

TAYLOR DEVICES INC
Form 10-K
August 25, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-3498

TAYLOR DEVICES, INC.

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

16-0797789
(I.R.S. Employer
Identification No.)

90 Taylor Drive, P.O. Box 748, North Tonawanda, New York
(Address of principal executive offices)

14120-0748
(Zip Code)

Registrant's telephone number, including area code (716) 694-0800
Securities registered pursuant to Section 12(b) of the Act:

Title of each class
None

Name of each exchange on which registered
None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock (\$.025 par value)
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer []

Accelerated filer []

Non-accelerated filer [] (Do not check if a smaller reporting company)

Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

[] Yes [X] No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter on November 30, 2010 is \$14,970,916.

The number of shares outstanding of each of the registrant's classes of common stock as of August 13, 2011: 3,229,454

TAYLOR DEVICES, INC.

DOCUMENTS INCORPORATED BY REFERENCE

Documents
Proxy Statement

Form 10-K Reference
Part III, Items 10-14

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PART I

Item 1. Business.

The Company was incorporated in the State of New York on July 22, 1955 and is engaged in the design, development, manufacture and marketing of shock absorption, rate control, and energy storage devices for use in various types of machinery, equipment and structures. In addition to manufacturing and selling existing product lines, the Company continues to develop new and advanced technology products.

Principal Products

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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. The following is a summary of the capabilities and applications for these products.

Seismic Dampers are designed to ameliorate the effects of earthquake tremors on structures, and represent a substantial part of the business of the Company. Fluidicshoks® are small, extremely compact shock absorbers with up to 19,200 inch-pound capacities, produced in 15 standard sizes for primary use in the defense, aerospace and commercial industry. Crane and industrial buffers are larger versions of the Fluidicshoks® with up to 60,000,000 inch-pound capacities, produced in more than 60 standard sizes for industrial application on cranes, ships, container ships, railroad cars, truck docks, ladle and ingot cars, ore trolleys and car stops. Self-adjusting shock absorbers, which include versions of Fluidicshoks® and crane and industrial buffers, automatically adjust to different impact conditions, and are designed for high cycle application primarily in heavy industry. Liquid die springs are used as component parts of machinery and equipment used in the manufacture of tools and dies. Vibration dampers are used primarily by the aerospace and defense industries to control the response of electronics and optical systems subjected to air, ship, or spacecraft vibration.

Distribution

The Company uses the services of more than 50 sales representatives and distributors in the United States and Canada. Specialized technical sales in aerospace and custom marketing activities are serviced by three sales agents, under the direction and with the assistance of Douglas P. Taylor, the Company's President. Sales representatives typically have non exclusive, yearly agreements with the Company, which, in most instances, provide for payment of commissions on sales at 10% of the product's net aggregate selling price. Distributors also have non exclusive, yearly agreements with the Company to purchase the Company's products for resale purposes.

Competition

The Company faces competition on mature aerospace and defense programs which may use more conventional products manufactured under less stringent government specifications. Two foreign companies are the Company's competitors in the production of crane buffers.

The Company's principal competitors for the manufacture of products in the aerospace and commercial aerospace industries field is Goodrich Landing Gear Division of Goodrich Corporation in Cleveland, Ohio, and Ft Worth, Texas. While the Company is competitive with this company in the areas of pricing, warranty and product performance, due to limited financing and manufacturing facilities, the Company cannot compete in the area of volume production.

The Company competes directly against two other firms supplying seismic damping devices, as well as numerous other firms which supply alternative seismic protection technologies.

Raw Materials and Supplies

The principal raw materials and supplies used by the Company in the manufacture of its products are provided by numerous U.S. and foreign suppliers. The loss of any one of these would not materially affect the Company's operations.

Dependence Upon Major Customers

The Company is not dependent on any one or a few major customers. Sales to three customers approximated 37% (21%, 9% and 7%, respectively) of net sales for 2011. The loss of any or all of these customers, unless the business is replaced by the Company, could result in an adverse effect on the results for the Company.

Patents, Trademarks and Licenses

The Company holds approximately 16 patents expiring at different times until the year 2032.

Terms of Sale

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The Company does not carry significant inventory for rapid delivery to customers, and goods are not normally sold with return rights such as are available for consignment sales. The Company has no inventory out on consignment and no consignment sales for the years ended May 31, 2011 and 2010. No extended payment terms are offered. During the year ended May 31, 2011, delivery time after receipt of orders averaged 12 to 14 weeks for the Company's standard products. Due to the volatility of construction and aerospace/defense programs, progress payments are usually required for larger projects using custom designed components of the Company.

Need for any Government Approval of Principal Products or Services

Contracts between the Company and the federal government or its independent contractors are subject to termination at the election of the federal government. Contracts are generally entered into on a fixed price basis. If the federal government should limit defense spending, these contracts could be reduced or terminated, which management believes would have a materially adverse effect on the Company.

Research and Development

The Company does not generally engage in major product research and development activities in connection with the design of its products, except when funded by aerospace customers or the federal government. The Company, however, engages in research testing of its products. For the fiscal years ended May 31, 2011 and 2010, the Company expended \$272,000 and \$169,000, respectively, on manufacturing research. For the years ended May 31, 2011 and 2010, defense sponsored research and development totaled \$67,000 and \$26,000, respectively.

Government Regulation

Compliance with federal, state and local laws and regulations which have been enacted or adopted regulating the discharge of materials into the environment has had no material effect on the Company, and the Company believes that it is in substantial compliance with such provisions.

The Company is subject to the Occupational Safety and Health Act ("OSHA") and the rules and regulations promulgated thereunder, which establish strict standards for the protection of employees, and impose fines for violations of such standards. The Company believes that it is in substantial compliance with OSHA provisions and does not anticipate any material corrective expenditures in the near future. The Company is currently incurring only moderate costs with respect to disposal of hazardous waste and compliance with OSHA regulations.

The Company is also subject to regulations relating to production of products for the federal government. These regulations allow for frequent governmental audits of the Company's operations and fairly extensive testing of Company products. The Company believes that it is in substantial compliance with these regulations and does not anticipate corrective expenditures in the future.

Employees

Exclusive of Company sales representatives and distributors, as of May 31, 2011, the Company had 90 employees, including three executive officers, and one part time employee. The Company has good relations with its employees.

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Item 1A. Risk Factors.

