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TAYLOR DEVICES INC

Form 10-K

August 29, 2017

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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, 2017

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/ properties

Taylor Devices Inc

(Exact name of registrant as specified in its charter)

New York 16-0797789
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

90 Taylor Drive, P.O. Box 748, North Tonawanda, New York 14120-0748
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	<u>Name of each exchange on which registered</u>
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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 [] (Do not check if a smaller reporting company) Smaller reporting company [X]
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 is a shell company (as defined in Rule 12b-2 of the Act). [] Yes [X] No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by 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, 2016 is \$50,778,000.

The number of shares outstanding of each of the registrant's classes of common stock as of August 4, 2017: 3,454,894.

39869000

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TAYLOR DEVICES, INC.

DOCUMENTS INCORPORATED BY REFERENCE

Documents Form 10-K Reference

Proxy Statement Part III, Items 10-14

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PART I

Item 1. Business.

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

Principal Products

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

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

Distribution

The Company uses the services of more than 50 sales representatives and distributors in the United States and Canada along with more than 20 representatives and distributors throughout the rest of the world. Specialized technical sales in aerospace and custom marketing activities are serviced by three sales agents, under the direction and with the assistance of Douglas P. Taylor, the Company's President. Sales representatives typically have non-exclusive, yearly agreements with the Company, which, in most instances, provide for payment of commissions on sales at 10% of the product's net aggregate selling price. Distributors also have non-exclusive, yearly agreements with the Company to purchase the Company's products for resale purposes.

Competition

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

The Company's principal competitor for the manufacture of products in the aerospace and commercial aerospace industries field is UTC Aerospace Systems Division of United Technologies in Ft. Worth, Texas. While the Company is competitive with this company in the areas of pricing, warranty and product performance, due to limited financing and manufacturing facilities, the Company cannot compete in the area of volume production.

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

Raw Materials and Supplies

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

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Dependence Upon Major Customers

The Company is not dependent on any one or a few major customers. Sales to five customers approximated 44% (14%, 9%, 8%, 7% and 6%, respectively) of net sales for 2017. 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 11 patents expiring at different times until the year 2034.

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, 2017 and 2016. No extended payment terms are offered. During the year ended May 31, 2017, 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, 2017 and 2016, the Company expended \$903,000 and \$428,000, respectively, on manufacturing research. This significant increase is primarily due to research and development required to meet new types of specifications on certain domestic seismic protection contracts. For the years ended May 31, 2017 and 2016, defense sponsored research and development totaled \$87,000 and \$56,000, respectively.

Government Regulation

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

The Company is subject to the Occupational Safety and Health Act ("OSHA") and the rules and regulations promulgated thereunder, which establish strict standards for the protection of employees, and impose fines for violations of such standards. The Company believes that it is in substantial compliance with OSHA provisions and does not anticipate any material corrective expenditures in the near future. The Company 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, 2017, the Company had 110 employees, including three executive officers, and four part time employees. The Company has good relations with its employees.

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Item 1A. Risk Factors.

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

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties

The Company's production facilities occupy approximately six acres on Tonawanda Island in North Tonawanda, New York and are comprised of four interconnected buildings and two adjacent buildings. The production facilities consist of a small parts plant (approximately 4,400 square feet), a large parts plant (approximately 13,500 square feet), and include a facility of approximately 7,000 square feet comprised of a test facility, storage area, pump area and the Company's general offices. One adjacent building is a 17,000 square foot seismic assembly test facility. Another adjacent building (approximately 2,000 square feet) is used as a training facility. These facilities total more than 45,000 square feet. Adjacent to these facilities, the Company has a remote test facility used for shock testing. This state-of-the-art test facility is 1,200 square feet. The small parts plant consists of a complete small machine shop and tool room that produces all of the Company's product items which are less than two inches in diameter. The large parts plant consists of a complete large machine shop and tool room. Both plants contain custom-built machinery for boring, deep-hole drilling and turning of parts.

The Company owns three 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 three buildings is 46,000 square feet. The Company's production machinery was relocated from the Company's Tonawanda Island site in the autumn of 2013 and overhead cranes have been installed to move large parts from machine to machine. This allowed the former machining areas at the Tonawanda Island site to house greatly expanded assembly and product testing areas. All corporate and engineering offices were unaffected by the change and remain on Tonawanda Island.

