

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

F O R M 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, 2020

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, North Tonawanda, New York  
(Address of principal executive offices)

14120  
(Zip Code)

Registrant's telephone number, including area code (716) 694-0800

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
None	None	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 every Interactive Data File required to be submitted 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated Filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or 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, 2019 is \$37,158,000.

The number of shares outstanding of each of the registrant's classes of common stock as of August 7, 2020: 3,487,245.

TAYLOR DEVICES, INC.

DOCUMENTS INCORPORATED BY REFERENCE

Documents

Form 10-K Reference

Proxy Statement

Part III, Items 10-14

**FORM 10-K INDEX**

<b>PART I</b>		<b>PAGE</b>
	Item 1. Business.	4
	Item 1A. Risk Factors.	6
	Item 1B. Unresolved Staff Comments.	6
	Item 2. Properties.	6
	Item 3. Legal Proceedings.	6
	Item 4. Mine Safety Disclosures.	6
<b>PART II</b>		
	Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	7
	Item 6. Selected Financial Data.	8
	Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.	8
	Item 7A. Quantitative and Qualitative Disclosures About Market Risk.	19
	Item 8. Financial Statements and Supplementary Data.	19
	Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	19
	Item 9A. Controls and Procedures.	19
	Item 9B. Other Information.	19
<b>PART III</b>		
	Item 10. Directors, Executive Officers and Corporate Governance.	19
	Item 11. Executive Compensation.	19
	Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	19
	Item 13. Certain Relationships and Related Transactions, and Director Independence.	19
	Item 14. Principal Accounting Fees and Services.	19
<b>PART IV</b>		
	Item 15. Exhibits and Financial Statement Schedules	20
<b>SIGNATURES</b>		24

## 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

The Company manufactures and sells a single group of very similar products that have many different applications for customers. These similar products are included in one of eight categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, Vibration Dampers, Machined Springs and Custom Actuators. Management does not track or otherwise account for sales broken down by these categories. The following is a summary of the capabilities and applications for these products.

Seismic Dampers are designed to mitigate 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. Machined springs are precisely controlled mechanical springs manufactured from a variety of materials. These are used primarily for aerospace applications that require custom features that are not possible with conventional wound coil springs. Custom actuators are typically of the gas-charged type, using high pressure, that have custom features not available from other suppliers. These actuators are used for special military and aerospace applications.

#### Distribution

The Company uses the services of more than 15 sales representatives and distributors in the United States and Canada along with more than 30 representatives and distributors throughout the rest of the world. Specialized technical sales in aerospace and custom marketing activities are serviced by several sales agents, under the direction and with the assistance of 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 5% to 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 competes directly against two other firms supplying structural damping devices for use in the United States. For structural applications outside of the USA, the Company competes directly with several other firms particularly in Japan, China and Taiwan. The Company competes with numerous other firms that 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 six customers approximated 41% (10%, 9%, 6%, 6%, 5% and 5%, respectively) of net sales for 2020. 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 12 patents expiring at different times until the year 2035.

### **Terms of Sale**

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 had no inventory out on consignment and no consignment sales for the years ended May 31, 2020 and 2019. No extended payment terms are offered. During the year ended May 31, 2020, delivery time after receipt of orders averaged 8 to 10 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 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, 2020 and 2019, the Company expended \$585,000 and \$319,000, respectively, on manufacturing research. This increase is primarily due to research and development required to meet new types of specifications on certain domestic seismic protection contracts in the current year. For the years ended May 31, 2020 and 2019, defense sponsored research and development totaled \$26,000 each year.

### **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 currently incurs 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, 2020, the Company had 115 employees, including five executive officers, and one part time employee. The Company has good relations with its employees.

**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 comprised of a test facility, storage area, pump area and the Company's general offices. One adjacent building is a 27,000 square foot seismic assembly and test facility. This building contains overhead traveling cranes to allow dampers to be built up to 45 ft. in length. It is also the site of two long bed damper test machines where seismic dampers Taylor Devices manufactures will be tested at maximum force to satisfy customer specifications. Another adjacent building (approximately 2,000 square feet) is used as a training facility. These facilities total more than 54,000 square feet. Adjacent to these facilities, the Company has a remote test facility used for shock testing. This state-of-the-art test facility is 1,200 square feet. The Company owns two additional industrial buildings on nine acres of land in the City of North Tonawanda located 1.4 miles from the Company's headquarters on Tonawanda Island. Total area of the two buildings is 46,000 square feet. One building includes a machine shop containing custom-built machinery for boring, deep-hole drilling and turning of parts. Another is used for painting and packaging parts and completed units.

The Company's real properties are subject to a negative pledge agreement with its lender, M&T 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 M&T 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 leased a separate warehouse for storage from an unrelated third party, consisting of approximately 3,600 square feet for a portion of the year. The warehouse is located approximately one-quarter mile from the Company's headquarters. The total rental expense incurred by the Company for this facility in fiscal 2020 was \$8,900.

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

**Item 3. Legal Proceedings.**

There are no legal proceedings at present.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

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

#### Market Information

The Company's Common Stock trades on the NASDAQ Capital Market of the National Association of Securities Dealers Automated Quotation ("NASDAQ") stock market under the symbol TAYD. The high and low sales information noted below for the quarters of fiscal year 2020 and fiscal year 2019 were obtained from NASDAQ.

	Fiscal 2020		Fiscal 2019	
	High	Low	High	Low
First Quarter	\$11.45	\$10.54	\$12.62	\$ 9.99
Second Quarter	\$11.10	\$10.11	\$12.70	\$10.80
Third Quarter	\$13.39	\$10.10	\$13.29	\$11.50
Fourth Quarter	\$11.57	\$ 6.61	\$12.75	\$10.42

#### Holdings

As of August 7, 2020, the number of issued and outstanding shares of Common Stock was 3,486,871 and the approximate number of record holders of the Company's Common Stock was 495. Due to a substantial number of shares of the Company's Common Stock held in street name, the Company believes that the total number of beneficial owners of its Common Stock is less than 1,300.

#### Dividends

No cash or stock dividends have been declared during the last two fiscal years. The Company plans to retain cash in the foreseeable future to fund working capital needs.

#### Rights Plan

As of September 25, 2018, 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 2, 2018. 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 A Junior Participating Preferred Stock ("Series A 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 A 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, 2028.

#### Issuer Purchases of Equity Securities

A share repurchase agreement with a major broker-dealer, under which the Company repurchased shares of its common stock on the open market, has been terminated by the Company. No shares have been purchased since August 2011.

## Equity Compensation Plan Information

The following table sets forth information regarding equity compensation plans of the Company as of May 31, 2020.

<b>Equity Compensation Plan Information</b>			
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>
Equity compensation plans approved by security holders:			
2008 Stock Option Plan	29,750	\$ 8.29	-
2012 Stock Option Plan	73,000	\$11.50	-
2015 Stock Option Plan	120,750	\$12.73	-
2018 Stock Option Plan	28,750	\$ 9.85	131,250
Equity compensation plans not approved by security holders:			
2004 Employee Stock Purchase Plan (1)	-	-	220,253
<b>Total</b>	<b>252,250</b>		<b>351,503</b>

- (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, 2020, 220,253 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; variations in timing and amount of customer orders; changing product demand and industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for the Company's products, as well as other factors, many or all of which may be beyond the Company's control. Consequently, investors should not place undue reliance on forward-looking statements as predictive of future results. The Company disclaims any obligation to release publicly any updates or revisions to the forward-looking statements herein to reflect any change in the Company's expectations with regard thereto, or any changes in events, conditions or circumstances on which any such statement is based.

## Application of Critical Accounting Policies and Estimates

The Company's consolidated financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. The preparation of the Company's financial statements requires management to make estimates, assumptions and judgments that affect the amounts reported. These estimates, assumptions and judgments are affected by management's application of accounting policies, which are discussed in Note 1, "Summary of Significant Accounting Policies", and elsewhere in the accompanying consolidated financial statements. As discussed below, our financial position or results of operations may be materially affected when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. Management believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's financial statements.

