TAYLOR DEVICES INC
Form 10-K
August 29, 2012
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

F O R M 10-K

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

For the fiscal year ended May 31, 2012

or

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

For the transition period from __________ to __________

Commission file number 0-3498

TAYLOR DEVICES, INC.

(Exact name of registrant as specified in its charter)

New York	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	Name of each exchange on which registered
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 [X] 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 [X] 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.

[X] 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).

[X] Yes [ ] No

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by 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, 2011 is $22,812,000.

The number of shares outstanding of each of the registrant's classes of common stock as of August 13, 2012: 3,310,006

TAYLOR DEVICES, INC.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Form 10-K Reference
Proxy Statement	Part III, Items 10-14

FORM 10-K INDEX

PART I			PAGE
	Item 1.	Business.	4
	Item 1A.	Risk Factors.	5
	Item 1B.	Unresolved Staff Comments.	6
	Item 2.	Properties.	6
	Item 3.	Legal Proceedings.	6
	Item 4.	Mine Safety Disclosures	7
PART II			
	Item 5.	Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	7
	Item 6.	Selected Financial Data.	8
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	8
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.	16
	Item 8.	Financial Statements and Supplementary Data.	16
	Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	16
	Item 9A.	Controls and Procedures.	16
		Other Information.	16

	Item 9B.		
PART III			
	Item 10.	Directors, Executive Officers and Corporate Governance.	17
	Item 11.	Executive Compensation.	17
	Item 12.	Security Ownership ff Certain Beneficial Owners and Management and Related Stockholder Matters.	17
	Item 13.	Certain Relationships and Related Transactions, and Director Independence.	17
	Item 14.	Principal Accounting Fees and Services.	17
PART IV			
	Item 15	Exhibits, Financial Statement Schedules	17
SIGNATURES			21

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. Specialized technical sales in aerospace and custom marketing activities are serviced by three sales agents, under the direction and with the assistance of Douglas P. Taylor, the Company's President. Sales representatives typically have

non exclusive, yearly agreements with the Company, which, in most instances, provide for payment of commissions on sales at 10% of the product's net aggregate selling price. Distributors also have non exclusive, yearly agreements with the Company to purchase the Company's products for resale purposes.

Competition

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

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

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

Raw Materials and Supplies

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

Dependence Upon Major Customers

Sales to one customer, Sinodynamics Enterprise Co., Ltd., approximated 41% of net sales for 2012. The loss of this customer, unless the business is replaced by the Company, could result in an adverse effect on the results for the Company.

Patents, Trademarks and Licenses

The Company holds approximately 15 patents expiring at different times until the year 2031.

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 has no inventory out on consignment and no consignment sales for the years ended May 31, 2012 and 2011. No extended payment terms are offered. During the year ended May 31, 2012, delivery time after receipt of orders averaged 12 to 14 weeks for the Company's standard products. Due to the volatility of construction and aerospace/defense programs, progress payments are usually required for larger projects using custom designed components of the Company.

Need for any Government Approval of Principal Products or Services

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

Research and Development

The Company does not generally engage in major product research and development activities in connection with the design of its products, except when funded by aerospace customers or the federal government. The Company, however, engages in research testing of its products. For the fiscal years ended May 31, 2012 and 2011, the Company expended $422,000 and $272,000, respectively, on manufacturing research. For the years ended May 31, 2012 and

2011, defense sponsored research and development totaled $119,000 and $67,000, respectively.

Government Regulation

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

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

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

Employees

Exclusive of Company sales representatives and distributors, as of May 31, 2012, the Company had 106 employees, including three executive officers, and five part time employees. The Company has good relations with its employees.

Item 1A. Risk Factors.

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

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties

The Company's production facilities occupy approximately six acres on Tonawanda Island in North Tonawanda, New York and are comprised of four interconnected buildings and two adjacent buildings. The production facilities consist of a small parts plant (approximately 4,400 square feet), a large parts plant (approximately 13,500 square feet), and include a facility of approximately 7,000 square feet constructed in 1995 (see below), a test facility, storage area, pump area and the Company's general offices. One adjacent building is a 17,000 square foot seismic assembly test facility. Another adjacent building (approximately 2,000 square feet) is used as a training facility. These facilities total more than 45,000 square feet. Adjacent to these facilities, the Company has 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's real properties are subject to a negative pledge agreement with its lender, First Niagara Bank. The Company has agreed with the lender that, for so long as the credit facilities with the lender are outstanding, the Company will not sell, lease or mortgage any of its real properties. Additional information regarding the Company's agreement with First Niagara Bank is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, at "Capital Resources, Line of Credit and Long-Term Debt."

The Company leases a separate warehouse for storage from an unrelated third party, consisting of approximately 3,600 square feet at $975 per month. The warehouse is located approximately one-quarter mile from the above-referenced production facilities and office space. The total rental expense incurred by the Company for this facility in fiscal 2012 was $11,700. The Company also leases a separate facility for painting, packaging and shipping from an unrelated third party, consisting of approximately 12,600 square feet at $5,292 per month. The facility is located in the Town of Tonawanda, New York, approximately four miles from the above-referenced production facilities and office space. The total rental expense incurred by the Company for this facility in fiscal 2012 was $58,044.

In December 2011, the Company closed on its purchase of three industrial buildings in the City of North Tonawanda, NY. The location of the site is 1.4 miles from the Company’s existing facilities on Tonawanda Island. In February 2012, the Company closed on its purchase of vacant lots adjacent to the new facilities. The combined real estate of the

new parcel totals 9+ acres.

The additional manufacturing space was acquired to address overcrowding of the Company’s large parts machining and assembly areas due to increased sales of large seismic protection products. Total area of the three buildings is 46,000 square feet, more than doubling the Company’s manufacturing space.

When the three buildings are fully renovated and modified, the Company’s production machinery will be relocated from the Company’s Tonawanda Island site, and large overhead cranes will be installed to move large parts from machine to machine. It is the Company’s intent to move all machining and metalworking operations to the new site. This will allow the former machining areas at the existing Tonawanda Island site to house greatly expanded assembly and product testing areas. All corporate and engineering offices will be unaffected by the change and will remain on Tonawanda Island.

The renovations and modifications to the buildings are extensive, with a total project cost (including the initial purchase price) of $2.5 million. The first of the three buildings is in service, with the remaining two buildings to be completed and in service by December 2013. The Company anticipates that its current cash and bank line of credit resources will be sufficient for that purpose.

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

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

The Company's Common Stock trades on the NASDAQ Capital Market of the National Association of Securities Dealers Automated Quotation ("NASDAQ") stock market under the symbol TAYD. The high and low sales information noted below for the quarters of fiscal year 2012 and fiscal year 2011 were obtained from NASDAQ.

	Fiscal 2012		Fiscal 2011	
	High	Low	High	Low
First Quarter	6.75	5.00	6.05	4.50
Second Quarter	9.00	6.17	5.28	4.55
Third Quarter	11.50	6.53	5.23	4.50
Fourth Quarter	12.18	8.51	6.60	4.80

Holders

As of August 13, 2012, the number of issued and outstanding shares of Common Stock was 3,310,006 and the approximate number of record holders of the Company's Common Stock was 766. Due to a substantial number of shares of the Company's Common Stock held in street name, the Company believes that the total number of beneficial owners of its Common Stock exceeds 2,000.

Dividends

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

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

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

Issuer Purchases of Equity Securities

During the year ended May 31, 2012, the Company repurchased 9,200 shares of its common stock for a total of $49,767, including brokerage fees, under a share repurchase agreement through open market purchases. Purchase prices ranged from $5.06 to $6.00 per share.

Equity Compensation Plan Information

The following table sets forth information regarding equity compensation plans of the Company as of May 31, 2012.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights *(a)*	Weighted-average exercise price of outstanding options, warrants and rights *(b)*	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column *(a)*) *(c)*
Equity compensation plans approved by security holders:			
2001 Stock Option Plan	5,750	$3.27	-
2005 Stock Option Plan	85,750	$5.22	-
2008 Stock Option Plan	72,250	$7.82	27,750
Equity compensation plans not approved by security holders:			
2004 Employee Stock	-	-	232,739

Purchase Plan (1)		
Total	163,750	260,489

(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, 2012, 232,739 shares were available for issuance.