The Company's real properties are subject to a negative pledge agreement with its lender, Key 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 Key Bank is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, at "Capital Resources, Line of Credit and Long-Term Debt."

The Company leases a separate warehouse for storage from an unrelated third party, consisting of approximately 3,600 square feet at \$975 per month. The warehouse is located approximately one-quarter mile from the above-referenced production facilities and office space. The total rental expense incurred by the Company for this facility in fiscal 2017 was \$11,700.

The Company has constructed a 10,000 square foot addition at the present Tonawanda Island site. This greatly increased the product size capability and productivity for our seismic damper product lines. The new addition with its overhead traveling cranes allows dampers to be built up to 45 ft. in length. This supports customer orders now in process, and anticipates what the Company believes will be a new trend in very large damper sizes for major building and bridge projects. The new addition is also the site of a new long bed damper test machine where seismic dampers Taylor Devices manufactures will be tested at maximum force to satisfy customer specifications.

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.

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The Company's Common Stock trades on the NASDAQ Capital Market of the National Association of Securities Dealers Automated Quotation ("NASDAQ") stock market under the symbol TAYD. The high and low sales information noted below for the quarters of fiscal year 2017 and fiscal year 2016 were obtained from NASDAQ.

	Fiscal 2017		Fiscal 2016	
	High	Low	High	Low
First Quarter	\$20.45	\$16.10	\$14.4500	\$12.2000
Second Quarter	\$20.00	\$13.10	\$17.4390	\$12.5000
Third Quarter	\$15.69	\$14.25	\$16.8390	\$12.7240
Fourth Quarter	\$14.52	\$12.84	\$17.0099	\$13.4500

 Holders

As of August 4, 2017, the number of issued and outstanding shares of Common Stock was 3,454,894 and the approximate number of record holders of the Company's Common Stock was 645. Due to a substantial number of shares of the Company's Common Stock held in street name, the Company believes that the total number of beneficial owners of its Common Stock exceeds 2,000.

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

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

Issuer Purchases of Equity Securities

The 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.

Table of Contents**Equity Compensation Plan Information**

The following table sets forth information regarding equity compensation plans of the Company as of May 31, 2017.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights <i>(a)</i>	Weighted-average exercise price of outstanding options, warrants and rights <i>(b)</i>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column <i>(a)</i>) <i>(c)</i>
Equity compensation plans approved by security holders:			
2005 Stock Option Plan	25,500		-
2008 Stock Option Plan	63,000	\$ 4.48	-
2012 Stock Option Plan	113,250	\$ 8.07	-
2015 Stock Option Plan	51,750	\$11.67	108,250
		\$15.97	

Equity compensation plans not approved by security holders:			
2004 Employee Stock Purchase Plan (1)	-	-	225,004
Total	253,500		333,254

(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, 2017, 225,004 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.

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Application of Critical Accounting Policies and Estimates

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

Accounts Receivable

Our ability to collect outstanding receivables from our customers is critical to our operating performance and cash flows. Accounts receivable are stated at an amount management expects to collect from outstanding balances. Management provides for probable uncollectible accounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts after considering the age of each receivable and communications with the customers involved. Balances that are collected, for which a credit to a valuation allowance had previously been recorded, result in a current-period reversal of the earlier transaction charging earnings and crediting a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable in the current period. The actual amount of accounts written off over the five year period ended May 31, 2017 equaled less than 0.1% of sales for that period. The balance of the valuation allowance has increased since May 31, 2016 to the current level of slightly less than \$110,000. Management does not expect the valuation allowance to materially change in the next twelve months for the current accounts receivable balance.

Inventory

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

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

and items that are generally subject to spontaneous ordering.

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

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

Revenue Recognition

Sales are recognized when units are delivered or services are performed. Sales under fixed-price contracts are recorded as deliveries are made at the contract sales price of the units delivered. Sales under certain fixed-price contracts requiring substantial performance over several periods prior to commencement of deliveries, are accounted for under the percentage-of-completion method of accounting whereby revenues are recognized based on estimates of completion prepared on a ratio of cost to total estimated cost basis. Costs include all material and direct and indirect charges related to specific contracts. Other expenses are charged to operations as incurred. Total estimated costs for each of the contracts are estimated based on a combination of historical costs of manufacturing similar products and estimates or quotes from vendors for supplying parts or services towards the completion of the manufacturing process. Adjustments to cost and profit estimates are made periodically due to changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements. These changes may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Any losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined.