### Accounts Receivable

Our ability to collect outstanding receivables from our customers is critical to our operating performance and cash flows. Accounts receivable are stated at an amount management expects to collect from outstanding balances. Management provides for probable uncollectible accounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts after considering the age of each receivable and communications with the customers involved. Balances that are collected, for which a credit to a valuation allowance had previously been recorded, result in a current-period reversal of the earlier transaction charging earnings and crediting a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable in the current period. The actual amount of accounts written off over the five year period ended May 31, 2020 equaled less than 0.1% of sales for that period. The balance of the valuation allowance has increased to \$211,000 at May 31, 2020 from \$110,000 at May 31, 2019. Management does not expect the valuation allowance to materially change in the next twelve months for the current accounts receivable balance.

### Inventory

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

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

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

The provision for potential inventory obsolescence was \$180,000 and \$175,000 for the years ended May 31, 2020 and 2019.

### Revenue Recognition

Accounting Standard Update (ASU) 2014-09 was adopted on June 1, 2018 using the modified retrospective method, which required the recognition of the cumulative effect of the transition as an adjustment to retained earnings.

Revenue is recognized when, or as, the Company transfers control of promised products or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts which are, therefore, not distinct. Promised goods or services that are immaterial in the context of the contract are not separately assessed as performance obligations.

For contracts with customers in which the Company satisfies a promise to the customer to provide a product that has no alternative use to the Company and the Company has enforceable rights to payment for progress completed to date inclusive of profit, the Company satisfies the performance obligation and recognizes revenue over time (generally less than one year), using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material and overhead. Total estimated costs for each of the contracts are estimated based on a combination of historical costs of manufacturing similar products and estimates or quotes from vendors for supplying parts or services towards the completion of the manufacturing process. Adjustments to cost and profit estimates are made periodically due to changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements. These changes may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Any losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. If total costs calculated upon completion of the manufacturing process in the current period for a contract are more than the estimated total costs at completion used to calculate revenue in a prior period, then the profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion. Historically, actual results have not varied materially from the Company's estimates. Other sales to customers are recognized upon shipment to the customer based on contract prices and terms. In the year ended May 31, 2020, 57% of revenue was recorded for contracts in which revenue was recognized over time while 43% was recognized at a point in time. In the year ended May 31, 2019, 55% of revenue was recorded for contracts in which revenue was recognized over time while 45% was recognized at a point in time.

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

We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to our consolidated June 1, 2018 balance sheet for the adoption of ASU 2014-09, were as follows:

<b>Balance Sheet</b>	<u>Balance at May 31, 2018</u>	<u>Adjustments Due to ASU 2014-09</u>	<u>Balance at June 1, 2018</u>
<b>Assets</b>			
Inventory	\$ 11,317,775	\$ 1,101,116	\$ 12,418,891
Costs and estimated earnings in excess of billings	\$ 6,356,963	\$ (326,509)	\$ 6,030,454
<b>Liabilities</b>			
Billings in excess of costs and estimated earnings	\$ 2,043,002	\$ (25,105)	\$ 2,017,897
Other accrued expenses (customer advances)	\$ 1,412,502	\$ 794,713	\$ 2,207,215
<b>Equity</b>			
Retained earnings	\$ 26,959,080	\$ 4,999	\$ 26,964,079

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption of ASU 2014-09 on our consolidated balance sheet and income statement was as follows:

	May 31, 2019		
	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
<b>Balance Sheet</b>			
<b>Assets</b>			
Inventory	\$ 11,239,331	\$ -	\$ 11,239,331
Costs and estimated earnings in excess of billings	\$ 7,572,490	\$ -	\$ 7,572,490
<b>Liabilities</b>			
Other accrued expenses (customer advances)	\$ 1,532,271	\$ -	\$ 1,532,271
<b>Equity</b>			
Retained earnings	\$ 29,508,604	\$ -	\$ 29,508,604

	For the year ended May 31, 2019		
	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
<b>Income Statement</b>			
<b>Revenues</b>			
Sales, net	\$ 33,619,031	\$ 1,096,117	\$ 32,522,914
<b>Costs and Expenses</b>			
Cost of goods sold	\$ 24,571,255	\$ 1,101,116	\$ 23,470,139
Provision for income taxes	\$ 515,000	\$ -	\$ 515,000
Net income (loss)	\$ 2,544,525	\$ (4,999)	\$ 2,549,524

#### 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 \$4.0 million of taxable income in order to realize our deferred tax assets recorded as of May 31, 2020 of \$830,000. This deferred tax asset balance is 9% (\$69,000) more than at the end of the prior year. The amount of the deferred tax assets considered realizable however, could be reduced in the near term if estimates of future taxable income are reduced. If actual results differ from estimated results or if the Company adjusts these assumptions, the Company may need to adjust its deferred tax assets or liabilities, which could impact its effective tax rate.

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

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2020, the Company had State investment tax credit carryforwards of approximately \$369,000 expiring through May 2026.

## Results of Operations

A summary of the period to period changes in the principal items included in the consolidated statements of income is shown below:

### Summary comparison of the years ended May 31, 2020 and 2019

	<u>Increase / (Decrease)</u>
Sales, net	\$ (5,237,000)
Cost of goods sold	\$ (5,426,000)
Selling, general and administrative expenses	\$ (112,000)
Income before provision for income taxes	\$ 356,000
Provision for income taxes	\$ (129,000)
Net income	\$ 485,000

**For the year ended May 31, 2020** (All figures being discussed are for the year ended May 31, 2020 as compared to the year ended May 31, 2019.)

	<b>Year ended May 31</b>		<b>Change</b>	
	<b>2020</b>	<b>2019</b>	<b>Amount</b>	<b>Percent</b>
Net Revenue	\$ 28,382,000	\$ 33,619,000	\$ (5,237,000)	-16%
Cost of sales	19,145,000	24,571,000	(5,426,000)	-22%
Gross profit	<u>\$ 9,237,000</u>	<u>\$ 9,048,000</u>	<u>\$ 189,000</u>	2%
... as a percentage of net revenues	33%	27%		

The Company's consolidated results of operations showed a 16% decrease in net revenues and an increase in net income of 19%. Revenues recorded in the current period for long-term construction projects ("Project(s)") were 12% lower than the level recorded in the prior year. We had 41 Projects in process during the current period compared with 48 during the same period last year. Revenues recorded in the current period for other-than long-term construction projects (non-projects) were 20% lower than the level recorded in the prior year. The number of Projects in-process fluctuates from period to period. The changes from the prior period to the current period are not necessarily representative of future results.

The mix of customers buying our products changed slightly from last year. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. The Company saw a 23% decrease from last year's level in sales to construction customers who were seeking seismic / wind protection for either construction of new buildings and bridges or retrofitting existing buildings and bridges along with a 4% decrease in sales to customers using our products in industrial applications and a 5% decrease in sales to customers in aerospace / defense. Decreases in revenue from sales to construction customers accounted for the drop in sales to Asia as well as 75% of the decrease in domestic sales, nearly all occurring in the second quarter. Asian sales were hindered by tariffs as well as strong competition from local manufacturers. The decrease in sales to domestic construction customers was affected by unanticipated delays in the start of various projects in the second quarter. Competing technologies used in domestic construction with lower initial-costs are expected to continue to have a negative impact on the use of our products in new buildings. However, efforts continue to enact performance based design legislation to require a building to be able to be occupied following a significant seismic event. Our products are designed to provide this level of protection and demand for them would be expected to increase following such an upgrade in domestic building codes. A breakdown of sales to these three general groups of customers, as a percentage of total net revenue for fiscal years ended May 31, 2020 and 2019 is as follows:

	Year ended May 31	
	2020	2019
Industrial	7%	6%
Construction	55%	60%
Aerospace / Defense	38%	34%

Total sales within North America decreased 9% from last year. Total sales to Asia decreased 47% from the prior year. Net revenue by geographic region, as a percentage of total net revenue for fiscal years ended May 31, 2020 and 2019 is as follows:

	Year ended May 31	
	2020	2019
North America	85%	79%
Asia	11%	17%
Other	4%	4%

The gross profit as a percentage of net revenue of 33% in the current period is higher than the 27% recorded in the same period of the prior year. The increase in gross profit as a percentage of revenue is primarily due to improved margins realized on domestic construction Projects.