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

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties

The Company's production facilities occupy approximately six acres on Tonawanda Island in North Tonawanda, New York and are comprised of four interconnected buildings and two adjacent buildings. The production facilities consist of a small parts plant (approximately 4,400 square feet), a large parts plant (approximately 13,500 square feet), and include a facility of approximately 7,000 square feet constructed in 1995 (see below), a test facility, storage area, pump area and the Company's general offices. One adjacent building is a 17,000 square foot seismic assembly test facility. Another adjacent building (approximately 2,000 square feet) is used as a training facility. These facilities total more than 45,000 square feet. Adjacent to these facilities, the Company has two separate remote test facilities used for shock testing. One facility is 800

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square feet, and a newer, state-of-the-art test facility is 1,200 square feet. The small parts plant consists of a complete small machine shop and tool room that produces all of the Company's product items which are less than two inches in diameter. The large parts plant consists of a complete large machine shop and tool room. Both plants contain custom-built machinery for boring, deep-hole drilling and turning of parts.

The Company's real properties are subject to a negative pledge agreement with its lender, First Niagara Bank. The Company has agreed with the lender that, for so long as the credit facilities with the lender are outstanding, the Company will not sell, lease or mortgage any of its real properties. Additional information regarding the Company's agreement with First Niagara Bank is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, at "Capital Resources, Line of Credit and Long-Term Debt."

The Company leases a separate warehouse for storage from an unrelated third party, consisting of approximately 3,600 square feet at \$975 per month. The warehouse is located approximately one-quarter mile from the above-referenced production facilities and office space. The total rental expense incurred by the Company for this facility in fiscal 2011 was \$11,700. The Company also leases a separate facility for painting, packaging and shipping from an unrelated third party, consisting of approximately 12,600 square feet at \$5,292 per month. The facility is located in the Town of Tonawanda, New York, approximately four miles from the above-referenced production facilities and office space. The total rental expense incurred by the Company for this facility in fiscal 2011 was \$58,044.

The Company believes it is carrying adequate insurance coverage on its facilities and their contents.

Proposed Expansion

Several years ago the demand for the Company's large seismic dampers reached a level where the Company had reached the floor space capacity in its Tonawanda Island Facilities. The Company added the lease facilities in the Town of Tonawanda as a short-term solution.

The past three years' sales volume combined with a product mix skewed heavily towards larger seismic dampers has stretched all of the Company's current facilities to their limits. The Company has a need for additional manufacturing space. Management believes that the recent series of major earthquakes worldwide should result in increased sales of the Company's products to the world construction market in the ensuing years.

In 2010, the Company began a study considering additional buildings for the Tonawanda Island site. This study determined that to maintain proper production flow through the buildings required many costly changes to the site. The study concluded that it is not cost-effective to add additional floor space to the present site. As a result, the Company is contemplating three possible nearby locations, each with enough building space to house all of its present machining operations. The existing Tonawanda Island site would then have enough free floor space to assemble and test all products for the foreseeable future. The new facilities would essentially become the Company's parts manufacturing center with the main facilities on Tonawanda Island continuing as the product assembly and testing center in addition to housing Corporate, Sales, Engineering and Accounting functions. In the near term, an aggressive schedule contemplates having new capabilities come on-line beginning in the Spring of 2012.

On August 25, 2011, the date of filing of this report, the Company was in negotiations to purchase a specific site with existing buildings.

Item 3. Legal Proceedings.

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

Item 4. (Removed and Reserved).

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases Of Equity Securities.

Market Information

Need for any Government Approval of Principal Products or Services

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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 2011 and fiscal year 2010 were obtained from NASDAQ.

	Fiscal 2011		Fiscal 2010	
	High	Low	High	Low
First Quarter	6.05	4.50	3.75	2.78
Second Quarter	5.28	4.55	5.50	3.30
Third Quarter	5.23	4.50	5.75	4.45
Fourth Quarter	6.60	4.80	6.85	5.00

Holders

As of August 13, 2011, the number of issued and outstanding shares of Common Stock was 3,229,454 and the approximate number of record holders of the Company's Common Stock was 778. Due to a substantial number of shares of the Company's Common Stock held in street name, the Company believes that the total number of beneficial owners of its Common Stock exceeds 2,000.

Dividends

No cash or stock dividends have been declared during the last two fiscal years. The Company does not intend to pay cash dividends in the foreseeable future.

As of September 15, 2008, the Company's Board of Directors adopted a shareholder rights plan designed to deter coercive or unfair takeover tactics and prevent an acquirer from gaining control of the Company without offering a fair price to shareholders. Under the plan, certain rights ("Rights") were distributed as a dividend on each share of Common Stock (one Right for each share of Common Stock) held as of the close of business on October 3, 2008. Each whole Right entitles the holder, under certain defined conditions, to buy one two-thousandths (1/2000) of a newly issued share of the Company's Series 2008 Junior Participating Preferred Stock ("Series 2008 Preferred Stock") at a purchase price of \$5.00 per unit of one two-thousandths of a share. Rights attach to and trade with the shares of Common Stock, without being evidenced by a separate certificate. No separate Rights certificates will be issued unless and until the Rights detach from Common Stock and become exercisable for shares of the Series 2008 Preferred Stock.

The Rights become exercisable to purchase shares of Preferred Stock (or, in certain circumstances, Common Stock) only if (i) a person acquired 15% or more of the Company's Common Stock, or (ii) a person commenced a tender or exchange offer for 10% or more of the Company's Common Stock, or (iii) the Board of Directors determined that the beneficial owner of at least 10% of the Company's Common Stock intended to cause the Company to take certain actions adverse to it and its shareholders or that such ownership would have a material adverse effect on the Company. The Rights Plan will expire on October 5, 2018.

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Issuer Purchases of Equity Securities

During the year ended May 31, 2011, the Company repurchased 6,400 shares of its common stock for a total of \$30,418, including brokerage fees, under a share repurchase agreement through open market purchases. Purchase prices ranged from \$4.55 to \$4.75 per share.

Equity Compensation Plan Information

The following table sets forth information regarding equity compensation plans of the Company as of May 31, 2011.

Equity Compensation Plan Information			
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights <i>(a)</i>	Weighted-average exercise price of outstanding options, warrants and rights <i>(b)</i>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column <i>(a)</i>) <i>(c)</i>

Need for any Government Approval of Principal Products or Services

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Equity compensation plans
approved by security
holders

1998 Stock Option Plan	5,000	\$5.75	-
2001 Stock Option Plan	14,250	\$4.13	-
2005 Stock Option Plan	138,500	\$5.09	-
2008 Stock Option Plan	71,250	\$5.62	68,000

Equity compensation plans
not approved by security
holders

2004 Employee Stock Purchase Plan (1)	-	-	234,216
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Total	229,000		302,216
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(1) The Company's 2004 Employee Stock Purchase Plan (the "Employee Plan") permits eligible employees to purchase shares of the Company's common stock at fair market value through payroll deductions and without brokers' fees. Such purchases are without any contribution on the part of the Company. As of May 31, 2011, 234,216 shares were available for issuance.

