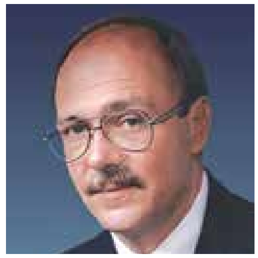
ANNUAL REPORT

2017

taylor devices inc.

PRESIDENT'S LETTER



Douglas P. Taylor
President

Dear Shareholder,

Taylor Devices' fiscal year 2017 results are the fourth best in our history for sales volume, and third best in profits. Sales for the fiscal year ending May 31, 2017 were $25,536,996, compared to the all time record of $35,680,449 in 2016. Operating income was $2,920,732 compared to $5,748,407 in 2016. Net income was $2,330,577 compared to $4,208,225 in 2016. The all-time record sales and profits set in fiscal year 2016 could not be equaled in 2017. A slow-down in sales of our seismic damper products was the primary reason for the reduced sales volume, and substantial new orders received for aerospace and defense products in the latter part of the fiscal year were unable to offset the reduction in seismic sales. We expect to benefit from these new orders in fiscal 2018 and beyond. The Company believes the seismic product sales were negatively impacted by an uncertain U.S. economy, with many building owners delaying or postponing projects, especially those which included partial funding by the U.S. Government. At the same time, a strong U.S. dollar relative to Asian currencies proved to be a detriment to offshore sales of seismic protection products. Despite the 2017 reduction in seismic sales, the Company is optimistic about future sales of these products.

Taylor Devices' firm order backlog at the end of the 2017 fiscal year was $21.6 million compared to $21.5 million at the close of the 2016 fiscal year. The backlog product mix is approximately 56% aerospace and defense, 42% seismic products, and 2% commercial/industrial products.

During fiscal year 2017, the Company completed the expansion of our seismic damper assembly and test facilities at our Tonawanda Island site, and the expanded facilities are in full use. The expansion also freed up space which is now being used to accommodate an increased volume of aerospace/defense products to satisfy current and expected future orders.

This year's Annual Report features two major projects – the first being the U.S. Navy's new and revolutionary DDG-1000 "Stealth" Destroyer. The first ship of class is the USS Zumwalt, now undergoing sea trials. These ships combine numerous new and/or emergent technologies, many of which, if successful, will be incorporated into later ship designs. The unusual hull shape makes the ship hard to find on an enemy's radar system. Indeed, the Zumwalt's radar signature is said to be similar to a small fishing boat. The new Mk 57 Vertical Missile Launch System is a small 4 cell modular missile launcher mounted flush with the deck, and 20 of these launchers are placed around the perimeter of the ship. This improves shock survivability in the event the ship is attacked, and allows the crew's work stations and quarters to be more centrally located than on other warships using more traditional forward and aft missile launchers. The Zumwalt uses gas turbine engines driving electric generators connected to very quiet electric motors to minimize engine and drive train noise, providing a much reduced underwater sonar signature compared to comparable size warships. The ships two main gun batteries use the new 6.1 inch rapid fire Advanced Gun System, one per turret, with each of these two guns capable of firing at up to 10 rounds per minute. These advanced guns have the ability to fire rocket boosted guided projectiles with a range in excess of 50 miles. The Company's shock isolation products are used at numerous places on the Zumwalt, totaling millions of dollars in isolation system orders for each ship.

This year's Annual Report centerfold highlights the second project, an unusual seismic damper retrofit to upgrade India's Delhi International Airport Administration Building. The existing building uses reinforced concrete construction, and the seismic retrofit adds a total of 84 seismic dampers, each rated at 85 tons of output force and having a dedicated low exponent damping system installed inside the dampers. This allows the dampers to compliment the non-linear load vs. deflection response of concrete. The end result maximizes seismic protection while minimizing building structural loadings. As a critical infrastructure facility, the building was required to remain fully occupied and in service during the damper retrofit. Due to potential issues with noise and dust from drilling into concrete inside an occupied structure, all dampers were mounted on the building's exterior. This arrangement also allowed existing space inside the building to be unchanged by the seismic upgrade.

This retrofit was a voluntary seismic upgrade by the owner, who was rightfully concerned about the total cost to airport operations and the Indian economy from possible downtime of a critical infrastructure facility. Even a short term loss of the facility would cause partial or total loss of service at a major international airport, and the cascading effect on the Indian economy would be many times the cost of the building – even if the facility was out of service for only a few days.

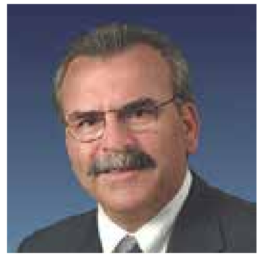
Sincerely,

TAYLOR DEVICES, INC.

Douglas P. Taylor
President

STATUS REPORTS

FROM THE VICE PRESIDENT



Richard G. Hill
Vice President

Fiscal 2017 ended with revenues of $25,536,996 and net income of $2,330,577. This represents the third-best year in the Company's history and there was an increase in the aerospace backlog and revenues; a reduction in seismic sales. This presented the Company with an opportunity to review its processes and procedures and to work on equipment and facilities to position ourselves for the future.

The manufacturing site at the Buffalo Bolt location received an expansion in its precision bore finishing equipment. A new machine will allow us to produce extremely high precision and large diameter seismic cylinders while reducing the processing cost considerably. We also added a smaller diameter precision bore finishing machine. The smaller diameter machine will be dedicated primarily to the increased aerospace products the Company is seeing a demand for. Additional turning equipment was added to replace existing older machines with modern machines that have expanded capabilities. These are able to hold extremely tight tolerances required for the production of the Company's smaller products.

Testing of large seismic dampers is a large part of the process of producing a high-quality product. The test area was previously restricted to a single test machine that was designed and built by the Company for this specific task. We recognized the possible problem that could arise should there be a machine failure in this area. Consequently, two years ago, a second machine was conceived. Design of this second test machine began then and incorporated upgrades learned from experience to improve the machine's performance. The new machine is in final stages of assembly and will be on line by the end of 2017.

The Taylor Devices facility on Tonawanda Island saw the completion of an addition to the Seismic Assembly area with a large vertical assembly pit allowing for the assembly of ten large seismic dampers simultaneously and giving the Company expanded capabilities for the future. The small products assembly area, first brought on line in the spring of 2016, was enhanced with the addition of a pre-assembly processing section. The section allows for cleaning, marking and packaging of small products without interfering with the ongoing final assembly of many smaller diameter products destined for aircraft as well as spacecraft.

Training of employees continues to be one of the Company's highest priorities with ongoing training sessions to support our ISO 9001, ISO 14001 and AS 9100 D certifications. Training allows our employees to grow and continuously improve not only each individual's specific task; but also the cross training used to support many of the departments within the company.