At May 31, 2019, we had 153 open sales orders in our backlog with a total sales value of \$13.3 million. At May 31, 2020, we had 102 open sales orders in our backlog with a total sales value of \$9.8 million. \$2.2 million of the current backlog is on Projects already in progress. \$6.7 million of the \$13.3 million sales order backlog at May 31, 2019 was in progress at that date. 63% of the sales value in the backlog is for aerospace / defense customers compared to 43% at the end of fiscal 2019. As a percentage of the total sales order backlog, orders from customers in construction accounted for 32% at May 31, 2020 and 52% at May 31, 2019.

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

#### Selling, General and Administrative Expenses

	Year ended May 31		Change	
	2020	2019	Amount	Percent
Outside Commissions	\$ 1,081,000	\$ 1,815,000	\$ (734,000)	-40%
Other SG&A	4,853,000	4,231,000	622,000	15%
Total SG&A	\$ 5,934,000	\$ 6,046,000	\$ (112,000)	-2%
... as a percentage of net revenues	21%	18%		

Selling, general and administrative expenses decreased slightly from the prior year. Outside commission expense decreased 40% from last year's level due to the significant decrease in the level of commissionable sales recorded in the current period as compared to the prior period. Other selling, general and administrative expenses increased by 15% from last year primarily due to increases in freight, advertising and personnel costs.

The above factors resulted in operating income of \$3,303,000 for the year ended May 31, 2020, up 10% from the \$3,002,000 in the prior year.

The Company's effective tax rate (ETR) is calculated based upon current assumptions relating to the year's operating results and various tax related items. The ETR for the fiscal year ended May 31, 2020 is 11%, compared to the ETR for the prior year of 17%.

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

	<b>2020</b>	<b>2019</b>
Computed tax provision at the expected statutory rate	\$ 718,000	\$ 643,000
Tax effect of permanent differences:		
Research tax credits	(272,000)	(166,000)
Foreign-derived intangible income deduction	(100,000)	-
Other permanent differences	40,000	29,000
Other	-	9,000
	<u>\$ 386,000</u>	<u>\$ 515,000</u>

The foreign-derived intangible income deduction is a tax deduction provided to corporations that sell goods or services to foreign customers. It became available through Public Law 115-97, known as the Tax Cut and Jobs Act

### Stock Options

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

The Company measures compensation cost arising from the grant of share-based payments to employees at fair value and recognizes such cost in income over the period during which the employee is required to provide service in exchange for the award. The Company recognized \$143,000 and \$138,000 of compensation cost for the years ended May 31, 2020 and 2019.

The fair value of each stock option grant has been determined using the Black-Scholes model. The model considers assumptions related to exercise price, expected volatility, risk-free interest rate, and the weighted average expected term of the stock option grants. The Company used a weighted average expected term. Expected volatility assumptions used in the model were based on volatility of the Company's stock price for the thirty month period immediately preceding the granting of the options. The Company issued stock options in August 2019 and April 2020. 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 2019</u>	<u>April 2020</u>
Risk-free interest rate:	1.750%	2.125%
Expected life of the options:	3.8 years	3.9 years
Expected share price volatility:	30%	33%
Expected dividends:	zero	zero
These assumptions resulted in estimated fair-market value per stock option:	\$2.84	\$2.85

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, 2020 is presented below.

	Number of Options	Weighted- Average Exercise Price
Options outstanding and exercisable at May 31, 2019:	224,000	\$ 11.71
Options granted:	50,250	\$ 10.30
Less: Options exercised:	10,000	\$ 6.35
Less: Options expired:	12,000	\$ 14.34
Options outstanding and exercisable at May 31, 2020:	252,250	\$ 11.52
Closing value per share on NASDAQ at May 31, 2020:		\$ 10.99

### 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, 2020 were \$1,231,000 compared to \$473,000 in the prior year. Current year capital expenditures included new manufacturing machinery, testing equipment, material movement equipment, upgrades to technology equipment and building roof replacement. The Company has commitments to make capital expenditures of approximately \$200,000 as of May 31, 2020.

During 2020, the Company received a loan totaling \$1,462,000 from the Small Business Administration (SBA) under the Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act, in response to the Coronavirus pandemic described below. Some or all of the loan may be forgiven if certain criteria are met. Otherwise, the loan is unsecured, has a deferment on payments for 6 months after a decision on forgiveness has been made, then is payable over a negotiable period of time, and bears interest at 1%.

The Company has a \$10,000,000 demand line of credit from a bank, with interest payable at the Company's option of 30, 60 or 90 day LIBOR rate plus 2.25%. There is no outstanding balance at May 31, 2020 or May 31, 2019. The outstanding balance on the line of credit fluctuates as the Company's various long-term projects progress. The line is secured by a negative pledge of the Company's real and personal property. This line of credit is subject to the usual terms and conditions applied by the bank and is subject to renewal annually.

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

### Inventory and Maintenance Inventory

	May 31, 2020	May 31, 2019	Increase / (Decrease)	
Raw materials	\$ 658,000	\$ 679,000	\$ (21,000)	-3%
Work in process	8,586,000	9,905,000	(1,319,000)	-13%
Finished goods	863,000	655,000	208,000	32%
Inventory	10,107,000 92%	11,239,000 94%	(1,132,000)	-10%
Maintenance and other inventory	879,000 8%	732,000 6%	147,000	20%
Total	<u>\$10,986,000 100%</u>	<u>\$11,971,000 100%</u>	<u>\$ (985,000)</u>	<u>-8%</u>
Inventory turnover	1.7	2.0		

Inventory, at \$10,107,000 as of May 31, 2020, is 10% less than the prior year-end. Of this, approximately 85% is work in process, 9% is finished goods, and 6% is raw materials. All of the current inventory is expected to be consumed or sold within twelve months. The level of inventory will fluctuate from time to time due to the stage of completion of the non-project sales orders in progress at the time.

The Company continues to rework slow-moving inventory, where applicable, to convert it to product to be used on customer orders. There was approximately \$122,000 of slow-moving inventory used during the year ended May 31, 2020. The Company disposed of approximately \$46,000 and \$111,000 of obsolete inventory during the years ended May 31, 2020 and 2019, respectively.

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

	May 31, 2020	May 31, 2019	Increase / (Decrease)	
Accounts receivable	\$ 5,819,000	\$ 5,279,000	\$ 540,000	10%
CIEB	1,755,000	7,572,000	(5,817,000)	-77%
Less: BIEC	737,000	634,000	103,000	16%
Net	<u>\$ 6,837,000</u>	<u>\$ 12,217,000</u>	<u>\$ (5,380,000)</u>	-44%

Number of an average day’s sales outstanding in accounts receivable (DSO)	68	53
---	----	----

The Company combines the totals of accounts receivable, the asset CIEB, and the liability BIEC, to determine how much cash the Company will eventually realize from revenue recorded to date. As the accounts receivable figure rises in relation to the other two figures, the Company can anticipate increased cash receipts within the ensuing 30-60 days.