Item 6. Selected Financial Data

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

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

Cautionary Statement

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Information in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this 10-K that does not consist of historical facts are "forward-looking statements." Statements accompanied or qualified by, or containing, words such as "may," "will," "should," "believes," "expects," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," "assume" and "optimistic" constitute forward-looking statements and, as such, are not a guarantee of future performance. The statements involve factors, risks and uncertainties, the impact or occurrence of which can cause actual results to differ materially from the expected results described in such statements. Risks and uncertainties can include, among others, fluctuations in general business cycles and changing economic conditions; changing product demand and industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for the Company's products, as well as other factors, many or all of which may be beyond the Company's control. Consequently, investors should not place undue reliance on forward-looking statements as predictive of future results. The Company disclaims any obligation to release publicly any updates or revisions to the forward-looking statements herein to reflect any change in the Company's expectations with regard thereto, or any changes in events, conditions or circumstances on which any such statement is based.

Application of Critical Accounting Policies and Estimates

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

Accounts Receivable

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, 2012 equaled less than 0.1% of sales for that period. The balance of the valuation allowance remained constant since May 31, 2009 at the current level of $42,000. Management does not expect the valuation allowance to materially change in the next twelve months for the current accounts receivable balance.

Inventory

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

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

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

The provision for potential inventory obsolescence was $180,000 for each of the years ended May 31, 2012 and 2011.

Revenue Recognition

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

9

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, 2012, 77% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 23% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2011, 61% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 39% of revenue was recorded as deliveries were made to our customers.

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

Income Taxes

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

Realization of the deferred tax assets is dependent on generating sufficient taxable income at the time temporary differences become deductible. The Company provides a valuation allowance to the extent that deferred tax assets may not be realized. A valuation allowance has not been recorded against the deferred tax assets since management believes it is more likely than not that the deferred tax assets are recoverable. The Company considers future taxable income and potential tax planning strategies in assessing the need for a potential valuation allowance. In future years the Company will need to generate approximately $2.8 million of taxable income in order to realize our deferred tax assets recorded as of May 31, 2012 of $950,000. This deferred tax asset balance is 16% ($132,000) higher than at the end of the prior year. The amount of the deferred tax assets considered realizable however, could be reduced in the near term if estimates of future taxable income are reduced. If actual results differ from estimated results or if the Company adjusts these assumptions, the Company may need to adjust its deferred tax assets or liabilities, which could impact its effective tax rate. Historically, actual results have not varied materially from the Company's estimates.

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

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2012, the Company had State investment tax credit carryforwards of approximately $148,000 expiring through May 2018.

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, 2012 and 2011	Increase / (Decrease)
Sales, net	$ 8,100,000
Cost of goods sold	$ 5,595,000
Selling, general and administrative expenses	$ 1,101,000
Income before provision for income taxes	$ 1,239,000
Provision for income taxes	$ 457,000
Net income	$ 782,000

10

For the year ended May 31, 2012 (All figures being discussed are for the year ended May 31, 2012 as compared to the year ended May 31, 2011.)

	Year ended May 31		Change	
	2012	2011	Amount	Percent
Net Revenue	$29,007,000	$20,906,000	$8,101,000	39%
Cost of sales	20,943,000	15,347,000	5,596,000	36%
Gross profit	$ 8,064,000	$ 5,559,000	$2,505,000	45%
… as a percentage of net revenues	28%	27%		

The Company's consolidated results of operations showed a 38% increase in net revenues and an increase in net income of 55%. Gross profit increased by 45%. Revenue and income were bolstered by record shipments of Taylor Devices' Seismic Dampers, largely to Asia. The increase in demand for these products has been influenced by major earthquakes in Asia over the past several years. It is too soon to determine how long the demand for these products will remain at this level. Revenues recorded in the current period for long-term construction projects increased by 77% from the level recorded in the prior year. This increase is primarily due to more projects in process in the current year (75 in fiscal 2012; 46 in fiscal 2011). Of the 75 projects in process during this year, 28 were still in process at 5/31/12 compared with the prior year when 28 of the 46 projects worked on were still in process at 5/31/11. The average value of these projects in-process at the end of the current fiscal year ($715,000) increased by 40% over the projects in-process at the end of the prior fiscal year ($510,000). The projects in the current year are 61% complete in the aggregate as compared with 67% for those in process at 5/31/11. Revenues recorded for all other product sales decreased by 20% from last year. This fluctuation is attributable primarily to a decrease in sales to customers in aerospace and defense from the prior year. The gross profit as a percentage of net revenues for the current and prior year periods was 28% and 27%, respectively.

The mix of customers buying our products changed from last year. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. A 10% decrease in sales to aerospace / defense customers from last year's level was more than offset by a 72% increase in sales to customers who were seeking seismic / wind protection for either building new buildings and bridges or retrofitting existing buildings and bridges. A breakdown of sales to these three general groups of customers is as follows:

	Year ended May 31	
	2012	2011
Industrial	6%	8%
Construction	71%	57%
Aerospace / Defense	23%	35%

At May 31, 2011, we had 117 open sales orders in our backlog with a total sales value of $15.0 million. At May 31, 2012, we had slightly more open sales orders in our backlog (151 orders) and the total sales value is $17.5 million. $8.0 million of the current backlog is on projects already in progress. $4.6 million of the $15.0 million sales order backlog at May 31, 2011 was in progress at that date. 38% of the sales value in the backlog is for aerospace / defense customers compared to 42% at the end of fiscal 2011. As a percentage of the total sales order backlog, orders from

customers in construction accounted for 67% at May 31, 2012 and 60% at May 31, 2011.

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

Net revenue by geographic region, as a percentage of total net revenue for fiscal years ended May 31, 2012 and 2011 is as follows:

	Year ended May 31	
	2012	2011
North America	40%	55%
Asia	54%	35%
Other	6%	10%

11

Selling, General and Administrative Expenses

	Year ended May 31		Change	
	2012	2011	Amount	Percent
Outside Commissions	$1,228,000	$ 763,000	$ 465,000	61%
Other SG&A	3,949,000	3,313,000	636,000	19%
Total SG&A	$5,177,000	$4,076,000	$1,101,000	27%
… as a percentage of net revenues	18%	19%		

Selling, general and administrative expenses increased by 27% from the prior year. Outside commission expense increased 61% from last year's level. This fluctuation was primarily due to the significant increase in the level of sales from last year to this. Other selling, general and administrative expenses increased by 19% from last year. This increase is primarily attributable to an increase in estimated employee incentive compensation expense in the current period related to the higher level of sales and operating results.

The above factors resulted in operating income of $2,887,000 for the year ended May 31, 2012, up 95% from the $1,482,000 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, 2012 is 25.4%, significantly more than the ETR for the prior year of 17.1%. A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

	2012	2011
Computed tax provision at the expected statutory rate	$1,003,000	$ 581,000
State income tax - net of Federal tax benefit	2,000	-
Tax effect of permanent differences:		
Research tax credits	(207,000)	(301,000)
Other permanent differences	(27,000)	6,000
Other	(21,000)	7,000
	$ 750,000	$ 293,000

Stock Options

The Company has stock option plans which provides 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 $117,000 and $80,000 of compensation cost for the years ended May 31, 2012 and 2011.

The fair value of each stock option grant has been determined using the Black-Scholes model. The model considers assumptions related to exercise price, expected volatility, risk-free interest rate, and the weighted average expected term of the stock option grants. The Company used a weighted average expected term. Expected volatility assumptions utilized in the model were based on volatility of the Company's stock price for the thirty month period immediately preceding the granting of the options. The Company issued stock options in August 2011 and April 2012. The risk-free interest rate is derived from the U.S. treasury yield.

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

	August 2011	April 2012
Risk-free interest rate:	1.875%	2.50%
Expected life of the options:	2.7 years	2.9 years
Expected share price volatility:	49%	44%
Expected dividends:	zero	zero
These assumptions resulted in estimated fair-market value per stock option:	$1.74	$3.61

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, 2012 is presented below.

	Number of Options	Weighted-Average Exercise Price
Options outstanding and exercisable at May 31, 2011:	229,000	$5.21
Options granted:	40,250	$8.99
Less: Options exercised:	105,500	$4.97
Options outstanding and exercisable at May 31, 2012:	163,750	$6.30
Closing value per share on NASDAQ at May 31, 2012:		$9.55

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, 2012 were $1,550,000 compared to $386,000 in the prior year. The Company has commitments to make capital expenditures of $1,900,000 as of May 31, 2012. These purchases are related to the substantial renovation of the new buildings acquired in the fiscal year ended May 31, 2012, as discussed in item 2, above.