The future is always an unknown. The Company believes, through its planning and preparations, it's positioned to meet any demands our customers make and intends to meet or exceed any requirements presented to us.

FROM THE CHIEF FINANCIAL OFFICER

Mark V. McDonough
Chief Financial Officer

The vast majority of customer projects we undertake carry a sales value of less than $1 million. Less frequently, we win orders for projects valued at 4 to 9% of a typical year's total sales value. In fiscal 2011, we began work on a series of orders for a single, end-user customer in Asia with a sales value exceeding 50% of our total annual sales value. The bulk of the projects hit the income statement in fiscal 2012 with smaller amounts in 2011 and 2013. You may recall that 2012 was a great year for Taylor. In the years that followed, we have taken on a handful of projects that exceed 10 or 15% of a typical year's level of revenue. These projects are usually spread over two to three years. A few of them centered on fiscal 2016, helping to give last year a significant boost in the revenue and net income lines of our income statement. We serve an industry where a sales contract for a single project may have a huge impact for a small company such as Taylor Devices, Inc. The sudden absence of such a transaction can make a typical year appear pale in comparison. While a couple of these larger projects did have a positive impact on fiscal 2017, it was not to the level of the prior year. We are working to secure more of these projects as they come out for bid. Unfortunately, the timing of the availability of these projects is not within our control. We have been working on landing some significant projects for many months now. We haven't lost them. They simply have not been granted to any firm yet. When the timing is right for our customers, they will do what they must. We know that they have options and we strive to present them with the best one.

At Taylor Devices, we have built a strong customer base in the aerospace/defense industry, as well as the construction industry. While the products are similar in many ways, the demand for the products in these industries can move in different directions. Compared to fiscal 2016, sales to customers in all industries were down in fiscal 2017. This loss of revenue was split between the U.S. and Asia. One of the big construction projects that gave us a bump last year is almost equal to the sales drop in Asia this year. The strong U.S. dollar made us less attractive to some of our Asian customers. The decrease in domestic sales from last year's level is split fairly evenly between construction and aerospace / defense.

Our sales order backlog at year-end, of course, doesn't include the significant projects we have not yet won. At $21.6 million it is just a bit higher than at the end of fiscal 2016. A little over half is for customers in aerospace/defense and about 85% is bound for domestic customers.

Our gross margin fell with the sales as did our selling, general and administrative expenses. In spite of the drop in sales, our net income was the third highest in the history of the company. Earnings per share was $0.66 this year compared to $1.21 for fiscal 2016.

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

FROM AEROSPACE/ DEFENSE PRODUCTS

Alan R. Klembczyk
Vice President
Sales and Engineering

Sales in the aerospace/defense sector for fiscal year ending 2017 represented 39% of the total company sales and 56% of our year-end order backlog. We note that a positive trend continues in this sector in the form of both new development projects and recurring orders. A surge in aerospace sales late in the fiscal year and our healthy backlog will help to maintain a solid revenue level for this coming year.

Our success in qualifying products for the new U.S. manned space programs has continued. We recently qualified and delivered the first of a set of newly developed actuators for use onboard a space capsule and a separate set of specialized high-frequency vibration isolators for use on a second space program. Last year, we reported on successful qualification of numerous Taylor Devices' products used as ground support equipment on these programs. With the addition of the newly qualified products for flight use, we now have a full complement of products that will support NASA space programs for years to come.

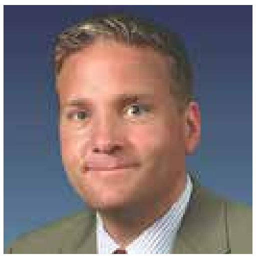
We also recently delivered a very large energy management device for a U.S. Navy shipboard application. Although this particular product may not sustain high volume production, we are planning to parlay these development efforts into use for new markets.

Re-orders and multi-year procurements of our products for current military and aerospace programs have continued at a steady pace. These applications include shock and vibration protection products for missiles, navigation systems, radar systems, drone landing gears, helicopters, the new U.S. Air Force tanker aircraft, high-frequency vibration isolators for the US Navy and energy absorbers and dampers for the new Gerald R. Ford class aircraft carriers. It's anticipated that these programs will have continued success. The new administration in Washington indicates a high level of support for new aerospace programs and for sustained or increased government defense spending.

We are planning an aggressive sales strategy for this coming fiscal year for aerospace and defense products, targeting new customers and programs while supporting our existing ones.

STATUS REPORTS

FROM INDUSTRIAL PRODUCTS



Robert H. Schneider
Industrial Products Division

Craig W. Winters
Industrial Products Division

Fiscal year 2017 for Taylor Devices has been marked with a potential change in the way the U.S. Government funds infrastructure projects. Over the years Taylor Devices has been producing seismic and wind dampers, U.S. infrastructure spending has been funded through various bills, or acts and extensions to these, such as the 1998 TEA-21 (Transportation Equity Act for the 21st Century), followed by the 2005 SAFETEA-LU, the 2012 MAP-21, and finally the 2015 FAST (Fixing America's Surface Transportation) Act. These funding programs provide a significant portion of funding for large American infrastructure projects, and many of these projects use Taylor Devices' seismic or wind dampers.

Currently, the new administration's proposed $1 trillion, 10-year infrastructure program, has been at the center of attention for many states and municipalities. Since it has not yet been enacted, this has resulted in caution and hesitancy for many to fully move forward with their projects until federal funding becomes more certain. Taylor Devices hopes to see strong progress during fiscal year 2018 with increased infrastructure spending to improve our roads and highways, which will include numerous seismic and wind damper applications.

Taylor Devices' seismic and industrial product lines sales decreased this year by 34%. These product lines represented 61% of the company's sales for the year. Our firm order backlog at the end of fiscal year 17 was $21.6 million, slightly higher than at this same period last year. In response to the slowing of seismic/wind damper sales, Taylor Devices has enacted several new programs to work towards project development, along with new methods to track down and close more sales to bolster our backlog. These programs involve better use of IT programs for finding potential clients and projects, outsourced assistance in project development, increased marketing efforts and stronger collaboration between team members to improve the efficiency of ongoing efforts. Further, our new and expanded seismic/wind damper assembly and testing areas are now up and running, creating more efficient work flow.

Notable building projects in the U.S. won during fiscal year 2017 include high-power dissipating wind dampers for a Tuned Mass Damper System at the top of the 217 West 57th Street building in New York City. Other projects include seismic dampers for a computer server data center owned by the St. Jude Children's Research Hospital and a group of projects in the Los Angeles area including the 3540 Wilshire Blvd. building, the Beverly Hills Renovation project at 325 North Maple Street and 32 large seismic Lock-Up Devices for the new Rams Stadium in Inglewood, CA. Internationally, a project for the Icholov Medical Center in Tel Aviv, Israel uses Taylor Devices' dampers for seismic protection. In addition, long stroke bridge dampers were ordered for the Beijing Guantin Reservoir and the Zhejiang Xishan Bridges in China, while a number of electronics buildings and residential structures in Taiwan and Japan have purchased Taylor Devices' seismic and vibration dampers. Concurrently, Taylor Devices is participating in an exciting real-field-structure R&D project for damping the vibrations of a very tall, but slender structure that potentially can lead to an entirely new market for our metal bellows dampers to attenuate continuous structural vibration.