Accounts receivable of \$5,819,000 as of May 31, 2020 includes approximately \$631,000 of amounts retained by customers on long-term construction projects. The Company expects to collect all of these amounts, including the retained amounts, during the next twelve months. The number of an average day's sales outstanding in accounts receivable (DSO) increased to 68 days at May 31, 2020 from 53 days as of May 31, 2019. The DSO is a function of 1.) the level of sales for an average day (for example, total sales for the past three months divided by 90 days) and 2.) the level of accounts receivable at the balance sheet date. The level of sales for an average day in the fourth quarter of the current fiscal year is 14% less than in the fourth quarter of the prior year. The level of accounts receivable at the end of the current fiscal year is 10% more than the level at the end of the prior year. The combination of the decrease in the level of an average day’s sales along with the increase in the level of accounts receivable caused the DSO to increase by 15 days from last year-end to this year-end. The Company expects to collect the net accounts receivable balance, including the retainage, during the next twelve months.

The status of the projects in-progress at the end of the current and prior fiscal years have changed in the factors affecting the year-end balances in the asset CIEB, and the liability BIEC:

	2020	2019
Number of projects in progress at year-end	15	22
Aggregate percent complete at year-end	80%	77%
Average total value of projects in progress at year-end	\$830,000	\$1,358,000
Percentage of total value invoiced to customer	74%	54%

There are seven fewer projects in-process at the end of the current fiscal year as compared with the prior year end and the average value of those projects has decreased by 39% between those two dates.

As noted above, CIEB represents revenues recognized in excess of amounts billed. Whenever possible, the Company negotiates a provision in sales contracts to allow the Company to bill, and collect from the customer, payments in advance of shipments. Unfortunately, provisions such as this are often not possible. The \$1,755,000 balance in this account at May 31, 2020 is a 77% decrease from the prior year-end. 71% of this decrease is from three large Projects that completed and shipped during this fiscal year. Generally, if progress billings are permitted under the terms of a project sales agreement, then the more complete the project is, the more progress billings will be permitted. The Company expects to bill the entire amount during the next twelve months. 60% of the CIEB balance as of the end of the last fiscal quarter, February 29, 2020, was billed to those customers in the current fiscal quarter ended May 31, 2020. The remainder will be billed as the projects progress, in accordance with the terms specified in the various contracts.

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

	May 31, 2020	May 31, 2019
Costs	\$ 2,615,000	\$ 15,035,000
Estimated earnings	540,000	4,815,000
Less: Billings to customers	1,400,000	12,278,000
CIEB	\$ 1,755,000	\$ 7,572,000
Number of projects in progress	10	18

As noted above, BIEC represents billings to customers in excess of revenues recognized. The \$737,000 balance in this account at May 31, 2020 is in comparison to a \$634,000 balance at the end of the prior year. The balance in this account fluctuates in the same manner and for the same reasons as the account "costs and estimated earnings in excess of billings," discussed above. Final delivery of product under these contracts is expected to occur during the next twelve months.

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

	May 31, 2020	May 31, 2019
Billings to customers	\$ 7,794,000	\$ 3,910,000
Less: Costs	3,781,000	1,565,000
Less: Estimated earnings	3,276,000	1,711,000
BIEC	\$ 737,000	\$ 634,000
Number of projects in progress	5	4

Accounts payable, at \$1,370,000 as of May 31, 2020, is 2% less than the prior year-end. The Company expects the current accounts payable amount to be paid during the next twelve months.

Commission expense on applicable sales orders is recognized at the time revenue is recognized. The commission is paid following receipt of payment from the customers. Accrued commissions as of May 31, 2020 are \$306,000. This is 77% less than the \$1,309,000 accrued at the prior year-end. This decrease is due to the decrease in the CIEB, discussed above. As the Company was able to bill and collect from the customers on these long-term projects, accrued commissions were paid. The Company expects the current accrued amount to be paid during the next twelve months.

Other accrued expenses of \$1,664,000 increased by 9% from the prior year level of \$1,532,000.

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

### Coronavirus Pandemic

On January 31, 2020, the United States Secretary of Health and Human Services (HHS) declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World Health Organization in February 2020. Efforts to fight the widespread disease included limiting or closing many businesses and resulted in a severe disruption of operations for many organizations. Financial markets also experienced a significant decline in value. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, impact on customers, employees, and vendors, all of which cannot be predicted.

In late March, Taylor Devices received confirmation from the State of New York that we are designated as an "essential business" pursuant to the revised New York State Executive Order 202.6 with respect to our business function of supply chain partner for several essential industries. Company management currently does not have reason to believe that the situation will adversely affect our ability to meet our obligations to our customers. We have a high-spirited, healthy workforce that has adjusted their work schedules as the need arose. We remain in a strong position with respect to being able to process existing orders and we are quite prepared to process new orders as they are secured.

While many of our customers remain open to continue to receive shipments from us and issue new purchase orders to us, we have learned of many construction projects that have delayed ordering materials while they attempt to determine the extent and impact of the pandemic on their project. This has resulted in a lower level in our backlog of sales orders.

The liquidity of the Company remains strong at this time. Management, however, is concerned about the uncertainty of the length of time during which the virus will continue to spread throughout the world before effective vaccines have been developed, distributed and administered, as well as the level of impact it will have on the various economies of the world. A prolonged economic downturn would have a negative impact on our operations and our liquidity. For this reason, we have applied for and have received assistance from the federal government under provisions of the CARES Act, as discussed above.

Our Supply Chain Management team is in communication with our partners around the globe so that we can be updated on any delays that may occur. To date, there have been no significant delays in receiving our raw materials, purchased components or outside services that affect our final product.

To properly maintain all our operations while keeping our employees safe and to help stop the spread of the Coronavirus, some employees have changed shifts and have adjusted their working hours while still adhering to the recommendations of our government health officials. Most of our office staff continues to work remotely and our sales staff continues to keep in regular contact with our representatives and customers. Our on-site workforce is practicing the required social distancing mandates including wearing masks, as necessary. There have been no furloughs or layoffs at our Company. We are fortunate to be in a position that allows us to maintain the functional aspects of our Company while still practicing cautious measures to inhibit the spread of the virus. Employee morale is high, and we are confident in our ability to take on this challenge.

Other steps taken to maintain a safe workplace and a healthy workforce:

- We have added a formal visitor pre-screening process that we now require all visitors that enter our facilities to complete.
- Our cleaning service at our factory and headquarters is stepping up cleaning and disinfecting, especially in high-use common areas.
- We have temporarily discontinued non-essential travel that does not affect production schedules.

Management will continue to monitor and adhere to the advice of the appropriate public health agencies. Taylor Devices maintains its status as an “essential business” pursuant to a NY State Executive Order due to the nature of our products for Aerospace, Defense, Construction, and Industrial applications.

### **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 25 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, 2020 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 the Company files or submits 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 the Company files or submits 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, 2020. 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, updated in 2013. Based on this assessment management has concluded that, as of May 31, 2020, 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 year ended May 31, 2020 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 October 23, 2020, 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 as of May 31, 2020 and 2019
- (iii) Consolidated Statements of Income for the years ended May 31, 2020 and 2019
- (iv) Consolidated Statements of Stockholders' Equity for the years ended May 31, 2020 and 2019
- (v) Consolidated Statements of Cash Flows for the years ended May 31, 2020 and 2019
- (vi) Notes to Consolidated Financial Statements - May 31, 2020 and 2019

#### EXHIBITS:

- 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-designating the Series A Junior Preferred Stock and creating 5,000 Series 2008 Junior Participating Preferred Stock, at \$.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) By-laws and Proxy Review Guidelines incorporated by reference to Exhibit (3) to Quarterly Report on Form 10-Q for the period ending February 28, 2015, filed April 14, 2015.
- 4 Instruments defining rights of security holders, including indentures
  - (i) Rights Agreement by and between registrant and Computershare Trust Company, N.A., dated as of September 25, 2018 and letter to shareholders (including Summary of Rights), dated October 5, 2018, attached as Exhibits 4 and 20, respectively, to Registration Statement on Form 8-A 12G, filed with the Securities and Exchange Commission on October 5, 2018.
  - (ii) Description of registrant's securities incorporated by reference to Exhibit 4(vi) to Annual Report on Form 10-K for the fiscal year ended May 31, 2019, filed August 2, 2019.

