



taylor devices inc.

**BC Place Stadium – The Evolution of
Vancouver's Downtown Landmark**



Photo Courtesy: B. Craig Keller

2011 Annual Report

SPORTSACTION

President's Letter

Dear Shareholder,

Our 2011 fiscal year was marked by an unprecedented increase in sales of Taylor Devices' seismic and wind protection products. The result was all-time record sales of \$20,906,306, up 17% from sales of \$17,875,371 in 2010. Operating income decreased to \$1,482,491 compared to \$1,763,653 in the previous year. Net income after taxes of \$1,416,509 was the third highest in our corporate history, compared to 2010's all-time record income of \$1,586,957. The reduction in income from the previous year appears to be due to product line mix and the need to expedite delivery for commercial customers.

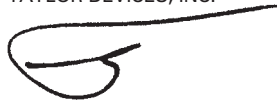
During 2011, sales of seismic and wind protection products increased by 75% from the previous year. Conversely, aerospace/defense product sales decreased by 22%, due mostly to the winding down of NASA's manned space programs coupled with reductions in our armed forces' activity in Iraq. The strongest geographic sales increases came from sales to the Asian marketplace which in 2011 increased to represent 35% of all corporate sales. This is compared to 25% of all sales in 2010. In comparison, North American seismic product sales remain stagnant, reflecting the lack of any significant recovery in the western U.S. construction markets in which the Company traditionally does significant business. Even with the 17% sales increase, Taylor Devices' firm order backlog at fiscal year-end increased to \$15 million, up substantially from \$13 million reported in the previous year.

This year's Annual Report features a major project in Canada — the BC Place Stadium in Vancouver. BC Place is a downtown stadium, yet must also serve as an emergency shelter in the event of a major earthquake or similar natural catastrophe. The stadium, built in 1983, is relatively modern, but the applicable seismic codes have been upgraded several times in the ensuing years. Recent major earthquakes occurring in nations bordering the Pacific Ocean have subjected many construction projects to very stringent review by owners and engineers, requiring higher levels of ultimate seismic capacity. In the past, many considered a maximum quake level of magnitude 8.5 as an example of the ultimate input to a structure. But today, the magnitude 9 Japanese quake of 2011, and the magnitude 8.8 Chilean quake of 2010 have revised expectations upward. The seismic upgrade of BC Place involved the addition of 96 Taylor Devices' Seismic Dampers, each rated for up to 225 tons of force during a major earthquake.

Also featured this year is one of our new products, the Modular Machined Spring. Sales of this product demonstrate that Taylor Devices' Modular Machined Springs have essentially created new market sectors for high precision springs for aerospace/defense and industrial use. The Company has established the capability of manufacturing relatively large machined springs from virtually any material, including exotic alloys which previously could not be made into springs using conventional technology. This has resulted in numerous contracts for these products from major aerospace/defense prime contractors. Recently, industrial use of these products has begun and indeed the Company is currently performing Government funded research to develop uses for this new product in the field of wind protection of buildings.

The Company expects to maintain increased sales levels in 2012, from our new and existing product lines.

Sincerely,
TAYLOR DEVICES, INC.



Douglas P. Taylor
President



Douglas P. Taylor
President

Status Report from the Vice President



Richard G. Hill
Vice President

The past year was a year of growth at Taylor Devices, and a year of planning for further future growth. The Company had record revenues, and profits were near a record level. Manufacturing productivity was up and new equipment was purchased and brought on line. The increased demand for our products emphasized the need for expanded facilities, so we are currently in the design and planning stages. Our customers brought challenges to us which we met, often exceeding their expectations. We expect the future to bring new challenges and we look forward to meeting them in the years to come.

The pace of growth at Taylor Devices in the past several years, plus the increase in the sales backlog, has moved the Company to begin to plan for the next expansion. The planning started with an investigation into the feasibility of expanding the existing plant facilities on Tonawanda Island. Management formed a team with representation from every department. Each department expressed their needs for the future, knowing that all departments rely on each other during the process of making products at Taylor Devices. These considerations led to a design not only for this expansion, but laid out the groundwork for future expansions. At the conclusion it became obvious that, based on the Company's growth rate, a larger site would be required. The Company established the requirements for an expansion site and started the process of locating such a site. In the coming years we expect to be incorporating additional capacity to support the increased demand from our customers, as well as having the ability to grow.

