

SIMON PROPERTY GROUP INC /DE/  
Form DEF 14A  
March 27, 2019

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**Simon Property Group, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3)

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- (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
    - o Fee paid previously with preliminary materials.
    - o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
      - (1) Amount Previously Paid:
      - (2) Form, Schedule or Registration Statement No.:
      - (3) Filing Party:
      - (4) Date Filed:
-







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March 27, 2019

Dear Fellow Shareholders,

Please join me and the Board of Directors at our 2019 Annual Meeting of Shareholders on May 8, 2019, at our headquarters in Indianapolis, Indiana. The business to be conducted at the meeting is explained in the attached Notice of Annual Meeting and Proxy Statement.

Simon Property Group continued its track record of posting the strongest financial results in our industry. I would like to thank our employees for their hard work and dedication and our shareholders for their continued interest and support of our Company.

We are pleased to furnish proxy materials to our shareholders over the Internet. We believe that this e-proxy process expedites shareholders' receipt of proxy materials, while also lowering the costs and reducing the environmental impact of our 2019 Annual Meeting.

Whether or not you plan to attend the meeting in person, please read the Proxy Statement and vote your shares. Instructions for voting by mail, Internet and telephone are included in your Notice of Internet Availability of Proxy Materials or proxy card (if you receive your materials by mail). We hope that after you have reviewed the Proxy Statement you will vote in accordance with the Board's recommendations. Your vote is important to us and our business.

Sincerely,

**David Simon**

*Chairman of the Board, Chief Executive Officer and President*

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## **NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**MAY 8, 2019**

**8:30 A.M.  
(EDT)**

**Simon Property Group Headquarters  
225 West Washington Street,  
Indianapolis, Indiana 46204**

### **ITEMS OF BUSINESS**

1. Elect the thirteen director nominees named in this Proxy Statement, including three directors to be elected by the voting trustees who vote the Class B common stock;
2. Advisory vote to approve the compensation of our Named Executive Officers;
3. Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2019;
4. Vote to approve the 2019 Stock Incentive Plan;
5. Shareholder Proposal, if properly presented; and
6. Other business as may properly come before the meeting or any adjournments or postponements of the meeting.

### **RECORD DATE**

You can vote if you were a shareholder of record on March 15, 2019 (the "Record Date").

### **ANNUAL REPORT**

Our 2018 Annual Report to Shareholders accompanies, but is not part of, or incorporated into, this Proxy Statement.

### **PROXY VOTING**

On or about March 27, 2019, a Notice of Internet Availability of Proxy Materials and Notice of Annual Meeting of Shareholders (the "Notice") is first being mailed to our shareholders of record as of the Record Date and our proxy materials are first being posted on the website referenced

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in the Notice ([www.proxyvote.com](http://www.proxyvote.com)). As more fully described in the Notice, all shareholders may choose to access our proxy materials on the website referred to in the Notice or may request a printed set of our proxy materials. In addition, the Notice and website provide information regarding how you may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. The Company will make a \$1.00 charitable contribution to the **Simon Youth Foundation** ([www.syf.org](http://www.syf.org)) on behalf of each shareholder who signs up for electronic delivery. For those shareholders who previously requested to receive proxy materials in printed form by mail or electronically by email on an ongoing basis, you will receive those materials as you requested.

Shareholders as of the Record Date are invited to attend the 2019 Annual Meeting, but if you cannot attend in person, please vote in advance of the meeting by using one of the methods described in the Proxy Statement. Shareholders may vote their shares (1) in person at the 2019 Annual Meeting, (2) by telephone, (3) through the Internet or (4) by completing and mailing a proxy card if you receive your proxy materials by mail. Specific instructions for voting by telephone or through the Internet are included in the Notice. If you attend and vote at the meeting, your vote at the meeting will replace any earlier vote you cast.

By order of the Board of Directors,

**Steven E. Fivel**  
*General Counsel and Secretary*

March 27, 2019

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It is very important that you vote to play a part in the future of the Company. New York Stock Exchange ("NYSE") rules provide that if your shares are held through a broker, bank, or other nominee, they cannot vote on your behalf on non-discretionary matters without your instruction.