The Company has a $6,000,000 demand line of credit from a bank, with interest payable at the Company's option of 30, 60, 90 or 180 day LIBOR rate plus 2.5% or the bank's prime rate less .25%. There is a $258,000 principal balance outstanding as of May 31, 2012. There was no outstanding balance at May 31, 2011. The interest rate on the outstanding balance as of May 31, 2012 is 3%. The outstanding balance on the line of credit fluctuates as the

Company's various long-term projects progress. The line is secured by accounts receivable, equipment, inventory, and general intangibles, and a negative pledge of the Company's real property. This line of credit is subject to the usual terms and conditions applied by the bank and is subject to renewal annually. In conjunction with this line of credit, the Company agreed to the following covenants:

Covenant	Minimum per Covenant	Current Actual	When Measured
Minimum level of working capital	$3 million	$13.8 million	Quarterly
Minimum debt service coverage ratio	1.5:1	489 :1	Fiscal Year-end

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

The level of cash and cash equivalents has decreased significantly from May 31, 2011 ($2,194,000) to May 31, 2012 ($74,000). This decrease was due to the changes in the assets and liabilities as itemized in the consolidated statements of cash flow. The assets that increased the most from last year to this were accounts receivable and inventory along with costs and estimated earnings in excess of billings. These changes are discussed below.

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

Inventory and Maintenance Inventory

	May 31, 2012		May 31, 2011		Increase /(Decrease)	
Raw materials	$ 622,000		$ 666,000		($ 44,000)	-7%
Work in process	7,112,000		4,083,000		3,029,000	74%
Finished goods	638,000		603,000		35,000	6%
Inventory	8,372,000	91%	5,352,000	86%	3,020,000	56%
Maintenance and other inventory	845,000	9%	846,000	14%	(1,000)	-
Total	$9,217,000	100%	$6,198,000	100%	$3,019,000	49%
Inventory turnover	2.7		2.3			

Inventory, at $8,372,000 as of May 31, 2012, is 56% higher than the prior year-end. Of this, approximately 85% is work in process, 8% is finished goods, and 7% is raw materials. The significant increase in inventory was necessary to complete the manufacture of products currently on order from customers and to reduce the lead time required to secure new sales orders anticipated for quoted projects in the fiscal year ending May 31, 2013. While there is more inventory, it is turning over more frequently than in prior years. All of the current inventory is expected to be consumed or sold within twelve months. The level of inventory will fluctuate from time to time due to the stage of completion of the non-project sales orders in progress at the time. The inventory level is expected to decrease 10% to 20% from current levels during the next twelve months.

The Company continues to rework slow-moving inventory, where applicable, to convert it to product to be used on customer orders. There was approximately $90,000 of slow-moving inventory used during the year ended May 31, 2012. The Company disposed of approximately $26,000 and $256,000 of obsolete inventory during the years ended May 31, 2012 and 2011, respectively.

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

	May 31, 2012	May 31, 2011	Increase /(Decrease)	
Accounts receivable	$ 5,610,000	$2,137,000	$3,473,000	163%
CIEB	5,492,000	4,190,000	1,302,000	31%
Less: BIEC	669,000	153,000	516,000	337%
Net	$10,433,000	$6,174,000	$4,259,000	69%
Number of an average day’s sales outstanding in accounts receivable (DSO)	52	27		

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

Accounts receivable of $5,610,000 as of May 31, 2012 includes approximately $1,430,000 of amounts retained by customers on long-term construction projects. This retained amount is almost four times the amount retained as May 31, 2011. The increase is simply due to contractual requirements of certain open projects at the year ends. The Company expects to collect all of these amounts, including the retained amounts, during the next twelve months. The number of an average day's sales outstanding in accounts receivable (DSO) increased from 27 days at May 31, 2011 to 52 days at May 31, 2012. The DSO is a function of 1.) the level of sales for an average day (for example, total sales for the past three months divided by 90 days) and 2.) the level of accounts receivable at the balance sheet date. The level of sales for an average day in the fourth quarter of the current year is 35% higher than in the fourth quarter of the prior year. This is consistent with the overall increase in revenue for the quarter from $7,125,000 last year to $9,643,000 this year. The level of accounts receivable at the end of the current year is 163% higher than at the end of the prior year. The combination of these two factors caused the DSO to increase from last year end to this. The increase in the level of accounts receivable was due to: a.) the increase in retained amounts on projects, as discussed above and b.) a significant increase (185%) in the amount of billings to customers on projects in May 2012 over May 2011.

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

	2012	2011
Number of projects in progress at year-end	28	28
Aggregate percent complete at year-end	61%	67%
Average total value of projects in progress at year-end	$715,000	$510,000
Percentage of total value invoiced to customer	36%	39%

The primary difference from last year to this is the increase in the average total value of the projects in-progress.

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 $5,492,000 balance in this account at May 31, 2012 is a 31% 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. 58% of the CIEB balance as of the end of the last fiscal quarter, February 28, 2012, was billed to those customers in the current fiscal quarter ended May 31, 2012. The remainder will be billed as the projects progress, in accordance with the terms specified in the various contracts.

As of May 31, 2012, there are sales orders for thirteen projects that are not yet in progress. These projects average $279,000 each in value upon completion. This compares to eleven such projects as of the prior year end with an average value of $446,000.

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

	May 31, 2012	May 31, 2011
Costs	$ 9,342,000	$ 5,818,000
Estimated earnings	2,251,000	1,388,000
Less: Billings to customers	6,101,000	3,016,000
CIEB	$ 5,492,000	$ 4,190,000
Number of projects in progress	20	25

As noted above, BIEC represents billings to customers in excess of revenues recognized. The $669,000 balance in this account at May 31, 2012 is in comparison to a $153,000 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, 2012	May 31, 2011
Billings to customers	$ 1,107,000	$ 2,592,000
Less: Costs	328,000	1,645,000
Less: Estimated earnings	110,000	794,000
BIEC	$ 669,000	$ 153,000
Number of projects in progress	8	3

The Company's backlog of sales orders at May 31, 2012 is $17.5 million, up 17% from the backlog at the end of the prior year of $15 million. $8 million of the current backlog is on projects already in progress.

Accounts payable, at $3,362,000 as of May 31, 2012, is $2,070,000 more than the prior year-end. There is no specific reason for this fluctuation other than the normal payment cycle of vendor invoices combined with the increased level of sales orders, resulting in increased level of purchase orders from the Company to vendors for materials and services to produce our product.

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, 2012 are $631,000. This is 46% more than the $433,000 accrued at the prior year-end. Commission expense related to long-term construction projects is recorded at the same time as revenue on the projects is recorded. This liability will not decrease until progress billings on the projects have been

issued by the Company and are paid by our customers. Considering that the net change in the balances of accounts receivable and CIEB is an increase of $4,775,000 or 75% over the prior year end, it would be reasonable to expect that the balance in the accrued commissions would likewise be higher than the prior year. The Company expects the current accrued amount to be paid during the next twelve months.

Other accrued expenses of $2,117,000 increased by 59% from the prior year of $1,329,000. This increase is primarily due to 1.) an increase in the accrued compensation to employees for services, and 2.) an increase in expenses related to contractual obligations on certain export sales.

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

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

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

Item 8. Financial Statements and Supplementary Data.

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

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

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

Item 9A. Controls and Procedures.

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

The Company's principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of May 31, 2012 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, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control -- Integrated Framework. Based on this assessment management has concluded that, as of May 31, 2012, the Company's internal control over financial reporting is effective based on those criteria.

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

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended May 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

Item 9B. Other Information.

None.

PART III

The information required by Items 10, 11, 12, 13 and 14 of this part will be presented in the Company's Proxy Statement to be issued in connection with the Annual Meeting of Shareholders to be held on November 2, 2012, which information is hereby incorporated by reference into this Annual Report. The proxy materials, including the Proxy Statement and form of proxy, will be filed within 120 days after the Company's fiscal year end.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

DOCUMENTS FILED AS PART OF THIS REPORT:

Index to Financial Statements:

(i) Report of Independent Registered Public Accounting Firm

(ii) Consolidated Balance Sheets May 31, 2012 and 2011

(iii) Consolidated Statements of Income for the years ended May 31, 2012 and 2011

(iv) Consolidated Statements of Stockholders' Equity for the years ended May 31, 2012 and 2011

(v) Consolidated Statements of Cash Flows for the years ended May 31, 2012 and 2011

(vi) Notes to Consolidated Financial Statements May 31, 2012 and 2011

EXHIBITS:

2 Plan of acquisition, reorganization, arrangement, liquidation or succession

(i) Agreement and Plan of Merger by and between Taylor Devices, Inc. and Tayco Developments, Inc. dated November 30, 2007, incorporated by reference to Registration Statement on Form S-4, File No. 333-147878, filed with the Securities and Exchange Committee on January 4, 2008.