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If total costs calculated upon completion of the manufacturing process in the current period for a contract are more than the estimated total costs at completion used to calculate revenue in a prior period, then the revenue and profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion. Historically, actual results have not varied materially from the Company's estimates. In the fiscal year ended May 31, 2017, 66% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 34% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2016, 66% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 34% of revenue was recorded as deliveries were made to our customers.

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

Income Taxes

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

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

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

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

Results of Operations

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

Summary comparison of the years ended May 31, 2017 and 2016

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

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

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

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

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

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

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

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

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

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

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

Selling, General and Administrative Expenses

	Year ended May 31		Change	
	2017	2016	Amount	Percent
Outside Commissions	\$1,336,000	\$2,068,000	\$(732,000)	-35 %
Other SG&A	3,729,000	4,620,000	(891,000)	-19 %
Total SG&A	\$5,065,000	\$6,688,000	\$(1,623,000)	-24 %
... as a percentage of net revenues	20	% 19	%	

Selling, general and administrative expenses decreased by 24% from the prior year. Outside commission expense decreased 35% from last year's level. This fluctuation was primarily due to the decrease in the level of sales from last year to this. Other selling, general and administrative expenses decreased by 19% from last year. This decrease is primarily due to a decrease in incentive compensation expense from the prior period related to the lower level of sales and operating results.

The above factors resulted in operating income of \$2,921,000 for the year ended May 31, 2017, down 49% from the \$5,748,000 in the prior year.

The Company's effective tax rate (ETR) is calculated based upon current assumptions relating to the year's operating results and various tax related items. The ETR for the fiscal year ended May 31, 2017 is 22%, five percentage points less than the ETR for the prior year of 27%. A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

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

Stock Options

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

The Company measures compensation cost arising from the grant of share-based payments to employees at fair value and recognizes such cost in income over the period during which the employee is required to provide service in exchange for the award. The Company recognized \$178,000 and \$151,000 of compensation cost for the years ended May 31, 2017 and 2016.

The fair value of each stock option grant has been determined using the Black-Scholes model. The model considers assumptions related to exercise price, expected volatility, risk-free interest rate, and the weighted average expected term of the stock option grants. The Company used a weighted average expected term. Expected volatility assumptions used in the model were based on volatility of the Company's stock price for the thirty month period immediately preceding the granting of the options. The Company issued stock options in August 2016 and April 2017. The risk-free interest rate is derived from the U.S. treasury yield.

The following assumptions were used in the Black-Scholes model in estimating the fair market value of the Company's stock option grants:

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

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The ultimate value of the options will depend on the future price of the Company's common stock, which cannot be forecast with reasonable accuracy. A summary of changes in the stock options outstanding during the year ended May 31, 2017 is presented below.

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

Capital Resources, Line of Credit and Long-Term Debt

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

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

The Company has a \$10,000,000 demand line of credit from a bank, with interest payable at the Company's option of 30, 60, 90 or 180 day LIBOR rate plus 2.5% or the bank's prime rate less .25%. There is no outstanding balance at May 31, 2017. There was no outstanding balance as of May 31, 2016. The outstanding balance on the line of credit fluctuates as the Company's various long-term projects progress. The line is secured by accounts receivable, equipment, inventory, and general intangibles, and a negative pledge of the Company's real property. This line of credit is subject to the usual terms and conditions applied by the bank and is subject to renewal annually. In conjunction with this line of credit, the Company agreed to the following covenants:

Covenant	Minimum per Covenant	Current Actual	When Measured
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Minimum level of working capital	\$3,000,000	\$21,373,000	Quarterly
Minimum debt service coverage ratio	1.5:1	n/a	Fiscal Year-end

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

Inventory and Maintenance Inventory

	May 31, 2017		May 31, 2016		Increase /(Decrease)	
Raw materials	\$710,000		\$512,000		\$198,000	39%
Work in process	10,071,000		8,639,000		1,432,000	17%
Finished goods	708,000		454,000		254,000	56%
Inventory	11,489,000	93 %	9,605,000	93 %	1,884,000	20%
Maintenance and other inventory	879,000	7 %	697,000	7 %	182,000	26%
Total	\$12,368,000	100%	\$10,302,000	100%	\$2,066,000	20%
Inventory turnover	1.5		2.3			

Inventory, at \$11,489,000 as of May 31, 2017, is 20% more than the prior year-end. Of this, approximately 88% is work in process, 6% is finished goods, and 6% is raw materials. All of the current inventory is expected to be consumed or sold within twelve months. The level of inventory will fluctuate from time to time due to the stage of completion of the non-project sales orders in progress at the time.