The Company continues to invest in Lean Manufacturing techniques that were developed in past years. Taylor team employees continue to review the manufacturing processes. These teams identify product models and apply the Lean Manufacturing techniques to these products. The changes that the teams suggest are used to improve our productivity and increase our ability to meet our customers' needs.

The Company expanded its grinding capabilities in the past year. New equipment was brought on line which made grinding our largest products possible without the need of an outside source. This capability also aids our ability to meet the expanded needs of our customers.

The growth in our backlog has driven a continuing demand for workers in our manufacturing area. The Company continues to expand its production workforce, bringing individuals in at all levels, from apprentice to advanced journeyman.

Improvements in how we meet our customer's needs is evident in our partnerships with our vendors of both raw material and machine processes. Taylor Devices is continuously working with these organizations to ensure their ability to respond effectively to our needs and the needs of our customers. The past year was a great success and we look forward to the coming year.

Status Report from the Chief Financial Officer



Mark V. McDonough
Chief Financial Officer

In fiscal year 2011, Taylor Devices, Inc. recorded a sales increase of 17% over fiscal year 2010. This is our highest sales level ever, 12% higher than the previous high reached in fiscal year 2008. Last year's spike in sales to customers in the aerospace and defense markets returned to more normal levels this year and was more than offset by a 75% increase in sales of products offering protection against wind and seismic activity. The global demand for protection of bridges and high-rise buildings seems to have rebounded during the second half of this fiscal year. Sales to customers in construction activities now represent 57% of our total sales, up from 38% last year. With the shift in the sales mix from aerospace/defense last year to building/bridge construction this year went the higher gross margins that we experienced last year. Savings in some of our selling, general, and administrative expenses provided some relief from the lower gross margins. Our operating income is 16% lower than last year's and our net income finished off at 44 cents per share, a nickel under the record high in fiscal year 2010 of 49 cents per share.

We have a nice head start for fiscal year 2012 with a sales order backlog of \$15 million which is 15% more than the backlog level at the end of the prior year. The sales order backlog is weighted more toward customers building or retrofitting bridges and buildings in Asia. We are certainly seeing more activity in North America as well. Based on this sales order backlog at year end and new order activity in the early stages of the new fiscal year, we are optimistic that our profitable growth will continue through fiscal year 2012.

In fiscal year 2012 we will see some changes in the way Taylor Devices and other small publicly traded companies disclose financial data. Beginning with the first quarter's reports, we will begin using XBRL. XBRL is a language for the electronic communication of business and financial data. Analysts and other users of the financial reports will more easily be able to compare financial data between various businesses as well as between various industries throughout the world. We will continue to work with our advisors to keep abreast of changes in the regulations and to remain in compliance with them in order to ensure that accurate, reliable financial and business information is provided to investors and other users of this Annual Report and our interim reports.



taylor devices inc.

Aerospace/Defense Products Report



John R. Mayfield
Aerospace / Defense
Products Division

New orders and shipments during fiscal year 2011 were reduced from last year's record performance. However, the year-end backlog of orders gives us an excellent head start for fiscal year 2012. Profitability also remained at an acceptable level.

During fiscal year 2011 we completed a long-term contract with the U.S. Army for Spade Dampers for the M777 Light Weight Howitzer. This has been a very successful long-term program for Taylor Devices and is far from being over. We have received additional new orders from the U.S. Army as well as other friendly nations. The combat record of this weapon has been superb and Taylor's contribution has been well received. A significant new sales opportunity could be with the Army of India who recently selected the M777 as their future artillery weapon system. The program longevity should extend for at least two decades.

Recently we saw the market for high technology navigation systems reappear after a short absence. This is a result of new classes of combat ships and submarines being ordered to replace equipment which has exceeded its normal service life. Our proven line of Tension/Compression Liquid Springs has set the standard for protection of navigator systems from hostile environments. We have received new orders which extend through 2012 for these very successful shock mitigating devices.

