taylor devices inc.

Photo Coutesy: United States Navy

Taylor Devices' products play historic role in X-47B Aviation Highest Honor - Collier Trophy

2014 ANNUAL REPORT

President's Letter

Douglas P. Taylor
President

Dear Shareholder,

Fiscal year 2014 proved to be a year of challenges for Taylor Devices. The first of these was to complete construction on our new manufacturing campus in North Tonawanda located roughly 1.7 miles from our existing facilities on Tonawanda Island. This was completed in late summer of 2013. The second challenge was moving all production machinery to the new site, along with machine installation and set-up at the new campus. This process proved to be more difficult than expected, and substantial machine downtime resulted in reduced shipment levels for several months. As a result, sales for fiscal year 2014 dropped to $20,011,228, from $24,729,585 in 2013, operating income was reduced to $1,545,752, compared to 2013's record income of $3,466,662. Net income fell to $1,131,212, compared to the record $2,547,794 reached in 2013.

The reduced shipment levels for 2014 gave the Company a third challenge, which was to manage our order backlog at a period when productivity was down and demand for Taylor Devices' products was high. Our order backlog at the end of the previous F/Y 2013 was $13.1 million. The backlog of orders increased throughout 2014, and at the end of F/Y 14 has increased to $24.6 million. By negotiating deliveries with customers, and with some adroit scheduling and subcontracting, the Company managed to get through the facilities upgrade without losing orders. With the high order backlog, and with all machinery online, better performance is expected in 2015. Thus far, and as expected, the new manufacturing campus has increased Taylor Devices' productivity and decreased the time necessary to process parts.

Our featured project in this year's Annual Report is the record-setting X47-B unmanned strike fighter which has demonstrated that remote piloted aircraft can now take off and land on aircraft carriers. The Company designed and manufactured the arresting shock spring-dampers and upstop shock absorbers that helped to make this landing possible. The advantage of a remotely piloted combat aircraft is that there are no fragile humans on it – hence it can maneuver in combat at G-loading far beyond what the human body can tolerate, even when equipped with the latest pilot G-suits. If the X-47B loses in combat, only the aircraft is lost, since it has no humans onboard. Some controversy surrounds this program, with discussions within the DoD on the use of drones in combat, or whether they should be limited to their more traditional use for reconnaissance and surgical strikers on land-based targets.

Also featured is the new San Bernardino Justice Center building, slated to be a new Southern California landmark structure and seismically protected with 184 Taylor Devices' Seismic Dampers, each of 440 tons output force. The new 11-story building includes the latest in high-tech security, plus a drought resistant "green roof" on the third floor. This building recently received the 2014 Excellence in Structural Engineering Award from the Structural Engineers Association of California. The new Justice Center is expected to serve as a model for future court facilities in California and other states.

The back cover on this year's report highlights a museum exhibition of the Company's seismic and wind damping products at the National Building Museum in Washington, DC. We hope that the increased exposure of our technology to Government officials will benefit the Company with increased demand for our earthquake protection products. This is especially true when considering that repair work is still being done in Washington on buildings damaged by the unexpected April 2011 Virginia earthquake of 5.8 magnitude. From discussions with people at the exhibition opening, this quake is still very much on their minds, and this is the place where National Seismic Code changes begin. This long-term exhibition runs through August of 2015.

All of us at Taylor Devices look forward to a successful and profitable upcoming year with our new expanded facilities capable of achieving ever-increasing sales levels.

Sincerely,
TAYLOR DEVICES, INC.

Douglas P. Taylor
President

Status Report from the Vice President

Richard G. Hill
Vice President

This past year Taylor Devices saw the completion of a two-year expansion project. In the fall of 2011, the Company purchased eight acres of land at One Buffalo Bolt Way from the city of North Tonawanda. At the same time, the Company also purchased two additional acres with three buildings from a private seller. The two sites were contiguous. The Company then petitioned the City of North Tonawanda to "sew" the two sites into one. The buildings went through an engineering design upgrade that included input from both the State University of New York at Buffalo and the international engineering firm, Parsons Brinckerhoff, engineer of record for the project.

Manufacturing of the Company's products requires numerous special processes and associated specialty equipment. The intent of developing the site at One Buffalo Bolt Way was to build a manufacturing space that would incorporate this equipment and be specifically designed for the production of the Company's products. This would also give the Company the opportunity to modernize the original facility on Tonawanda Island for expanded assembly and test operations.

In the spring of 2012, contracts were issued for the refurbishment and modification of the three buildings per the engineering designs. Construction at the site was scheduled so that the buildings would be completed and come into service in successive order. This would allow manufacturing to begin at the site as soon as possible, sequentially moving the manufacturing processes to the designated buildings at One Buffalo Bolt Way. The expansion at One Buffalo Bolt Way was finished in the late fall of 2013, when management accepted the buildings from the contractors. At this point, the move of the balance of the manufacturing equipment to the new facility began.

The move required eight weeks as machines were taken offline, moved to the Buffalo Bolt site, installed on new foundations, and restarted in the manufacturing process. This was done in a sequential process to minimize the amount of time the machines were down. When the move was completed and manufacturing began, it began to immediately yield returns. Several processes that were previously limited in throughput due to lack of space began to produce at two to three times their previous rate.

The Company has been growing continuously over the past 30 years and the need for additional manufacturing space has often been a limiting factor. The site on Tonawanda Island goes back to 1960 when the original plant was built. The site on the Island does not allow for any further expansion and as we grew, the need for the site at One Buffalo Bolt Way became apparent.

The future of the Company lies in our ability to effectively support our customers. Their demands have driven us in our decisions on when and where to expand. We are now in a position to support their requests and to do that in an effective and economical way.

The future lies before us and we are prepared to meet the demands it brings.

Status Report from the Chief Financial Officer

Mark V. McDonough
Chief Financial Officer

After nine quarters during which we averaged $6.8 million of revenue per quarter, it was disappointing in fiscal 2014 to have four quarters averaging only $5 million in revenue. Our net income for the year of $1.1 million was the lowest it has been in the last five years. After two years during which the construction and retro-fitting of buildings and bridges accounted for the majority of sales, in fiscal 2014, sales to this group of customers fell to almost even with sales to customers in aerospace/defense.

During this slow period, however, we were not idle. We restructured our manufacturing process in our new facilities to enable us to more efficiently manufacture, assemble and test our products. We designed and engineered our products into new applications to solve our customers' problems. We worked with new customers, all over the world, to finish the year with a sales backlog of almost $25 million. Taylor Devices is primed and ready for a strong comeback in fiscal 2015.

Efforts in recent years to converge U.S. accounting practices with those of the rest of the world seemed to have stalled. One area of convergence with international standards is in the recognition of revenue. This new standard, which will not affect our financial reporting until fiscal 2018, will require a change in the way in which we record revenue. Companies like Taylor Devices will no longer record revenue using a percentage of completion method of accounting for long-term construction contracts. While we have a few years before we implement this change, we have not yet determined the effect it will have on our financial statements. We will continue to work with our advisors to keep abreast of changes in the regulations and to remain in compliance with them in order to ensure that accurate, reliable financial and business information is provided to investors and other users of this annual report and our interim reports.