Item 6. Selected Financial Data

The Company qualifies as a smaller reporting company, as defined by 17 CFR §229.10(f)(1), and is not required to provide the information required by this Item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**Cautionary Statement**

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Information in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this 10-K that does not consist of historical facts are "forward-looking statements." Statements accompanied or qualified by, or containing, words such as "may," "will," "should," "believes," "expects," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," "assume" and "optimistic" constitute forward-looking statements and, as such, are not a guarantee of future performance. The statements involve factors, risks and uncertainties, the impact or occurrence of which can cause actual results to differ materially from the expected results described in such statements. Risks and uncertainties can include, among others, fluctuations in general business cycles and changing economic conditions; 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

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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, 2011 equaled less than 0.1% of sales for that period. The balance of the valuation allowance remained constant since May 31, 2009 at the current level of \$42,000. Management does not expect the valuation allowance to materially change in the next twelve months for the current accounts receivable balance.

Inventory

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

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

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

The provision for potential inventory obsolescence was \$180,000 for each of the years ended May 31, 2011 and 2010.

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

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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, 2011, 61% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 39% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2010, 56% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 44% 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

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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 \$2.4 million of taxable income in order to realize our deferred tax assets recorded as of May 31, 2011 of \$819,000. This deferred tax asset balance is only 2% (\$16,000) lower than at the end of the prior year. The amount of the deferred tax assets considered realizable however, could be reduced in the near term if estimates of future taxable income are reduced. If actual results differ from estimated results or if the Company adjusts these assumptions, the Company may need to adjust its deferred tax assets or liabilities, which could impact its effective tax rate. Historically, actual results have not varied materially from the Company's estimates.

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

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2011, the Company had State investment tax credit carryforwards of approximately \$156,000 expiring through May 2017.

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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, 2011 and 2010

	Increase / (Decrease)
Sales, net	\$ 3,031,000
Cost of goods sold	\$ 3,543,000
Selling, general and administrative expenses	\$ (231,000)
Other income / (expense)	\$ 216,000
Provision for income taxes	\$ 105,000
Net income	\$ (170,000)

For the year ended May 31, 2011 (All figures being discussed are for the year ended May 31, 2011 as compared to the year ended May 31, 2010.)

	Year ended		Increase / (Decrease)	Change	Percent Change
	May 31, 2011	May 31, 2010			
Net Revenue	\$20,906,000	\$17,875,000	\$ 3,031,000		17%
Cost of sales	15,347,000	11,804,000	3,543,000		30%
Gross profit	\$ 5,559,000	\$ 6,071,000	\$ (512,000)		-8%

...as a percentage of net revenues 27% 34%

The Company's consolidated results of operations showed a 17% increase in net revenues and a decrease in net income of 11%. Gross profit decreased by 8%. Revenues recorded in the current period for long-term construction projects increased by 26% from the level recorded in the prior year. This increase is primarily due to more projects in process in the current year (46 in fiscal 2011; 34 in fiscal 2010). Of the 46 projects in process during this year, 28 were still in process at 5/31/11 compared with the prior year when 10 of the 34 projects worked on were still in process at 5/31/10. The average value of these projects in-process at the end of the two fiscal years remained constant at slightly more than \$500,000 but the projects in the current year are 67% complete in the aggregate as compared with 37% for those in process at 5/31/10.

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Revenues recorded for all other product sales increased by 5% from last year. The gross profit as a percentage of net revenues for the current and prior year periods was 27% and 34%, respectively. This fluctuation is attributable primarily to a.) three large export Projects in the prior year period had higher than average margins, b.) three large Projects in the prior year with aerospace / defense customers that had higher margins than average Projects for construction customers, and c.) in the current period, there were more Projects sold directly to representatives in two different Asian countries, without commissions to intermediaries, which resulted in lower sales, gross margins and commission expense.

The mix of customers buying our products changed from last year. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. A 22% decrease in sales to aerospace / defense customers from last year's record high level was more than offset by a 75% increase in sales to customers who were seeking seismic / wind protection for either building new buildings and bridges or retrofitting existing buildings and bridges. A breakdown of sales to these three general groups of customers is as follows:

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	<u>2011</u>	<u>2010</u>
Industrial	8%	10%
Construction	57%	38%
Aerospace / Defense	35%	52%

At May 31, 2010, we had 98 open sales orders in our backlog with a total sales value of \$13.0 million. At May 31, 2011, we had slightly more open sales orders in our backlog (117 orders) and the total sales value is \$15.0 million. \$4.6 million of the current backlog is on projects already in progress. \$3.2 million of the \$13.0 million sales order backlog at May 31, 2010 was in progress at that date. 38% of the sales value in the backlog is for aerospace / defense customers compared to 42% at the end of fiscal 2010. As a percentage of the total sales order backlog, orders from customers in construction accounted for 60% at May 31, 2011 and 56% at May 31, 2010.

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

Net revenue by geographic region, as a percentage of total net revenue for fiscal years ended May 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
North America	55%	67%
Asia	35%	25%
Other	10%	8%

Selling, General and Administrative Expenses

	Year ended		Change	
	May 31, 2011	May 31, 2010	Increase / (Decrease)	Percent Change
Outside Commissions	\$ 763,000	\$ 757,000	\$ 6,000	1%
Other SG&A	3,313,000	3,550,000	(237,000)	-7%
Total SG&A	\$4,076,000	\$4,307,000	\$ (231,000)	-5%
<i>...as a percentage of net revenues</i>	<i>19%</i>	<i>24%</i>		

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Selling, general and administrative expenses decreased by 5% from the prior year. Outside commission expense increased slightly from last year's level. Other selling, general and administrative expenses decreased by 7% from last year. This decrease is primarily attributable to a decrease in employee compensation expense related to the previous year's higher net income compared to the current year as well as the previous year's increased professional fees related to a study completed to support federal research tax credits.

The above factors resulted in operating income of \$1,482,000 for the year ended May 31, 2011, down 16% from the \$1,764,000 in the prior year.

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Net interest income of \$10,000 in the current year is compared to net interest expense last year of \$16,000. Cash flow from the Company's operations during the prior year provided sufficient funds to eliminate all of the long-term bank debt and short-term borrowings as of the end of May 31, 2010. The average level of use of the Company's operating line of credit reduced from \$0.3 million last year to no usage this year. Available funds are deposited into short-term interest bearing bank accounts. The line of credit is used primarily to fund the production of larger projects that do not allow for advance payments or progress payments.