A number of new projects are currently in the costing and bidding stages and we are prepared to support these client needs as funding comes through. This gives us cautious optimism for increased sales in the Seismic and Industrial Product Lines throughout fiscal year 2018. We will continue to monitor the domestic and global economies and strive to maintain our flexibility to meet the various needs of all our clients.

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

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

MANAGERS

Casey McQuate, Purchasing Manager

Greg Hanson, Small Machine Shop Supervisor

Charles Ketchum III, Quality Assurance Manager

Alan Klembczyk, Vice President, Sales & Engineering

Benjamin Kujawinski, Operations Manager

John Metzger, Chief Engineer

David Mooney, Quality Control Manager

Kathleen Nicosia, Shareholder Relations Manager

Tracy Masse, Human Resources Generalist

Robert Schneider, Industrial/Seismic Products Sales Manager

Thomas Struzik Jr., Large Machine Shop Supervisor

Alan Taylor, Government Contracts Manager

Craig Winters, Industrial/Seismic Products Sales Manager

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services
250 Royall Street
Canton, MA 02021
800-522-6645
computershare.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.

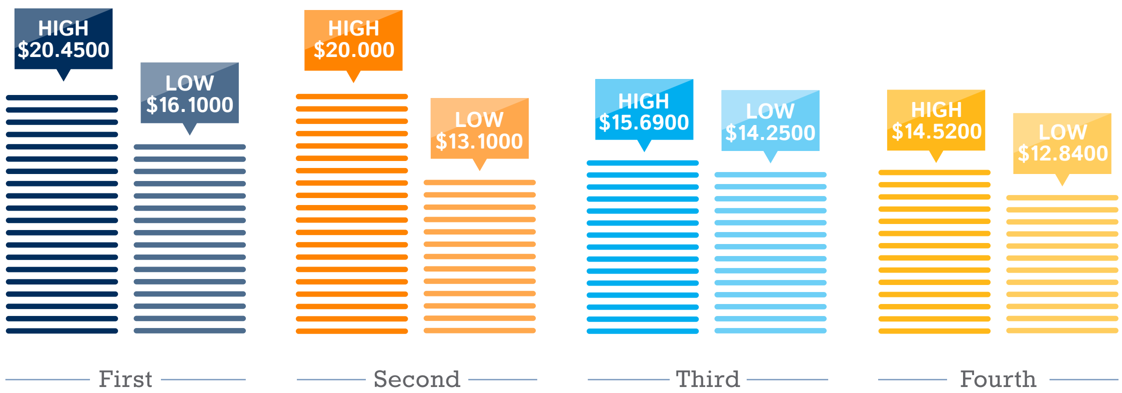
MARKET INFORMATION

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.

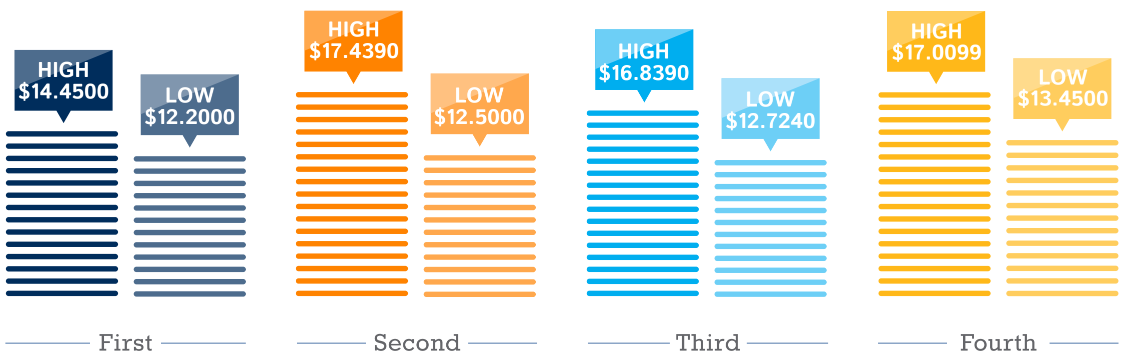
The high and low sales information noted below for the quarters of fiscal year 2017 and fiscal year 2016 were obtained from NASDAQ.

As of May 31, 2017, the number of issued and outstanding shares of Common Stock was 3,439,682 and the approximate number of record holders of the Company's Common Stock was 645. 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, 2017.

FISCAL 2017



FISCAL 2016



NOTICE OF ANNUAL MEETING

The annual meeting of the shareholders of the Company will be held on Friday, November 3, 2017 at 11 a.m. This year's meeting will be held at the Millennium Buffalo, 2040 Walden Avenue, Buffalo, New York. Shareholders desiring accommodations may call the Millennium Buffalo at 716-681-2400.

INDIA'S DELHI INTERNATIONAL AIRPORT ADMINISTRATION BUILDING

THE BUILDING

- 84 Taylor Devices Seismic Dampers were installed, each damper rated at 85 tons force
- All dampers mounted on building exterior
- Upgrade done to insure that building has immediate occupancy after a major seismic event
- Dampers had non-linear output for best performance in a concrete structure

OWNER

Delhi International
Airport Pvt. Ltd.,
A Division of India's
GMR Group

ENGINEER OF RECORD FOR RETROFIT

Miyamoto International
New Delhi, India
Taylor Devices, Inc.

SITE ENGINEER

Sandeep Donald Shah
Taylor Devices - India

PHOTO COURTESY

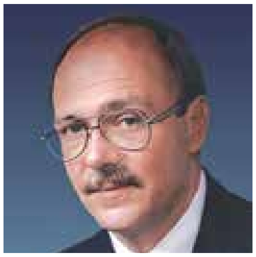
LEFT AND RIGHT PAGE Sandeep Donald Shah, Alan Klembczyk

Dampers had long heavy wall steel extenders which went through sections of the concrete to steel attach plates. Thus, damper loads were distributed over multiple floors.

Taylor Devices VP of Sales and Engineering, Alan Klembczyk and the building owner's representative inspect damper fit and clearances to entrances and structural wall.

An "in situ" Retrofit – The existing reinforced concrete building remained occupied and in service at all times during damper installation.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS



Douglas P. Taylor
Board Member and President

Mr. Taylor earned his Bachelor of Science in mechanical engineering from the State University of New York at Buffalo 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. Mr. Taylor had been employed by Tayco Developments since 1966. He is the inventor or co-inventor on 35 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 and is affiliated as an industrial sponsor with the SUNY at Buffalo and the North Tonawanda City School District.