3 Articles of incorporation and by-laws

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

(ii) Amendment to Certificate of Incorporation incorporated by reference to Exhibit (3)(iv) to Form 8 [Amendment to Application or Report], dated September 24, 1993.

(iii) Amendment to Certificate of Incorporation eliminating and re-designing the Series A Junior Preferred Stock and creating 5,000 Series 2008 Junior Participating Preferred Stock,, $.05 par value, as filed by the Secretary of State of the State of New York on September 16, 2008, and incorporated by reference to Exhibit (3)(i) of Form 8-K, dated as of September 15, 2008 and filed September 18, 2008.

(iv) Certificate of Change incorporated by reference to Exhibit (3)(i) to Quarterly Report on Form 10-QSB for the period ending November 30, 2002.

(v) Proxy Review Guidelines incorporated by reference to Exhibit (3)(ii) to Quarterly Report on Form 10-QSB for the period ending February 28, 1998, dated April 10, 1998.

(vi) By-laws incorporated by reference to Exhibit (3)(i) to Quarterly Report on Form 10-QSB for the period ending February 28, 2004, dated April 14, 2004.

17

(vii) Amendment to By-laws incorporated by reference to Exhibit (3)(ii) of Form 8-K, dated as of September 15, 2008 and filed September 18, 2008.

4 Instruments defining rights of security holders, including indentures

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

10 Material Contracts

(i) 2001 Taylor Devices, Inc. Stock Option Plan attached as Exhibit A to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 24, 2001.

(ii) 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.

(iii) 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.

(iv) Employment Agreement dated as of December 1, 2000 between the Registrant and Douglas P. Taylor, incorporated by reference to Exhibit (10)(x) to Annual Report on Form 10-KSB, dated August 22, 2001.

(v) Employment Agreement dated as of December 1, 2000 between the Registrant and Richard G. Hill, incorporated by reference to Exhibit (10)(xi) to Annual Report on Form 10-KSB, dated August 22, 2001.

(vi) The 2004 Taylor Devices, Inc. Employee Stock Purchase Plan, incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8, File No. 333-114085, filed with the Securities and Exchange Commission on March 31, 2004.

(vii) Post-Effective Amendment No. 1 to Registration Statement on Form S-8, File No. 333-114085, for the 2004 Taylor Devices, Inc. Employee Stock Purchase Plan, filed with the Securities and Exchange Commission on August 24, 2006.

(viii) First Amendment to Employment Agreement dated as of December 22, 2006 between the Registrant and Douglas P. Taylor, incorporated by reference to Exhibit 10(ii) to Quarterly Report on Form 10-QSB for the

period ending February 28, 2007.

(ix) First Amendment to Employment Agreement dated as of December 22, 2006 between the Registrant and Richard G. Hill, incorporated by reference to Exhibit 10(iii) to Quarterly Report on Form 10-QSB for the period ending February 28, 2007.

(x) 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.

(xi) Consent Agreement by and between Taylor Devices, Inc. and HSBC Bank USA, National Association, dated November 30, 2008, incorporated by reference to Exhibit 10(xv) to Annual Report on Form 10-KSB, dated August 21, 2008.

(xii) 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.

(xiii) 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.

(xiv) 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.

(xv) Change in Control Agreement dated as of November 11, 2011 between the Registrant and Mark V. McDonough, incorporated by reference to Exhibit 10(xvi) to Current Report on Form 8-K for November 11, 2011.

(xvi) Second Amendment to Employment Agreement dated as of November 11, 2011 between the Registrant and Douglas P. Taylor, incorporated by reference to Exhibit 10(xvii) to Current Report on Form 8-K for November 11, 2011.

(xvii) Second Amendment to Employment Agreement dated as of November 11, 2011 between the Registrant and Richard G. Hill, incorporated by reference to Exhibit 10(xviii) to Current Report on Form 8-K for November 11, 2011.

11 Statement regarding computation of per share earnings

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

Weighted average of common stock/equivalents outstanding - fiscal year ended May 31, 2012

Weighted average common stock outstanding		3,269,252
Common shares issuable under stock option plans using treasury stock method		34,363
Weighted average common stock outstanding assuming dilution		3,303,615
Net income fiscal year ended May 31, 2012	(1)	$ 2,198,931
Weighted average common stock	(2)	3,269,252
Basic income per common share (1) divided by (2)		$ .67
Net income fiscal year ended May 31, 2012	(3)	$ 2,198,931
Weighted average common stock outstanding assuming dilution	(4)	3,303,615

Diluted income per common share	(3) divided by (4)	$	.67

Weighted average of common stock/equivalents outstanding - fiscal year ended May 31, 2011

Weighted average common stock outstanding	3,229,491
Common shares issuable under stock option plans using treasury stock method	6,051
Weighted average common stock outstanding assuming dilution	3,235,542

Net income fiscal year ended May 31, 2011		(1)	$ 1,416,509
Weighted average common stock		(2)	3,229,491
Basic income per common share	(1) divided by (2)		$ .44
Net income fiscal year ended May 31, 2011		(3)	$ 1,416,509
Weighted average common stock outstanding assuming dilution		(4)	3,235,542
Diluted income per common share	(3) divided by (4)		$ .44

13 The Annual Report to Security Holders for the fiscal year ended May 31, 2012, attached to this Annual Report on Form 10-K.

19

14	Code of Ethics, incorporated by reference to Exhibit 14 to Annual Report on Form 10-KSB for the period ending May 31, 2004.
20	Other documents or statements to security holders
	(i) News from Taylor Devices, Inc. Shareholder Letter, Summer 2012.
21	Subsidiaries of the registrant
	Tayco Realty Corporation is a New York corporation organized on September 8, 1977, owned by the Company.
23	The Consent of Independent Registered Public Accounting Firm precedes the Consolidated Financial Statements.
31	Officer Certifications
	(i) Rule 13a-14(a) Certification of Chief Executive Officer.
	(ii) Rule 13a-14(a) Certification of Chief Financial Officer.
32	Officer Certifications
	(i) Section 1350 Certification of Chief Executive Officer.
	(ii) Section 1350 Certification of Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.
	101.INS** XBRL Instance Document
	101.SCH** XBRL Taxonomy Extension Schema Document
	101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document
	101.DEF** XBRL Taxonomy Extension Definition Linkbase Document
	101.LAB** XBRL Taxonomy Extension Label Linkbase Document
	101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document
**	In accordance with Rule 406T(b)(2) of Regulation S-T, the interactive data files in this Report shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act"), or otherwise subject to the liability of that section and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

20

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 7, 2012
Douglas P. Taylor
President and Director
(Principal Executive Officer)

and

By: /s/Mark V. McDonough Date: August 7, 2012
Mark V. McDonough
Chief Financial Officer

Pursuant to the requirements of the New Roman">Perquisites for Company executives are generally limited automobile allowance or use of a Company-provided automobile, and, in a very few instances, a club membership. Typically, these perquisites are provided in instances where such benefits can facilitate the conduct of business with corporate and high net worth clients.

Employment Agreements and Change in Control. Our chief executive officer has an employment agreement with the Company and the Bank. The agreement includes a change in control severance provision. See "Summary Compensation and Grants of Plan-Based Awards" on page 22 for additional information regarding this agreement.

- Post Retirement Income Benefits. When retired, former Company executives are only eligible to receive replacement income benefits from our qualified retirement income plans, the same plans covering other employees of the Company. We do not currently sponsor any type of supplemental retirement income plan for highly compensated employees, although we may consider instituting such a plan in the future.

- Severance in the Event of Termination Not for Cause or Change in Control. Our chief executive officer has specific severance arrangements in place with the Company in the event of a termination of their employment not related to a change in control of the Company and in the event of such a change in control. Under this arrangement, our chief executive officer would receive three times the sum of his then-current base salary plus three times the average of his bonuses for the prior three years. All outstanding equity grants and other benefit provisions would fully vest. We also maintain a change in control policy which would provide a severance benefit to executive officers upon certain changes of control of the Company. See "Severance and Change in Control Benefits" at page 25.