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, 2011 is 17.1%, significantly more than the ETR for the prior year of 10.6%. A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

	2011	2011
Computed tax provision at the expected statutory rate	\$ 581,300	\$ 603,500
State income tax - net of Federal tax benefit	400	300
Tax effect of permanent differences:		
Research tax credits	(300,800)	(431,000)
Other permanent differences	5,400	7,400
Other	6,900	8,000
	\$ 293,200	\$ 188,200

Stock Options

The Company has a stock option plan which provides for the granting of nonqualified or incentive stock options to officers, key employees and non-employee directors. Options granted under the plan 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 \$80,000 and \$86,000 of compensation cost for the years ended May 31, 2011 and 2010.

The fair value of each stock option grant has been determined using the Black-Scholes model. The model considers assumptions related to exercise price, expected volatility, risk-free interest rate, and the weighted average expected term of the stock option grants. The Company used a weighted average expected term. Expected volatility assumptions utilized in the model were based on volatility of the Company's stock price for the thirty month period immediately preceding the granting of the options. The Company issued stock options in August 2010 and April 2011. 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:

	<u>August 2010</u>	<u>April 2011</u>
Risk-free interest rate:	2.75%	2.75%
Expected life of the options:	2.5 years	2.5 years
Expected share price volatility:	60%	54%
Expected dividends:	zero	zero

These assumptions resulted in estimated fair-market value per stock option: \$2.00 \$2.00

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.

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A summary of changes in the stock options outstanding during the year ended May 31, 2011 is presented below:

	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>
Options outstanding and exercisable at May 31, 2010:	193,750	\$ 5.11
Options granted:	40,250	\$ 5.48
Less: Options exercised:	5,000	\$ 3.25

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Options outstanding and exercisable at May 31, 2011: 229,000 \$ 5.21

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, 2011 were \$386,000 compared to \$252,000 in the prior year. The Company has a commitment to make a capital expenditure of \$117,000 as of May 31, 2011.

In August 2009, the Company replaced its previous bank credit facility with a \$6,000,000 demand line of credit from a different 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 an interest rate floor of 3.5%. 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:

- Maintain a minimum working capital position of \$3 million at all times;
 - Actual working capital at May 31, 2011 was \$12.3 million.
- Maintain a minimum debt service coverage ratio of 1.5:1.
 - Actual ratio at May 31, 2011 was 344:1.

The line of credit was unused as of May 31, 2011, as well as of May 31, 2010. The outstanding balance on the line of credit fluctuates as the Company's various long-term projects progress.

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

The Company believes that cash on hand should be sufficient to fund its proposed expansion plans described in Item 2 of this Report.

Inventory and Maintenance Inventory

	May 31, 2011	May 31, 2010	Increase / (Decrease)	
Raw Materials	\$ 666,000	\$ 569,000	\$ 97,000	17%
Work in process	4,083,000	5,247,000	(1,164,000)	-22%
Finished goods	603,000	658,000	(55,000)	-8%
Inventory	5,352,000 86%	6,474,000 90%	(1,122,000)	-17%
Maintenance and other inventory	846,000 14%	719,000 10%	127,000	18%
Total	\$ 6,198,000 100%	\$ 7,193,000 100%	\$ (995,000)	-14%
Inventory turnover	2.3	1.6		

Inventory, at \$5,352,000 as of May 31, 2011, is 17% lower than the prior year-end. Of this, approximately 76% is work in process, 11% is finished goods, and 13% is raw materials. While 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, we do not expect that the inventory level will increase or decrease significantly from current levels for a sustained period of time.

The Company continues to rework slow-moving inventory, where applicable, to convert it to product to be used on customer orders. There was an insignificant amount of slow-moving inventory used during the year ended May 31, 2011. The Company disposed of approximately \$256,000 and \$28,000 of obsolete inventory during the years ended May 31, 2011 and 2010, respectively.

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Less: Costs	1,645,000	673,000
Less: Estimated earnings	794,000	44,000
BIEC	\$ 153,000	\$ 368,000
Number of projects in progress	3	3

Summary of factors affecting the year-end balances in the asset CIEB, and the liability BIEC:

	<u>2011</u>	<u>2010</u>
Number of projects in progress at year-end	28	10
Aggregate percent complete at year-end	67%	37%
Average total value of projects in progress at year-end	\$510,000	\$507,000
Percentage of total value invoiced to customer	39%	24%

The Company's backlog of sales orders at May 31, 2011 is \$15 million, up 15% from the backlog at the end of the prior year of \$13 million. \$4.6 million of the current backlog is on projects already in progress.

Accounts payable, at \$1,292,000 as of May 31, 2011, is \$196,000 more than the prior year-end. There is no specific reason for this fluctuation other than the normal payment cycle of vendor invoices.

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, 2011 are \$433,000. This is 14% more than the \$380,000 accrued at the prior year-end. Commission expense related to long-term construction projects is recorded at the same time as revenue on the projects is recorded. This liability will not decrease until progress billings on the projects have been issued by the Company and are paid by our customers. Considering that the net change in the balances of accounts receivable and CIEB is an increase of \$242,000 or 4% over the prior year end, it would be reasonable to expect that the balance in the accrued commissions would likewise be higher than the prior year. The Company expects the current accrued amount to be paid during the next twelve months.

Other current liabilities of \$1,329,000 decreased only 14% from the prior year of \$1,549,000. This decrease is primarily due to a decrease in the accrued compensation to employees for services.

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.

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

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

Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data required pursuant to this Item 8 are included in this Form 10-K as a separate section commencing on page 26 and are incorporated herein by reference.

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

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

Item 9A. Controls and Procedures.

(a) *Evaluation of disclosure controls and procedures.*

The Company's principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of May 31, 2011 and have concluded that, as of the evaluation date, the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure.

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

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of May 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control -- Integrated Framework. Based on this assessment management has concluded that, as of May 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

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

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended May 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

Item 9B. Other Information.

None.