**PROPOSALS WHICH REQUIRE YOUR VOTE**

<b>PROPOSAL</b>	<b>MORE INFORMATION</b>	<b>BOARD RECOMMENDATION</b>	<b>BROKER NON-VOTES</b>	<b>ABSTENTIONS</b>	<b>VOTES REQUIRED FOR APPROVAL</b>	
<b>1</b>	Elect the ten (10) independent director nominees named in this Proxy Statement	Page 11	<b>FOR ALL NOMINEES</b>	Do not impact outcome.	Do not impact outcome.	More votes FOR than AGAINST. Under our By-Laws, a nominee who receives more AGAINST votes than FOR votes will be required to tender his or her resignation.
<b>2</b>	Advisory vote to approve the compensation of our Named Executive Officers	Page 21	<b>FOR</b>	Do not impact outcome.	Do not impact outcome.	Majority of votes cast.
<b>3</b>	Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2019	Page 42	<b>FOR</b>	N/A	Do not impact outcome.	Majority of votes cast.

4	Vote to approve the 2019 Stock Incentive Plan	Page 44	<b>FOR</b>	Do not impact outcome.	Count as a vote against.	Majority of votes cast.
5	Shareholder Proposal requesting disclosure of political contributions	Page 51	<b>AGAINST</b>	Do not impact outcome.	Do not impact outcome.	Majority of votes cast.

**BY INTERNET USING A  
COMPUTER**

**BY TELEPHONE**

**BY MAIL**

Vote 24/7  
[www.proxyvote.com](http://www.proxyvote.com)

Dial toll-free 24/7  
**1-800-690-6903**

**Cast your ballot, sign your  
proxy card  
and send by pre-paid mail**

**PLEASE VISIT [annualmeeting.simon.com](http://annualmeeting.simon.com)**

Review and download easy to read versions of our Proxy Statement and Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "Annual Report").

**SIGN UP FOR FUTURE ELECTRONIC DELIVERY TO REDUCE THE IMPACT ON THE ENVIRONMENT.**

The Company will make a \$1.00 charitable contribution to the **Simon Youth Foundation** ([www.syf.org](http://www.syf.org)) on behalf of each shareholder who signs up for electronic delivery. To sign up for electronic delivery, please follow the instructions above to vote "BY INTERNET USING A COMPUTER", and when prompted, indicate that you agree to receive or access proxy materials electronically in future years.



Table of Contents**PROXY SUMMARY**

*This proxy summary highlights information which may be contained elsewhere in this Proxy Statement. This summary does not contain all of the information that you should consider, and you should read the entire Proxy Statement carefully before voting. Page references are supplied to help you find further information in this Proxy Statement.*

**ELIGIBILITY TO VOTE (Page 55)**

You can vote if you were a shareholder of record at the close of business on the Record Date (March 15, 2019).

**HOW TO CAST YOUR VOTE (Page 55)**

You can vote by any of the following methods: (i) Internet: Go to [www.proxyvote.com](http://www.proxyvote.com) until 11:59 P.M. EDT on May 7, 2019; (ii) Telephone: Call 1-800-690-6903 until 11:59 P.M. EDT on May 7, 2019; (iii) Mail: Complete, sign and return your proxy or voting instruction card; or (iv) In Person: Vote in person by ballot at the 2019 Annual Meeting.

**GOVERNANCE OF THE COMPANY (Page 7)**

We pride ourselves on continuing to observe and implement best practices in our corporate governance.

**VOTING  
PROPOSALS****BOARD'S  
RECOMMENDATIONS**

<b>Proposal 1</b>	Elect the ten (10) independent director nominees named in this Proxy Statement	<b>FOR ALL NOMINEES</b> (Page 11)
<b>Proposal 2</b>	Advisory vote to approve the compensation of our Named Executive Officers	<b>FOR</b> (Page 21)
<b>Proposal 3</b>	Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2019	<b>FOR</b> (Page 42)
<b>Proposal 4</b>	Vote to approve the 2019 Stock Incentive Plan	<b>FOR</b> (Page 44)
<b>Proposal 5</b>	Shareholder Proposal requesting disclosure of political contributions	<b>AGAINST</b> (Page 51)