- Tax Gross-up Provision. The employment agreement for our chief executive officer provides for an excise tax liability gross-up payment following a change in control (as defined in the agreement) if his severance benefits exceed the then-current standards under Internal Revenue Code Section 4999.

Status of the Program and Likely Practices Going Forward. The general structure of the Company executive compensation program was established several years ago and it has been continuously refined to meet the changing needs of the business and to maintain a competitive posture in the marketplace for executive talent.

Due to the Company's recent financial and operating results, the compensation committee determined not to award any bonus compensation to our chief executive officer for 2007, 2008, or 2009 and only modest bonus compensation to certain other executive officers. The compensation committee will evaluate award opportunities for executives, consistent with performance results.

Both stock option grants and deferred compensation contributions are likely to continue with the size of awards tracking with the performance results of the business.

It is possible that some of these future grants may include performance vesting in lieu of the traditional time vesting requirements attached to past grants.

Nonqualified Benefits. The compensation committee may evaluate the need and effectiveness of a supplemental retirement income plan for certain highly compensated employees in the future.

Perquisites. We believe the Company's perquisites have always been modest, offering use of a Company vehicle primarily to those executives who travel among Company's branch offices and operations centers and those who frequently meet with clients and prospects offsite. Similarly, club memberships are only provided for those executives who can utilize them in conducting the Company's business.

Employment Agreements. The compensation committee has responsibility for review of current and proposed employment agreements and will specifically authorize contract renewals.

Compliance with Sections 162(m) and 409A of the Internal Revenue Code. Section 162(m) of the Internal Revenue Code provides that publicly held corporations may not deduct compensation paid to certain executive officers in excess of $1,000,000 annually, with certain exemptions for qualified "performance-based" compensation. The Company has obtained shareholder approval of its stock option plan, and compensation earned pursuant to such plans is exempt from the Section 162(m) limit. Since we retain discretion over bonuses and certain amounts contributed to the deferred compensation plan, such amounts will not qualify for the exemption for performance-based compensation. Such amounts have not been at levels that, together with other compensation, approached the $1,000,000 limit. Due to the relatively conservative amount of annual compensation, the Company believes its compensation policies reflect due consideration of Section 162(m). We reserve the right, however, to use our judgment to authorize compensation payments that do not comply with the exemptions in Section 162(m) when we believe that such payments are appropriate and in the best interests of our shareholders, after taking into consideration changing business conditions or the executive officer's performance.

It is also our intention to maintain our executive compensation arrangements in conformity with the requirements of Section 409A of the Internal Revenue Code, which imposes certain restrictions on deferred compensation arrangements. We have been engaged in a process of reviewing and modifying our deferred compensation arrangements since the enactment of Section 409A in 2004 in order to maintain compliance under Section 409A.

Executive Compensation

The following table shows the annual compensation of the Company's chief executive officer, chief financial officer and the three most highly compensated executive officers of the company other than the chief executive officer and chief financial officer for the fiscal year ended December 31, 2009. Collectively, these officers are referred to as our "named executive officers".

2009 Summary Compensation Table

The following table shows the annual compensation of the Company's named executive officers for the fiscal years ended December 31, 2009, 2008 and 2007.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards (1) ($)	Change in Pension Value ($)	All Other Compensation ($)	Total ($)
Harry D. Madonna, President and Chief Executive Officer (2)	2009	439,230	-	31,680	-	149,216	620,126
	2008	390,225	-	24,480	-	150,427	565,132
	2007	356,384	-	60,852	8,110	174,290	599,636
Andrew J. Logue Chief Operating Officer (3)	2009	250,000	70,000	19,700	-	10,585	350,285
	2008	89,600	-	72,380	-	708	162,688
	2007	-	-	-	-	-	-
Rhonda Costello Chief Retail Officer (4)	2009	175,000	20,000	19,700	-	11,657	226,357
	2008	64,808	35,000	72,380	-	604	172,792
	2007	-	-	-	-	-	-
Jay Neilon Chief Credit Officer (5)	2009	185,000	25,000	-	-	5,246	215,246
	2008	-	-	-	-	-	-
	2007	-	-	-	-	-	-
Frank Cavallaro Chief Financial Officer (6)	2009	49,231	-	13,200	-	930	63,361
	2008	-	-	-	-	-	-
	2007	-	-	-	-	-	-

(1) The amount shown is the aggregate fair value as of the grant date with respect to the referenced fiscal year in accordance with ASC 718-10. The Black-Scholes option pricing model is utilized to determine the fair value of stock options. Assumptions made in the valuation of option awards for financial statement reporting purposes are as follows: In 2009 the following assumptions were utilized: a dividend yield of 0%; expected volatility of 21.58% to 27.61%; risk-free interest rate of 1.99% to 2.91% and an expected life of 7.0 years. In 2008 the following assumptions were utilized: a dividend yield of 0%; expected volatility of 24.98% to 34.52%; risk-free interest rate of 2.49% to 3.37% and an expected life of 7.0 years. In 2007 the following assumptions were utilized: a dividend yield of 0%; expected volatility of 25.24; risk-free interest rate of 4.70% and an expected life of 7.0 years. A dividend yield of 0% is utilized, because cash dividends have never been paid. The expected life reflects a 3 to 4 year "all or nothing" vesting period, the maximum ten year term and review of historical behavior. The volatility was based on Bloomberg's seven year volatility calculation for "FRBK" stock. The risk-free interest rate is based on the

seven year Treasury bond.

(2) In 2009, 2008 and 2007, respectively, all other compensation for Harry D. Madonna includes $26,795, $15,778, and $12,192 of automobile and transportation allowance, $26,975, $26,405, and $12,380 of business development expense including a club membership which is sometimes used for personal purposes, $5,808,

$3,727, and $3,736 for a supplemental long-term disability policy, $9,800, $4,692and $3,732 matching contributions by Republic First to Republic First's 401(k) plan, and $104,816, $99,825, and $142,250 contributions by Republic First to the deferred compensation plan maintained for the benefit of its officers and directors.
(3) In 2009 and 2008, respectively, all other compensation for Andrew J. Logue includes $4,664, and $604 of business development expenses, and $8,461 and $0
matching contributions by Republic First to Republic First's 401(k) plan.
(4) In 2009 and 2008, respectively, all other compensation for Rhonda Costello includes $2,123, and $707 of business development expenses, and $6,992 and $0 matching contributions by Republic First to Republic First's 401(k) plan.
(5) In 2009, all other compensation for Jay Neilon includes $1,261of business development expenses, and $3,985 matching contributions by Republic First to Republic First's 401(k) plan.
(6) In 2009, all other compensation for Frank Cavallaro includes $930 of business development expenses.

2009 Grants of Plan-Based Awards Table

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($ / Sh)	Closing Price on Grant Date ($ / Sh)	Grant Date Fair Value of Stock and Option Awards (1) ($)
Harry D. Madonna Chief Executive Officer	January 21	12,000	7.85	7.85	31,680
Frank Cavallaro Chief Financial Officer	September 2	7,500	5.71	5.71	13,200
Rhonda Costello Chief Retail Officer	February 26	10,000	5.70	5.70	19,700
Andrew Logue Chief Operating Officer	February 26	10,000	5.70	5.70	19,700

(1) The grant date fair value was determined in accordance with ASC 718-10, by the Black-Scholes option pricing model. The following assumptions were utilized: a dividend yield of 0%; expected volatility of 21.58% to 27.61%; a risk-free interest rate of 1.91% to 2.91%; and an expected life of 7.0 years. Options vest after three to four years from the date of the grant, and may be subject to acceleration upon completion of a change in control, as defined in the plan.

The Company's compensation committee authorized the granting of the options in the table shown above. Options issued to Mr. Madonna represented the annual grant of options as per his employment contract.

Summary Compensation and Grants of Plan-Based Awards. Our named executive officers receive from the Company a combination of base salary, health and welfare benefits, bonus compensation, long-tern incentive compensation in the form of stock option awards, qualified and nonqualified deferred compensation and perquisites. Bonus compensation is paid at the discretion of the compensation committee of the Company's board of directors after consideration of numerous factors, which may include net income, core deposits, loan growth, income from loan programs, and other factors set by the compensation committee.