PART III

The information required by Items 10, 11, 12, 13 and 14 of this part will be presented in the Company's Proxy Statement to be issued in connection with the Annual Meeting of Shareholders to be held on November 11, 2011, which information is hereby incorporated by reference into this Annual Report. The proxy materials, including the Proxy Statement and form of proxy, will be filed within 120 days after the Company's fiscal year end.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

DOCUMENTS FILED AS PART OF THIS REPORT:

Index to Financial Statements:

- | | |
|-------|---|
| (i) | Report of Independent Registered Public Accounting Firm |
| (ii) | Consolidated Balance Sheets May 31, 2011 and 2010 |
| (iii) | Consolidated Statements of Income for the years ended May 31, 2011 and 2010 |
| (iv) | Consolidated Statements of Stockholders' Equity for the years ended May 31, 2011 and 2010 |
| (v) | Consolidated Statements of Cash Flows for the years ended May 31, 2011 and 2010 |
| (vi) | Notes to Consolidated Financial Statements May 31, 2011 and 2010 |

EXHIBITS:

- (2) Plan of acquisition, reorganization, arrangement, liquidation or succession

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- (i) Agreement and Plan of Merger by and between Taylor Devices, Inc. and Tayco Developments, Inc. dated November 30, 2007, incorporated by reference to Registration Statement on Form S-4, File No. 333-147878, filed with the Securities and Exchange Committee on January 4, 2008.
- (3) Articles of incorporation and by-laws
 - (i) Restated Certificate of Incorporation incorporated by reference to Exhibit (3)(i) of Annual Report on Form 10-K, dated August 24, 1983.
 - (ii) Amendment to Certificate of Incorporation incorporated by reference to Exhibit (3)(iv) to Form 8 [Amendment to Application or Report], dated September 24, 1993.
 - (iii) Amendment to Certificate of Incorporation eliminating and re-designing the Series A Junior Preferred Stock and creating 5,000 Series 2008 Junior Participating Preferred Stock, \$.05 par value, as filed by the Secretary of State of the State of New York on September 16, 2008, and incorporated by reference to Exhibit (3)(i) of Form 8-K, dated as of September 15, 2008 and filed September 18, 2008.
 - (iv) Certificate of Change incorporated by reference to Exhibit (3)(i) to Quarterly Report on Form 10-QSB for the period ending November 30, 2002.
 - (v) Proxy Review Guidelines incorporated by reference to Exhibit (3)(ii) to Quarterly Report on Form 10-QSB for the period ending February 28, 1998, dated April 10, 1998.
 - (vi) By-laws incorporated by reference to Exhibit (3)(i) to Quarterly Report on Form 10-QSB for the period ending February 28, 2004, dated April 14, 2004.
 - (vii) Amendment to By-laws incorporated by reference to Exhibit (3)(ii) of Form 8-K, dated as of September 15, 2008 and filed September 18, 2008.
- (4) Instruments defining rights of security holders, including indentures
 - (i) Rights Agreement by and between registrant and Regan & Associates, Inc, dated as of October 5, 2008 and letter to shareholders (including Summary of Rights), dated October 5, 2008, attached as Exhibits 4 and 20, respectively to Registration Statement on Form 8-A 12G, filed with the Securities and Exchange Commission on October 3, 2008.
- (10) Material Contracts
 - (i) 1998 Taylor Devices, Inc. Stock Option Plan attached as Exhibit 4.1 to Registration Statement on Form S-8, File No. 33-6905, filed with the Securities and Exchange Commission on December 24, 1998.
 - (ii) 2001 Taylor Devices, Inc. Stock Option Plan attached as Exhibit A to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 24, 2001.
 - (iii) 2005 Taylor Devices, Inc. Stock Option Plan attached as Appendix B to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 27, 2005.
 - (iv) 2008 Taylor Devices, Inc. Stock Option Plan attached as Appendix C to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 26, 2008.
 - (v) Employment Agreement dated as of December 1, 2000 between the Registrant and Douglas P. Taylor, incorporated by reference to Exhibit (10)(x) to Annual Report on Form 10-KSB, dated August 22, 2001.

- (vi) Employment Agreement dated as of December 1, 2000 between the Registrant and Richard G. Hill, incorporated by reference to Exhibit (10)(xi) to Annual Report on Form 10-KSB, dated August 22, 2001.
- (vii) The 2004 Taylor Devices, Inc. Employee Stock Purchase Plan, incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8, File No. 333-114085, filed with the Securities and Exchange Commission on March 31, 2004.
- (viii) Post-Effective Amendment No. 1 to Registration Statement on Form S-8, File No. 333-114085, for the 2004 Taylor Devices, Inc. Employee Stock Purchase Plan, filed with the Securities and Exchange Commission on August 24, 2006.
- (ix) First Amendment to Employment Agreement dated as of December 22, 2006 between the Registrant and Douglas P. Taylor, incorporated by reference to Exhibit 10(ii) to Quarterly Report on Form 10-QSB for the period ending February 28, 2007.
- (x) First Amendment to Employment Agreement dated as of December 22, 2006 between the Registrant and Richard G. Hill, incorporated by reference to Exhibit 10(iii) to Quarterly Report on Form 10-QSB for the period ending February 28, 2007.
- (xi) Form of Indemnification Agreement between registrant and directors and executive officers, attached as Appendix A to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 27, 2007.
- (xii) Consent Agreement by and between Taylor Devices, Inc. and HSBC Bank USA, National Association, dated November 30, 2008, incorporated by reference to Exhibit 10(xv) to Annual Report on Form 10-KSB, dated August 21, 2008.
- (xiii) General Security Agreement dated August 7, 2009 by the Registrant in favor of First Niagara Bank, incorporated by reference to Exhibit 10(xiii) to Annual Report on Form 10-K filed August 28, 2009.
- (xiv) Negative Pledge Agreement dated August 7, 2009 by the Registrant in favor of First Niagara Bank, incorporated by reference to Exhibit 10(xiv) to Annual Report on Form 10-K filed August 28, 2009.
- (xv) Management Bonus Policy dated as of March 4, 2011 between the Registrant and executive officers, incorporated by reference to Exhibit 10(i) to Quarterly Report on Form 10-Q for the period ending February 28, 2010.

(11) Statement regarding computation of per share earnings

REG. 228.601(A)(11) Statement regarding computation of per share earningsWeighted average of common stock/equivalents outstanding - fiscal year ended May 31, 2011

Weighted average common stock outstanding		3,229,491
Common shares issuable under stock option plans using treasury stock method		6,051
Weighted average common stock outstanding assuming dilution		3,235,542
Net income fiscal year ended May 31, 2011	(1)	\$ 1,416,509
Weighted average common stock	(2)	3,229,491
Basic income per common share	(1) divided by (2)	\$.44
Net income fiscal year ended May 31, 2011	(3)	\$ 1,416,509
Weighted average common stock outstanding assuming dilution	(4)	3,235,542
Diluted income per common share	(3) divided by (4)	\$.44

Weighted average of common stock/equivalents outstanding - fiscal year ended May 31, 2010

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Weighted average common stock outstanding		3,224,923
Common shares issuable under stock option plans using treasury stock method		1,969
Weighted average common stock outstanding assuming dilution		3,226,892
Net income fiscal year ended May 31, 2010	(1)	\$ 1,586,957
Weighted average common stock	(2)	3,224,923
Basic income per common share	(1) divided by (2)	\$.49
Net income fiscal year ended May 31, 2010	(3)	\$ 1,586,955
Weighted average common stock outstanding assuming dilution	(4)	3,226,892
Diluted income per common share	(3) divided by (4)	\$.49

(13) The Annual Report to Security Holders for the fiscal year ended May 31, 2011, attached to this Annual Report on Form 10-K.