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The Company continues to rework slow-moving inventory, where applicable, to convert it to product to be used on customer orders. There was approximately \$126,000 of slow-moving inventory used during the year ended May 31, 2017. The Company disposed of approximately \$56,000 and \$133,000 of obsolete inventory during the years ended May 31, 2017 and 2016, respectively.

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

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

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

Accounts receivable of \$2,546,000 as of May 31, 2017 includes approximately \$677,000 of amounts retained by customers on long-term construction projects. The Company expects to collect all of these amounts, including the retained amounts, during the next twelve months. The number of an average day's sales outstanding in accounts receivable (DSO) decreased slightly to 36 days at May 31, 2017 from 40 days as of May 31, 2016. The level of accounts receivable at the end of the current year is 36% less than at the end of the prior year. The decrease in the level of accounts receivable was primarily due to a significant decrease in the level of sales from 2016 to 2017.

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

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

Percentage of total value invoiced to customer	47	%	43	%
--	----	---	----	---

There is 1 fewer project in-process at the end of the current fiscal year as compared with the prior year end and the average value of those projects has increased by 21% between those two dates.

As noted above, CIEB represents revenues recognized in excess of amounts billed. Whenever possible, the Company negotiates a provision in sales contracts to allow the Company to bill, and collect from the customer, payments in advance of shipments. Unfortunately, provisions such as this are often not possible. The \$6,868,000 balance in this account at May 31, 2017 is a 25% increase from the prior year-end. Generally, if progress billings are permitted under the terms of a project sales agreement, then the more complete the project is, the more progress billings will be permitted. The Company expects to bill the entire amount during the next twelve months. 33% of the CIEB balance as of the end of the last fiscal quarter, February 28, 2017, was billed to those customers in the current fiscal quarter ended May 31, 2017. The remainder will be billed as the projects progress, in accordance with the terms specified in the various contracts.

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

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

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

As noted above, BIEC represents billings to customers in excess of revenues recognized. The \$1,296,000 balance in this account at May 31, 2017 is in comparison to a \$1,464,000 balance at the end of the prior year. The balance in this account fluctuates in the same manner and for the same reasons as the account "costs and estimated earnings in excess of billings", discussed above. Final delivery of product under these contracts is expected to occur during the next twelve months.

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

	May 31, 2017	May 31, 2016
Billings to customers	\$8,133,000	\$5,886,000
Less: Costs	4,522,000	3,362,000
Less: Estimated earnings	2,315,000	1,060,000
BIEC	\$1,296,000	\$1,464,000
Number of projects in progress	3	6

Accounts payable, at \$1,329,000 as of May 31, 2017, is significantly (25%) less than the prior year-end. This decrease is due to a lower level of purchased materials required to fill existing customer sales orders at the end of the current year that are not already in inventory, compared to the end of last year. The Company expects the current accounts payable amount to be paid during the next twelve months.

Commission expense on applicable sales orders is recognized at the time revenue is recognized. The commission is paid following receipt of payment from the customers. Accrued commissions as of May 31, 2017 are \$847,000. This is 24% more than the \$684,000 accrued at the prior year-end. This increase is primarily due to a few larger projects which, by the terms of the respective contracts, do not permit significant payments through the current levels of completion. The Company expects the current accrued amount to be paid during the next twelve months.

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

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

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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 23 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, 2017 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, 2017. 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, 2017, 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, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

Item 9B. Other Information.

None.