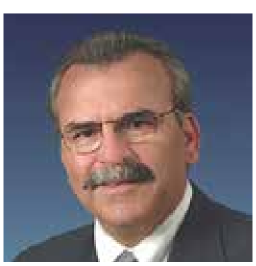
Since 1991, Mr. Taylor has participated in research projects in the field of earthquake protection in association with the SUNY at Buffalo's Civil, Structural and Environmental Engineering Department and Multidisciplinary Center for Extreme Events Research. As a result, military damping technology from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

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 a U.S. Department of Commerce oversight committee to develop 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. Small Business Innovation Research Program. In 1999, Mr. Taylor was awarded the Clifford C. Furnas Memorial Award by the Alumni Association of the SUNY 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 SUNY at Buffalo. Mr. Taylor was named Structural Engineer of the Year in 2006 by the engineering journal, "The Structural Design of Tall and Special Buildings."

In 2015, Mr. Taylor received the Moisseiff Award for contributions to the science and art of structural design from the American Society of Civil Engineers. During that same year, Mr. Taylor was inducted into the Space Technology Hall of Fame by NASA and the Space Foundation.

Mr Taylor is a founding member of the International Association on Structural Control and Monitoring, and a life member of the Association for Iron & Steel Technology. Since 2004, Mr. Taylor has also served as chairman of the Lumber City Development Corporation, whose purpose is the planning and implementation of programs, projects and activities designed to create or stimulate economic and community development in North Tonawanda, New York.



Richard G. Hill
Board Member and Vice President

Mr. Hill holds a Bachelor of Science 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 SUNY at Buffalo's UB Business Alliance Advisory Board, as well as holding the seat of secretary.

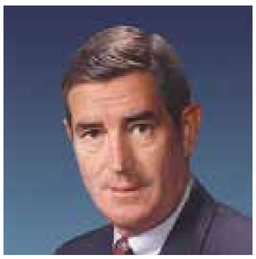
Reginald B. Newman II
Board Member and Secretary

Mr. Newman received his Bachelor of Science in business administration from Northwestern University in 1959. He was employed by NOCO Energy Corp., a diversified terminal operator, distributor and retailer of petroleum and other energy related products, from 1960 until his retirement as chairman and CEO in 2003. Mr. Newman is also chairman of Prior Aviation Service, Inc., in 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 to 2008.

Mr. Newman received the 1997 Executive of the Year award from the SUNY at Buffalo. In 1998, Mr. Newman was honored with 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 the institution's highest honor, the Norton Medal, in 2006. Mr. Newman is a former member of the Buffalo Niagara Partnership and was chairman from 1996 through 1998. He was awarded an honorary degree from Canisius College in 1997.



Randall L. Clark
Board Member

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

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

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

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

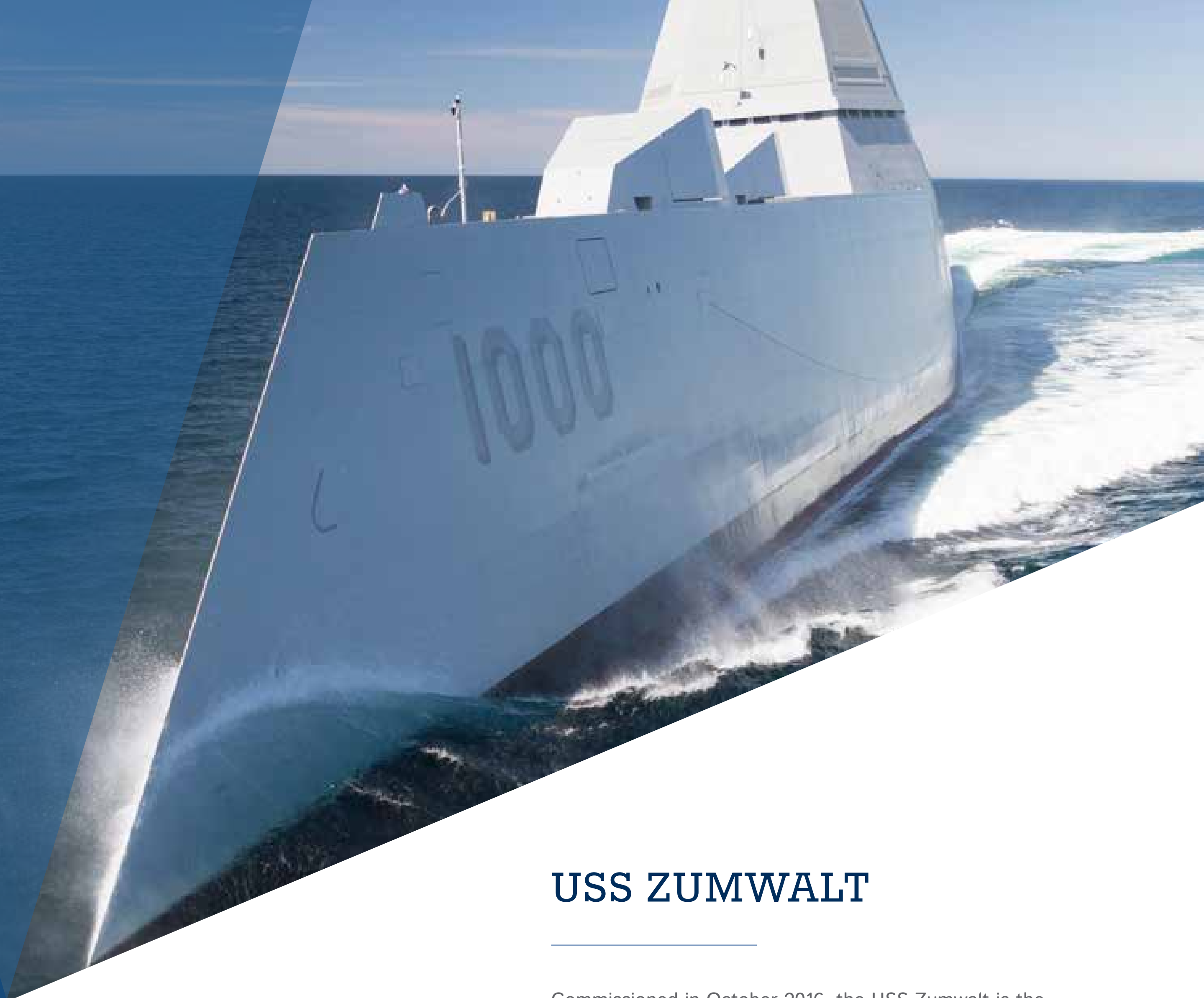
Mr. Burgess earned a Bachelor of Science in engineering from Bath University in England, and a Masters of Business Adminstration from Canisius College.