Status Report from Aerospace/Defense Products

Paul Tuttobene
Aerospace / Defense
Products Division

Once again, Taylor Devices' 2014 Military/Aerospace Sales exceeded expectation with a 9.2% increase over 2013 and now account for 44% of total company sales. Even with continued cutbacks in defense spending, Taylor Devices technology is still able to generate new business in the US and in foreign military markets.

While Taylor Devices existing programs, like the .50 Caliber Machine Gun Mount Recoil Buffer (with a new 550 system order) and the Spade Damper for the M777 Light Weight Howitzer continue adding to our backlog of orders, Taylor Devices emphasis is on selecting new programs that will likely generate the greatest future sales potential. Also, given the recent tensions in Europe, Asia and the Middle East, Taylor Devices is well positioned to participate in future foreign Missile Defense System sales.

To highlight a few of the new programs: Taylor Devices secured a development contract for a new Gimbal System Damper to be used on a large, gas-filled military airship. Another new program is the Navy Standard Missile Canister Program, which ordered Taylor Devices Shock Isolators for 150 new Surface to Air Missiles. We also received significant follow-on orders for the European Commercial Aircraft Actuator and another for a Military Aircraft Machined Spring.

Of all the new Military/Aerospace programs that Taylor Devices has been fortunate enough to participate in this year, a new Navy Ship Isolation System was the most significant new program of 2014. Taylor Devices designed, developed, tested and is the manufacturer of this new large weapon systems isolator that mounts directly to the hull foundations of the warship. The company has received a multi-million dollar, multi-year contract for the isolators.

As I stated last year, the US Military - the world's biggest military/aerospace customer - will continue to downsize for the foreseeable future. That said, Taylor Devices is confident that our strategy of careful program selection, technological advantage and legendary product quality will keep our Military/Aerospace sales robust for years to come.

Status Report from Industrial Products

Robert H. Schneider
Industrial Products Division

Craig W. Winters
Industrial Products Division

As the world economy continues to struggle, Fiscal Year 2014 was a solid year for Taylor Devices' Industrial Product Lines. Although sales decreased slightly for our Fluid Viscous Dampers and specialized devices used for structural protection against earthquake shaking, wind buffeting, and pedestrian vibrations, the volume of new project orders increased substantially as the year came to a close. While the US economy continues to slowly improve, several domestic projects reached the bidding phase and became orders for Taylor Devices. Additionally, we continue to obtain new orders from our traditional European, South American and Asian clients. Crane buffer sales improved slightly as a result of the construction of a few new steel production facilities. Our industrial product diversity, mixed with our other product lines, keeps us going strong when the economy is poor.

Although we are faced with increased competition from emerging and existing manufacturers of fluid dampers and other types of energy dissipation technologies, our new manufacturing facilities and improved supply chain helps make us more efficient so we can continue to compete in an evolving market. With over 600 completed projects and a performance track record that is second to none, we are well positioned to continue as the preferred source while we work to control our costs and submit competitive, yet profitable proposals.

During FY14, Taylor Devices was awarded 42 new orders for our seismic and wind damping technology. This represents a 20% increase from FY13. With the majority of these new orders scheduled to ship after the end of FY14, FY15 is off to a good start and looks promising. Several notable building projects were won during FY14 including 16 huge dampers to be used as part of the tuned mass damper for a new building located at 432 Park Avenue in New York City. The dampers will be used to control an 1100 ton pendulum made from steel and concrete that will reduce the wind induced vibrations in the building. Once complete, 432 Park Avenue will be the tallest residential building in the Western Hemisphere and will change the skyline of Manhattan.

Other projects worth mentioning include dampers for the seismic protection of Santa Clarita City Hall and the new San Diego Central Courthouse, both located in California. Offshore projects include dampers for the second phase of the Jorge Chavez Airport in Peru, a huge mixed use building in Tokyo and an office building for a cellular phone company in Turkey.

Taylor Devices was also awarded new contracts to supply 34 large and custom Fluid Viscous Dampers for the new Gerald Desmond Bridge in California and Lock-Up Devices for another section of the Haramain High Speed Railway located in Saudi Arabia. Additionally, we continue to receive many new seismic device orders for bridges from various countries in Asia.

A very strong backlog of existing orders at the end of FY14 as well as new and retrofit construction projects in current development throughout the World provide a good outlook for our FY15 expectations. Our recognized ability to suit the customer's needs with special products and the flexibility to continually adapt to the requirements of the market, remain our most valuable assets. Additional manufacturing space plus a healthy amount of raw materials and components needed to build dampers help us reduce our lead times, more easily handle the surges in product need, and to generally meet the delivery demands of the construction industry.

Corporate Data

OFFICERS AND DIRECTORS

Douglas P. Taylor, President and Director
Richard G. Hill, Vice President and Director
Reginald B. Newman II, Secretary and Director
Randall L. Clark, Director
John Burgess, Director
Mark V. McDonough, Chief Financial Officer

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

GENERAL COUNSEL

Hiscock and Barclay, LLP
1100 M&T Center
3 Fountain Plaza
Buffalo, NY 14203-1486

MANAGERS

Lorrie Battaglia, Human Resources Manager
Daniel Grosskopf, Purchasing Manager
Greg Hanson, Small Machine Shop Supervisor
Charles Ketchum III, Quality Assurance Manager
Alan Klembczyk, Chief Engineer
Benjamin Kujawinski, Operations Manager
David Lee, Western Technical Liaison
John Metzger, Engineering Manager Special Projects
David Mooney, Quality Control Manager
Kathleen Nicosia, Shareholder Relations Manager
Robert Schneider, Industrial/Seismic Products Sales Manager
Thomas Struzik Jr., Large Machine Shop Supervisor
Alan Taylor, Government Contracts Manager
Paul Tuttobene, Aerospace/Defense Products Sales Manager
Craig Winters, Industrial/Seismic Products Sales Manager

TRANSFER AGENT AND REGISTRAR

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
800-368-5948
www.rtco.com

- A copy of the financial report on form 10-K can be obtained by written request to the attention of Kathleen Nicosia, IR, at Taylor Devices, Inc., 90 Taylor Drive, North Tonawanda, NY 14120-0748.

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 2014 and fiscal year 2013 were obtained from NASDAQ.

As of May 31, 2014, the number of issued and outstanding shares of Common Stock was 3,342,816 and the approximate number of record holders of the Company's Common Stock was 705. Due to a substantial number of shares of the Company's Common Stock held in street name, the Company believes that the total number of beneficial owners of its Common Stock exceeds 2,000. No cash or stock dividends have been declared during the fiscal year ended May 31, 2014.