**1. ELECTION OF DIRECTORS (Page 11)****NAME OF  
INDEPENDENT  
DIRECTOR****AGE OCCUPATION****COMMITTEE  
MEMBERSHIPS**

Glyn F. Aeppel	60	President and CEO of Glencove Capital	Governance and Nominating
Larry C. Glasscock	70	Former Chairman and CEO of Anthem, Inc.	Lead Independent Director, Audit, Governance and Nominating
Karen N. Horn, Ph.D.	75	Senior Managing Director of Brock Capital Group	Governance and Nominating (Chair)

Allan Hubbard	71	Co-Founder, Chairman and Partner of E&A Companies	Compensation, Governance and Nominating
Reuben S. Leibowitz	71	Managing Member of JEN Partners	Compensation (Chair), Audit
Gary M. Rodkin	66	Retired Chief Executive Officer and Director of ConAgra Foods, Inc.	Governance and Nominating
Stefan M. Selig	56	Founder of BridgePark Advisors LLC	Audit, Compensation
Daniel C. Smith, Ph.D.	61	President and CEO of the Indiana University Foundation and Clare W. Barker Professor of Marketing, Indiana University, Kelley School of Business	Compensation
J. Albert Smith, Jr.	78	Chairman, Chase Bank in Central Indiana and Managing Director of J.P. Morgan Private Bank	Audit (Chair), Compensation
Marta R. Stewart	61	Retired Executive Vice President and Chief Financial Officer of Norfolk Southern Corporation	Audit

<b>NAME OF CLASS B DIRECTOR</b>	<b>AGE</b>	<b>OCCUPATION</b>	<b>COMMITTEE MEMBERSHIPS</b>
David Simon	57	Chairman of the Board, Chief Executive Officer and President of the Company	None
Richard S. Sokolov	69	Vice Chairman of the Company	None
Herbert Simon	84	Chairman Emeritus of the Board of the Company	None

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**PROXY SUMMARY**

**2. ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS (Page 21)**

**3. COMPENSATION DISCUSSION AND ANALYSIS (Page 22)**

The Compensation Committee of the Board believes that the Company's rigorous performance-based compensation programs operated to align shareholders' interests with the compensation of our Named Executive Officers ("NEOs") in 2018. The Compensation Committee is confident that our executive compensation program is appropriately designed to incent strong performance over the longer term.

**4. RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Page 42)**

**5. VOTE TO APPROVE THE 2019 STOCK INCENTIVE PLAN (Page 44)**

**6. SHAREHOLDER PROPOSAL (Page 51)**

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**4 SIMON PROPERTY GROUP 2019 PROXY STATEMENT**

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This Proxy Statement and accompanying proxy card are being made available to shareholders on or about March 27, 2019, in connection with the solicitation by the Board of Directors (the "Board") of Simon Property Group, Inc. ("Simon", "SPG", "we", "us", "our" or the "Company") of proxies to be voted at the 2019 Annual Meeting of Shareholders (the "2019 Annual Meeting") to be held at the corporate headquarters of the Company located at 225 West Washington Street, Indianapolis, Indiana 46204, on May 8, 2019, at 8:30 a.m. (EDT). As required by rules adopted by the U.S. Securities and Exchange Commission (the "SEC"), the Company is making this Proxy Statement and its Annual Report available to shareholders electronically via the Internet. In addition, SPG is using the SEC's "Notice and Access" rules to provide shareholders with more options for receipt of these materials. Accordingly, on March 27, 2019, the Company will begin mailing the Notice of Internet Availability of Proxy Materials (the "Notice") to shareholders containing instructions on how to access this Proxy Statement and the Company's Annual Report via the Internet, how to vote online or by telephone, and how to receive paper copies of the documents and a proxy card.

## **SUMMARY OF 2018 FINANCIAL PERFORMANCE**

This summary provides highlights of certain information in this Proxy Statement. This summary does not contain all of the information that you should consider, and therefore you should read the entire Proxy Statement before voting. For more complete information regarding the Company's 2018 performance you should review the Company's Form 10-K for

the year ended December 31, 2018 and Form 8-K furnished to the SEC on February 1, 2019.