(14) Code of Ethics, incorporated by reference to Exhibit 14 to Annual Report on Form 10-KSB for the period ending May 31, 2004.

(20) Other documents or statements to security holders

(i) News from Taylor Devices, Inc. Shareholder Letter, Summer 2011.

(21) Subsidiaries of the registrant

Tayco Realty Corporation is a New York corporation organized on September 8, 1977, owned by the Company.

(23) The Consent of Independent Registered Public Accounting Firm precedes the Consolidated Financial Statements.

(31) Officer Certifications

(i) Rule 13a-14(a) Certification of Chief Executive Officer.

(ii) Rule 13a-14(a) Certification of Chief Financial Officer.

(32) Officer Certifications

(i) Section 1350 Certification of Chief Executive Officer.

(ii) Section 1350 Certification of Chief Financial Officer.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TAYLOR DEVICES,
INC.
(Registrant)

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By: /s/Douglas P. Taylor
Douglas P. Taylor
President and Director
(Principal Executive Officer)

Date: August 5, 2011

and

By: /s/Mark V. McDonough
Mark V. McDonough
Chief Financial Officer

Date: August 5, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/Reginald B. Newman II
Reginald B. Newman II, Director
August 5, 2011

By: /s/Richard G. Hill
Richard G. Hill, Director
August 5, 2011

By: /s/John Burgess
John Burgess, Director
August 5, 2011

By: /s/Randall L. Clark
Randall L. Clark, Director
August 5, 2011

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[Lumsden & McCormick, LLP Letterhead]

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors of
Taylor Devices, Inc.

Gentlemen:

We hereby consent to the incorporation by reference in this Annual Report on Form 10-K (Commission File Number 0-3498) of Taylor Devices Inc. of our report dated August 5, 2011 and any reference thereto in the Annual Report to Shareholders for the fiscal year ended May 31, 2011.

We also consent to such incorporation by reference in Registration Statement Nos. 333-69705, 333-75662, 333-114085, 333-133340 and 333-155284 of Taylor Devices, Inc. on Form S-8 of our report dated August 5, 2011.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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/s/Lumsden & McCormick, LLP
Lumsden & McCormick, LLP
Buffalo, New York
August 5, 2011

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TAYLOR DEVICES, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2011

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[Lumsden & McCormick, LLP Letterhead]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CONSOLIDATED FINANCIAL STATEMENTS

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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, 2011 and 2010 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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, 2011 and 2010 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.

/s/Lumsden & McCormick, LLP

Lumsden & McCormick, LLP

Buffalo, New York

August 5, 2011

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

May 31,	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,193,534	\$ 197,587
Accounts receivable, net (Note 2)	2,136,848	5,033,395
Inventory (Note 3)	5,352,424	6,474,148
Prepaid expenses	539,900	284,129
Prepaid income taxes	239,030	366,486
Costs and estimated earnings in excess of billings (Note 4)	4,189,799	1,051,354
Deferred income taxes (Note 10)	818,900	834,400
Total current assets	15,470,435	14,241,499

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Maintenance and other inventory, net (Note 5)	846,177	718,749
Property and equipment, net (Note 6)	3,413,446	3,497,800
Cash value of life insurance, net	147,970	142,355
	\$	
	19,878,028	\$ 18,600,403

Liabilities and Stockholders' Equity

Current liabilities:

Current portion of long-term debt (Note 8)	\$ 5,485	\$ 5,485
Accounts payable	1,292,095	1,096,289
Accrued commissions	433,355	380,448
Other current expenses	1,329,341	1,548,655
Billings in excess of costs and estimated earnings (Note 4)	152,505	367,764
Total current liabilities	3,212,781	3,398,641

Long-term debt (Note 8)	3,657	9,141
Deferred income taxes (Note 10)	278,485	304,485

Stockholders' Equity:

Common stock, \$.025 par value, authorized 8,000,000 shares, issued 3,732,842 and 3,725,516 shares	93,321	93,137
Paid-in capital	6,627,463	6,518,769
Retained earnings	11,924,023	10,507,514
	18,644,807	17,119,420
Treasury stock -- 501,643 and 495,243 shares at cost	(2,261,702)	(2,231,284)
Total stockholders' equity	16,383,105	14,888,136
	\$	
	19,878,028	\$ 18,600,403

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the years ended May 31,	2011	2010
Sales, net (Note 9)	\$ 20,906,306	\$ 17,875,371
Cost of goods sold	15,347,519	11,804,465

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Gross profit	5,558,787	6,070,906
Selling, general and administrative expenses	4,076,296	4,307,253
Operating income	1,482,491	1,763,653
Other income (expense):		
Interest, net	9,784	(15,698)
Miscellaneous	217,434	27,202
Total other income (expense)	227,218	11,504
Income before provision for income taxes	1,709,709	1,775,157
Provision for income taxes (Note 10)	293,200	188,200
Net income	\$ 1,416,509	\$ 1,586,957
Basic and diluted earnings per common share (Note 11)	\$ 0.44	\$ 0.49

See notes to consolidated financial statements.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

For the years ended May 31, 2011 and 2010

	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock
Balance, May 31, 2009	\$ 92,913	\$ 6,401,584	\$ 8,920,557	\$ (2,231,221)
Net income for the year ended May 31, 2010	-	-	1,586,957	-
Common stock issued for employee stock purchase plan (Note 13)	81	14,062	-	-
Common stock issued for employee stock option plan (Note 14)	143	16,864	-	-
Odd-lot buy-back of Treasury shares	-	-	-	(63)
Stock options issued for services	-	86,259	-	-

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Balance, May 31, 2010	93,137	6,518,769	10,507,514	(2,231,284)
Net income for the year ended May 31, 2011	-	-	1,416,509	
Common stock issued for employee stock purchase plan (Note 13)	59	12,145	-	-
Common stock issued for employee stock option plan (Note 14)	125	16,125	-	-
Odd-lot buy-back of Treasury shares	-	-	-	(30,418)
Stock options issued for services	-	80,424	-	-
Balance, May 31, 2011	\$ 93,321	\$ 6,627,463	\$ 11,924,023	\$ (2,261,702)