	Fiscal 2014		Fiscal 2013	
	High	Low	High	Low
First	$9.58	$7.94	$9.58	$7.81
Second	$9.00	$7.82	$9.10	$7.24
Third	$8.69	$7.60	$9.73	$7.69
Fourth	$9.30	$8.27	$9.00	$7.58

Notice of Annual Meeting

The annual meeting of the shareholders of the Company will be held on Friday, November 7, 2014 at 11:00 a.m. This year's meeting will be held at the Buffalo Marriott Niagara, 1340 Millersport Highway, Amherst, New York. Shareholders desiring accommodations may call the Buffalo Marriott Niagara at 716-689-6900.

Taylor Devices' products help the
X-47B make aviation history

Photo Courtesy: United States Navy

X-47B Team awarded Aviation's Collier Trophy

On April 10, 2014, the X-47B was awarded the Aviation Industry's most prestigious award, the Collier Trophy, for the year 2013. This trophy was first presented in 1911 and previous recipients include Orville Wright, Glenn Curtiss, Chuck Yeager, Kelly Johnson, Apollo II, and the Hubble Space Telescope. Taylor Devices believes that the unmanned aircraft will play ever larger roles in the upcoming years – and our unmanned aircraft landing gear and arresting gear products will become an ever-increasing portion of our production.

The X-47B aircraft is a tailless strike fighter developed by Northrop Grumman as part of the U.S. Navy's unmanned combat air systems demonstration program. Taylor Devices manufactures the flight-critical arresting hook centering spring-dampers and the arresting hook up-stop shock absorbers for this aircraft. On July 10, 2013, the X-47B made aviation history, becoming the first unmanned aircraft to make an arrested carrier landing, on the nuclear powered aircraft carrier U.S.S. George H.W. Bush, CVN-77. This landing was made possible by Taylor Devices' products, installed to absorb shock at the arresting hook located in the aft end of the aircraft fuselage.

The most critical portion of a carrier landing occurs when the aircraft's arresting hook snags (or misses) one of the 3-4 arresting cables stretched across the carrier deck. Substantial shock loadings to the aircraft occur from hook bounce – when the hook impacts the carrier deck, plus the actual cable engagement. These shock loadings must be absorbed or the aircraft will suffer major structural damage. In the case of a missed engagement, the hook must also rapidly be repositioned to engage the next arresting cable. All of this is accomplished by the use of Taylor Devices' products.

X-47B getting ready for arresting hook to engage the arresting cable on the carrier deck

X-47B with arresting hook folded up for normal flight

Board of Directors and Executive officers

Douglas P. Taylor
Board Member and President

Mr. Taylor holds a B.S. degree in Mechanical Engineering from the State University of New York at Buffalo, awarded in 1971. He has been employed by Taylor Devices, Inc. since 1971, and was appointed President in April 1991. Mr. Taylor previously was President of Tayco Developments, Inc., an affiliate of Taylor Devices, Inc. that was subsequently acquired by merger in 2008. He had been employed since 1966, and was appointed President in 1991. He is inventor or co-inventor on 32 patents in the fields of energy management, hydraulics and shock isolation.

Mr. Taylor is widely published within the shock and vibration community. His technical papers have been published by the American Society of Civil Engineers, the Applied Technology Council, the Association of Iron and Steel Engineers, the Journal of Shock and Vibration, the National Fluid Power Foundation, the National Science Foundation, the New York State Science and Technology Foundation, the Shock and Vibration Symposium, the Society of Automotive Engineers, the U.S. Air Force and the U.S. Marine Corps. Since 1988, Mr. Taylor has hosted internship programs for engineering students, affiliated as an industrial sponsor with the State University of New York at Buffalo, the Erie County State of New York Board of Co-operative Educational Services, and the North Tonawanda, New York Public School System.

Since 1991, Mr. Taylor has participated in research projects in the field of earthquake protection, in association with the University at Buffalo's Civil, Structural and Environmental Engineering Department and the Multidisciplinary Center for Extreme Events Research. As a result of this research, military technology from the Cold War era is now being used worldwide for seismic and high wind protection of commercial building and bridge structures.

In 1994, Mr. Taylor was named to the American Society of Civil Engineers' Subcommittee on the Seismic Performance of Bridges. In 1998, Mr. Taylor was appointed to an Oversight Committee of the U.S. Department of Commerce, developing guidelines for the implementation of damping technology into buildings and other structures, as part of the U.S. National Earthquake Hazard Reduction Program. In 1998, Mr. Taylor was awarded the Franklin and Jefferson Medal for his commercialization of defense technology developed under the U.S. Government's Small Business Innovation Research Program. In 1999, Mr. Taylor was awarded the Clifford C. Furnas Memorial Award by the Alumni Association of the University at Buffalo for his accomplishments in the field of engineering. In 2006, Mr. Taylor was named to the American Society of Civil Engineers' Blast Protection of Buildings Standards Committee. In 2006, Mr. Taylor was the recipient of the Dean's Award for Engineering Achievement by the School of Engineering and Applied Sciences at the State University of New York at Buffalo. Also in 2006, Mr. Taylor was named Structural Engineer of the Year (2006) by the Engineering Journal, "The Structural Design of Tall and Special Buildings." Mr. Taylor is a founding member of the International Association on Structural Control and Monitoring. Since 2004, Mr. Taylor has also served as Chairman of the Lumber City Development Corporation, a Type C not-for-profit corporation under Section 501c(3) of the Internal Revenue Code. This corporation's purpose is planning and implementation of programs, projects and activities designed to create or stimulate economic and community development in the city of North Tonawanda, New York.

Richard G. Hill
Vice President

Mr. Hill holds a B.S. degree in Electrical Engineering from the Rochester Institute of Technology, awarded in 1973. In November 1991, Mr. Hill was appointed Vice President of Taylor Devices, Inc. by the Board of Directors. He had been employed previously by Taylor Devices, Inc. since 1978 as Vice President of Production. In addition, he has held key project management positions with the Company on major aerospace and defense contracts. In April of 1991, Mr. Hill was appointed to the Board of Directors of Taylor Devices, Inc. From 1973 to 1978, Mr. Hill was employed by the Alliance Tool and Die Company of Rochester, New York as a Project Leader and Design Engineer. From 1970 to 1973, he was employed by the same firm as an Engineer in Training, through a co-op program with the Rochester Institute of Technology.

Mr. Hill has served on the Founding Board of Directors of the Center for Competitiveness of the Niagara Region and the Advisory Board to The Center for Industrial Effectiveness. Mr. Hill also served as Chairman for the Manufacturers Council of the Buffalo Niagara Partnership, and also served on the State University of New York at Buffalo's UB Business Alliance Advisory Board, as well as holding the seat of Secretary.