Mr. Madonna currently serves as chairman of the board, president and chief executive officer of the Company and the Bank, and the compensation paid to Mr. Madonna is determined, in large part, by

-22-

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the terms of his employment agreement. On January 25, 2010, the Company, the Bank, and Mr. Madonna entered into an amended and restated employment agreement, effective January 1, 2010. The amendments were initiated at Mr. Madonna's request to reduce his annual compensation and certain other benefits in recognition of the state of the economy in general and the financial services industry in particular, as well as the financial performance of the Company and to further align the interests of the Company and Mr. Madonna. Compared to the prior agreement, the amended and restated agreement extends the term of the agreement, reduces Mr. Madonna's annual salary, eliminates automatic annual compensation increases and guarantied deferred compensation, reduces by 50% the costs to the Company and the Bank of providing health benefits, an automobile and certain other benefits, and eliminates the tax "gross-up" provision in the event of a change of control, as defined in the agreement.

The amended and restated employment agreement provides for Mr. Madonna's continuing service as chairman of the board, president and chief executive officer of the Company and the Bank, for an initial term of three years beginning January 1, 2010 at an annual base salary of $425,000. The Company and the Bank may terminate Mr. Madonna's agreement with notice at least six months prior to the scheduled expiration/renewal date or any time for good reason. Mr. Madonna may terminate the agreement with six months prior notice. Mr. Madonna is also eligible to receive annual increases in base salary and annual bonuses in amounts determined in the sole discretion and determination of the Compensation Committee of the Company's Board of Directors upon achieving mutually agreed upon budget criteria. He may also receive discretionary deferred compensation. Annually, for each of the three years of the agreement, Mr. Madonna will receive options to purchase 12,000 shares of the Company's common stock at a per share exercise price equal to the price on the date of grant. Options will vest four years after their date of grant. Mr. Madonna will be provided one half the costs of an automobile and will be reimbursed for its operation, maintenance and insurance expenses. Additionally, he will receive one half of the cost of health and disability insurance available to all employees, term life insurance for three times his salary, business related travel and entertainment expenses and club dues and expenses. The agreement with Mr. Madonna provides for severance and change in control payments, which are discussed below under the caption, "Severance and Change in Control Benefits" on page 25. It also provides for the non-disclosure by Mr. Madonna of confidential information acquired by him in the context of his employment with the Company and the Bank.

2009 Outstanding Equity Awards At Fiscal Year-End Table

Option Awards

Name	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)(2)	Option Exercise Price ($) (1)	Option Expiration Date
Harry D. Madonna		12,000	7.85	January 21, 2019
		12,000	5.99	January 23, 2018
		13,200	11.77	January 2, 2017
	27,104		10.05	April 20, 2015
	25,342		6.16	January, 1, 2014
Andrew J. Logue		10,000	5.70	February 26, 2019
		1,000	7.72	November 25, 2018
		20,000	8.00	August 26, 2018
Rhonda Costello		10,000	5.70	February 26, 2019
		1,000	7.72	November 25, 2018
		20,000	8.00	August 26, 2018
Frank Cavallaro		7,500	5.71	September 2, 2019

(1) The number of shares of common stock underlying options and the option exercise prices have been adjusted in accordance with their terms as a result of the Company's 10% stock dividend in April, 2007.

(2) All unexercisable options will vest on the earlier of the fourth anniversary of the date of grant, or upon completion of a change in control, as defined in the plan.

2008 Pension Benefits Table

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)
Harry D. Madonna	Supplemental retirement benefits	17	210,883

(1) Mr. Madonna's years of credited service and the present value of his accumulated benefit were determined as of December 31, 2009, which is the same pension plan measurement date that the Company used for financial statement reporting purposes with respect to its audited financial statements for the fiscal year ended December 31, 2009.

In 1992, the Company adopted a supplemental retirement plan for non-employee directors. The plan was frozen to new participants in 1992, but the Company continues to maintain the plan for participants who served as non-employee directors in 1992. At that time, Mr. Madonna was a non-employee director and he continues to be a

participant in the plan. The present value of accumulated benefit was calculated based upon the actuarial present value of accumulated benefits, calculated as of December 31, 2009, as follows. The plan provides for a retirement benefit of $25,000 per year for ten years, which payments may begin at the later of actual retirement date or 65 years of age. As Mr. Madonna has reached 65 years of age, the amount shown as the present value of the accumulated benefit is the amount necessary to fund $25,000 annual payments over a ten year period commencing as December 31, 2009, the end of the Company's most recently completed fiscal year, determined using a 4% discount rate. Upon completion of a change in control, in satisfaction of all his rights under this arrangement, Mr. Madonna will be entitled to receive approximately $250,000.

2009 Nonqualified Deferred Compensation Table

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year ($)(1)	Aggregate Earnings in Last Fiscal Year ($) (2)	Aggregate Withdrawals/ Distributions in Last Fiscal Year ($)	Aggregate Balance at Last Fiscal Year-End ($)(3)
Harry D. Madonna	-	104,816	(136,943)	150,045	149,171

(1) Company contributions are also included as other compensation in the Summary Compensation Table.
(2) Participant accounts are credited with gains, losses and expenses as if they had been invested in the common stock of the Company. The amount reported is not included in the Summary Compensation Table.
(3) The aggregate balances include company contributions of $104,816, $99,825, and $142,250 for Mr. Madonna, all included as other compensation in the Summary Compensation Table for 2009, 2008, and 2007, respectively. Company contributions to the deferred compensation plan vest over a three year period or completion of a change in control, as defined in the plan. On February 27, 2009, a vested benefit of $150,045 was distributed to Mr. Madonna. At December 31, 2009, the vested balance for Mr. Madonna is $0.

The Company maintains a deferred compensation plan for the benefit of certain officers and directors. As of December 31, 2009, no additional individuals may participate in the plan. The plan permits certain participants to make elective contributions to their accounts, subject to applicable provisions of the Internal Revenue Code. In addition, the Company may make discretionary contributions to participant accounts. Company contributions are subject to vesting, and generally vest three years after the end of the plan year to which the contribution applies, subject to acceleration of vesting upon certain changes in control (as defined in the plan) and to forfeiture upon termination for cause (as defined in the plan). Participant accounts are adjusted to reflect contributions and distributions, and income, gains, losses, and expenses as if the accounts had been invested in permitted investments selected by the participants, including Company common stock. The plan provides for distributions upon retirement and, subject to applicable limitations under the Internal Revenue Code, limited hardship withdrawals.

Severance and Change in Control Benefits. Mr. Madonna's employment agreement with the Company and the Bank provides for certain severance and change in control benefits. Upon the occurrence of a change in control (as defined in the agreement), termination for any reason other than death, resignation by the executive without cause (as defined in the agreement), termination by the Company or the Bank with good reason (as defined in the agreement), Mr. Madonna would receive a severance payment equal to three times his annual base salary plus three times his average bonus over the prior three years and three years of health and life insurance or cash in an amount equal to the cost of such insurance. In the event that severance amounts and benefits payable to Mr. Madonna would subject him to excise taxes under section 4999 of the Internal Revenue Code, the Company would reduce the payments otherwise payable to Mr. Madonna to the extent necessary so that he would not be subject to such excise taxes. Subject to compliance with Section 409A of the Internal Revenue Code, all severance payments are to be made in a lump sum within 30 days after the triggering event. In the event that a trigger event had occurred on December 31, 2009, Mr. Madonna would have received $1.9 million in compensation and benefits.

All senior executive officers of the Company have the right to terminate their employment and receive a severance payment upon the occurrence of a change in control, except as otherwise set forth in an existing employment contract. Each senior executive officer is entitled to a severance payment equal to twice the amount of their annual base salary for the preceding fiscal year to be paid within fifteen days of termination and all stock options previously granted will become fully vested on the date of termination.

Director Compensation

The following table sets forth information regarding compensation paid by the Company to its current non-employee directors during 2009.

2009 Director Compensation Table

Name	Fees Earned or Paid in Cash ($)	Option Awards (1) (2) ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (3) ($)	All Other Compensation (4) ($)	Total ($)
William W. Batoff	35,375	7,920	1,886	12,000	57,181
Robert J. Coleman	26,000	7,920		12,000	45,920
Theodore J. Flocco, Jr. (3)	31,000	7,920		13,000	51,920
Lyle W. Hall, Jr.	47,750	7,920		12,000	67,670
Neal I. Rodin	29,500	7,920	8,111	12,000	57,531
Barry L. Spevak	34,000	7,920		12,000	53,920
Harris Wildstein Esq. (4)	24,500	7,920	7,799	12,000	52,219

(1) The amount shown is the dollar amount recognized for financial statement reporting purposes with respect to the referenced fiscal year in accordance with ASC 718-10. See footnote (1) to the 2009 Summary Compensation Table on page 21 for assumptions made in the valuation of option awards for financial statement reporting purposes.