In 2018, the Company continued to deliver consistent strong growth across our key financial metrics.

In 2018, we generated funds from operations ("FFO") of \$12.13 per share, the highest we have ever reported. See "Where do I find reconciliation of Non-GAAP terms to GAAP terms?" in the section of this Proxy Statement titled "Frequently Asked Questions and Answers" on page 57. Our FFO compound annual growth rate ("CAGR") for the period from 2010 through 2018 was 11.7%.

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**SIMON PROPERTY GROUP** 2019 PROXY STATEMENT **5**

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**Table of Contents**

**SUMMARY OF 2018 FINANCIAL PERFORMANCE**

In 2018, we paid dividends per share of \$7.90, the highest ever paid by the Company. The CAGR for our annual dividend payments for the period from 2010 through 2018 was 14.9%. The Company has a track record of returning funds to shareholders not only in the form of dividends, but over the last four years through a share repurchase program as well. In 2018, aggregating the Company's dividend payments and share repurchase program, the Company returned approximately \$3.2 billion to its shareholders. Over the last nine years we have returned more than \$18.8 billion to our shareholders.

Our Return on Equity increased from 13.4% in 2010 to 74.3% in 2018.

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**6 SIMON PROPERTY GROUP 2019 PROXY STATEMENT**

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## CORPORATE GOVERNANCE OF THE COMPANY

### BOARD LEADERSHIP STRUCTURE

In March of 2014, Larry C. Glasscock was appointed by our independent directors to serve as our Lead Independent Director. The Lead Independent Director performs the duties specified in the Governance Principles described below and such other duties as are assigned from time to time by the independent directors of the Board. We believe that our Lead Independent Director is performing his duties in an effective manner. Under our Governance Principles, the Lead Independent Director is empowered to:

preside at all meetings of the Board at which the Chairman of the Board ("Chairman") is not present, including executive sessions of the independent directors;

serve as a liaison between the Chairman and the independent directors, including by facilitating communication and sharing of views between the independent directors and the Chairman;

approve materials sent to the Board and advise on such information;

approve meeting agendas for the Board and coordinate with the Chairman with respect to developing such agendas;

approve meeting schedules for the Board to assure there is sufficient time for discussion of all agenda items and coordinate with the Chairman with respect to developing such schedules;

call meetings of the independent directors;

if requested by major shareholders, ensure that he or she is available for consultation and direct communication; and

retain outside advisors and consultants to report directly to the Board on Board-wide matters.

Mr. David Simon has served since 2007 as the Chairman and Chief Executive Officer ("CEO") and since February 15, 2019, also as our President. The Board believes that having Mr. David Simon fill these leadership roles is an appropriate and efficient leadership structure. Together, our Lead Independent Director and the CEO deliver clear leadership, responsibility and accountability, effective decision-making and a cohesive corporate strategy.

Ten of our director nominees are independent under the requirements set forth in the NYSE Listed Company Manual. All of the members of the Audit Committee, Governance and Nominating Committee, and Compensation Committee are independent directors under the listing requirements and rules of the NYSE and other applicable laws, rules, and regulations.

We recognize the importance of refreshing our Board. Consistent with this belief, in the last five years we have appointed four new directors, including two new directors in the last two years.

Today 40% of our independent directors have been on the Board for fewer than five years compared to 12.5% in 2015.

**SUMMARY OF BOARD EXPERIENCE**

	K. HORN	A. HUBBARD	R. LEIBOWITZ	G. RODKIN	S. SELIG	A. SMITH	D. SMITH	M. STEWART	D. SIMON
	X		X	X	X	X		X	X
	X	X	X	X		X	X		X
			X			X			X
	X			X	X		X		X
		X		X			X		

[Lumsden & M

CONSENT OF INDEP  
ACC

To The

Tay

We hereby consent to the in  
Report on Form 10-K (Com  
Devices Inc. of our report  
thereto in the Annual Report  
M

We also consent to such in  
Statement Nos. 333-69705,  
333-155284 of Taylor Devi  
A