Reginald B. Newman II
Board Member and Secretary

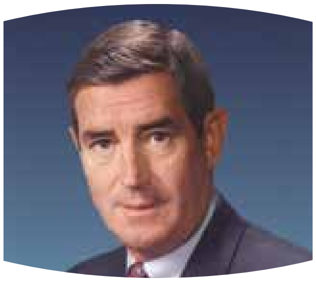
Mr. Newman received his B.S. degree in Business Administration from Northwestern University in 1959. He was employed by NOCO Energy Corp., a diversified terminal operators, distributor, and retailer of petroleum and other energy related products from 1960, retiring as Chairman and CEO in 2003. Mr. Newman is also Chairman of Prior Aviation Service, Inc., Buffalo, New York.

From 1959 to 1960, Mr. Newman was employed by the Ford Motor company of Dearborn, Michigan, in the product planning department.

Mr. Newman is currently a Director of Dunn Tire LLC and a Director and Chairman of Rand Capital Corporation. He was the Chair of the Board of Trustees of the University at Buffalo Foundation, Inc. from 1996-2008.

Mr. Newman received the 1997 Executive of the Year, awarded by the State University of New York at Buffalo. In 1998 Mr. Newman received the Walter P. Cooke Award for Notable and Meritorious Service to the University presented by the University at Buffalo Alumni Association. He received the President's Medal from the University in 2003, as well as their highest honor, the Norton Medal in 2006. He is a former member of the Buffalo Niagara Partnership and was Chairman from 1996 through 1998. Mr. Newman was awarded an Honorary Degree from Canisius College in 1997.

Board of Directors and Executive officers



Randall L. Clark
Board Member

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

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

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

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

John Burgess
Board Member

Mr. Burgess gained his international strategy, manufacturing operations and organizational development expertise from his more than 35 years experience with middle market public and privately-owned companies. Mr. Burgess served as President and CEO of Reichert, Inc. a leading provider of ophthalmic instruments, and spearheaded the acquisition of the company from Leica Microsystems in 2002, leading the company until its sale in January 2007. Prior to the acquisition, Mr. Burgess served as President of Leica's Ophthalmic and Educational Divisions before leading the buyout of the Ophthalmic Division and formation of Reichert, Inc.

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

Mr. Burgess earned a B.S. in Engineering from Bath University in England, and an M.B.A. from Canisius College.

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

Mark V. McDonough
Chief Financial Officer

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

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

A New Southern California Landmark –The San Bernardino Justice Center

This stunning new building will house 35 courtrooms and two hearing rooms in a 380,000 square foot area. Total project cost is $339 million.

— Seismic protection via 184 Taylor Devices' Seismic Dampers, each rated at 440 tons of output force. Dampers are in chevron brace elements.

— Project Engineers: Skidmore, Owings & Merrill, LLP General Contractor: Rudolph and Sletton Steel Contractor: Schuff Steel


Installed Dampers


Dampers in Chevron Elements

Rendering Courtesy: Skidmore, Owings & Merrill, LLP

TAYLOR DEVICES, INC. AND SUBSIDIARY

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

AND

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2014

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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, 2014 equaled less than 0.1% of sales for that period. The balance of the valuation allowance has decreased since May 31, 2013 to the current level of $10,000. Management does not expect the valuation allowance to materially change in the next twelve months for the current accounts receivable balance.

Inventory

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

Maintenance and other inventory represent stock that is estimated to have a product life-cycle in excess of twelve-months. This stock represents certain items the Company is required to maintain for service of products sold, and items that are generally subject to spontaneous ordering.

This inventory is particularly sensitive to technical obsolescence in the near term due to its use in industries characterized by the continuous introduction of new product lines, rapid technological advances and product obsolescence. Therefore, management of the Company has recorded an allowance for potential inventory obsolescence. Based on certain assumptions and judgments made from the information available at that time, we determine the amount in the inventory allowance. If these estimates and related assumptions or the market changes, we may be required to record additional reserves. Historically, actual results have not varied materially from the Company's estimates.

The provision for potential inventory obsolescence was $180,000 for each of the years ended May 31, 2014 and 2013.

Revenue Recognition

Sales are recognized when units are delivered or services are performed. Sales under fixed-price contracts are recorded as deliveries are made at the contract sales price of the units delivered. Sales under certain fixed-price contracts requiring substantial performance over several periods prior to commencement of deliveries, are accounted for under the percentage-of-completion method of accounting whereby revenues are recognized based on estimates of completion prepared on a ratio of cost to total estimated cost basis. Costs include all material and direct and indirect charges related to specific contracts. Other expenses are charged to operations, as incurred. Total estimated costs for each of the contracts are estimated based on a combination of historical costs of manufacturing similar products and estimates or quotes from vendors for supplying parts or services towards the completion of the manufacturing process. Adjustments to cost and profit estimates are made periodically due to changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements. These changes may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Any losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. If total costs calculated upon completion of the manufacturing process in the current period for a contract are more than the estimated total costs at completion used to calculate revenue in a prior period, then the revenue and profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion. Historically, actual results have not varied materially from the Company's estimates. In the fiscal year ended May 31, 2014, 47% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 53% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2013, 58% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 42% of revenue was recorded as deliveries were made to our customers.

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

Income Taxes

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

Realization of the deferred tax assets is dependent on generating sufficient taxable income at the time temporary differences become deductible. The Company provides a valuation allowance to the extent that deferred tax assets may not be realized. A valuation allowance has not been recorded against the deferred tax assets since management believes it is more likely than not that the deferred tax assets are recoverable. The Company considers future taxable income and potential tax planning strategies in assessing the need for a potential valuation allowance. In future years the Company will need to generate approximately $3.2 million of taxable income in order to realize our deferred tax assets recorded as of May 31, 2014 of $1,099,000. This deferred tax asset balance is 3% ($36,000) higher than at the end of the prior year. The amount of the deferred tax assets considered realizable however, could be reduced in the near term if estimates of future taxable income are reduced. If actual results differ from estimated results or if the Company adjusts these assumptions, the Company may need to adjust its deferred tax assets or liabilities, which could impact its effective tax rate. Historically, actual results have not varied materially from the Company's estimates.

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

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2014, the Company had State investment tax credit carryforwards of approximately $145,000 expiring through May 2020.

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, 2014 and 2013

	Increase / (Decrease)
Sales, net	$ (4,718,000)
Cost of goods sold	$ (1,419,000)
Selling, general and administrative expenses	$ (1,378,000)
Income before provision for income taxes	$ (1,892,000)
Provision for income taxes	$ (475,000)
Net income	$ (1,417,000)

For the year ended May 31, 2014 (All figures being discussed are for the year ended May 31, 2014 as compared to the year ended May 31, 2013.)