(2) Each director, other than Mr. Flocco, received a grant of 3,300 options (as adjusted as a result of the Company's 10% stock dividend in April, 2007) on January 2, 2007. Each such option vests three years after the date of grant, subject to acceleration upon completion of a change in control, as defined in the plan. The fair value as of the date of grant for each director was $15,210. Each director, other than Mr. Flocco, received a grant of 3,000 options on January 23, 2008. Each such option vests three years after the date of grant, subject to acceleration upon completion of a change in control. The fair value as of the date of grant for each director was $6,510. Each director received a grant of 3,000 options on January 21, 2009. Each such option vests three years after the date of grant, subject to acceleration upon completion of a change in control. The fair value as of the date of grant for each director was $7,920. As of December 31, 2009, the following had the following outstanding options: Mr. Batoff, 16,996; Mr. Coleman, 16,996; Mr. Flocco, 3,000; Mr. Hall, 16,996; Mr. Rodin, 16,996; Mr. Spevak, 16,996; and Mr. Wildstein, 73,914.

(3) Amounts shown represent the 2009 expense for supplemental retirement benefits for directors who served as such in 1992, the year in which the benefit originated. The benefit is not provided to directors who joined the board of directors since 1992.

(4) Amounts shown represent payments to directors for business development and other expenses incurred in their capacity as directors.

Employee directors receive no additional compensation for their service on the board. During 2009, non-employee directors received a $6,000 quarterly retainer. The audit committee chair received $1,500 for each audit committee

meeting attended and each other member of the audit committee received $1,000 for each audit committee meeting attended. The chair of all other board committees received $750 for each committee meeting attended and each other member of those committees received $500 for each committee meeting attended. During 2009, non-employee directors also received an additional retainer of $1,000 per month from February through December for business development and other expenses incurred in connection with their service as directors.

Non-employee directors are eligible to receive grants of stock options under the Company's stock option plan and restricted stock plan and grants are made from time to time, typically on an annual basis. Certain non-employee directors are also eligible to participate in a deferred compensation plan.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transactions with related persons

The Bank has made, and expects to continue to make in the future, loans to directors and executive officers of the Company and the Bank, and to their family members, and to firms, corporations, and other entities in which they and their family members maintain interests. None of such loans are, as of the date of the Annual Report on Form 10-K, or were at December 31, 2009, nonaccrual, past due, restructured or potential problems, and all of such loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Company or the Bank and did not involve more than the normal risk of collectability or present other unfavorable features.

Prior to January 31, 2005, First Bank of Delaware was a wholly owned subsidiary of the Company. Three of the Company's seven directors, Messrs. Batoff, Madonna and Wildstein, are and continue to be members of First Bank of Delaware's five person board. At the time First Bank of Delaware was spun off from the Company, the Bank and BSC Services Corporation, a wholly-owned subsidiary of First Bank of Delaware, entered into a number of agreements pursuant to which BSC Services Corporation provided services to the Bank, including a financial accounting and reporting service agreement, compliance services agreement, operation and data processing services agreement; and human resources and payroll services agreement. The Company and First Bank of Delaware have transitioned away from this relationship. The First Bank of Delaware reimbursed the Company $235,000 during 2009 for the remaining services shared between the two organizations.

During 2009, the Company made payments in the amount of $1.4 million for fees related to architectural design, interior design, securing approvals, and construction management services to InterArch, a company owned by the spouse of Vernon W. Hill, II. Mr. Hill has made an investment in outstanding convertible trust preferred securities issued by the Company and currently acts as a consultant to the Bank. The convertible nature of these securities results in beneficial ownership of more than 5% of the outstanding shares of the common stock of the company. In order to adopt more of a retail customer focus, the Company remodeled each of its existing locations. Capital improvements totaling $8.3 million were made to the existing locations. Architectural design and construction management services provided by InterArch related to these improvements represented approximately 11% of the overall project costs, or $0.9 million. In addition, the Company utilized InterArch for similar services with respect to new locations for future growth and expansion at a cost of $0.5 million. Competitive bids were solicited and received prior to the selection of InterArch for architectural and design services and during 2009, the Company engaged a nationally recognized independent accounting firm to review certain related party transactions. The findings provided by this firm were used to manage the related party expenditures associated with construction and renovation projects to industry standards. Based on these findings and its own detailed review, management believes disbursements made to Interarch were substantially equivalent to those that would have been paid to unaffiliated companies for comparable goods and services and were within the range of industry standards for such services.

Review, approval or ratification of transactions with related persons

All transactions with related persons are approved by the board of directors of the Company.

CODE OF ETHICS

The Company has adopted a code of ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The text of the Company's code of ethics is available on the Company's website at www.rfbkonline.com.

AUDIT-RELATED INFORMATION

Registered Public Accounting Firm

The audit committee selected Beard Miller Company LLP, or Beard, as the independent registered public accounting firm for the Company for the fiscal years ending December 31, 2008 and 2009. On October 1, 2009, the Company was notified that the audit practice of Beard Miller Company LLP, was combined with ParenteBeard LLC, or ParenteBeard, in a transaction pursuant to which Beard combined its operations with ParenteBeard and certain of the professional staff and partners of Beard joined ParenteBeard either as employees or partners of ParenteBeard. On October 1, 2009, Beard notified the Company that the client-auditor relationship between the Company and Beard had ceased. With the approval of our audit committee, ParenteBeard was engaged as the Company's independent registered public accounting firm upon the cessation of the client-auditor relationship with Beard.

Prior to engaging ParenteBeard, the Company did not consult with ParenteBeard regarding the application of accounting principles to a specific completed or contemplated transaction or regarding the type of audit opinions that might be rendered by ParenteBeard on the Company's financial statements, and ParenteBeard did not provide any written or oral advice that was an important factor considered by the Company in reaching a decision as to any such accounting, auditing or financial reporting issue.

The report of independent registered public accounting firm of Beard regarding the Company's financial statements for the fiscal years ended December 31, 2008 and 2007 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the years ended December 31, 2008, 2007, and 2006, and during the interim period from the end of the most recently completed fiscal year through October 1, 2009, the date of resignation, there were no disagreements with Beard on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Beard would have caused it to make reference to such disagreement in its reports.

ParenteBeard has advised the Company that one or more of its representatives will be present at the 2010 annual meeting to make a statement if they so desire and to respond to appropriate questions.

The following table presents the aggregate fees billed by Beard and ParenteBeard, the Company's principal accountants, for the fiscal years ended December 31, 2009 and 2008.

Fee Category	2009 Fees ($)	2008 Fees ($)
Audit Fees (1)	$ 180,603	$ 180,900
Audit-Related Fees (2)	$ 19,063	34,235
Tax Fees (3)	$ 23,824	20,000
All Other Fees (4)	—	—
Total Fees	$ 223,490	$ 235,135

(1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated financial statements, internal control over financial reporting and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by ParenteBeard, LLP in connection with statutory and regulatory filings or engagements.

(2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees."

(3) Tax Fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal and state tax compliance, tax audit defense, customs and duties, and mergers and acquisitions.

(4) All Other Fees consist of fees billed for products and services provided by the independent registered public accounting firm, other than those services described above.

The audit committee meets with our independent auditors to approve the annual scope of accounting services to be performed and the related fee estimates. The audit committee also meets with the Company's independent auditors, on a quarterly basis, following completion of their quarterly reviews and annual audit and prior to the Company's earnings announcements, to review the results of their auditors' work. During the course of the year, the chairman of the audit committee has the authority to pre-approve requests for services that were not approved in the annual pre-approval process. The chairman reports any interim pre-approvals at the following quarterly meeting. At each of the meetings, management and the Company's independent auditors update the audit committee with material changes to any service engagement and related fee estimates as compared to amounts previously approved. During fiscal 2009 all audit and non-audit services performed by Beard Miller Company LLP, or ParenteBeard, LLC for the Company were pre-approved by the audit committee in accordance with the foregoing procedures.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's officers and directors and persons who own more than 10% of a registered class of the Company's equity securities (collectively, the "Reporting Persons") to file reports of ownership and changes in ownership with the SEC and to furnish the Company with copies of these reports. During 2009, each of our directors filed one Form 4, reporting one transaction, that was not timely. Edward J. Ryan also filed one Form 4, reporting one transaction, that was not timely. Based on the Company's review of the copies of the reports filed by such persons and written representations, the Company believes that all filings required to be made by Reporting Persons for the period from January 1, 2009 through December 31, 2009 were made on a timely basis.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of December 31, 2009, with respect to the shares of common stock that may be issued under the Company's existing equity compensation plans.

