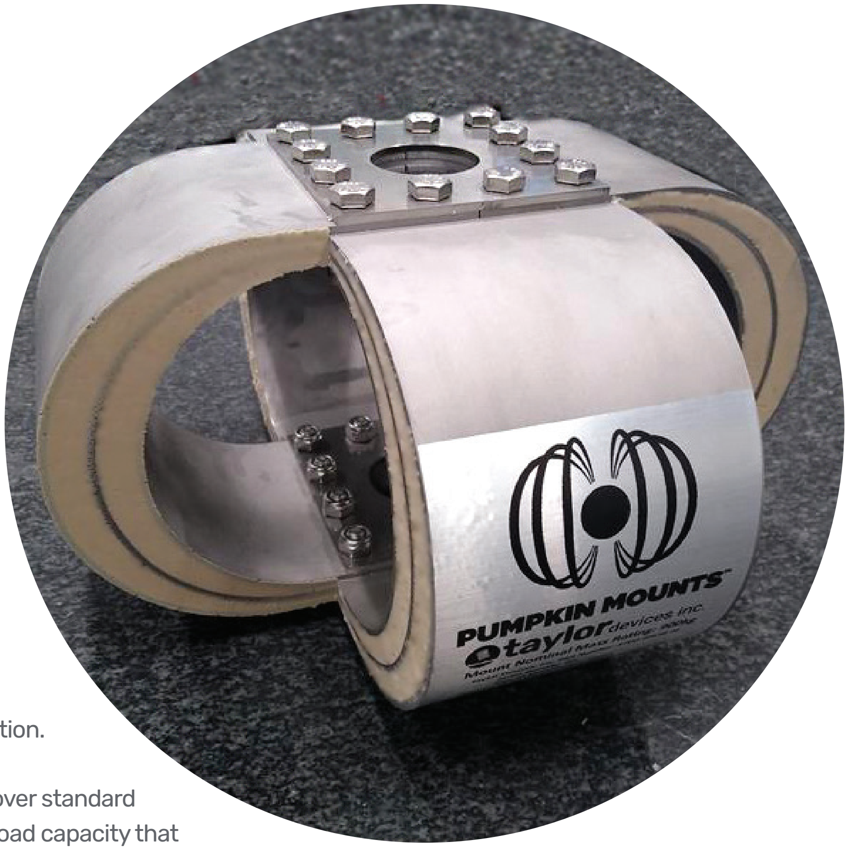
Located in Santa Clara, NTT's SV1 Data Center is a new four-story, 160,000 square foot facility designed with the highest security measures, renewable energy options, and most importantly, is Silicon Valley's first base-isolated data center. While its location is ideal due to its proximity to many of the top technology companies, the area is in a high seismic hazard zone. A sudden break or loss of connection caused by an earthquake could prove to be catastrophic in not only the United States, but throughout the world.

A total of 25 Taylor Devices Fluid Viscous Dampers are used in this building, each with a force capacity of 500,000 lbs. and a total stroke of 64 inches, or +/- 32 inches in any horizontal direction. These dampers are used in conjunction with base isolation bearings to absorb any vibrations or seismic tremors, thereby protecting all critical IT equipment so the data center operations can continue without interruption.

Pictured here is one of the twenty-five Taylor Devices Fluid Viscous Dampers that was installed in the basement of NTT"s SV1 Data Center.

Its function is to absorb earthquake energy and protect the building and all of its contents.

PUMPKIN™ MOUNTS



Taylor Devices has partnered with Thornton Tomasetti to manufacture and distribute the Pumpkin™ Mounts absorber.

Pumpkin Mounts are the next generation of shock and vibration isolation technology for critical systems and structures. Originally developed by Thornton Tomasetti, Pumpkin Mounts feature a symmetry that resists multi-directional lateral and vertical loads. It can support a payload in tension, compression, or under shear for isolation of wall or bulkhead-mounted fixtures on all structures, including naval and commercial vessels subjected to extreme shock and vibration.

Offering significantly improved performance over standard devices, Pumpkin Mounts provide enhanced load capacity that can withstand repeated shock, along with reduced high-frequency noise and efficient use of space. Unlike rubber mounts, which require secondary devices to avoid tearing and failure, Pumpkin Mounts are resistant to high-tension forces.

Pumpkin Mounts reduce input accelerations of several hundred g's down to as low as 15 g or less when tested in naval environments where explosive shock standards are extremely rigorous. The mounts have demonstrated exceptional shock performance during repetitive and multiple events without compromising equipment.

"We are excited to be bringing this technology to users across multiple markets," said Alan Klembczyk, Taylor Devices president. "The many differentiators of Pumpkin Mounts compared to conventional devices will provide significant improvements for our clients' equipment during transient shock and vibration events."

"Explosive testing of the mounts has shown significant improvements in the capability to protect critical equipment," said Phill Thompson, Thornton Tomasetti principal and European region leader. "We look forward to this collaboration with Taylor Devices and to a successful launch of Pumpkin Mounts worldwide."

Pumpkin Mounts installed just prior to shock testing. Each of these devices has a deflection capability of 76 mm (3.0 inches) in compression, 127 mm (5.0 inches) in tension, and 178 mm (7.0 inches) in shear (roll).

BOARD OF **DIRECTORS AND EXECUTIVES**

ALAN R. KLEMBCZYK
President and Board Member

Since 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, he has held titles such as Design Engineer, Assistant Chief Engineer, Chief Engineer, Vice President of Sales & Engineering. He later went on to be 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 was an integral part of the team that managed upgrades to the Quality System and obtained 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 many technical conferences and symposia. He is a founding member and first co-chair of the Industry Partner Committee of the US Resiliency Council.

Mr. Klembczyk has participated in many research projects 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).

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 on 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. While there, 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 its 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 that provides product design engineering services to companies across the United States, as well as produces and supports 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 of 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 the 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 internal controls systems. 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.

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.

ROBERT M. CAREY
Board Member

Mr. Carey brings over 45 years of experience ranging from general management to consultative work to the Company. He was the General Manager of the Reichert Analytical Instruments group from 2001 to 2009. The company manufactures and internationally sells a variety of analytical measurement instruments for use in medicine, food processing, and biotechnology research.

Mr. Carey was the Principal at CMA, Ltd from 1990 to 2001. CMA, Ltd provides consulting services to the manufacturing sector in the areas of organization, operational change and strategic planning. Mr. Carey was also a Partner in Decision Processes International (DPI) from 1999 to 2001. DPI is an international strategic planning consultancy working with companies of all sizes.

In 1979, Mr. Carey joined Wilson Greatbatch Ltd. (now Integer Holdings) as North American Sales Manager. Mr. Greatbatch held the patents for the implantable pacemaker. The eponymously named company is the world's leader in implantable power sources. In 1981 Mr. Carey was named Vice President of Wilson Greatbatch and General Manager of the Electrochem Div. Electrochem which manufactures and internationally sells high energy batteries used in rugged or remote environments such as space, oil and gas drilling, the military, and the ocean.

He earned a Bachelor of Science in Microbiology from the State University of California, Long Beach and a Master of Business Administration from the State University of New York at Buffalo. Mr. Carey served in the U.S. Army, achieving the rank of Captain.

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 of 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 which 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 spent 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 a focus on the aerospace and defense sectors. It 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 a Director of Bird Technologies Corporation of Solon, Ohio.

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