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 and holds a Bachelor of Business Adminstration from Niagara University, awarded in 1982. He has been involved in financial management of various Western New York manufacturing organizations for over 25 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.



USS ZUMWALT

Commissioned in October 2016, the USS Zumwalt is the most powerful, technologically-advanced United States Destroyer in our country's history. This first-in-its-class ship introduces major innovations in design: wave-piercing tumblehome hull, state-of-the-art electric propulsion and the latest long-range gun and missile weaponry.

DISPLACEMENT

14,800 Tons

LENGTH

600 Feet

BEAM

80 Feet

PROPULSION

Gas turbine engines driving electric generators, with total power of 105,000 Hp

SPEED

In excess of 35 mph

ARMAMENT

20xMk 57 Vertical Missile Launch Modules, 80 Missile Launch Cells total. 2x155mm Advanced Gun System Main Battery, firing rate 10 rounds/minute per gun.

PHOTO COURTESY U.S. Navy

TAYLOR DEVICES, INC. AND SUBSIDIARY

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

AND

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2017

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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, 2017 equaled less than 0.1% of sales for that period. The balance of the valuation allowance has increased since May 31, 2016 to the current level of slightly less than $110,000. 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 net realizable value. Average cost approximates first-in, first-out cost.

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

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

The provision for potential inventory obsolescence was $180,000 for each of the years ended May 31, 2017 and 2016.

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, 2017, 66% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 34% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2016, 66% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 34% of revenue was recorded as deliveries were made to our customers.

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

Income Taxes

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

Realization of the deferred tax assets is dependent on generating sufficient taxable income at the time temporary differences become deductible. The Company provides a valuation allowance to the extent that deferred tax assets may not be realized. A valuation allowance has not been recorded against the deferred tax assets since management believes it is more likely than not that the deferred tax assets are recoverable. The Company considers future taxable income and potential tax planning strategies in assessing the need for a potential valuation allowance. In future years the Company will need to generate approximately $3.6 million of taxable income in order to realize our deferred tax assets recorded as of May 31, 2017 of $1,227,000. This deferred tax asset balance is 27% ($262,000) more than at the end of the prior year. The amount of the deferred tax assets considered realizable however, could be reduced in the near term if estimates of future taxable income are reduced. If actual results differ from estimated results or if the Company adjusts these assumptions, the Company may need to adjust its deferred tax assets or liabilities, which could impact its effective tax rate.

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

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2017, the Company had State investment tax credit carryforwards of approximately $275,000 expiring through May 2023.

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, 2017 and 2016

	Increase / (Decrease)
Sales, net	$ (10,143,000)
Cost of goods sold	$ (5,692,000)
Selling, general and administrative expenses	$ (1,623,000)
Income before provision for income taxes	$ (2,779,000)
Provision for income taxes	$ (901,000)
Net income	$ (1,878,000)

For the year ended May 31, 2017 (All figures being discussed are for the year ended May 31, 2017 as compared to the year ended May 31, 2016.)

	Year ended May 31		Change	
	2017	2016	Amount	Percent
Net Revenue	$ 25,537,000	$ 35,680,000	$ (10,143,000)	*-28%*
Cost of sales	17,551,000	23,243,000	(5,692,000)	*-24%*
Gross profit	$ 7,986,000	$ 12,437,000	$ (4,451,000)	*-36%*
… as a percentage of net revenues	31%	35%		

The Company's consolidated results of operations showed a 28% decrease in net revenues and a decrease in net income of 45%. Revenues recorded in the current period for long-term construction projects ("Project(s)") were 28% less than the level recorded in the prior year. We had 55 Projects in process during the current period compared with 61 during the same period last year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were 29% less than the level recorded in the prior year. The number of projects in-process fluctuates from period to period. The changes from the prior period to the current period are not necessarily representative of future results.

The mix of customers buying our products changed slightly from last year. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. The Company saw a 34% decrease from last year's level in sales to construction customers who were seeking seismic / wind protection for either construction of new buildings and bridges or retrofitting existing buildings and bridges as well as an 18% decrease in sales to customers in aerospace / defense and a 34% decrease in sales to customers using our products in industrial applications. A breakdown of sales to these three general groups of customers, as a percentage of total net revenue for fiscal years ended May 31, 2017 and 2016 is as follows:

	Year ended May 31	
	2017	2016
Industrial	7%	6%
Construction	54%	59%
Aerospace / Defense	39%	35%

Total sales within North America decreased 20% from last year. Total sales to Asia decreased 59% from the prior year. Net revenue by geographic region, as a percentage of total net revenue for fiscal years ended May 31, 2017 and 2016 is as follows:

	Year ended May 31	
	2017	2016
North America	81%	73%
Asia	13%	22%
Other	6%	5%

The gross profit as a percentage of net revenue of 31% in the current period is four percentage points less than the prior year. This difference is primarily due to a combination of a.) certain larger construction Projects in the prior year for which the Company was able to negotiate higher than typical selling prices; b.) several smaller, aerospace / defense Projects in the prior year that have margins higher than the Company's average; c.) several export projects in the current period that were very competitively bid due to the unfavorable foreign exchange rates; and d.) lower total volume of product sales in the current period to cover non-variable manufacturing costs.

At May 31, 2016, we had 115 open sales orders in our backlog with a total sales value of $21.5 million. At May 31, 2017, we had 116 open sales orders in our backlog and the total sales value is $21.6 million. $10.7 million of the current backlog is on projects already in progress. $11.7 million of the $21.5 million sales order backlog at May 31, 2016 was in progress at that date. 56% of the sales value in the backlog is for aerospace / defense customers compared to 38% at the end of fiscal 2016. As a percentage of the total sales order backlog, orders from customers in construction accounted for 42% at May 31, 2017 and 61% at May 31, 2016.

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**	
	2017	**2016**	**Amount**	**Percent**
Outside Commissions	$ 1,336,000	$ 2,068,000	$ (732,000)	*-35%*
Other SG&A	3,729,000	4,620,000	(891,000)	*-19%*
Total SG&A	$ 5,065,000	$ 6,688,000	$ (1,623,000)	*-24%*
… as a percentage of net revenues	20%	19%		

Selling, general and administrative expenses decreased by 24% from the prior year. Outside commission expense decreased 35% 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 19% from last year. This decrease is primarily due to a decrease in 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 $2,921,000 for the year ended May 31, 2017, down 49% from the $5,748,000 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, 2017 is 22%, five percentage points less than the ETR for the prior year of 27%. A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

	2017	**2016**
Computed tax provision at the expected statutory rate	$ 1,016,000	$ 1,961,000
Tax effect of permanent differences:		
Research tax credits	(273,000)	(266,000)
Other permanent differences	(94,000)	(166,000)
Other	8,000	29,000
	$ 657,000	$ 1,558,000

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 $178,000 and $151,000 of compensation cost for the years ended May 31, 2017 and 2016.