	Year ended May 31		**Change**	
	2014	**2013**	**Amount**	**Percent**
Net Revenue	$ 20,011,000	$ 24,729,000	$ (4,718,000)	*-19%*
Cost of sales	14,546,000	15,965,000	(1,419,000)	*-9%*
Gross profit	$ 5,465,000	$ 8,764,000	$ (3,299,000)	*-38%*
… as a percentage of net revenues	27%	35%		

The Company's consolidated results of operations showed a 19% decrease in net revenues and a decrease in net income of 56%. Gross profit decreased by 38%. After record high sales levels two years ago and above average sales levels last year, the sales level dropped in the middle of the current fiscal year at a time when movement of all of the Company's production equipment from its original location at the Company headquarters to the new Buffalo Bolt Way campus in North Tonawanda during October and November resulted in an interruption of production with extensive lost time involved in installation, leveling and set-up of the machines. In the current period, revenues accounted for under the percentage-of-completion method of accounting decreased by 35% from the level recorded in the prior year. This decrease is primarily due to fewer projects in process in the current year (51 in fiscal 2014; 59 in fiscal 2013). Of the 51 projects in process during this year, 25 were still in process at 5/31/14 compared with the prior year when 16 of the 59 projects worked on were still in process at 5/31/13. The average value of these projects in-process at the end of the current fiscal year ($710,000) increased by 71% from the projects in-process at the end of the prior fiscal year ($415,000). The projects in the current year are 31% complete in the aggregate as compared with 52% for those in process at 5/31/13. Revenues recorded for all other product sales increased by 3% from last year. The gross profit as a percentage of net revenues for the current and prior year periods was 27% and 35%, respectively.

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

The mix of customers buying our products changed from last year. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. A 35% decrease from last year's level in sales to construction customers who were seeking seismic / wind protection for either building new buildings and bridges or retrofitting existing buildings and bridges, and a 19% decrease in sales to customers using our products in industrial applications, was offset somewhat by a 9% increase in sales to aerospace / defense customers. A breakdown of sales to these three general groups of customers is as follows:

	Year ended May 31	
	2014	2013
Industrial	10%	10%
Construction	46%	57%
Aerospace / Defense	44%	33%

At May 31, 2013, we had 108 open sales orders in our backlog with a total sales value of $13.1 million. At May 31, 2014, we had 107 open sales orders in our backlog and the total sales value is $24.6 million. $12.4 million of the current backlog is on projects already in progress. $3.2 million of the $13.1 million sales order backlog at May 31, 2013 was in progress at that date. 40% of the sales value in the backlog is for aerospace / defense customers compared to 59% at the end of fiscal 2013. As a percentage of the total sales order backlog, orders from customers in construction accounted for 58% at May 31, 2014 and 38% at May 31, 2013.

The Company's backlog, revenues, commission expense, gross margins, gross profits, and net income fluctuate from period to period. The changes in the current period, compared to the prior period, are not necessarily representative of future results.

Net revenue by geographic region, as a percentage of total net revenue for fiscal years ended May 31, 2014 and 2013 is as follows:

	Year ended May 31	
	2014	2013
North America	63%	55%
Asia	33%	41%
Other	4%	4%

Selling, General and Administrative Expenses

	Year ended May 31		Change	
	2014	2013	Amount	Percent
Outside Commissions	$ 794,000	$ 858,000	$ (64,000)	*-7%*
Other SG&A	3,126,000	4,440,000	(1,314,000)	*-30%*
Total SG&A	$ 3,920,000	$ 5,298,000	$ (1,378,000)	*-26%*
… as a percentage of net revenues	20%	21%		

Selling, general and administrative expenses decreased by 26% from the prior year. Outside commission expense decreased 7% from last year's level. This fluctuation was primarily due to the decrease in the level of sales from last year to this. Other selling, general and administrative expenses decreased by 30% from last year. This decrease is primarily due to a decrease in air-freight charges incurred last year in order to meet contractual obligations to deliver products on schedule along with a decrease in estimated incentive compensation expense from the prior period related to the lower level of sales and operating results.

The above factors resulted in operating income of $1,546,000 for the year ended May 31, 2014, down 55% from the $3,467,000 in the prior year.

The Company's effective tax rate (ETR) is calculated based upon current assumptions relating to the year's operating results and various tax related items. The ETR for the fiscal year ended May 31, 2014 is 27.9%, slightly more than the ETR for the prior year of 26.4%. A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

	2014	2013
Computed tax provision at the expected statutory rate	$ 533,000	$1,176,000
State income tax - net of Federal tax benefit	1,000	(3,000)
Tax effect of permanent differences:		
Research tax credits	(99,000)	(213,000)
Other permanent differences	(17,000)	(30,000)
Other	19,000	(18,000)
	$ 437,000	$ 912,000

Stock Options

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

The Company measures compensation cost arising from the grant of share-based payments to employees at fair value and recognizes such cost in income over the period during which the employee is required to provide service in exchange for the award. The Company recognized $112,000 and $110,000 of compensation cost for the years ended May 31, 2014 and 2013.

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 utilized 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 2013 and April 2014. 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 2013	**April 2014**
Risk-free interest rate:	3.25%	3.25%
Expected life of the options:	3 years	3 years
Expected share price volatility:	36%	32%
Expected dividends:	zero	zero
These assumptions resulted in estimated fair-market value per stock option:	$2.41	$2.30

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, 2014 is presented below.

	Number of Options	Weighted-Average Exercise Price
Options outstanding and exercisable at May 31, 2013:	206,750	$6.63
Options granted:	48,000	$8.80
Less: Options exercised:	30,000	$5.26
Less: Options expired:	5,250	
Options outstanding and exercisable at May 31, 2014:	219,500	$7.31
Closing value per share on NASDAQ at May 31, 2014:		$8.83

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, 2014 were $1,356,000 compared to $3,293,000 in the prior year. The Company has no commitments to make capital expenditures as of May 31, 2014.

The Company has a $6,000,000 demand line of credit from a bank, with interest payable at the Company's option of 30, 60, 90 or 180 day LIBOR rate plus 2.5% or the bank's prime rate less .25%. There is no outstanding balance at May 31, 2014. There was no outstanding balance as of May 31, 2013. The outstanding balance on the line of credit fluctuates as the Company's various long-term projects progress. The line is secured by accounts receivable, equipment, inventory, and general intangibles, and a negative pledge of the Company's real property. This line of credit is subject to the usual terms and conditions applied by the bank and is subject to renewal annually. In conjunction with this line of credit, the Company agreed to the following covenants:

Covenant	Minimum per Covenant	Current Actual	When Measured
Minimum level of working capital	$3 million	$14.8 million	Quarterly
Minimum debt service coverage ratio	1.5:1	No debt service	Fiscal Year-end

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, 2014		May 31, 2013		Increase /(Decrease)	
Raw materials	$ 571,000		$ 583,000		$ (12,000)	*-2%*
Work in process	8,149,000		7,876,000		273,000	*3%*
Finished goods	258,000		665,000		(407,000)	*-61%*
Inventory	8,978,000	91%	9,124,000	91%	(146,000)	*-2%*
Maintenance and other inventory	837,000	9%	904,000	9%	(67,000)	*-7%*
Total	$ 9,815,000	100%	$ 10,028,000	100%	$ (213,000)	*-2%*
Inventory turnover	1.5		1.7			

Inventory, at $8,978,000 as of May 31, 2014, is 2% lower than the prior year-end. Of this, approximately 91% is work in process, 3% is finished goods, and 6% is raw materials. All of the current inventory is expected to be consumed or sold within twelve months. The level of inventory will fluctuate from time to time due to the stage of completion of the non-project sales orders in progress at the time.