## Material Contracts

- (i) 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.
- (ii) 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.
- (iii) 2012 Taylor Devices, Inc. Stock Option Plan attached as Appendix C to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 21, 2012.
- (iv) 2015 Taylor Devices, Inc. Stock Option Plan attached as Appendix B to Definitive Proxy Statement, filed with the Securities and Exchange Commission on April 8, 2016.
- (v) 2018 Taylor Devices, Inc. Stock Option Plan attached as Appendix B to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 27, 2018.
- (vi) 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.
- (vii) 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.
- (viii) 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.
- (ix) 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, 2011.
- (x) Negative Pledge Agreement dated August 30, 2017 by the Registrant in favor of M&T Bank, filed with this report.
- (xi) Employment Agreement dated as of June 14, 2018 between the Registrant and Alan R. Klembczyk, incorporated by reference to Exhibit 10(i) to Current Report on Form 8-K filed June 19, 2018.
- (xii) Employment Agreement dated as of June 14, 2018 between the Registrant and Mark V. McDonough, incorporated by reference to Exhibit 10(ii) to Current Report on Form 8-K filed June 19, 2018.

11 Statement regarding computation of per share earnings

REG. 228.601(A)(11) Statement regarding computation of per share earnings

Weighted average of common stock/equivalents outstanding - fiscal year ended May 31, 2020

Weighted average common stock outstanding		3,481,128
Common shares issuable under stock option plans using treasury stock method		<u>8,663</u>
Weighted average common stock outstanding assuming dilution		<u>3,489,791</u>
Net income fiscal year ended May 31, 2020	(1)	\$ 3,029,976
Weighted average common stock	(2)	<u>3,481,128</u>
Basic income per common share (1) divided by (2)		<u>\$ 0.87</u>
Net income fiscal year ended May 31, 2020	(3)	\$ 3,029,976
Weighted average common stock outstanding assuming dilution	(4)	<u>3,489,791</u>
Diluted income per common share (3) divided by (4)		<u>\$ 0.87</u>

Weighted average of common stock/equivalents outstanding - fiscal year ended May 31, 2019

Weighted average common stock outstanding		3,470,595
Common shares issuable under stock option plans using treasury stock method		<u>17,043</u>
Weighted average common stock outstanding assuming dilution		<u>3,487,638</u>
Net income fiscal year ended May 31, 2019	(1)	\$ 2,544,525
Weighted average common stock	(2)	<u>3,470,595</u>
Basic income per common share (1) divided by (2)		<u>\$ 0.73</u>
Net income fiscal year ended May 31, 2019	(3)	\$ 2,544,525
Weighted average common stock outstanding assuming dilution	(4)	<u>3,487,638</u>
Diluted income per common share (3) divided by (4)		<u>\$ 0.73</u>

13 The Annual Report to Security Holders for the fiscal year ended May 31, 2020, 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, 2005.

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.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

## 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)

By: /s/Timothy J. Sopko  
Timothy J. Sopko  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 7, 2020

and

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

Date: August 7, 2020

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/John Burgess  
John Burgess, Director  
August 7, 2020

By: /s/Randall L. Clark  
Randall L. Clark, Director  
August 7, 2020

By: /s/F. Eric Armenat  
F. Eric Armenat, Director  
August 7, 2020

By: /s/Alan R. Klembczyk  
Alan R. Klembczyk, President and Director  
August 7, 2020

**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 7, 2020 and any reference thereto in the Annual Report to Shareholders for the fiscal year ended May 31, 2020.

We also consent to such incorporation by reference in Registration Statement Nos. 333-114085, 333-133340, 333-155284, 333-184809, 333-210660, and 333-232121 of Taylor Devices, Inc. on Form S-8 of our report dated August 7, 2020.



Buffalo, New York  
August 7, 2020

**TAYLOR DEVICES, INC. AND SUBSIDIARY  
CONSOLIDATED FINANCIAL STATEMENTS**

**May 31, 2020**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Taylor Devices, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Taylor Devices, Inc. and Subsidiary (the Company) as of May 31, 2020 and 2019, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial condition of the Company as of May 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Adoption of ASU No. 2014-09

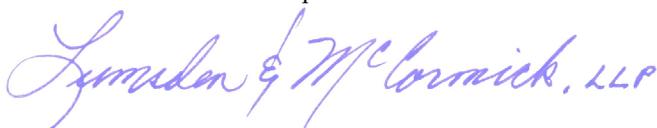
As discussed in Note 1 to the consolidated financial statements, the Company changed its method for recognizing revenue as a result of the adoption of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and the amendments in ASUs 2015-14, 2016-08, 2016-10, and 2016-12, effective June 1, 2018.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



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

Buffalo, New York  
August 7, 2020

TAYLOR DEVICES, INC. AND SUBSIDIARY

**Consolidated Balance Sheets**

May 31,	2020	2019
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 15,159,827	\$ 5,071,822
Short-term investments	1,071,950	1,055,591
Accounts and other receivables, net (Note 2)	5,819,471	5,279,302
Inventory (Note 3)	10,107,437	11,239,331
Prepaid expenses	460,212	312,160
Prepaid income taxes	50,148	237,017
Costs and estimated earnings in excess of billings (Note 4)	1,754,573	7,572,490
<b>Total current assets</b>	<b>34,423,618</b>	<b>30,767,713</b>
Maintenance and other inventory, net (Note 5)	879,050	731,877
Property and equipment, net (Note 6)	9,407,490	9,317,442
Cash value of life insurance, net	195,621	190,749
Deferred income taxes (Note 10)	170,115	189,115
	<b>\$ 45,075,894</b>	<b>\$ 41,196,896</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Short-term borrowings (Note 7)	\$ 1,461,500	\$ -
Accounts payable	1,370,175	1,402,692
Accrued commissions	305,885	1,309,358
Other accrued expenses	1,663,914	1,532,271
Billings in excess of costs and estimated earnings (Note 4)	736,866	633,703
<b>Total current liabilities</b>	<b>5,538,340</b>	<b>4,878,024</b>
<b>Stockholders' Equity:</b>		
Common stock, \$.025 par value, authorized 8,000,000 shares, issued 4,040,805 and 4,029,431 shares	100,943	100,735
Paid-in capital	9,759,063	9,538,892
Retained earnings	32,538,580	29,508,604
	<b>42,398,586</b>	<b>39,148,231</b>
Treasury stock – 553,934 and 550,872 shares at cost	(2,861,032)	(2,829,359)
<b>Total stockholders' equity</b>	<b>39,537,554</b>	<b>36,318,872</b>
	<b>\$ 45,075,894</b>	<b>\$ 41,196,896</b>

See notes to consolidated financial statements.