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 2016 and April 2017. 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 2016	April 2017
Risk-free interest rate:	1.625%	2.00%
Expected life of the options:	3.4 years	3.5 years
Expected share price volatility:	26%	29%
Expected dividends:	zero	zero
These assumptions resulted in estimated fair-market value per stock option:	$4.04	$3.30

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, 2017 is presented below.

	Number of Options	Weighted-Average Exercise Price
Options outstanding and exercisable at May 31, 2016:	243,500	$ 9.53
Options granted:	49,500	$ 15.95
Less: Options exercised:	39,500	$ 8.60
Options outstanding and exercisable at May 31, 2017:	253,500	$ 10.93
Closing value per share on NASDAQ at May 31, 2017:		$ 13.26

Capital Resources, Line of Credit and Long-Term Debt

The Company's primary liquidity is dependent upon its working capital needs. These are primarily inventory, accounts receivable, costs and estimated earnings in excess of billings, accounts payable, accrued commissions, billings in excess of costs and estimated earnings, and debt service. The Company's primary sources of liquidity have been operations and bank financing.

Capital expenditures for the year ended May 31, 2017 were $1,869,000 compared to $1,939,000 in the prior year. The Company has commitments to make capital expenditures of approximately $650,000 as of May 31, 2017.

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, 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, 2017. There was no outstanding balance as of May 31, 2016. 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	$3,000,000	$21,373,000	Quarterly
Minimum debt service coverage ratio	1.5:1	n/a	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, 2017		May 31, 2016		Increase /(Decrease)	
Raw materials	$ 710,000		$ 512,000		$ 198,000	*39%*
Work in process	10,071,000		8,639,000		1,432,000	*17%*
Finished goods	708,000		454,000		254,000	*56%*
Inventory	11,489,000	93%	9,605,000	93%	1,884,000	*20%*
Maintenance and other inventory	879,000	7%	697,000	7%	182,000	*26%*
Total	$12,368,000	100%	$10,302,000	100%	$ 2,066,000	*20%*
Inventory turnover	1.5		2.3			

Inventory, at $11,489,000 as of May 31, 2017, is 20% more than the prior year-end. Of this, approximately 88% is work in process, 6% 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 $126,000 of slow-moving inventory used during the year ended May 31, 2017. The Company disposed of approximately $56,000 and $133,000 of obsolete inventory during the years ended May 31, 2017 and 2016, respectively.

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

	May 31, 2017	May 31, 2016	Increase /(Decrease)	
Accounts receivable	$ 2,546,000	$ 3,992,000	$ (1,446,000)	*-36%*
CIEB	6,868,000	5,501,000	1,367,000	*25%*
Less: BIEC	1,296,000	1,464,000	(168,000)	*-11%*
Net	$ 8,118,000	$ 8,029,000	$ 89,000	*1%*
Number of an average day's sales outstanding in accounts receivable (DSO)	36	40		

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 $2,546,000 as of May 31, 2017 includes approximately $677,000 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 slightly to 36 days at May 31, 2017 from 40 days as of May 31, 2016. The level of accounts receivable at the end of the current year is 36% less than at the end of the prior year. The decrease in the level of accounts receivable was primarily due to a significant decrease in the level of sales from 2016 to 2017.

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:

	2017	2016
Number of projects in progress at year-end	24	25
Aggregate percent complete at year-end	66%	59%
Average total value of projects in progress at year-end	$1,289,000	$1,062,000
Percentage of total value invoiced to customer	47%	43%

There is 1 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 21% between those two dates.

As noted above, CIEB represents revenues recognized in excess of amounts billed. Whenever possible, the Company negotiates a provision in sales contracts to allow the Company to bill, and collect from the customer, payments in advance of shipments. Unfortunately, provisions such as this are often not possible. The $6,868,000 balance in this account at May 31, 2017 is a 25% increase 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. 33% of the CIEB balance as of the end of the last fiscal quarter, February 28, 2017, was billed to those customers in the current fiscal quarter ended May 31, 2017. The remainder will be billed as the projects progress, in accordance with the terms specified in the various contracts.

As of May 31, 2017, there are sales orders for four projects that are not yet in progress. These projects average $259,000 each in value upon completion. This compares to five such projects as of the prior year end with an average value of $431,000.

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

	May 31, 2017	**May 31, 2016**
Costs	$ 9,675,000	$ 8,080,000
Estimated earnings	3,757,000	3,191,000
Less: Billings to customers	6,564,000	5,770,000
CIEB	$ 6,868,000	$ 5,501,000
Number of projects in progress	21	19

As noted above, BIEC represents billings to customers in excess of revenues recognized. The $1,296,000 balance in this account at May 31, 2017 is in comparison to a $1,464,000 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, 2017	**May 31, 2016**
Billings to customers	$ 8,133,000	$ 5,886,000
Less: Costs	4,522,000	3,362,000
Less: Estimated earnings	2,315,000	1,060,000
BIEC	$ 1,296,000	$ 1,464,000
Number of projects in progress	3	6

Accounts payable, at $1,329,000 as of May 31, 2017, is significantly (25%) less than the prior year-end. This decrease is due to a lower level of purchased materials required to fill existing customer sales orders at the end of the current year that are not already in inventory, compared to the end of last year. 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, 2017 are $847,000. This is 24% more than the $684,000 accrued at the prior year-end. This increase is primarily due to a few larger projects which, by the terms of the respective contracts, do not permit significant payments through the current levels of completion. The Company expects the current accrued amount to be paid during the next twelve months.

Other accrued expenses of $832,000 decreased by 70% from the prior year level of $2,734,000. This decrease is primarily due to decreases in a.) accrued tax obligations, b.) accrued incentive compensation, and c.) customer prepayments. The decreases in accrued taxes and compensation are both related to a decrease in revenue and earnings of the Company.