The Company continues to rework slow-moving inventory, where applicable, to convert it to product to be used on customer orders. There was approximately $183,000 of slow-moving inventory used during the year ended May 31, 2014. The Company disposed of approximately $153,000 and $268,000 of obsolete inventory during the years ended May 31, 2014 and 2013, respectively.

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

	May 31, 2014	May 31, 2013	Increase /(Decrease)	
Accounts receivable	$ 2,894,000	$ 2,245,000	$ 649,000	*29%*
CIEB	2,374,000	2,458,000	(84,000)	*-3%*
Less: BIEC	851,000	172,000	679,000	*395%*
Net	$ 4,417,000	$ 4,531,000	$ (114,000)	*-3%*
Number of an average day’s sales outstanding in accounts receivable (DSO)	49	39		

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 $2,894,000 as of May 31, 2014 includes approximately $556,000 of amounts retained by customers on long-term construction projects. The Company expects to collect all of these amounts, including the retained amounts, during the next twelve months. The number of an average day's sales outstanding in accounts receivable (DSO) increased from 39 days at May 31, 2013 to 49 days at May 31, 2014. 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 year is only 3% more than the level in the fourth quarter of the prior year. The level of accounts receivable at the end of the current year is 29% more than at the end of the prior year. The combination of these two factors caused the DSO to increase from last year end to this. The increase in the level of accounts receivable was due to: a.) the increase in retained amounts on projects, as discussed above and b.) a significant increase (114%) in the amount of billings to customers on projects in May 2014 over May 2013.

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:

	2014	2013
Number of projects in progress at year-end	25	16
Aggregate percent complete at year-end	31%	52%
Average total value of projects in progress at year-end	$710,000	$415,000
Percentage of total value invoiced to customer	22%	18%

There are 56% more projects in-process at the end of the current fiscal year as compared with the prior year end and the average value of those projects has increased by 71% 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 $2,374,000 balance in this account at May 31, 2014 is a 3% decrease from the prior year-end. Generally, if progress billings are permitted under the terms of a project sales agreement, then the more complete the project is, the more progress billings will be permitted. The Company expects to bill the entire amount during the next twelve months. 61% of the CIEB balance as of the end of the last fiscal quarter, February 28, 2014, was billed to those customers in the current fiscal quarter ended May 31, 2014. The remainder will be billed as the projects progress, in accordance with the terms specified in the various contracts.

As of May 31, 2014, there are sales orders for eight projects that are not yet in progress. These projects average $730,000 each in value upon completion. This compares to nine such projects as of the prior year end with an average value of $253,000.

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

	May 31, 2014	May 31, 2013
Costs	$ 3,055,000	$ 2,752,000
Estimated earnings	929,000	640,000
Less: Billings to customers	1,610,000	934,000
CIEB	$ 2,374,000	$ 2,458,000
Number of projects in progress	17	13

As noted above, BIEC represents billings to customers in excess of revenues recognized. The $851,000 balance in this account at May 31, 2014 is in comparison to a $172,000 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, 2014	May 31, 2013
Billings to customers	$ 2,236,000	$ 256,000
Less: Costs	1,072,000	71,000
Less: Estimated earnings	313,000	13,000
BIEC	$ 851,000	$ 172,000
Number of projects in progress	8	3

The Company's backlog of sales orders at May 31, 2014 is $24.6 million, up 88% from the backlog at the end of the prior year of $13.1 million. $12.4 million of the current backlog is on projects already in progress.

Accounts payable, at $1,166,000 as of May 31, 2014, is only slightly less than the prior year-end. The Company expects the current accounts payable amount to be paid during the next twelve months.

Commission expense on applicable sales orders is recognized at the time revenue is recognized. The commission is paid following receipt of payment from the customers. Accrued commissions as of May 31, 2014 are $430,000. This is only slightly less than the $437,000 accrued at the prior year-end. The Company expects the current accrued amount to be paid during the next twelve months.

Other accrued expenses of $1,259,000 decreased by 28% from the prior year of $1,736,000. This decrease is primarily due to a decrease in estimated incentive compensation expense from the prior period related to the lower level of operating results.

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Taylor Devices, Inc.

We have audited the accompanying consolidated balance sheets of Taylor Devices, Inc. and Subsidiary as of May 31, 2014 and 2013, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taylor Devices, Inc. and Subsidiary as of May 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lumsden & McCormick, LLP

Buffalo, New York
August 21, 2014

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

May 31,		**2014**		2013
Assets				
Current assets:				
Cash and cash equivalents	**$**	**2,793,642**	$	1,997,874
Accounts receivable, net (Note 2)		**2,894,344**		2,244,575
Inventory (Note 3)		**8,978,302**		9,124,186
Prepaid expenses		**423,232**		299,776
Prepaid income taxes		**-**		157,137
Costs and estimated earnings in excess of billings (Note 4)		**2,373,791**		2,457,822
Deferred income taxes (Note 10)		**1,098,600**		1,062,600
Total current assets		**18,561,911**		17,343,970
Maintenance and other inventory, net (Note 5)		**836,569**		904,299
Property and equipment, net (Note 6)		**7,867,728**		7,211,162
Cash value of life insurance, net		**164,568**		159,078
	$	**27,430,776**	$	25,618,509
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	**$**	**1,166,162**	$	1,209,597
Accrued commissions		**429,839**		436,732
Other accrued expenses		**1,258,765**		1,736,357
Billings in excess of costs and estimated earnings (Note 4)		**850,531**		171,881
Accrued income taxes		**85,023**		-
Total current liabilities		**3,790,320**		3,554,567
Deferred income taxes (Note 10)		**558,485**		398,185
Stockholders' Equity:				
Common stock, $.025 par value, authorized 8,000,000 shares, issued 3,872,959 and 3,841,178 shares		**96,824**		96,029
Paid-in capital		**7,682,170**		7,397,963
Retained earnings		**17,801,960**		16,670,748
		25,580,954		24,164,740
Treasury stock - 530,143 shares at cost		**(2,498,983)**		(2,498,983)
Total stockholders' equity		**23,081,971**		21,665,757
	$	**27,430,776**	$	25,618,509

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the years ended May 31,	**2014**	2013
Sales, net (Note 9)	**$ 20,011,228**	$24,729,585
Cost of goods sold	**14,545,882**	15,965,255
Gross profit	**5,465,346**	8,764,330
Selling, general and administrative expenses	**3,919,594**	5,297,668
Operating income	**1,545,752**	3,466,662
Other income (expense):		
Interest, net	**860**	(45,460)
Miscellaneous	**21,600**	38,592
Total other income (expense)	**22,460**	(6,868)
Income before provision for income taxes	**1,568,212**	3,459,794
Provision for income taxes (Note 10)	**437,000**	912,000
Net income	**$ 1,131,212**	$ 2,547,794
Basic earnings per common share (Note 11)	**$ 0.34**	$ 0.77
Diluted earnings per common share (Note 11)	**$ 0.34**	$ 0.76