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the years ended May 31,	2011	2010
Operating activities:		
Net income	\$ 1,416,509	\$ 1,586,957
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	470,755	442,263
Gain of sale of equipment	-	(100)
Stock options issued for services	80,424	86,259
Provision for inventory obsolescence	108,169	180,000
Deferred income taxes	(10,500)	44,800

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Changes in other current assets and liabilities:

Accounts receivable	2,896,547	(2,342,363)
Inventory	886,127	157,461
Prepaid expenses	(255,771)	178,847
Prepaid income taxes	127,456	(366,486)
Costs and estimated earnings in excess of billings	(3,138,445)	905,795
Accounts payable	195,806	209,326
Accrued commissions	52,907	(217,839)
Other current expenses	(219,314)	537,839
Billings in excess of costs and estimated earnings	(215,259)	241,747
Accrued income taxes	-	(135,815)
Net operating activities	2,395,411	1,508,691
 Investing activities:		
Net cash paid to trustee	-	37,931
Proceeds from sale of property and equipment	-	100
Acquisition of property and equipment	(386,401)	(252,426)
Increase in cash value of life insurance	(5,615)	(5,608)
Net investing activities	(392,016)	(220,003)
 Financing activities:		
Net short-term borrowings	-	(1,017,000)
Payments on long-term debt	(5,484)	(150,485)
Proceeds from issuance of common stock	28,454	31,150
Acquisition of treasury stock	(30,418)	(63)
Net financing activities	(7,448)	(1,136,398)
Net change in cash and cash equivalents	1,995,947	152,290
Cash and cash equivalents - beginning	197,587	45,297
Cash and cash equivalents - ending	\$ 2,193,534	\$ 197,587

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

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.

40% of the Company's 2011 revenue was generated from sales to customers in the United States and 35% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe and South America.

64% of the Company's 2010 revenue was generated from sales to customers in the United States and 25% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe, South America and Australia.

Principles of Consolidation:

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

Subsequent Events:

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

Use of Estimates:

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

Cash and Cash Equivalents:

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

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

Accounts Receivable:

Accounts receivable are stated at an amount management expects to collect from outstanding balances. Management provides for probable uncollectible accounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory:

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

Property and Equipment:

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

Cash Value of Life Insurance:

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

Revenue Recognition:

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

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certain fixed-price contracts requiring substantial performance over several periods prior to commencement of deliveries, are accounted for under the percentage-of-completion method of accounting whereby revenues are recognized based on estimates of completion prepared on a ratio of cost to total estimated cost basis. Costs include all material and direct and indirect charges related to specific contracts. Other expenses are charged to operations as incurred. Total estimated costs for each of the contracts are estimated based on a combination of historical costs of manufacturing similar products and estimates or quotes from vendors for supplying parts or services towards the completion of the manufacturing process. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. If total costs calculated upon completion of the manufacturing process in the current period for a contract are more than the estimated total costs at completion used to calculate revenue in a prior period, then the revenue and profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion. In the fiscal year ended May 31, 2011, 61% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 39% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2010, 56% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 44% 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 cost of goods sold.

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 sheet at May 31, 2011 or 2010. The Company recorded no interest expense or penalties in its consolidated statements of income during the years ended May 31, 2011 and 2010.

The Company's tax returns for the fiscal tax year ended May 31, 2011, will be subject to examination by federal and state tax authorities. During 2011, the Company's tax returns for the years ended May 31, 2007 through 2010 were examined by Federal taxing authorities. The examinations resulted in no changes to the originally filed returns. Accordingly, no further examination of those tax returns is permitted. Additionally, the Company believes it is no longer subject to examination by state taxing authorities for fiscal years prior to May 31, 2008.

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.

Foreign Currency Translation:

The Company accounts for its foreign currency translation in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 830, *Foreign Currency Matters*. The aggregate transaction gain included in Miscellaneous Income for the year ended May 31, 2011 was \$175,657.

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, 2011 and 2010 was \$80,424 and \$86,259.

New Accounting Standards:

Effective September 1, 2009, the Company adopted the FASB ASC regarding Generally Accepted Accounting Principles ("GAAP"). The guidance establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP for SEC registrants. All guidance contained in the FASB ASC carries an equal level of authority. The FASB ASC supersedes all existing non-SEC accounting and reporting standards.

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The FASB now issues new standards in the form of Accounting Standards Updates ("ASUs"). The FASB does not consider ASUs as authoritative in their own right. ASUs serve only to update the FASB ASC, provide background information about the guidance and provide the basis for conclusions on the changes in the FASB ASC. References made to FASB guidance have been updated for the FASB ASC throughout this document.

In May 2011, the FASB issued an amendment to ASU Topic 820, *Fair Value Measurement*. This amendment improves the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. Implementation of the amendment is required during interim and annual periods beginning after December 15, 2011. We do not expect the adoption of this standard in 2012 to have a significant effect on our results.

Other recently issued ASC guidance has either been implemented or are not significant to the Company.

2. Accounts Receivable:

	2011	2010
Customers	\$ 1,885,451	\$ 4,800,219
Customers - retention	291,921	273,700
Other	1,500	1,500
	2,178,872	5,075,419
Less allowance for doubtful accounts	42,024	42,024
	\$ 2,136,848	\$ 5,033,395

3. Inventory:

	2011	2010
Raw materials	\$ 665,770	\$ 569,026
Work-in-process	4,083,316	5,347,088
Finished goods	703,338	658,034
	5,452,424	6,574,148
Less allowance for obsolescence	100,000	100,000
	\$ 5,352,424	\$ 6,474,148

4. Costs and Estimated Earnings on Uncompleted Contracts:

	2011	2010
Costs incurred on uncompleted		

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contracts	\$ 7,462,597	\$ 1,656,829
Estimated earnings	2,182,403	267,171
	9,645,000	1,924,000
Less billings to date	5,607,706	1,240,410
	\$ 4,037,294	\$ 683,590

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

	2011	2010
Costs and estimated earnings in excess of billings	\$ 4,189,799	\$ 1,051,354
Billings in excess of costs and estimated earnings	152,505	367,764
	\$ 4,037,294	\$ 683,590

5. Maintenance and Other Inventory:

	2011	2010
Maintenance and other inventory	\$ 2,080,740	\$ 2,029,325
Less allowance for obsolescence	1,234,563	1,310,576
	\$ 846,177	\$ 718,749

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, 2011 and 2010.

6. Property and Equipment:

	2011	2010
Land	\$ 141,483	\$ 141,483
Buildings and improvements	4,116,576	4,081,103
Machinery and equipment	5,313,532	5,085,341
Office furniture and equipment	885,757	787,359
Autos and trucks	72,702	72,702
	10,530,050	10,167,988
Less accumulated depreciation	7,116,604	6,670,188
	\$ 3,413,446	\$ 3,497,800

Depreciation expense was \$470,755 and \$442,263 for the years ended May 31, 2011 and 2010.