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, 2017 and 2016, 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, 2017 and 2016, 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 4, 2017

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

May 31,	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,324,934**	$ 6,086,080
Short-term investments	**1,022,326**	1,000,000
Accounts receivable, net (Note 2)	**2,545,773**	3,992,214
Inventory (Note 3)	**11,488,610**	9,604,956
Prepaid expenses	**263,574**	273,204
Prepaid income taxes	**163,904**	199,077
Costs and estimated earnings in excess of billings (Note 4)	**6,868,393**	5,500,771
Total current assets	**25,677,514**	26,656,302
Maintenance and other inventory, net (Note 5)	**878,779**	697,043
Property and equipment, net (Note 6)	**9,994,716**	8,994,504
Cash value of life insurance, net	**180,579**	175,350
Deferred income taxes (Note 10)	**429,115**	282,115
	$ 37,160,703	$ 36,805,314
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 1,329,321**	$ 1,767,017
Accrued commissions	**846,941**	683,600
Other accrued expenses	**832,060**	2,733,847
Billings in excess of costs and estimated earnings (Note 4)	**1,295,989**	1,463,621
Total current liabilities	**4,304,311**	6,648,085
Stockholders' Equity:		
Common stock, $.025 par value, authorized 8,000,000 shares, issued 3,990,554 and 3,949,556 shares	**99,763**	98,738
Paid-in capital	**9,070,278**	8,529,542
Retained earnings	**26,515,710**	24,185,133
	35,685,751	32,813,413
Treasury stock - 550,872 and 541,296 shares at cost	**(2,829,359)**	(2,656,184)
Total stockholders' equity	**32,856,392**	30,157,229
	$ 37,160,703	$ 36,805,314

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the years ended May 31,	**2017**	2016
Sales, net (Note 9)	**$ 25,536,996**	$ 35,680,449
Cost of goods sold	**17,551,163**	23,243,451
Gross profit	**7,985,833**	12,436,998
Selling, general and administrative expenses	**5,065,101**	6,688,591
Operating income	**2,920,732**	5,748,407
Other income		
Interest, net	**38,842**	10,748
Miscellaneous	**28,003**	7,070
Total other income	**66,845**	17,818
Income before provision for income taxes	**2,987,577**	5,766,225
Provision for income taxes (Note 10)	**657,000**	1,558,000
Net income	**$ 2,330,577**	$ 4,208,225
Basic earnings per common share (Note 11)	**$ 0.68**	$ 1.24
Diluted earnings per common share (Note 11)	**$ 0.66**	$ 1.21

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

For the years ended May 31, 2017 and 2016

	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock
Balance, May 31, 2015	$ 97,535	$ 7,975,397	$ 19,976,908	$ (2,598,858)
Net income for the year ended May 31, 2016	-	-	4,208,225	-
Common stock issued for employee stock option plan (Note 14)	1,168	383,157	-	(57,326)
Common stock issued for employee stock purchase plan (Note 13)	35	19,804	-	-
Stock options issued for services	-	151,184	-	-
Balance, May 31, 2016	98,738	8,529,542	24,185,133	(2,656,184)
Net income for the year ended May 31, 2017	-	-	2,330,577	-
Common stock issued for employee stock option plan (Note 14)	988	338,597	-	(173,175)
Common stock issued for employee stock purchase plan (Note 13)	37	24,446	-	-
Stock options issued for services	-	177,693	-	-
Balance, May 31, 2017	**$ 99,763**	**$ 9,070,278**	**$ 26,515,710**	**$ (2,829,359)**

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the years ended May 31,	2017	2016
Operating activities:		
Net income	$ 2,330,577	$ 4,208,225
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	868,609	818,385
Stock options issued for services	177,693	151,184
Bad debts expense	100,000	10,000
Provision for inventory obsolescence	180,000	180,000
Deferred income taxes	(147,000)	(52,000)
Changes in other current assets and liabilities:		
Accounts receivable	1,346,441	752,543
Inventory	(2,245,390)	(930,014)
Prepaid expenses	9,630	101,925
Prepaid income taxes	35,173	(184,100)
Costs and estimated earnings in excess of billings	(1,367,622)	(330,815)
Accounts payable	(437,696)	(936,048)
Accrued commissions	163,341	(79,863)
Other accrued expenses	(1,901,787)	1,338,506
Billings in excess of costs and estimated earnings	(167,632)	(1,259,851)
Net operating activities	(1,055,663)	3,788,077
Investing activities:		
Acquisition of property and equipment	(1,868,821)	(1,939,378)
Increase in short-term investments	(22,326)	(1,000,000)
Increase in cash value of life insurance	(5,229)	(5,355)
Net investing activities	(1,896,376)	(2,944,733)
Financing activities:		
Proceeds from issuance of common stock	190,893	346,838
Net financing activities	190,893	346,838
Net change in cash and cash equivalents	(2,761,146)	1,190,182
Cash and cash equivalents - beginning	6,086,080	4,895,898
Cash and cash equivalents - ending	$ 3,324,934	$ 6,086,080

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.

80% of the Company's 2017 revenue was generated from sales to customers in the United States and 13% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe, Australia and South America.

73% of the Company's 2016 revenue was generated from sales to customers in the United States and 22% 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, 2017 include "available for sale" corporate bonds stated at fair value, which approximates cost. The bonds (19) mature on various dates during the period September 2017 to December 2021. 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 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 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. 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 years ended May 31, 2017 and 2016, 66% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 34% of revenue was recorded as deliveries were made to our customers.

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

Shipping and Handling Costs:

Shipping and handling costs are classified as a component of selling, general and administrative expenses. The amounts of these costs were $127,796 and $272,353 for the years ended May 31, 2017 and 2016.

Research and Development Costs:

Research and development costs are classified as a component of cost of sales. The amounts of these costs were $903,000 and $428,000 for the years ended May 31, 2017 and 2016.

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, 2017 or 2016. The Company recorded no interest expense or penalties in its consolidated statements of income during the years ended May 31, 2017 and 2016.

The Company believes it is no longer subject to examination by federal and state taxing authorities for years prior to May 31, 2014.

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, 2017 and 2016 was $177,693 and $151,184.

New Accounting Standards:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09, as amended, is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2017 (fiscal year 2019 for the Company). Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not completely determined the potential effects of the adoption of ASU 2014-09 on its Consolidated Financial Statements, however it will likely require the Company to slow the recognition of revenue for contracts currently accounted for under the percentage-of-completion method.

In November 2015, the FASB issued ASU No. 2016-17, Balance Sheet Classification of Deferred Taxes. ASU 2016-17 simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2016-17 was adopted in the current period and resulted in changes to the May 31, 2016 balance sheet as follows:

Decrease in current assets	$965,100
Increase in noncurrent assets	$282,115
Decrease in noncurrent liabilities	$682,985

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

2. Accounts Receivable:

	2017	2016
Customers	**$ 1,978,108**	$ 3,480,781
Customers - retention	**677,420**	531,189
	2,655,528	4,011,970
Less allowance for doubtful accounts	**109,755**	19,756
	$ 2,545,773	$ 3,992,214

3. Inventory:

	2017	2016
Raw materials	**$ 709,174**	$ 511,530
Work-in-process	**10,071,179**	8,639,068
Finished goods	**808,257**	554,358
	11,588,610	9,704,956
Less allowance for obsolescence	**100,000**	100,000
	$11,488,610	$ 9,604,956

4. Costs and Estimated Earnings on Uncompleted Contracts:

	2017	2016
Costs incurred on uncompleted contracts	**$14,197,223**	$11,441,874
Estimated earnings	**6,071,776**	4,251,018
	20,268,999	15,692,892
Less billings to date	**14,696,595**	11,655,742
	$ 5,572,404	$ 4,037,150

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

	2017	2016
Costs and estimated earnings in excess of billings	**$ 6,868,393**	$ 5,500,771
Billings in excess of costs and estimated earnings	**1,295,989**	1,463,621
	$ 5,572,404	$ 4,037,150

5. Maintenance and Other Inventory:

	2017	2016
Maintenance and other inventory	**$ 2,261,892**	$ 1,956,626
Less allowance for obsolescence	**1,383,113**	1,259,583
	$ 878,779	$ 697,043

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, 2017 and 2016.