Plan Category	Number of Shares to Be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity Compensation Plans approved by security holders	544,304	$ 8.03	(1)
Equity compensation plans not approved by security holders	—	—	—
Total	544,304	$ 8.03	(1)

(1) The amended plan includes an "evergreen formula" which provides that the maximum number of shares which may be issued is 1,540,000 shares plus an annual increase equal to the number of shares required to restore the maximum number of shares available for grant to 1,540,000 shares.

SHAREHOLDER PROPOSALS

Any shareholder who intends to present a proposal for consideration at the Company's 2011 Annual Meeting of Shareholders must submit her or his proposal to the Company no later than December 2, 2010, in order to have the Company consider the inclusion of such proposal in the Company's 2011 Proxy Statement relating to the 2011 Annual Meeting. Reference is made to SEC Rule 14a-8 for information concerning the content and form of such proposal and the manner in which such proposal must be made.

Any shareholder who intends to present a proposal for consideration at the Company's 2011 Annual Meeting of Shareholders outside of the process of SEC Rule 14a-8 must deliver written notice of any proposed director nomination or other proposal for consideration at the Company's 2011 Annual Meeting of Stockholders to the Corporate Secretary no later than December 2, 2010, pursuant to the Company's advance notice by-law. This requirement is separate from and in addition to the SEC requirements that a shareholder must meet in order to have a shareholder proposal included in the Bank's proxy statement.

Nominations for election to the board of directors at the 2011 Annual Meeting may be made only in writing by a shareholder entitled to vote at the 2011 Annual Meeting of Shareholders. Such nominations must be addressed as follows: Kemma Black, Corporate Secretary, Republic First Bancorp, Inc., Two Liberty Place, 50 S. 16th Street, Suite 2400, Philadelphia, PA 19102. Nominations for the 2011 Annual Meeting must be received by the Corporate Secretary no later than December 2, 2010, and must be accompanied by the following information: (i) the name and address of the shareholder who intends to make the nomination; (ii) a representation that the shareholder is a holder of record of stock entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate

the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant

to which the nomination or nominations are to be made by the shareholder; (iv) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a Proxy Statement filed pursuant to the proxy rules of the SEC had each nominee been nominated or intended to be nominated by the board; and (v) the consent of each nominee to serve as a director of the Company if so elected. The Chairman of any meeting of shareholders held to elect directors and the board of directors may refuse to recognize the nomination of any person not made in compliance with such provisions. There have been no material changes in these procedures since the date of the Proxy Statement for the 2009 Annual Meeting of Shareholders.

REPORTS AND OTHER DOCUMENTS

Annual Report

A copy of the Company's 2009 Annual Report to Shareholders accompanies this proxy statement. On written request, we will provide, without charge, a copy of our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC (including a list briefly describing the exhibits thereto), to any record holder or beneficial owner of common stock on March 11, 2010, the record date for the annual meeting, or to any person who subsequently becomes such a record holder or beneficial owner. Additionally, our proxy statement, annual report to shareholders, and proxy card are available on the internet at http://www.cfpproxy.com/5412. Requests for copies should be directed to Kemma Black, Corporate Secretary, Republic First Bancorp, Inc., Two Liberty Place, 50 S. 16th Street, Suite 2400, Philadelphia, PA 19102, (215) 735-4422, extension 5251.

Security Holders Sharing an Address

Only one copy of this Proxy Statement and the accompanying Annual Report and Form 10-K are being delivered to multiple shareholders sharing an address unless the Company has previously received contrary instructions from one or more of such shareholders. On written or oral request to Kemma Black, Corporate Secretary, Two Liberty Place, 50 S. 16th Street, Suite 2400, Philadelphia, PA 19102, (215) 735-4422, extension 5251, the Company will deliver promptly a separate copy of this Proxy Statement and the accompanying Annual Report and Form 10-K to a shareholder at a shared address to which a single copy of the documents was delivered. Shareholders sharing an address who wish, in the future, to receive separate copies or a single copy of our Proxy Statements and annual reports should provide written or oral notice to the Corporate Secretary at the address and telephone number set forth above.

IT IS IMPORTANT THAT YOU VOTE PROMPTLY, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE COMPLETE, SIGN AND MAIL THE ENCLOSED PROXY CARD IN THE ACCOMPANYING ENVELOPE, OR VOTE BY TELEPHONE OR BY INTERNET, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING.

REPUBLIC FIRST BANCORP, INC.

REVOCABLE PROXY FOR
ANNUAL MEETING OF SHAREHOLDERS
MAY 11, 2010

Solicited on behalf of the Board of Directors

The undersigned hereby appoints Rhonda S. Costello and Andrew J. Logue, with full power of substitution, and authorizes them to represent and vote, as designated below and in accordance with their judgment upon any other matters properly presented at the annual meeting, including any motion to adjourn or postpone the meeting, for the purpose of soliciting additional proxies or for any other reason, or other matters incidental to the conduct of the annual meeting or otherwise, all the shares of Republic First Bancorp, Inc. common stock held of record by the undersigned at the close of business on March 11, 2010, at the annual meeting of shareholders, to be held May 11, 2010, and at any and all adjournments or postponements thereof. The board of directors recommends a vote "FOR" each of the listed proposal.

This proxy when properly executed, will be voted in the manner directed herein by the undersigned shareholders(s). If no direction is made, this proxy will be voted FOR the proposal set forth herein. If any other business is presented at such meeting, including any motion to adjourn or postpone the meeting, for the purpose of soliciting additional proxies or for any other reason, or other matters incidental to the conduct of the meeting or otherwise, this proxy will be voted by those names in this proxy in their best judgment. At the present time, the board of directors knows of no other business to be presented at the meeting.

The undersigned acknowledges receipt from Republic First Bancorp, Inc. prior to the execution of this proxy, of the Notice of Annual Meeting scheduled to be held on May 11, 2010, the Proxy Statement dated on or about April ___, 2010 and Republic First Bancorp, Inc.'s 2009 Annual Report.

PLEASE COMPLETE, DATE, SIGN, AND MAIL THIS PROXY CARD PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE OR PROVIDE YOUR INSTRUCTIONS TO VOTE VIA THE INTERNET OR BY TELEPHONE.

(Continued and to be marked, dated and signed on the other side)

ANNUAL MEETING OF SHAREHOLDERS OF
REPUBLIC FIRST BANCORP, INC.

May 11, 2010

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:

Annual Meeting Materials are available at http://www.cfpproxy.com/5412

Please sign, date and mail your proxy card in the envelope provided as soon as possible.

Please detach along perforated line and mail in the envelope provided.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE [x]

1. Election of three Class III Directors of Republic First Bancorp, Inc., each to hold office until the 2013 annual meeting of shareholders and until their successors are elected and qualify.

[ ] FOR ALL NOMINEES	NOMINEES:
[ ] WITHHOLD AUTHORITY FOR ALL NOMINEES	(01) Theodore J. Flocco, Jr.
	(02) Neal I. Rodin
	(03) Barry L. Spevak

[ ] FOR ALL EXCEPT
(See instructions below)

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark “FOR ALL EXCEPT”
and write that nominee(s’) name(s) or number(s) in the space provided below.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. [ ]

2. To approve an amendment to the articles of incorporation to increase the authorized shares of common stock from 20,000,000 to 50,000,000.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

3. To adjourn the annual meeting, if necessary, to solicit additional proxies, in the event that there are not sufficient votes at the time of the annual meeting to approve and adopt the amendment to the articles of incorporation.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

Should a director nominee be unable to serve as a director, an event the Republic First Bancorp, Inc. does not currently anticipate, the persons named in this proxy reserve the right, in their discretion to vote for a substitute nominee designated by the board of directors.

This proxy may be revoked at any time before it is voted on by delivering to the secretary of Republic First Bancorp, Inc. on or before the taking of the vote at the annual meeting, a written notice of revocation bearing a later date than the proxy or a later dated proxy relating to the same shares of Republic First Bancorp, Inc. common stock, or by attending

the annual meeting and voting in person. Attendance at the annual meeting will not in itself constitute the revocation of a proxy. If this proxy is properly revoked as described above, then the power of the persons named in this proxy shall be deemed terminated and of no further force and effect.

Signature of Stockholder	Date:	Signature of Stockholder	Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.