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

For the years ended May 31, 2014 and 2013

	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock
Balance, May 31, 2012	$ 95,995	$ 7,276,694	$ 14,122,954	$ (2,498,983)
Net income for the year ended May 31, 2013	-	-	2,547,794	-
Common stock issued for employee stock purchase plan (Note 13)	34	11,683	-	-
Stock options issued for services	-	109,586	-	-
Balance, May 31, 2013	96,029	7,397,963	16,670,748	(2,498,983)
Net income for the year ended May 31, 2014	-	-	1,131,212	-
Common stock issued for employee stock Option plan (Note 14)	750	156,900	-	-
Common stock issued for employee stock purchase plan (Note 13)	45	15,136	-	-
Stock options issued for services	-	112,171	-	-
Balance, May 31, 2014	**$ 96,824**	**$ 7,682,170**	**$ 17,801,960**	**$ (2,498,983)**

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the years ended May 31,	**2014**	2013
Operating activities:		
Net income	**$ 1,131,212**	$ 2,547,794
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	**699,039**	564,262
Stock options issued for services	**112,171**	109,586
Bad debts expense (recovery)	**(32,024)**	-
Provision for inventory obsolescence	**180,000**	180,000
Deferred income taxes	**124,300**	2,000
Changes in other current assets and liabilities:		
Accounts receivable	**(617,745)**	3,365,753
Inventory	**33,614**	(991,116)
Prepaid expenses	**(123,456)**	182,541
Prepaid income taxes	**157,137**	(157,137)
Costs and estimated earnings in excess of billings	**84,031**	3,034,206
Accounts payable	**(43,435)**	(2,152,145)
Accrued commissions	**(6,893)**	(194,489)
Other accrued expenses	**(477,592)**	(380,398)
Billings in excess of costs and estimated earnings	**678,650**	(497,019)
Accrued income taxes	**85,023**	(140,977)
Net operating activities	**1,984,032**	5,472,861
Investing activities:		
Acquisition of property and equipment	**(1,355,605)**	(3,293,471)
Increase in cash value of life insurance	**(5,490)**	(5,528)
Net investing activities	**(1,361,095)**	(3,298,999)
Financing activities:		
Net short-term borrowings	**-**	(258,000)
Payments on long-term debt	**-**	(3,657)
Proceeds from issuance of common stock	**172,831**	11,717
Net financing activities	**172,831**	(249,940)
Net change in cash and cash equivalents	**795,768**	1,923,922
Cash and cash equivalents - beginning	**1,997,874**	73,952
Cash and cash equivalents - ending	**$ 2,793,642**	$ 1,997,874

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Operations:

Taylor Devices, Inc. (the Company) manufactures and sells a single group of very similar products that have many different applications for customers. These similar products are included in one of six categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, and Vibration Dampers 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.

62% of the Company's 2014 revenue was generated from sales to customers in the United States and 33% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe and South.

54% of the Company's 2013 revenue was generated from sales to customers in the United States and 41% 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.

Accounts Receivable:

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. 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.

Inventory:

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

Property and Equipment:

Property and equipment is stated at cost net of accumulated depreciation. Deprecation 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:

Sales are recognized when units are delivered or services are performed. Sales under fixed-price contracts are recorded as deliveries are made at the contract sales price of the units delivered. Sales under certain fixed-price contracts requiring substantial performance over several periods prior to commencement of deliveries, are accounted for under the percentage-of-completion method of accounting whereby revenues are recognized based on estimates of completion prepared on a ratio of cost to total estimated cost basis. Costs include all material and direct and indirect charges related to specific contracts. Other expenses are charged to operations as incurred. Total estimated costs for each of the contracts are estimated based on a combination of historical costs of manufacturing similar products and estimates or quotes from vendors for supplying parts or services towards the completion of the manufacturing process. Adjustments to cost 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. If total costs calculated upon completion of the manufacturing process in the current period for a contract are more than the estimated total costs at completion used to calculate revenue in a prior period, then the revenue and profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion. In the fiscal year ended May 31, 2014, 47% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 53% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2013, 58% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 42% of revenue was recorded as deliveries were made to our customers.

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

Shipping and Handling Costs:

Shipping and handling costs are classified as a component of selling, general and administrative expenses.

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, 2014 or 2013. The Company recorded no interest expense or penalties in its consolidated statements of income during the years ended May 31, 2014 and 2013.

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, 2014 and 2013 was $112,171 and $109,586.

New Accounting Standards:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2016 (fiscal year 2018 for the Company) and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not yet determined the potential effects of the adoption of ASU 2014-09 on its Consolidated Financial Statements.

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

2. Accounts Receivable:

	2014	2013
Customers	**$ 2,348,113**	$ 1,931,178
Customers - retention	**556,231**	355,421
	2,904,344	2,286,599
Less allowance for doubtful accounts	**10,000**	42,024
	$ 2,894,344	$ 2,244,575

3. Inventory:

	2014	2013
Raw materials	**$ 571,491**	$ 582,591
Work-in-process	**8,149,015**	7,876,272
Finished goods	**357,796**	765,323
	9,078,302	9,224,186
Less allowance for obsolescence	**100,000**	100,000
	$ 8,978,302	$ 9,124,186

4. Costs and Estimated Earnings on Uncompleted Contracts:

	2014	2013
Costs incurred on uncompleted contracts	**$ 4,126,406**	$ 2,822,541
Estimated earnings	**1,242,594**	653,458
	5,369,000	3,475,999
Less billings to date	**3,845,740**	1,190,058
	$ 1,523,260	$ 2,285,941

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

	2014	2013
Costs and estimated earnings in excess of billings	**$ 2,373,791**	$ 2,457,822
Billings in excess of costs and estimated earnings	**850,531**	171,881
	$ 1,523,260	$ 2,285,941

5. Maintenance and Other Inventory:

	2014	2013
Maintenance and other inventory	**$ 2,128,710**	$ 2,169,148
Less allowance for obsolescence	**1,292,141**	1,264,849
	$ 836,569	$ 904,299

Maintenance and other inventory represent stock that is estimated to have a product life-cycle in excess of twelve-months. This stock represents certain items the Company is required to maintain for service of products sold, and items that are generally subject to spontaneous ordering.

This inventory is particularly sensitive to technical obsolescence in the near term due to its use in industries characterized by the continuous introduction of new product lines, rapid technological advances and product obsolescence. Therefore, management of the Company has recorded an allowance for potential inventory obsolescence.

The provision for potential inventory obsolescence was $180,000 for each of the years ended May 31, 2014 and 2013.