Another established program for our Company is the Standard Missile for the U.S. Navy as well as a number of foreign navies. Our participation began in 1988 and should continue well into the foreseeable future. We are under contract for the shock mitigation systems for the SM-3 Missile through the year 2013. Newer variants of this missile are now under development which should result in new opportunities for Taylor Devices.

Although our backlog for mature programs is encouraging, we are concerned about what the future portends due to world stability and our own political uncertainty. These are worrisome times at best and our talents to overcome these challenges will be tested in the near future.

Industrial Products Report



Robert H. Schneider
Industrial Products Division

While the world economy bounces around with its erratic ups and downs, Taylor Devices' Industrial Product Lines have realized a large sales increase that has hopefully pushed our company into the next era with over \$20 million in overall sales for fiscal year 2011. The main product line(s) responsible for this are the Fluid Viscous Dampers and specialized devices used for structural protection against earthquake shaking, wind buffeting, and pedestrian vibrations. Much of this increased work volume received in fiscal year 2011 appeared to be due in part to clients waiting to place orders until money was flowing to them, or economic conditions were ideal to move forward. Along with this, clients are now anticipating that we will maintain regular, or yet faster lead-times, making this the most difficult aspect of all this increased work. Therefore, our current company focus is to bolster our vendor base, while sustaining the work for current vendors, in order to ramp-up our production pace to meet customers' desired deliveries. In addition, it has become apparent that we need more space to build these dampers and products with the dramatically increased workload. Hence the company is working on a plan to substantially increase our plant space.

We continue to obtain new orders for industrial products from all market sectors, including those in the USA, Canada, Europe, India, and Asia. Sales for another regular product line of Taylor Devices, our Crane Buffers, have also improved from last year's levels. Several large orders for new/replacement mill cranes were obtained, and some steel mill maintenance budgets were released for safety upgrades and mill improvements, including purchases of Crane Buffers. This confirms that our industrial product diversity, combined with our military/aerospace product lines, continues to be an effective strategy for prolonged growth and excellent sales, despite the economic and political environments that we function within.

Some of the most significant building projects secured during fiscal year 2011 include custom damping devices for multiple manufacturing facilities of a well-known glass company. This company chose to protect the majority of its critical manufacturing facilities with Taylor Fluid Viscous Dampers, to not only protect their structures but, maybe more importantly, to avoid any post-earthquake downtime, with their critical manufacturing and production supply.

Taylor Devices was also awarded contracts to supply Fluid Viscous Dampers for the following projects: a curtain wall in the Mumbai International Airport, Mumbai, India; dampers for the Kimpo International Airport in Seoul, South Korea; the Shomyo Building project in Yokohama City, Japan; a Nordstrom store in Los Angeles, California; a familiar dot-com company in Pasadena, California; and three new projects in Chile. These projects in Chile are a result of building code improvements and structural engineering efforts subsequent to the devastating February 27, 2010 Chile magnitude 8.8 earthquake. Taylor Devices is also targeting Haiti as a market for use of the company's seismic protection products and has already received two contracts in early fiscal year 2012. These projects are a result of similar actions due to the catastrophic magnitude 7.0 earthquake that struck this country on January 12, 2010.

A number of other bridge damper projects were also received in fiscal year 2011 from China and Korea, along with numerous additional commercial, residential, and microchip fabrication facility projects in Taiwan – these being "veteran" regions of regular earthquake activity.

Our backlog of seismic damper work for fiscal year 2012 is beyond our expectations, reaching a much higher level than ever before. Based on the impressive sales growth during fiscal year 2011 and continuing into early fiscal year 2012, coupled with our largest ever backlog, we are very optimistic about the Industrial Product Lines maintaining strong sales through fiscal year 2012. We continue to monitor the global economy and strive to adapt to meet the needs of our clients.