6. Property and Equipment:

	2017	2016
Land	$ 195,220	$ 195,220
Buildings and improvements	9,342,431	8,741,209
Machinery and equipment	9,466,340	8,498,997
Office furniture and equipment	1,588,219	1,398,016
Autos and trucks	84,256	84,256
Land improvements	419,429	402,022
	21,095,895	19,319,720
Less accumulated depreciation	11,101,179	10,325,216
	$ 9,994,716	$ 8,994,504

Depreciation expense was $868,609 and $818,385 for the years ended May 31, 2017 and 2016.

The Company has commitments to make capital expenditures of approximately $650,000 as of May 31, 2017.

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, 2017 or May 31, 2016.

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 $239,200 and $517,960 as of May 31, 2017 and 2016. 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:

	2017	2016
Construction	$13,907,139	$21,009,587
Aerospace / Defense	10,086,316	12,320,818
Industrial	1,543,541	2,350,044
	$25,536,996	$35,680,449

Sales to five customers approximated 44% (14%, 9%, 8%, 7% and 6% respectively) of net sales for 2017. Sales to seven customers approximated 55% (10%, three at 8% and three at 7%, respectively) of net sales for 2016.

10. Income Taxes:

	2017	2016
Current tax provision:		
Federal	**$ 803,200**	$ 1,609,500
State	**800**	500
	804,000	1,610,000
Deferred tax provision:		
Federal	**(146,500)**	(51,500)
State	**(500)**	(500)
	(147,000)	(52,000)
	$ 657,000	$ 1,558,000

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

	2017	2016
Computed tax provision at the expected statutory rate	**$1,015,800**	$1,960,500
State income tax - net of Federal tax benefit	**500**	400
Tax effect of permanent differences:		
Research tax credits	**(273,000)**	(266,000)
Other permanent differences	**(93,700)**	(165,700)
Other	**7,400**	28,800
	$ 657,000	$ 1,558,000
Effective income tax rate	**22.0%**	27.0%

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

	2017	2016
Deferred tax assets:		
Allowance for doubtful receivables	**$ 37,400**	$ 6,700
Tax inventory adjustment	**213,000**	95,500
Allowance for obsolete inventory	**505,800**	463,600
Accrued vacation	**77,800**	73,700
Accrued commissions	**20,900**	7,200
Warranty reserve	**51,800**	45,400
Stock options issued for services	**320,100**	273,000
	1,226,800	965,100
Deferred tax liabilities:		
Excess tax depreciation	**(797,685)**	(682,985)
Net deferred tax assets	**$ 429,115**	$ 282,115

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 $3.6 million in taxable income in future years in order to realize the deferred tax assets recorded as of May 31, 2017 of $1,226,800.

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2017, the Company had State investment tax credit carryforwards of approximately $275,000 expiring through May 2023.

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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:

	2017	2016
Average common shares outstanding	3,432,112	3,393,919
Common shares issuable under stock option plans	73,082	82,508
Average common shares outstanding assuming dilution	3,505,194	3,476,427

12. Related Party Transactions:

The Company had no related party transactions for the years ended May 31, 2017 and 2016.

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, 2017 and 2016, 1,498 ($13.835 to $19.58 price per share) and 1,409 ($12.615 to $16.345 price per share) common shares, respectively, were issued to employees. As of May 31, 2017, 225,004 shares were reserved for further issue.

14. Stock Option Plans:

In 2015, 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 51,750 shares have been granted as of May 31, 2017. 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 $3.59 during 2017 and $3.05 during 2016. 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.

	2017	2016
Risk-free interest rate	1.852%	1.50%
Expected life in years	3.5	3.2
Expected volatility	27%	26%
Expected dividend yield	0%	0%

The following is a summary of stock option activity:

	Shares	Weighted Average Exercise Price	Intrinsic Value
Outstanding - May 31, 2015	**240,750**	$ 8.16	$ 1,134,531
Options granted	**49,500**	$ 14.982	
Less: options exercised	**46,750**	$ 8.221	
Outstanding - May 31, 2016	**243,500**	$ 9.53	$ 1,745,254
Options granted	**49,500**	$ 15.95	
Less: options exercised	**39,500**	$ 8.60	
Outstanding - May 31, 2017	**253,500**	$ 10.93	$ 817,629

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 (174,000 at May 31, 2017 and 243,500 at May 31, 2016.) The Company's closing stock price was $13.26 and $16.70 as of May 31, 2017 and 2016. As of May 31, 2017, there are 108,250 options available for future grants under the 2015 stock option plan. $339,585 was received from the exercise of share options during the fiscal year ended May 31, 2017.

The following table summarizes information about stock options outstanding at May 31, 2017:

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	10,000	1.9	$ 2.83
$5.01-$6.00	25,000	2.7	$ 5.49
$6.01-$7.00	20,500	2.2	$ 6.30
$7.01-$8.00	25,000	5.9	$ 7.74
$8.01-$9.00	37,250	6.7	$ 8.77
$11.01-$12.00	20,000	4.9	$11.29
$12.01-$13.00	36,250	8.0	$12.39
$13.01-$14.00	30,000	9.9	$13.80
$16.01-$17.00	30,000	8.9	$16.40
$19.01-$20.00	19,500	9.2	$19.26
$2.00-$20.00	253,500	6.5	$10.93

The following table summarizes information about stock options outstanding at May 31, 2016:

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	10,000	2.9	$ 2.83
$5.01-$6.00	40,000	2.6	$ 5.52
$6.01-$7.00	24,500	3.0	$ 6.26
$7.01-$8.00	25,000	6.9	$ 7.74
$8.01-$9.00	41,750	7.6	$ 8.73
$11.01-$12.00	25,000	5.9	$11.29
$12.01-$13.00	47,250	9.0	$12.42
$16.01-$17.00	30,000	9.9	$16.40
$2.00-$17.00	243,500	6.4	$ 9.53

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 increased from 541,296 at May 31, 2016 to 550,872 at May 31, 2017.

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 $74,261 and $85,392 for the years ended May 31, 2017 and 2016.

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:

	2017	2016
Interest paid	**none**	none
Income taxes paid	**$ 768,827**	$ 1,794,100

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NOTES

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