6. Property and Equipment:

	2014	2013
Land	**$ 195,220**	$ 195,220
Buildings and improvements	**7,752,647**	7,214,445
Machinery and equipment	**7,089,831**	6,711,011
Office furniture and equipment	**1,222,222**	1,091,929
Autos and trucks	**73,331**	73,331
Land improvements	**371,590**	63,300
	16,704,841	15,349,236
Less accumulated depreciation	**8,837,113**	8,138,074
	$ 7,867,728	$ 7,211,162

Depreciation expense was $699,039 and $564,262 for the years ended May 31, 2014 and 2013.

7. Short-Term Borrowings:

The Company has a credit facility with a $6,000,000 demand line of credit from a bank, with interest payable at the Company's option of 30, 60, 90 or 180 day LIBOR rate plus 2.5% or the bank's prime rate less .25%. The line is secured by accounts receivable, equipment, inventory, general intangibles, and a negative pledge of the Company's real 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, 2014 or May 31, 2013.

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 $264,146 and $113,095 as of May 31, 2014 and 2013. 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 six categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, and Vibration Dampers. Management does not track or otherwise account for sales broken down by these categories. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. A breakdown of sales to these three general groups of customers is as follows:

	2014	2013
Construction	**$ 9,110,853**	$14,105,072
Aerospace / Defense	**8,879,443**	8,132,008
Industrial	**2,020,932**	2,492,505
	$20,011,228	$24,729,585

Sales to five customers approximated 50% (20%, 10%, 9%, 6% and 5%, respectively) of net sales for 2014. Sales to five customers approximated 52% (29%, 7%, 6%, 5% and 5%, respectively) of net sales for 2013.

10. Income Taxes:

	2014	2013
Current tax provision (benefit):		
Federal	**$ 311,000**	$ 911,000
State	**1,700**	(1,000)
	312,700	910,000
Deferred tax provision (benefit):		
Federal	**122,900**	2,000
State	**1,400**	-
	124,300	2,000
	$ 437,000	$ 912,000

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

	2014	2013
Computed tax provision at the expected statutory rate	**$ 533,200**	$1,176,400
State income tax - net of Federal tax benefit	**1,000**	(2,900)
Tax effect of permanent differences:		
Research tax credits	**(99,000)**	(213,000)
Other permanent differences	**(17,200)**	(29,800)
Other	**19,000**	(18,700)
	$ 437,000	$ 912,000
Effective income tax rate	**27.9%**	26.4%

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

	2014	2013
Deferred tax assets:		
Allowance for doubtful receivables	**$ 3,400**	$ 14,400
Tax inventory adjustment	**254,600**	209,500
Allowance for obsolete inventory	**474,800**	465,400
Accrued vacation	**59,800**	60,200
Accrued commissions	**8,900**	4,000
Warranty reserve	**89,900**	126,300
Stock options issued for services	**207,200**	182,800
	1,098,600	1,062,600
Deferred tax liabilities:		
Excess tax depreciation	**(558,485)**	(398,185)
Net deferred tax assets	**$ 540,115**	$ 664,415

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 $3.2 million in taxable income in future years in order to realize the deferred tax assets recorded as of May 31, 2014 of $1,098,600.

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2014, the Company had State investment tax credit carryforwards of approximately $145,000 expiring through May 2020.

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:

	2014	2013
Average common shares outstanding	**3,341,975**	3,310,514
Common shares issuable under stock option plans	**30,830**	46,778
Average common shares outstanding assuming dilution	**3,372,805**	3,357,292

12. Related Party Transactions:

The Company had no related party transactions for the years ended May 31, 2014 and 2013.

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, 2014 and 2013, 1,781 ($8.22 to $8.935 price per share) and 1,359 ($8.39 to $8.98 price per share) common shares, respectively, were issued to employees. As of May 31, 2014, 229,599 shares were reserved for further issue.

14. Stock Option Plans:

In 2012, 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 64,750 shares have been granted as of May 31, 2014. Under the plan, the option price may not be less than the fair market value of the stock at the time the options are granted. Options vest immediately and expire ten years from the date of grant.

Using the Black-Scholes option pricing model, the weighted average estimated fair value of each option granted under the plan was $2.34 during 2014 and $2.46 during 2013. 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.

	2014	2013
Risk-free interest rate	**3.25%**	2.21%
Expected life in years	**3.0**	2.9
Expected volatility	**33%**	44%
Expected dividend yield	**0%**	0%

The following is a summary of stock option activity:

	Shares	**Weighted Average Exercise Price**	**Intrinsic Value**
Outstanding - May 31, 2012	**163,750**	$ 6.30	$ 336,604
Options granted	**44,500**	$ 7.84	
Less: options expired	**1,500**	-	
Outstanding - May 31, 2013	**206,750**	$ 6.63	$ 377,891
Options granted	**48,000**	$ 8.80	
Less: options exercised	**30,000**	$ 5.26	
Less: options expired	**5,250**	-	
Outstanding - May 31, 2014	**219,500**	$ 7.31	$ 398,954

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 (164,500 at May 31, 2014 and 181,750 at May 31, 2013.) The Company's closing stock price was $8.83 and $8.07 as of May 31, 2014 and 2013. As of May 31, 2014, there are 95,250 options available for future grants under the 2012 stock option plan. $157,650 was received from the exercise of share options during the fiscal year ended May 31, 2014.

The following table summarizes information about stock options outstanding at May 31, 2014:

Outstanding and Exercisable			
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
$2.00-$3.00	15,000	3.6	$2.85
$5.01-$6.00	50,000	4.1	$5.60
$6.01-$7.00	37,750	4.8	$6.24
$7.01-$8.00	30,000	8.9	$7.74
$8.01-$9.00	61,750	8.8	$8.63
$11.01-$12.00	25,000	7.9	$11.29
$2.00-$12.00	219,500	6.6	$7.31

The following table summarizes information about stock options outstanding at May 31, 2013:

Outstanding and Exercisable			
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
$2.00-$3.00	20,000	4.9	$2.84
$3.01-$4.00	750	6.2	$3.51
$5.01-$6.00	71,500	5.1	$5.59
$6.01-$7.00	45,000	5.8	$6.25
$7.01-$8.00	30,000	9.9	$7.74
$8.01-$9.00	14,500	8.9	$8.06
$11.01-$12.00	25,000	8.9	$11.29
$2.00-$12.00	206,750	6.6	$6.63

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:

There was no change in the amount of treasury stock during the years ended May 31, 2014 and 2013.

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 $64,282 and $72,655 for the years ended May 31, 2014 and 2013.

18. Fair Value of Financial Instruments:

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

19. Cash Flows Information:

	2014	2013
Interest paid	**$ 831**	$ 45,885
Income taxes paid	**$ 70,540**	$ 1,208,114

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NOTES

Photo Courtesy: Allan Sprecher, National Building Museum

Taylor Devices' Seismic Protection Products featured at an exhibition, "Designing for Disaster," running through August 2, 2015, at the National Building Museum in Washington, DC

taylor devices inc.

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