Craig W. Winters
Industrial Products Division

Corporate Data

OFFICERS AND DIRECTORS

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Lumsden & McCormick, LLP
403 Main Street
Suite 430
Buffalo, NY 14203

GENERAL COUNSEL

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

MANAGERS

Lorrie Battaglia, Human Resources Manager
James Dragonette, Quality Assurance Manager
Greg Hanson, Small Machine Shop Supervisor
Charles Ketchum III, Quality Control Manager
Alan Klembczyk, Chief Engineer
Benjamin Kujawinski, Production Manager
John Mayfield, Aerospace/Defense Products Sales Manager
John Metzger, Engineering Manager Special Projects
Kathleen Nicosia, Shareholder Relations Manager
Robert Schneider, Industrial/Seismic Products Sales Manager
Thomas Struzik Jr., Large Machine Shop Supervisor
Alan Taylor, Government Contracts Administrator
Craig Winters, Industrial/Seismic Products Sales Manager

TRANSFER AGENT AND REGISTRAR

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
800.368.5948 • www.rtc.com

- A copy of the financial report on Form 10-KSB can be obtained free of charge by written request to the attention of Kathleen Nicosia, IR, at Taylor Devices, Inc., 90 Taylor Drive, North Tonawanda, NY 14120-0748. Exhibits to the reports on 10-KSB can be obtained for a postage and handling fee.

Market Information

The Company's Common Stock trades on the NASDAQ Capital Market of the National Association of Securities Dealers Automated Quotation (NASDAQ) stock market under the symbol TAYD.

As of May 31, 2011, the number of issued and outstanding shares of Common Stock was 3,231,199 and the approximate number of record holders of the Company's Common Stock was 796. Due to a substantial number of shares of the Company's Common Stock held in street name, the Company believes that the total number of beneficial owners of its Common Stock exceeds 2,000. No cash or stock dividends have been declared during the fiscal year ended May 31, 2011.

Taylor Devices, Inc. is an electronic filer. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding its issuers that file electronically with the SEC (<http://www.sec.gov>).

The high and low sales information noted below for the quarters of fiscal year 2011 and fiscal year 2010 was obtained from NASDAQ.

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

Notice of Annual Meeting

The annual meeting of the shareholders of the Company will be held on Friday, November 11, 2011, at 11:00 a.m. This year's meeting will be held at the Buffalo Marriott Niagara, 1340 Millersport Highway, Amherst, New York. Shareholders desiring accommodations may call the Buffalo Marriott Niagara at 716.689.6900.



taylor devices inc.

BC Place Stadium, Vancouver, BC

- Opened in 1983, total visitors to date exceed 26 million
- Largest events center in the western Canadian Province of British Columbia
- Seating capacity is 55,000 under a new retractable roof. The cable-supported fully retractable roof is the largest of its type in the world
- Stadium serves as an emergency shelter after an earthquake

Owner
BC Pavilion Corporation

Project Engineer
GENIVAR

Construction
PCL Contractors West Coast, Inc.



Photo Courtesy: B. Craig Keller

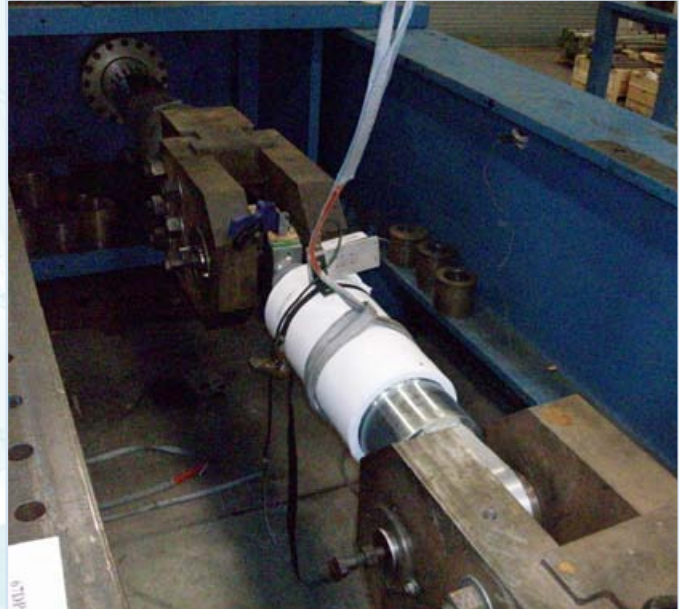
The Seismic Upgrade

- A total of 96 Taylor Devices Seismic Dampers were installed into the stadium structure
- Maximum damper force rating is 450,000 lb. for each damper under a maximum level quake

Assembled dampers ready for testing at Taylor Devices' North Tonawanda, New York, facility



Each damper is tested to full earthquake loading before shipment



Dampers being painted prior to packing and shipping at Taylor Devices' Kenmore, New York, facility



A finished damper installation by construction workers at site

Photo Courtesy: Teratec, Inc.