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PART III

The information required by Items 10, 11, 12, 13 and 14 of this part will be presented in the Company's Proxy Statement to be issued in connection with the Annual Meeting of Shareholders to be held on November 3, 2017, 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, 2017 and 2016
- (iii) Consolidated Statements of Income for the years ended May 31, 2017 and 2016
- (iv) Consolidated Statements of Stockholders' Equity for the years ended May 31, 2017 and 2016
- (v) Consolidated Statements of Cash Flows for the years ended May 31, 2017 and 2016
- (vi) Notes to Consolidated Financial Statements - May 31, 2017 and 2016

EXHIBITS:

Articles of incorporation and by-laws

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- (i) Restated Certificate of Incorporation incorporated by reference to Exhibit (3)(i) of Annual Report on Form 10-K, dated August 24, 1983.

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(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 Regan & Associates, Inc, dated as of October 5, 2008 and letter to shareholders (including Summary of Rights), dated October 5, 2008, attached as Exhibits 4 and 20, respectively to Registration Statement on Form 8-A 12G, filed with the Securities and Exchange Commission on October 3, 2008.

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Material Contracts

- 10
- (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) 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.

 - (vi) 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.

 - (vii) 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.

 - (viii) General Security Agreement dated August 7, 2009 by the Registrant in favor of First Niagara Bank, incorporated by reference to Exhibit 10(xiii) to Annual Report on Form 10-K filed August 28, 2009.

 - (ix) Negative Pledge Agreement dated August 7, 2009 by the Registrant in favor of First Niagara Bank, incorporated by reference to Exhibit 10(xiv) to Annual Report on Form 10-K filed August 28, 2009.

 - (x) 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.

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(xi) Employment Agreement dated as of August 26, 2014 between the Registrant and Douglas P. Taylor.

(xii) Employment Agreement dated as of August 26, 2014 between the Registrant and Richard G. Hill.

(xiii) Employment Agreement dated as of August 26, 2014 between the Registrant and Mark V. McDonough.

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Statement regarding
11 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, 2017

Weighted
average
common 3,432,112
stock
outstanding
Common
shares
issuable
under
stock
option 73,082
plans
using
treasury
stock
method
Weighted
average
common
stock 3,505,194
outstanding
assuming
dilution

Net
income
fiscal
year
(1) \$ 2,330,577
ended
May
31,
2017
(2) 3,432,112

Weighted
 average
 common
 stock
 Basic
 income
 per
 common \$ 0.68
 share (1)
 divided
 by (2)

Net
 income
 fiscal
 year
 ended (3) \$ 2,330,577
 May
 31,
 2017

Weighted
 average
 common
 stock (4) 3,505,194
 outstanding
 assuming
 dilution
 Diluted
 income
 per
 common \$ 0.66
 share (3)
 divided
 by (4)

Weighted average of
 common stock/equivalents
 outstanding - fiscal year
 ended May 31, 2016

Weighted
 average
 common 3,393,919
 stock
 outstanding
 Common 82,508
 shares
 issuable
 under
 stock
 option

plans
using
treasury
stock
method
Weighted
average
common
stock 3,476,427
outstanding
assuming
dilution

Net
income
fiscal
year
(1) \$ 4,208,225
ended
May
31,
2016

Weighted
average
(2) 3,393,919
common
stock
Basic
income
per
common \$ 1.24
share (1)
divided
by (2)

Net
income
fiscal
year
(3) \$ 4,208,225
ended
May
31,
2016

Weighted
average
common
stock 3,476,427
outstanding
assuming
dilution
Diluted \$ 1.21
income
per

common
share (3)
divided
by (4)

13 The Annual Report to
Security Holders for the
fiscal year ended May 31,
2017, 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.

20 Other documents or
statements to security
holders

News from Taylor
Devices, Inc.
(i) Shareholder Letter,
Summer 2017.

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

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32 Officer Certifications

(i) Section 1350 Certification of Chief Executive Officer.

(ii) Section 1350 Certification of Chief Financial Officer.

Interactive data files pursuant to Rule 405 of Regulation S-T: (i)

Consolidated Balance Sheets, (ii) Consolidated Statements of

101 Income, (iii) Consolidated Statements of Stockholders' Equity, (iv)

Consolidated Statements of Cash Flows, and (v) Notes to

Consolidated Financial Statements.