/s/Lumsde

Lumsde

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**TAYLOR DEVIC**

CONSOLIDATED

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**REPORT OF INDEPENDENT  
ACCOUNTANTS**

The Board of

Tay

We have audited the accompanying financial statements of Taylor Devices, Inc. and Subsidiaries, including the related consolidated statements of income, balance sheets, and cash flows for the years ended December 31, 2013 and 2012, and the responsibility of the Company's management to express an opinion on these

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB). Those standards require that we provide reasonable assurance about whether the financial statements are free of material misstatement. The Company's management is responsible for the financial reporting. Our audit included testing of internal controls over financial reporting as a basis for our opinion. We believe that the procedures we performed are appropriate in the circumstances.

an opinion on the effectiveness of the company's internal control over financial reporting. According to the standards, the audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and the methods of management, as well as evaluating the overall presentation. We believe that

In our opinion, the financial statements of Simon Property Group Inc. and Subsidiary as of March 31, 2010, and for the operations and its cash flow for the year ended March 31, 2010, with accounting principles generally accepted in the United States of America

/s/Lumsden

Lumsden

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TAYLOR DEVICES,  
INC. AND  
SUBSIDIARY

Consolidated Balance  
Sheets

May 31, 2012

Assets

Current assets:

Cash and cash  
equivalents

Accounts  
receivable, net  
(Note 2)

Inventory (Note  
3)

Prepaid expenses  
Prepaid income  
taxes

Costs and  
estimated  
earnings in excess  
of billings (Note  
4)

Deferred income  
taxes (Note 10)

Total current  
assets

Maintenance and  
other inventory, net  
(Note 5)

Property and  
equipment, net (Note  
6)

Cash value of life  
insurance, net

Liabilities and  
Stockholders' Equity

Current liabilities:

Short-term  
borrowings (Note  
7)

Current portion of  
long-term debt

(Note 8)  
Accounts payable  
Accrued  
commissions  
Other accrued  
expenses  
Billings in excess  
of costs and  
estimated  
earnings (Note 4)  
Accrued income  
taxes  
Total current  
liabilities

Long-term debt (Note  
8)

Deferred income  
taxes (Note 10)

Stockholders' Equity:  
Common stock,  
\$.025 par value,  
authorized  
8,000,000 shares,  
issued 3,839,819  
and 3,732,842  
shares  
Paid-in capital  
Retained earnings

Treasury stock -  
530,143 and  
501,643 shares at  
cost

Total  
stockholders'  
equity

See notes to  
consolidated financial  
statements.



TAYLOR DEVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended May 31,

Sales, net (Note 9)

Cost of goods sold

Gross profit

Selling, general and administrative expenses

Operating income

Other income (expense):

Interest, net

Miscellaneous

Total other income (expense)

Income before provision for income taxes

Provision for income taxes (Note 10)

Net income

Basic and diluted earnings per common share

See notes to consolidated financial statements

TAYLOR  
DEVICES,  
INC. AND  
SUBSIDIARY

Consolidated Statements  
of Stockholders' Equity

For the years  
ended May 31,  
2012 and 2011

	Common Stock	Pa C
Balance, May 31, 2010	\$ 93,137	6,
Net income for the year ended May 31, 2011	-	-
Common stock issued for employee stock option plan (Note 14)	125	16
Common stock issued for employee stock purchase plan (Note 13)	59	
Company buy-back of Treasury shares	-	-
Stock options issued for services		- 80
Balance, May 31, 2011	93,321	6,

Net income  
for the year  
ended May - -  
31, 2012

Common  
stock issued  
for employee  
stock  
option plan  
(Note 14) 2,637 52

Common  
stock issued  
for employee  
stock  
purchase  
plan (Note 13)37

Company  
buy-back of  
Treasury - -  
shares

Stock options  
issued for  
services -

Balance, May \$  
31, 2012 95,995

See notes to  
consolidated  
financial  
statements.