TAYLOR DEVICES, INC. AND SUBSIDIARY

---

**Consolidated Statements of Income**

For the years ended May 31,	<b>2020</b>	2019
Sales, net (Note 9)	<b>\$ 28,381,541</b>	\$ 33,619,031
Cost of goods sold	<b>19,144,451</b>	24,571,255
<b>Gross profit</b>	<b>9,237,090</b>	9,047,776
Selling, general and administrative expenses	<b>5,934,410</b>	6,045,984
<b>Operating income</b>	<b>3,302,680</b>	3,001,792
Other income		
Interest, net	<b>111,054</b>	69,006
Miscellaneous	<b>2,242</b>	(11,273)
Total other income	<b>113,296</b>	57,733
Income before provision for income taxes	<b>3,415,976</b>	3,059,525
Provision for income taxes (Note 10)	<b>386,000</b>	515,000
<b>Net income</b>	<b>\$ 3,029,976</b>	\$ 2,544,525
Basic and diluted earnings per common share (Note 11)	<b>\$ 0.87</b>	\$ 0.73

*See notes to consolidated financial statements.*

TAYLOR DEVICES, INC. AND SUBSIDIARY

**Consolidated Statements of Stockholders' Equity**

For the years ended May 31, 2020 and 2019

	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock
Balance, May 31, 2018	\$ 100,428	\$ 9,382,202	\$ 26,959,080	\$ (2,829,359)
Net income for the year ended May 31, 2019	-	-	2,544,525	-
Common stock issued for employee stock option plan (Note 14)	269	32,561	-	-
Common stock issued for employee stock purchase plan (Note 13)	38	17,473	-	-
Adjustments Due to ASU 2014-09	-	-	4,999	-
Stock options issued for services	-	106,656	-	-
<b>Balance, May 31, 2019</b>	<b>100,735</b>	<b>9,538,892</b>	<b>29,508,604</b>	<b>(2,829,359)</b>
Net income for the year ended May 31, 2020	-	-	3,029,976	-
Common stock issued for employee stock option plan (Note 14)	174	63,250	-	(31,673)
Common stock issued for employee stock purchase plan (Note 13)	34	13,824	-	-
Stock options issued for services	-	143,097	-	-
<b>Balance, May 31, 2020</b>	<b>\$ 100,943</b>	<b>\$ 9,759,063</b>	<b>\$ 32,538,580</b>	<b>\$ (2,861,032)</b>

See notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**

For the years ended May 31,	2020	2019
<b>Operating activities:</b>		
Net income	\$ 3,029,976	\$ 2,544,525
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	1,141,110	1,072,959
Stock options issued for services	143,097	106,656
Loss on disposal of property and equipment	-	18,061
Provision for inventory obsolescence	180,000	175,000
Deferred income taxes	19,000	30,000
Changes in other current assets and liabilities:		
Accounts and other receivables	(540,169)	986,562
Inventory	804,721	1,158,334
Prepaid expenses	(148,052)	(67,517)
Prepaid income taxes	186,869	(34,498)
Costs and estimated earnings in excess of billings	5,817,917	(1,542,036)
Accounts payable	(32,517)	(57,483)
Accrued commissions	(1,003,473)	326,098
Other accrued expenses	131,644	(674,944)
Billings in excess of costs and estimated earnings	103,163	(1,384,194)
<b>Net operating activities</b>	<b>9,833,286</b>	<b>2,657,523</b>
<b>Investing activities:</b>		
Acquisition of property and equipment	(1,231,158)	(472,837)
Increase in short-term investments	(16,359)	(16,509)
Increase in cash value of life insurance	(4,872)	(5,019)
<b>Net investing activities</b>	<b>(1,252,389)</b>	<b>(494,365)</b>
<b>Financing activities:</b>		
Short-term borrowings	1,461,500	-
Proceeds from issuance of common stock	45,608	50,341
<b>Net financing activities</b>	<b>1,507,108</b>	<b>50,341</b>
Net change in cash and cash equivalents	10,088,005	2,213,499
Cash and cash equivalents - beginning	5,071,822	2,858,323
Cash and cash equivalents - ending	<b>\$ 15,159,827</b>	<b>\$ 5,071,822</b>

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 eight categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, Vibration Dampers, Machined Springs and Custom Actuators for use in various types of machinery, equipment and structures, primarily to customers which are located throughout the United States and several foreign countries. The products are manufactured at the Company's sole operating facility in the United States where all of the Company's long-lived assets reside. Management does not track or otherwise account for sales broken down by these categories.

83% of the Company's 2020 revenue was generated from sales to customers in the United States and 11% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe, Australia and South America.

78% of the Company's 2019 revenue was generated from sales to customers in the United States and 17% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe and South America.

**Principles of Consolidation:**

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

**Subsequent Events:**

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

**Use of Estimates:**

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

**Cash and Cash Equivalents:**

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

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

**Short-term Investments:**

At times, the Company invests excess funds in liquid interest earning instruments. Short-term investments at May 31, 2020 and May 31, 2019 include "available for sale" corporate bonds stated at fair value, which approximates cost. The bonds (19) mature on various dates during the period July 2020 to September 2024. Unrealized holding gains and losses would be presented as a separate component of accumulated other comprehensive income, net of deferred income taxes. Realized gains and losses on the sale of investments are determined using the specific identification method.

The bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

### **Accounts and Other Receivables:**

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

### **Inventory:**

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

### **Property and Equipment:**

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

### **Cash Value of Life Insurance:**

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

### **Revenue Recognition:**

As noted below, ASU 2014-09 was adopted on June 1, 2018 using the modified retrospective method, which required the recognition of the cumulative effect of the transition as an adjustment to retained earnings.

Revenue is recognized (generally at fixed prices) when, or as, the Company transfers control of promised products or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts which are, therefore, not distinct. Promised goods or services that are immaterial in the context of the contract are not separately assessed as performance obligations.

For contracts with customers in which the Company satisfies a promise to the customer to provide a product that has no alternative use to the Company and the Company has enforceable rights to payment for progress completed to date inclusive of profit, the Company satisfies the performance obligation and recognizes revenue over time (generally less than one year), using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material and overhead. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. Other sales to customers are recognized upon shipment to the customer based on contract prices and terms. In the year ended May 31, 2020, 57% of revenue was recorded for contracts in which revenue was recognized over time while 43% was recognized at a point in time. In the year ended May 31, 2019, 55% of revenue was recorded for contracts in which revenue was recognized over time while 45% was recognized at a point in time.

Progress payments are typically negotiated for longer term projects. Payments are otherwise due once performance obligations are complete (generally at shipment and transfer of title). For financial statement presentation purposes, the Company nets progress billings against the total costs incurred on uncompleted contracts. The asset, "costs and estimated earnings in excess of billings," represents revenues recognized in excess of amounts billed. The liability, "billings in excess of costs and estimated earnings," represents billings in excess of revenues recognized.

If applicable, the Company recognizes an asset for the incremental, material costs of obtaining a contract with a customer if the Company expects the benefit of those costs to be longer than one year and the costs are expected to be recovered. As of May 31, 2020 and May 31, 2019, the Company does not have material incremental costs on any open contracts with an original expected duration of greater than one year, and therefore such costs are expensed as incurred. These incremental costs include, but are not limited to, sales commissions incurred to obtain a contract with a customer.

We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings primarily because certain longer term contracts accounted for on the percentage of completion method did not contain “enforceable right to payment” terms, as defined. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to our consolidated June 1, 2018 balance sheet for the adoption of ASU 2014-09, were as follows:

<b>Balance Sheet</b>	Balance at May 31, 2018	Adjustments Due to ASU 2014-09	Balance at June 1, 2018
<b>Assets</b>			
Inventory	\$ 11,317,775	\$ 1,101,116	\$ 12,418,891
Costs and estimated earnings in excess of billings	\$ 6,356,963	\$ (326,509)	\$ 6,030,454
<b>Liabilities</b>			
Billings in excess of costs and estimated earnings	\$ 2,043,002	\$ (25,105)	\$ 2,017,897
Other accrued expenses (customer advances)	\$ 1,412,502	\$ 794,713	\$ 2,207,215
<b>Equity</b>			
Retained earnings	\$ 26,959,080	\$ 4,999	\$ 26,964,079

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption of ASU 2014-09 on our consolidated balance sheet and income statement was as follows:

<b>Balance Sheet</b>	May 31, 2019		
	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
<b>Assets</b>			
Inventory	\$ 11,239,331	\$ -	\$ 11,239,331
Costs and estimated earnings in excess of billings	\$ 7,572,490	\$ -	\$ 7,572,490
<b>Liabilities</b>			
Other accrued expenses (customer advances)	\$ 1,532,271	\$ -	\$ 1,532,271
<b>Equity</b>			
Retained earnings	\$ 29,508,604	\$ -	\$ 29,508,604