101 ~~XBRL~~ Taxonomy Extension Schema Document

101 ~~XBRL~~ Taxonomy Extension Calculation Linkbase Document

101 ~~XBRL~~ Taxonomy Extension Definition Linkbase Document

101 ~~XBRL~~ Taxonomy Extension Label Linkbase Document

101 ~~XBRL~~ Taxonomy Extension Presentation Linkbase Document

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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/Douglas P. Taylor Date: August 4, 2017
Douglas P. Taylor
President and Director
(Principal Executive Officer)

and

By: /s/Mark V. McDonough Date: August 4, 2017
Mark V. McDonough
Chief Financial Officer

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: <u>/s/Reginald B. Newman II</u> Reginald B. Newman II, Director August 4, 2017	By: <u>/s/Richard G. Hill</u> Richard G. Hill, Director August 4, 2017
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By: <u>/s/John Burgess</u> John Burgess, Director August 4, 2017	By: <u>/s/Randall L. Clark</u> Randall L. Clark, Director August 4, 2017
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[Lumsden & McCormick, LLP Letterhead]

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors of
Taylor Devices, Inc.

Gentlemen:

We hereby consent to the incorporation by reference in this Annual Report on Form 10-K (Commission File Number 0-3498) of Taylor Devices, Inc. of our report dated August 4, 2017 and any reference thereto in the Annual Report to Shareholders for the fiscal year ended May 31, 2017.

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We also consent to such incorporation by reference in Registration Statement Nos. 333-114085, 333-133340, 333-155284, 333-184809 and 333-210660 of Taylor Devices, Inc. on Form S-8 of our report dated August 4, 2017.

/s/Lumsden & McCormick, LLP

Lumsden & McCormick, LLP

Buffalo, New York

August 4, 2017

TAYLOR DEVICES, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2017

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[Lumsden & McCormick, LLP Letterhead]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Taylor Devices, Inc.

We have audited the accompanying consolidated balance sheets of Taylor Devices, Inc. and Subsidiary as of May 31, 2017 and 2016, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taylor Devices, Inc. and Subsidiary as of May 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/Lumsden & McCormick, LLP

Lumsden & McCormick, LLP

Buffalo, New York

August 4, 2017

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

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

See notes to consolidated financial statements.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

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

See notes to consolidated financial statements.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

For the years ended May 31, 2017 and 2016

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

See notes to consolidated financial statements.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

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

See notes to consolidated financial statements.

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TAYLOR DEVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Operations:

Taylor Devices, Inc. (the Company) manufactures and sells a single group of very similar products that have many different applications for customers. These similar products are included in one of six categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, and Vibration Dampers for use in various types of machinery, equipment and structures, primarily to customers which are located throughout the United States and several foreign countries. The products are manufactured at the Company's sole operating facility in the United States where all of the Company's long-lived assets reside. Management does not track or otherwise account for sales broken down by these categories.

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

73% of the Company's 2016 revenue was generated from sales to customers in the United States and 22% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe and South America.

Principles of Consolidation:

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

Subsequent Events:

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

Use of Estimates:

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

Cash and Cash Equivalents:

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

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

Short-term Investments:

At times, the Company invests excess funds in liquid interest earning instruments. Short-term investments at May 31, 2017 include “available for sale” corporate bonds stated at fair value, which approximates cost. The bonds (19) mature on various dates during the period September 2017 to December 2021. Unrealized holding gains and losses would be presented as a separate component of accumulated other comprehensive income, net of deferred income taxes. Realized gains and losses on the sale of investments are determined using the specific identification method.

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

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Accounts Receivable:

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

Inventory:

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

Property and Equipment:

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

Cash Value of Life Insurance:

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

Revenue Recognition:

Sales are recognized when units are delivered or services are performed. Sales under fixed-price contracts are recorded as deliveries are made at the contract sales price of the units delivered. Sales under certain fixed-price contracts requiring substantial performance over several periods prior to commencement of deliveries, are accounted for under the percentage-of-completion method of accounting whereby revenues are recognized based on estimates of

completion prepared on a ratio of cost to total estimated cost basis. Costs include all material and direct and indirect charges related to specific contracts. Other expenses are charged to operations as incurred. Total estimated costs for each of the contracts are estimated based on a combination of historical costs of manufacturing similar products and estimates or quotes from vendors for supplying parts or services towards the completion of the manufacturing process. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. If total costs calculated upon completion of the manufacturing process in the current period for a contract are more than the estimated total costs at completion used to calculate revenue in a prior period, then the revenue and profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion. In the fiscal years ended May 31, 2017 and 2016, 66% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 34% of revenue was recorded as deliveries were made to our customers.