Board of Directors and Executive Officers



Douglas P. Taylor
Board Member and President

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

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

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

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



Richard G. Hill
Board Member and
Vice President

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

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



Reginald B. Newman II
Board Member and Secretary

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

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

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

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

Board of Directors and Executive Officers



Randall L. Clark
Board Member

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

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

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

Mr. Clark is the Chairman and Director of Lifetime Healthcare Companies, a Director of Computer Task Group, Merchants Mutual Insurance Company, and HSBC-WNY. He is also a Director of Curtis Screw and The Ten Eleven Group. He is a past President of the International Trade Council of Western New York, past Chairman of the Buffalo Chamber of Commerce, past Chairman of the Buffalo Niagara Enterprise, a Director of the Amherst Industrial Development Agency, and Chairman of Univera Healthcare. He serves on the Board of Trustees of the American Heart Association, and is past Chairman and a Director of AAA of Western and Central New York. Mr. Clark was appointed by then Governor George Pataki and served on the Council for the State University of New York at Buffalo. Recently, he was appointed to the Board of Trustees of the University at Buffalo Foundation.



John Burgess
Board Member

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

From 1996 to 1999, Mr. Burgess was COO of International Motion Controls (IMC), a \$200 million diversified manufacturing firm. During his tenure there, he led a significant acquisition strategy that resulted in seven completed acquisitions and 16 worldwide businesses in the motion control market. Previously, Mr. Burgess operated a number of companies for Moog, Inc. and Carleton Technologies, including six years as President of Moog's Japanese subsidiary, Nihon Moog K.K., located in Hiratsuka, Japan. Moog, Inc. is the global leader in electro-hydraulic servo control technology with focus on the aerospace and defense sectors. It was recognized as one of The 100 Best Companies to Work for in America by *Fortune* magazine.

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

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



Mark V. McDonough
Chief Financial Officer

Mr. McDonough, who joined Taylor Devices in June 2003, is a Certified Public Accountant in New York State and holds a B.B.A. degree from Niagara University, awarded in 1982. He has been involved in financial management of various Western New York manufacturing organizations for over 20 years. He has extensive experience in international operations, coupled with a long history of implementing systems of internal controls. From 1986 to 1989, he was an auditor with the Buffalo office of Ernst & Young, LLP.

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



taylor devices inc.

An exciting new product line – **Precision Modular Machined Springs**



Machined Springs
for aircraft and
missile use using
exotic metal alloys

Some 40 years ago, Taylor Devices developed a concept of machining extremely precise mechanical springs from solid bars of steel. Experiments were not successful, the machining was too difficult, and the springs did not follow standard “slide rule” formulas.

Beginning in 2005, the combination of modern CNC machines and enhanced computer software codes allowed Taylor Devices to successfully produce machined springs of virtually any size, shape, and material. Initial use was on government-funded defense products.

In just a few years, with minimal advertising, Taylor Devices’ Machined Spring product lines are now enjoying a worldwide customer base. Applications range from aerospace, to electronics, to construction markets. The Company has developed proprietary computer codes and specialty machinery for producing these products in virtually any size.



Machined Spring equipment mounting
for naval warships

Unsuccessful 1962 experiments



TAYLOR DEVICES, INC. AND SUBSIDIARY

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

AND

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2011

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

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 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

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.