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%. There is an interest rate floor of 3.5%. 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 is subject to renewal annually.

There is no amount outstanding under the line of credit at May 31, 2011 and May 31, 2010.

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 \$354,367 and \$259,503 as of May 31, 2011 and 2010. These amounts are included in accounts payable.

8. Long-Term Debt:

	2011	2010
Total	\$ 9,142	\$ 14,626
Less current portion	5,485	5,485
	\$ 3,657	\$ 9,141

The aggregate maturities of long-term debt subsequent to May 31, 2011 are:

2012	\$ 5,485
2013	3,657
	\$ 9,142

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:

	2011	2010
Construction	\$11,944,750	\$ 6,831,139
Aerospace / Defense	7,231,393	9,293,266
Industrial	1,730,163	1,750,966
	\$20,906,306	\$17,875,371

Sales to three customers approximated 37% (21%, 9% and 7%, respectively) of net sales for 2011. Sales to three customers approximated 34% (16%, 10% and 8%, respectively) of net sales for 2010.

10. Income Taxes:

	2011	2010
Current tax provision (benefit):		
Federal	\$ 303,600	\$ 152,400
State	600	(9,000)
	304,200	143,400
Deferred tax provision (benefit):		
Federal	(10,300)	35,700
State	(700)	9,100
	(11,000)	44,800
	\$ 293,200	\$ 188,200

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

	2011	2010
Computed tax provision at the expected statutory rate	\$ 581,300	\$ 603,500
State income tax - net of Federal tax benefit	400	300
Tax effect of permanent differences:		
Research tax credits	(300,800)	(431,000)
Other permanent differences	5,400	7,400
Other	6,900	8,000
	\$ 293,200	\$ 188,200
Effective income tax rate	17.1%	10.6%

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

	2011	2010
Deferred tax assets:		
Allowance for doubtful receivables	\$ 14,400	\$ 14,400

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Tax inventory adjustment	61,900	83,500
Allowance for obsolete inventory	449,000	481,000
Accrued vacation	53,700	52,200
Accrued commissions	15,500	14,800
Warranty reserve	80,900	72,500
Stock options issued for services	143,500	116,000
	818,900	834,400

Deferred tax liabilities:

Excess tax depreciation	(278,485)	(304,485)
Net deferred tax assets	\$ 540,415	\$ 529,915

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 \$2.4 million in taxable income in future years in order to realize the deferred tax assets recorded as of May 31, 2011 of \$818,900.

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The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2011, the Company had State investment tax credit carryforwards of approximately \$156,000 expiring through May 2017.

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:

	2011	2010
Average common shares outstanding	3,229,491	3,224,923
Common shares issuable under stock option plans	6,051	1,969
Average common shares outstanding assuming dilution	3,235,542	3,226,892

12. Related Party Transactions:

The Company had no related party transactions.

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, 2011 and 2010, 2,326 (\$4.995 to \$5.805 price per share) and 3,264 (\$3.20 to \$5.80 price per share) common shares, respectively, were issued to employees. As of May 31, 2011, 234,216 shares were reserved for further issue.

14. Stock Option Plans:

In 2008, 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, 140,000 shares of

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common stock have been reserved for grant to key employees and directors of the Company and 72,000 shares have been granted as of May 31, 2011. Under the plan, the option price may not be less than the fair market value of the stock at the time the options are granted. Options vest immediately and expire ten years from the date of grant.

Using the Black-Scholes option pricing model, the weighted average estimated fair value of each option granted under the plan was \$2.00 during 2011 and \$2.17 during 2010. 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.

	2011	2010
Risk-free interest rate	2.75%	4.2%
Expected life in years	2.5	2.5
Expected volatility	56%	60%
Expected dividend yield	0%	0%

The following is a summary of stock option activity:

	Shares	Weighted Average Exercise Price	Intrinsic Value
Outstanding - May 31, 2009	160,000	\$ 4.98	\$ 8,860
Options granted	39,500	\$ 5.31	
Less: options exercised	5,750	\$ 2.96	
Outstanding - May 31, 2010	193,750	\$ 5.11	\$ 191,125
Options granted	40,250	\$ 5.48	
Less: options exercised	5,000	\$ 3.25	
Outstanding - May 31, 2011	229,000	\$ 5.21	\$ 173,570

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 (142,500 at May 31, 2011 and 127,250 at May 31, 2010.) The Company's closing stock price was \$5.87 and \$6.03 as of May 31, 2011 and 2010. As of May 31, 2011, there are 68,000 options available for future grants under the 2008 stock option plan. \$16,250 and \$17,020 was received from the exercise of share options during the fiscal years ended May 31, 2011 and 2010, respectively.

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The following table summarizes information about stock options outstanding at May 31, 2011:

	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	30,000	7.2	\$2.84
\$3.01-\$4.00	17,250	7.4	\$3.41
\$4.01-\$5.00	-	-	-
\$5.01-\$6.00	115,250	7.0	\$5.52
\$6.01-\$7.00	66,500	7.2	\$6.21
\$2.00-\$7.00	229,000	7.1	\$5.21

The following table summarizes information about stock options outstanding at May 31, 2010:

	Outstanding and Exercisable		
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price

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\$2.00-\$3.00	30,000	8.2	\$2.84
\$3.01-\$4.00	22,250	6.7	\$3.38
\$4.01-\$5.00	-	-	-
\$5.01-\$6.00	75,000	6.6	\$5.55
\$6.01-\$7.00	66,500	8.2	\$6.12
\$2.00-\$7.00	193,750	7.4	\$5.11

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:

During the year ended May 31, 2011, the Company repurchased 6,400 shares of its common stock for a total of \$30,418, including brokerage fees, under a share repurchase agreement through open market purchases. Purchase prices ranged from \$4.55 to \$4.75 per share.

During the year ended May 31, 2010, the Company purchased 21 shares of its common stock for a total of \$63 (\$3.00 per share) under an agreement to purchase for cash all shares of common stock from holders of fewer than 100 shares.

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 \$55,003 and \$50,306 for the years ended May 31, 2011 and 2010.

18. Fair Value of Financial Instruments:

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

The carrying amount of long-term debt approximates fair value because the fixed rates are based on current rates offered to the Company for debt with similar terms and maturities.

19. Cash Flows Information:

	2011	2010
Interest paid	\$ 600	\$ 19,217
Income taxes paid (refunded)	\$179,994	\$645,701

20. Legal Proceedings:

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