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

Shipping and Handling Costs:

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

Research and Development Costs:

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

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Income Taxes:

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

The Company's practice is to recognize interest related to income tax matters in interest income / expense and to recognize penalties in selling, general and administrative expenses. The Company did not have any accrued interest or penalties included in its consolidated balance sheets at May 31, 2017 or 2016. The Company recorded no interest expense or penalties in its consolidated statements of income during the years ended May 31, 2017 and 2016.

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

Sales Taxes:

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

Stock-Based Compensation:

The Company measures compensation cost arising from the grant of share-based payments to employees at fair value and recognizes such cost in income over the period during which the employee is required to provide service in exchange for the award. The stock-based compensation expense for the years ended May 31, 2017 and 2016 was \$177,693 and \$151,184.

New Accounting Standards:

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

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

Decrease in current assets \$965,100

Increase in noncurrent assets \$282,115

Decrease in noncurrent liabilities \$682,985

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

Table of Contents**2. Accounts Receivable:**

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

3. Inventory:

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

4. Costs and Estimated Earnings on Uncompleted Contracts:

	2017	2016
Costs incurred on uncompleted contracts	\$14,197,223	\$11,441,874
Estimated earnings	6,071,776	4,251,018
Total costs and estimated earnings	20,268,999	15,692,892
Less billings to date	14,696,595	11,655,742
Costs and estimated earnings not billed	\$5,572,404	\$4,037,150

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

	2017	2016
Costs and estimated earnings in excess of billings	\$6,868,393	\$5,500,771
Billings in excess of costs and estimated earnings	1,295,989	1,463,621
Costs and estimated earnings not billed	\$5,572,404	\$4,037,150

5. Maintenance and Other Inventory:

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

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

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

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

Table of Contents**6. Property and Equipment:**

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

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

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

7. Short-Term Borrowings:

The Company has a credit facility with a \$6,000,000 demand line of credit from a bank, with interest payable at the Company's option of 30, 60, 90 or 180 day LIBOR rate plus 2.5% or the bank's prime rate less .25%. The line is secured by accounts receivable, equipment, inventory, general intangibles, and a negative pledge of the Company's real property. This line of credit is subject to the usual terms and conditions applied by the bank and subject to renewal annually.

There is no amount outstanding under the line of credit at May 31, 2017 or May 31, 2016.

The Company uses a cash management facility under which the bank draws against the available line of credit to cover checks presented for payment on a daily basis. Outstanding checks under this arrangement totaled \$239,200 and \$517,960 as of May 31, 2017 and 2016. These amounts are included in accounts payable.

8. Legal Proceedings:

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

9. Sales:

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

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

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

Table of Contents**10. Income Taxes:**

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

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

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

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

	2017	2016
Deferred tax assets:		
Allowance for doubtful receivables	\$ 37,400	\$ 6,700
Tax inventory adjustment	213,000	95,500
Allowance for obsolete inventory	505,800	463,600
Accrued vacation	77,800	73,700
Accrued commissions	20,900	7,200
Warranty reserve	51,800	45,400
Stock options issued for services	320,100	273,000

Total deferred tax assets	1,226,800	965,100
Deferred tax liabilities:		
Excess tax depreciation	(797,685)	(682,985)
Net deferred tax assets	\$429,115	\$282,115

Realization of the deferred tax assets is dependent on generating sufficient taxable income at the time temporary differences become deductible. The Company provides a valuation allowance to the extent that deferred tax assets may not be realized. A valuation allowance has not been recorded against the deferred tax assets since management believes it is more likely than not that the deferred tax assets are recoverable. The Company considers future taxable income and potential tax planning strategies in assessing the need for a potential valuation allowance. The amount of the deferred tax assets considered realizable however, could be reduced in the near term if estimates of future taxable income are reduced. The Company will need to generate approximately \$3.6 million in taxable income in future years in order to realize the deferred tax assets recorded as of May 31, 2017 of \$1,226,800.