	For the year ended May 31, 2019		
	As Reported	Effect of Change Higher/(Lower)	Balances Without Adoption of ASU 2014-09
<b>Income Statement</b>			
<b>Revenues</b>			
Sales, net	\$ 33,619,031	\$ 1,096,117	\$ 32,522,914
<b>Costs and Expenses</b>			
Cost of goods sold	\$ 24,571,255	\$ 1,101,116	\$ 23,470,139
Provision for income taxes	\$ 515,000	\$ -	\$ 515,000
Net income (loss)	\$ 2,544,525	\$ (4,999)	\$ 2,549,524

#### Shipping and Handling Costs:

Shipping and handling costs on incoming inventory items are classified as a component of cost of goods sold, while shipping and handling costs on outgoing shipments to customers are classified as a component of selling, general and administrative expenses. The amounts of these costs classified as a component of selling, general and administrative expenses were \$420,786 and \$268,847 for the years ended May 31, 2020 and 2019. Shipping and handling activities that occur after the customer has obtained control of the product are considered fulfillment activities, not performance obligations.

#### Research and Development Costs:

Research and development costs are classified as a component of cost of sales. The amounts of these costs were \$585,000 and \$319,000 for the years ended May 31, 2020 and 2019.

#### Income Taxes:

The provision for income taxes provides for the tax effects of transactions reported in the financial statements regardless of when such taxes are payable. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax and financial statement basis of assets and liabilities. Deferred taxes are based on tax laws currently enacted with tax rates expected to be in effect when the taxes are actually paid or recovered.

The Company's practice is to recognize interest related to income tax matters in interest income / expense and to recognize penalties in selling, general and administrative expenses. The Company did not have any accrued interest or penalties included in its consolidated balance sheets at May 31, 2020 or 2019. The Company recorded no interest expense or penalties in its consolidated statements of income during the years ended May 31, 2020 and 2019.

The Company believes it is no longer subject to examination by federal and state taxing authorities for years prior to May 31, 2017.

#### Sales Taxes:

Certain jurisdictions impose a sales tax on Company sales to nonexempt customers. The Company collects these taxes from customers and remits the entire amount as required by the applicable law. The Company excludes from revenues and expenses the tax collected and remitted.

#### Stock-Based Compensation:

The Company measures compensation cost arising from the grant of share-based payments to employees at fair value and recognizes such cost in income over the period during which the employee is required to provide service in exchange for the award. The stock-based compensation expense for the years ended May 31, 2020 and 2019 was \$143,097 and \$137,655.

### New Accounting Standards:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09, as amended, is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2017 (fiscal year 2019 for the Company). Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company adopted ASU 2014-09 on June 1, 2018 using the modified retrospective method, which required the recognition of the cumulative effect of the transition as an adjustment to retained earnings. The effect of the adoption is detailed above.

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

### 2. Accounts and Other Receivables:

	2020	2019
Customers	\$ 5,399,915	\$ 4,438,373
Customers - retention	630,823	950,684
	<u>6,030,738</u>	<u>5,389,057</u>
Less allowance for doubtful accounts	211,267	109,755
	<u>\$ 5,819,471</u>	<u>\$ 5,279,302</u>

Retention receivable from customers represents amounts invoiced to customers where payments have been partially withheld pending completion of the project. All amounts are expected to be collected within the next fiscal year.

### 3. Inventory:

	2020	2019
Raw materials	\$ 658,024	\$ 679,018
Work-in-process	8,586,404	9,905,495
Finished goods	963,009	754,818
	<u>10,207,437</u>	<u>11,339,331</u>
Less allowance for obsolescence	100,000	100,000
	<u>\$10,107,437</u>	<u>\$11,239,331</u>

### 4. Costs and Estimated Earnings on Uncompleted Contracts:

	2020	2019
Costs incurred on uncompleted contracts	\$6,395,550	\$16,599,307
Estimated earnings	3,816,527	6,526,707
	<u>10,212,077</u>	<u>23,126,014</u>
Less billings to date	9,194,370	16,187,227
	<u>\$ 1,017,707</u>	<u>\$ 6,938,787</u>

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

	2020	2019
Costs and estimated earnings in excess of billings	\$ 1,754,573	\$ 7,572,490
Billings in excess of costs and estimated earnings	736,866	633,703
	<u>\$ 1,017,707</u>	<u>\$ 6,938,787</u>

The following summarizes the status of Projects in progress as of May 31, 2020 and 2019:

	<b>2020</b>	2019
Number of Projects in progress	<b>15</b>	22
Aggregate percent complete	<b>80%</b>	77%
Aggregate amount remaining	<b>\$2,234,962</b>	\$6,748,520
Percentage of total value invoiced to customer	<b>74%</b>	54%

The Company expects to recognize the entire remaining revenue on all open projects during the May 31, 2021 fiscal year.

Revenue recognized during the years ended May 31, 2020 and 2019 for amounts included in billings in excess of costs and estimated earnings as of the beginning of the year amounted to \$1,481,320 and \$4,187,015.

#### **5. Maintenance and Other Inventory:**

	<b>2020</b>	2019
Maintenance and other inventory	<b>\$ 2,479,497</b>	\$ 2,197,958
Less allowance for obsolescence	<b>1,600,447</b>	1,466,081
	<b>\$ 879,050</b>	\$ 731,877

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 and \$175,000 for the years ended May 31, 2020 and 2019.

#### **6. Property and Equipment:**

	<b>2020</b>	2019
Land	<b>\$ 195,220</b>	\$ 195,220
Buildings and improvements	<b>9,457,142</b>	9,342,431
Machinery and equipment	<b>11,242,667</b>	10,390,610
Office furniture and equipment	<b>2,209,382</b>	1,975,392
Autos and trucks	<b>24,818</b>	24,818
Land improvements	<b>455,429</b>	455,429
	<b>23,584,658</b>	22,383,900
Less accumulated depreciation	<b>14,177,168</b>	13,066,458
	<b>\$ 9,407,490</b>	\$ 9,317,442

Depreciation expense was \$1,141,110 and \$1,072,959 for the years ended May 31, 2020 and 2019.

The Company has commitments to make capital expenditures of approximately \$200,000 as of May 31, 2020.

#### **7. Short-Term Borrowings:**

During 2020, the Company received a loan totaling \$1,461,500 from the Small Business Administration under the Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act, in response to the pandemic described in Note 20. Some or all of the loan may be forgiven if certain criteria are met. Otherwise, the loan is unsecured, has a deferment on payments for 6 months after a decision on forgiveness has been made, then is payable over a negotiable period of time, and bears interest at 1%.

The Company has available a \$10,000,000 demand line of credit from a bank, with interest payable at the Company's option of 30, 60 or 90 day LIBOR rate plus 2.25%. The line is secured by a negative pledge of the Company's real and personal property. This line of credit is subject to the usual terms and conditions applied by the bank and subject to renewal annually.

There is no amount outstanding under the line of credit at May 31, 2020 or May 31, 2019.

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 \$523,344 and \$292,000 as of May 31, 2020 and 2019. These amounts are included in accounts payable.

## 8. Legal Proceedings:

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

## 9. Sales:

The Company manufactures and sells a single group of very similar products that have many different applications for customers. These similar products are included in one of eight categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, Vibration Dampers, Machined Springs and Custom Actuators. Management does not track or otherwise account for sales broken down by these categories. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. A breakdown of sales to these three general groups of customers is as follows:

	<u>2020</u>	<u>2019</u>
Construction	<b>\$ 15,621,784</b>	\$ 20,168,587
Aerospace / Defense	<b>10,771,129</b>	11,383,374
Industrial	<b>1,988,628</b>	2,067,070
	<b><u>\$ 28,381,541</u></b>	<u>\$ 33,619,031</u>

Sales to six customers approximated 41% (10%, 9%, 6%, 6%, 5% and 5% respectively) of net sales for 2020. Sales to four customers approximated 36% (17%, 8%, 6% and 5% respectively) of net sales for 2019.