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)

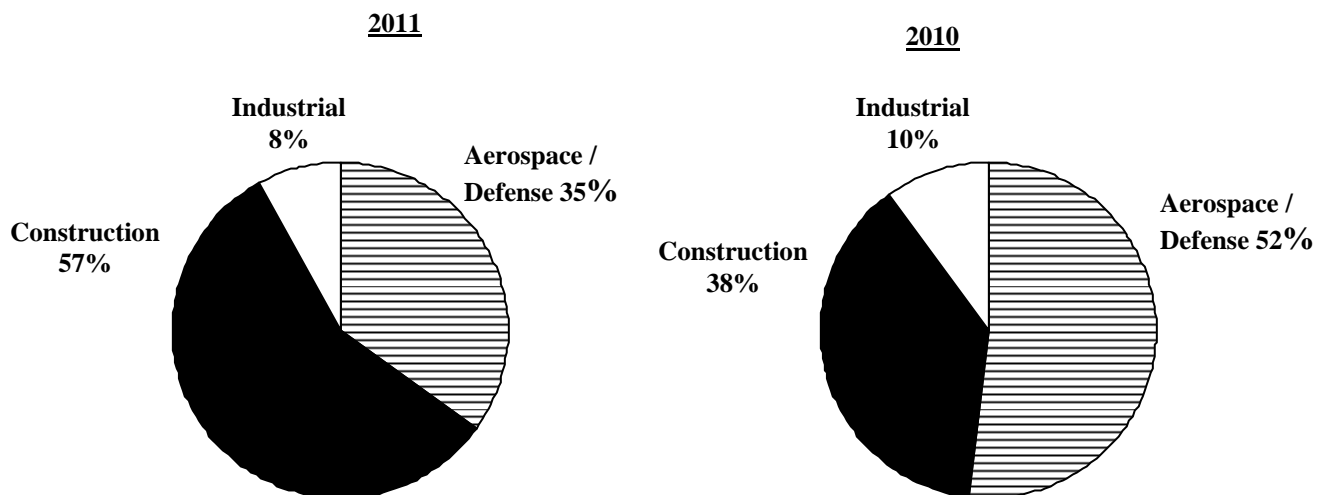
For the year ended May 31, 2011 (All figures being discussed are for the year ended May 31, 2011 as compared to the year ended May 31, 2010.)

	Year ended		Change	
	May 31, 2011	May 31, 2010	Increase / (Decrease)	Percent Change
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. 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.

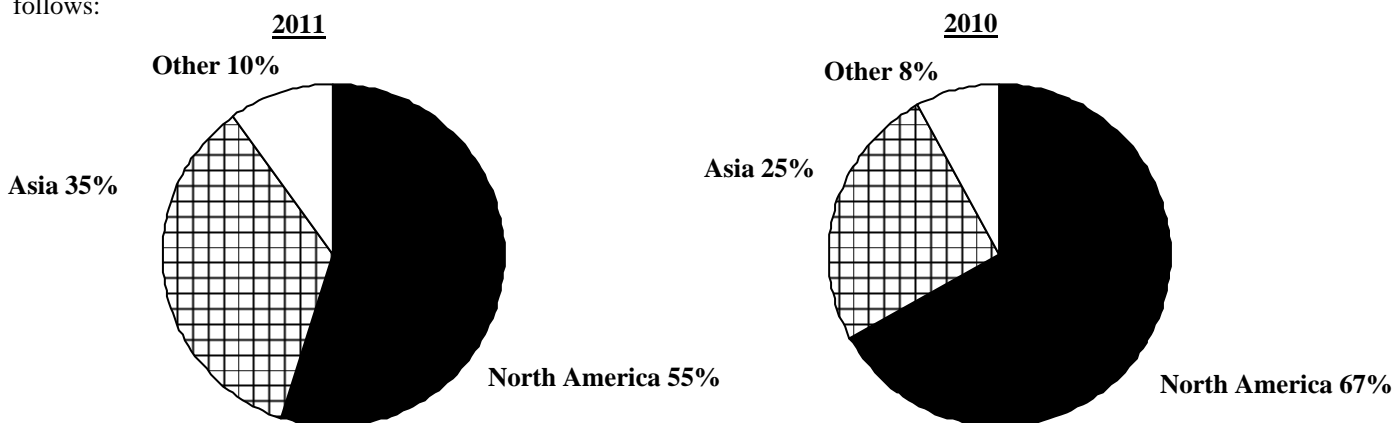
The mix of customers buying our products changed from last year. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. A 22% decrease in sales to aerospace / defense customers from last year's record high level was more than offset 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:



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:



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%

... as a percentage of net revenues 19% 24%

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.