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

Table of Contents**11. Earnings Per Common Share:**

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

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

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

12. Related Party Transactions:

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

13. Employee Stock Purchase Plan:

In March 2004, the Company reserved 295,000 shares of common stock for issuance pursuant to a non-qualified employee stock purchase plan. Participation in the employee stock purchase plan is voluntary for all eligible employees of the Company. Purchase of common shares can be made by employee contributions through payroll deductions. At the end of each calendar quarter, the employee contributions will be applied to the purchase of common shares using a share value equal to the mean between the closing bid and ask prices of the stock on that date. These shares are distributed to the employees at the end of each calendar quarter or upon withdrawal from the plan. During the years ended May 31, 2017 and 2016, 1,498 (\$13.835 to \$19.58 price per share) and 1,409 (\$12.615 to \$16.345 price per share) common shares, respectively, were issued to employees. As of May 31, 2017, 225,004 shares were reserved for further issue.

14. Stock Option Plans:

In 2015, the Company adopted a stock option plan which permits the Company to grant both incentive stock options and non-qualified stock options. The incentive stock options qualify for preferential treatment under the Internal Revenue Code. Under this plan, 160,000 shares of common stock have been reserved for grant to key employees and directors of the Company and 51,750 shares have been granted as of May 31, 2017. Under the plan, the option price may not be less than the fair market value of the stock at the time the options are granted. Options vest immediately and expire ten years from the date of grant.

Using the Black-Scholes option pricing model, the weighted average estimated fair value of each option granted under the plan was \$3.59 during 2017 and \$3.05 during 2016. The pricing model uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of options granted is derived from previous history of stock exercises from the grant date and represents the period of time that options granted are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination assumptions under the valuation model. The Company has never paid dividends on its common stock and does not anticipate doing so in the foreseeable future.

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

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The following is a summary of stock option activity:

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

We calculated intrinsic value for those options that had an exercise price lower than the market price of our common shares as of the balance sheet dates. The aggregate intrinsic value of outstanding options as of the end of each fiscal year is calculated as the difference between the exercise price of the underlying options and the market price of our common shares for the options that were in-the-money at that date (174,000 at May 31, 2017 and 243,500 at May 31, 2016.) The Company's closing stock price was \$13.26 and \$16.70 as of May 31, 2017 and 2016. As of May 31, 2017, there are 108,250 options available for future grants under the 2015 stock option plan. \$339,585 was received from the exercise of share options during the fiscal year ended May 31, 2017.

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

Outstanding and
Exercisable

Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
\$2.00-\$3.00	10,000	1.9	\$2.83
\$5.01-\$6.00	25,000	2.7	\$5.49
\$6.01-\$7.00	20,500	2.2	\$6.30
\$7.01-\$8.00	25,000	5.9	\$7.74
\$8.01-\$9.00	37,250	6.7	\$8.77
\$11.01-\$12.00	20,000	4.9	\$11.29
\$12.01-\$13.00	36,250	8.0	\$12.39
\$13.01-\$14.00	30,000	9.9	\$13.80
\$16.01-\$17.00	30,000	8.9	\$16.40
\$19.01-\$20.00	19,500	9.2	\$19.26
\$2.00-\$20.00	253,500	6.5	\$10.93

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

Outstanding and Exercisable Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
\$2.00-\$3.00	10,000	2.9	\$2.83
\$5.01-\$6.00	40,000	2.6	\$5.52
\$6.01-\$7.00	24,500	3.0	\$6.26
\$7.01-\$8.00	25,000	6.9	\$7.74
\$8.01-\$9.00	41,750	7.6	\$8.73
\$11.01-\$12.00	25,000	5.9	\$11.29
\$12.01-\$13.00	47,250	9.0	\$12.42
\$16.01-\$17.00	30,000	9.9	\$16.40
\$2.00-\$17.00	243,500	6.4	\$9.53

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15. Preferred Stock:

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

16. Treasury Stock:

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

17. Retirement Plan:

The Company maintains a retirement plan for essentially all employees pursuant to Section 401(k) of the Internal Revenue Code. The Company matches a percentage of employee voluntary salary deferrals subject to limitations. The Company may also make discretionary contributions as determined annually by the Company's Board of Directors. The amount expensed under the plan was \$74,261 and \$85,392 for the years ended May 31, 2017 and 2016.

18. Fair Value of Financial Instruments:

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

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

19. Cash Flows Information:

2017	2016
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Interest paid **none** none

Income taxes paid \$768,827 \$1,794,100