## 10. Income Taxes:

	<u>2020</u>	<u>2019</u>
Current tax provision:		
Federal	<b>\$ 375,000</b>	\$ 521,000
State	-	-
	<b><u>375,000</u></b>	<u>521,000</u>
Deferred tax provision:		
Federal	<b>11,000</b>	(6,000)
State	-	-
	<b><u>11,000</u></b>	<u>(6,000)</u>
	<b><u>\$ 386,000</u></b>	<u>\$ 515,000</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:

	<u>2020</u>	<u>2019</u>
Computed tax provision at the expected statutory rate	<b>\$ 717,400</b>	\$ 642,500
State income tax - net of Federal tax benefit	<b>500</b>	500
Tax effect of permanent differences:		
Research tax credits	<b>(272,000)</b>	(166,000)
Foreign-derived intangible income deduction	<b>(99,739)</b>	-
Other permanent differences	<b>40,200</b>	28,700
Other	<b>(361)</b>	9,300
	<b><u>\$ 386,000</u></b>	<u>\$ 515,000</u>
Effective income tax rate	<b>11.3%</b>	16.8%

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

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Allowance for doubtful receivables	\$ 44,400	\$ 23,000
Tax inventory adjustment	94,000	99,700
Allowance for obsolete inventory	357,100	328,900
Accrued vacation	60,500	50,200
Accrued commissions	3,900	19,800
Warranty reserve	39,400	30,300
Stock options issued for services	230,200	208,600
	<u>829,500</u>	<u>760,500</u>
Deferred tax liabilities:		
Excess tax depreciation	<u>(659,385)</u>	<u>(571,385)</u>
Net deferred tax assets	<u>\$ 170,115</u>	<u>\$ 189,115</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 \$4.0 million in taxable income in future years in order to realize the deferred tax assets recorded as of May 31, 2020 of \$829,500.

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2020, the Company had State investment tax credit carryforwards of approximately \$369,000 expiring through May 2026.

#### 11. Earnings Per Common Share:

Basic earnings per common share is computed by dividing income available to common stockholders by the weighted-average common shares outstanding for the period. Diluted earnings per common share reflects the weighted-average common shares outstanding and dilutive potential common shares, such as stock options.

A reconciliation of weighted-average common shares outstanding to weighted-average common shares outstanding assuming dilution is as follows:

	<u>2020</u>	<u>2019</u>
Average common shares outstanding	3,481,128	3,470,595
Common shares issuable under stock option plans	8,663	17,043
Average common shares outstanding assuming dilution	<u>3,489,791</u>	<u>3,487,638</u>

#### 12. Related Party Transactions:

The Company had no related party transactions for the years ended May 31, 2020 and 2019.

### 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, 2020 and 2019, 1,374 (\$8.63 to \$11.00 price per share) and 1,542 (\$10.235 to \$12.28 price per share) common shares, respectively, were issued to employees. As of May 31, 2020, 220,253 shares were reserved for further issue.

### 14. Stock Option Plans:

In 2018, the Company adopted a stock option plan which permits the Company to grant both incentive stock options and non-qualified stock options. The incentive stock options qualify for preferential treatment under the Internal Revenue Code. Under this plan, 160,000 shares of common stock have been reserved for grant to key employees and directors of the Company and 28,750 shares have been granted as of May 31, 2020. 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 \$2.85 during 2020 and \$3.20 during 2019. 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.

	2020	2019
Risk-free interest rate	1.98%	2.48%
Expected life in years	3.9	3.8
Expected volatility	32%	31%
Expected dividend yield	0%	0%

The following is a summary of stock option activity:

	Shares	Weighted Average Exercise Price	Intrinsic Value
Outstanding - May 31, 2018	271,750	\$ 11.33	\$ 304,252
Options granted	43,000	\$ 11.90	
Less: options exercised	10,750	\$ 3.05	
Less: options expired	80,000	\$ 11.68	
Outstanding - May 31, 2019	224,000	\$ 11.71	\$ 228,132
Options granted	50,250	\$ 10.30	
Less: options exercised	10,000	\$ 6.35	
Less: options expired	12,000	\$ 14.34	
Outstanding - May 31, 2020	252,250	\$ 11.52	\$ 209,835

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 (98,000 at May 31, 2020 and 77,250 at May 31, 2019.) The Company's closing stock price was \$10.99 and \$11.08 as of May 31, 2020 and 2019. As of May 31, 2020, there are 131,250 options available for future grants under the 2018 stock option plan. \$31,750 and \$32,830 was received from the exercise of share options during the fiscal years ended May 31, 2020 and 2019.

The following table summarizes information about stock options outstanding at May 31, 2020:

<b>Outstanding and Exercisable</b>			
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
\$ 5.01-\$ 6.00	10,000	0.9	\$ 5.69
\$ 7.01-\$ 8.00	15,000	2.9	\$ 7.74
\$ 8.01-\$ 9.00	27,250	3.6	\$ 8.69
\$ 9.01-\$10.00	30,750	9.9	\$ 9.85
\$10.01-\$11.00	15,000	7.9	\$10.30
\$11.01-\$12.00	68,750	7.8	\$11.57
\$12.01-\$13.00	40,500	5.8	\$12.38
\$13.01-\$14.00	15,000	6.9	\$13.80
\$16.01-\$17.00	15,000	5.9	\$16.40
\$19.01-\$20.00	15,000	6.2	\$19.26
<b>\$ 5.00-\$20.00</b>	<b>252,250</b>	<b>6.5</b>	<b>\$11.52</b>

The following table summarizes information about stock options outstanding at May 31, 2019:

<b>Outstanding and Exercisable</b>			
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
\$ 5.01-\$ 6.00	10,000	1.9	\$ 5.69
\$ 6.01-\$ 7.00	10,000	0.9	\$ 6.35
\$ 7.01-\$ 8.00	15,000	3.9	\$ 7.74
\$ 8.01-\$ 9.00	27,250	4.6	\$ 8.69
\$10.01-\$11.00	15,000	8.9	\$10.30
\$11.01-\$12.00	53,000	8.4	\$11.79
\$12.01-\$13.00	45,000	6.9	\$12.38
\$13.01-\$14.00	15,000	7.9	\$13.80
\$16.01-\$17.00	15,000	6.9	\$16.40
\$19.01-\$20.00	18,750	7.2	\$19.26
<b>\$ 5.00-\$20.00</b>	<b>224,000</b>	<b>6.5</b>	<b>\$11.71</b>

#### **15. Preferred Stock:**

The Company has 2,000,000 authorized but unissued shares of preferred stock which may be issued in series. The shares of each series shall have such rights, preferences, and limitations as shall be fixed by the Board of Directors.

#### **16. Treasury Stock:**

Treasury shares are 553,934 and 550,872 at May 31, 2020 and 2019.

#### **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 \$158,191 and \$71,222 for the years ended May 31, 2020 and 2019.

### 18. Fair Value of Financial Instruments:

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

The fair values of short-term investments were determined as described in Note 1.

### 19. Cash Flows Information:

	<b>2020</b>	2019
Interest paid	<b>none</b>	none
Income taxes paid	<b>\$ 180,131</b>	\$ 550,498

### 20. Risks and Uncertainties:

On January 31, 2020, the United States Secretary of Health and Human Services (HHS) declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World Health Organization in February 2020. Efforts to fight the widespread disease included limiting or closing many businesses and resulted in a severe disruption of operations for many organizations. Financial markets also experienced a significant decline in value. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, impact on customers, employees, and vendors, all of which cannot be predicted.