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:

	<u>2011</u>	<u>2010</u>
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
	<u>\$ 293,200</u>	<u>\$ 188,200</u>

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
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The ultimate value of the options will depend on the future price of the Company's common stock, which cannot be forecast with reasonable accuracy.

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

	Number of <u>Options</u>	Weighted- Average <u>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
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

	<u>May 31, 2011</u>	<u>May 31, 2010</u>	<u>Increase / (Decrease)</u>	
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	<u>5,352,000</u> 86%	<u>6,474,000</u> 90%	<u>(1,122,000)</u>	-17%
Maintenance and other inventory	846,000 14%	719,000 10%	127,000	18%
Total	<u>\$ 6,198,000</u> 100%	<u>\$ 7,193,000</u> 100%	<u>\$ (995,000)</u>	-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

same manner and for the same reasons as the account "costs and estimated earnings in excess of billings", discussed above. Final delivery of product under these contracts is expected to occur during the next twelve months.

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

	<u>May 31, 2011</u>	<u>May 31, 2010</u>
Billings to customers	\$ 2,592,000	\$ 1,085,000
Less: Costs	1,645,000	673,000
Less: Estimated earnings	794,000	44,000
BIEC	<u>\$ 153,000</u>	<u>\$ 368,000</u>
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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Taylor Devices, Inc.

We have audited the accompanying consolidated balance sheets of Taylor Devices, Inc. and Subsidiary as of May 31, 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.



Buffalo, New York
August 5, 2011

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
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
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.

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	-	-
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
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.

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 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. 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
	<u>2,178,872</u>	<u>5,075,419</u>
Less allowance for doubtful accounts	42,024	42,024
	<u>\$ 2,136,848</u>	<u>\$ 5,033,395</u>

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
	<u>5,452,424</u>	<u>6,574,148</u>
Less allowance for obsolescence	100,000	100,000
	<u>\$ 5,352,424</u>	<u>\$ 6,474,148</u>

4. Costs and Estimated Earnings on Uncompleted Contracts:

	2011	2010
Costs incurred on uncompleted contracts	\$ 7,462,597	\$ 1,656,829
Estimated earnings	2,182,403	267,171
	<u>9,645,000</u>	<u>1,924,000</u>
Less billings to date	5,607,706	1,240,410
	<u>\$ 4,037,294</u>	<u>\$ 683,590</u>

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
	<u>\$ 4,037,294</u>	<u>\$ 683,590</u>

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
	<u>\$ 846,177</u>	<u>\$ 718,749</u>

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
	<u>10,530,050</u>	<u>10,167,988</u>
Less accumulated depreciation	7,116,604	6,670,188
	<u>\$ 3,413,446</u>	<u>\$ 3,497,800</u>

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
	<u>\$ 3,657</u>	<u>\$ 9,141</u>

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

2012	\$ 5,485
2013	<u>3,657</u>
	<u>\$ 9,142</u>

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
	<u>\$20,906,306</u>	<u>\$17,875,371</u>

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)
	<u>304,200</u>	<u>143,400</u>
Deferred tax provision (benefit):		
Federal	(10,300)	35,700
State	(700)	9,100
	<u>(11,000)</u>	<u>44,800</u>
	<u>\$ 293,200</u>	<u>\$ 188,200</u>

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
	<u>\$ 293,200</u>	<u>\$ 188,200</u>
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
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
	<u>818,900</u>	<u>834,400</u>
Deferred tax liabilities:		
Excess tax depreciation	(278,485)	(304,485)
Net deferred tax assets	<u>\$ 540,415</u>	<u>\$ 529,915</u>

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.

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:

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

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 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.

	<u>2011</u>	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:

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

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
\$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.

Notes





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BC Place Stadium – Seismic Upgrade

- Grand reopening Fall 2011 as a multipurpose arena
- Home to the BC Lions CFL professional football team
- Home to the Vancouver White Caps Major League Soccer team
- Hosting more than 200 events yearly, including sports events, trade shows, and entertainment venues



Photo Courtesy: B. Craig Keller