TAYLOR DEVICES, INC. A  
SUBSIDIARY

Consolidated Statements of Cash  
Flows

For the years ended May 31,

Operating activities:

Net income

Adjustments to reconcile net income  
to net cash flows from

operating activities:

Depreciation and amortization

Stock options issued for settlement

Provision for inventory

obsolescence

Deferred income taxes

Changes in other current assets and  
liabilities:

Accounts receivable

Inventory

Prepaid expenses

Prepaid income taxes

Costs and estimated earnings in  
excess of billings

Accounts payable

Accrued commissions

Other accrued expenses

Billings in excess of costs and  
estimated earnings

Accrued income taxes

Net operating activities

Investing activities:

Acquisition of property and  
equipment

Increase in cash value of life insurance

Net investing activities

Financing activities:

Net short-term borrowings

Payments on long-term debt

Proceeds from issuance of common  
stock

Acquisition of treasury stock

Net financing activities

Net change in cash and  
equivalents

Cash and cash equivalents -  
beginning

Cash and cash equivalents  
ending

See notes to consolidated financial  
statements.

TAYLOR DEVIC

Notes to Consolid

**1. Summary of Si**

**Natu**

Taylor Devices, Inc. (the C  
group of very similar produ  
for customers. These sim  
categories; namely, Seism  
Industrial Buffers, Self-A  
Springs, and Vibration Damp  
equipment and structures, p  
throughout the United Sta  
products are manufactured a  
the United States where all o  
Management does not trac  
down

39% of the Company's 20  
customers in the United State  
Asia. Remaining sales were  
America, Europe,

40% of the Company's 20  
customers in the United State  
Asia. Remaining sales were  
America, Eu

**Princip**

The accompanying consolidated financial statements and notes to the accounts of the Company and Simon Property Group, Inc. (Simon Property Realty Corporation (Real Estate)) as of and for the periods indicated. All dollar amounts are in millions unless otherwise indicated. All balances have been rounded.

**Sub**

The Company has evaluated the impact of the recent changes in the recognition or disclosure in the financial statements of the Company.

**Us**

The preparation of financial statements in accordance with the principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, equity, income, and expenses. These estimates and assumptions are based on the best available information and are subject to change.

States of America require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, equity, income, and expenses. These estimates and assumptions are based on the best available information and are subject to change.

financial statements and accounts. These estimates and assumptions differ from those used in the preparation of the financial statements.

**Cash and cash equivalents**

The Company includes all highly liquid investments that are readily convertible to cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are reported at cost.

Cash and cash equivalents in the United States are held in various banks and are subject to limits at various times during the year. Concentration of credit risk is limited by the diversity of the banks used.

**Acco**

Accounts receivable are stated at net realizable value. Management estimates the amount to collect from outstanding balances and records a valuation allowance for uncollectible accounts through a charge to the valuation allowance based on historical experience and analysis of individual accounts. Based on management's assessment, management has used reasonable estimates and assumptions through a charge to the valuation allowance.



Inventory is stated at the lower of cost or market, with cost approximated by the FIFO method.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method for financial reporting purposes and the accelerated method for income tax reporting purposes. Depreciation expense is recorded for operations as incurred; significant impairment losses are recorded when applicable.

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

Cash value of life insurance contracts is reported at the current cash surrender value.

### **Revenue Recognition**

Sales are recognized when the performance obligation is satisfied. Sales under fixed-price contracts are recognized when the contract is completed. Sales under certain fixed-price contracts are recognized over the term of the contract, over several periods prior to completion. Sales under the percentage-of-completion method are recognized based on the progress of completion, using a ratio of cost to total estimated cost. Selling, general and administrative, and direct and indirect charges are charged to operations. Selling, general and administrative expenses are charged to operations for each of the contracts and are based on the historical costs of manufacturing. Selling, general and administrative expenses are based on quotes from vendors for services and materials used in the completion of the manufacturing process.

estimates are made periodically. If the actual costs of contracts in progress are greater than the estimated total cost, losses are determined. If total actual costs are less than the estimated total cost, a gain is determined. If total actual costs are greater than the estimated total cost in a prior period, then the revenue recognized in the current period will be lower than if the estimated total cost were equal to the actual total cost. For the period ended May 31, 2012, 77% of revenue was recognized for using the percentage-of-completion method and the remaining 23% of revenue was recognized to our customers. In the fiscal year ended May 31, 2012, revenue recognized using the percentage-of-completion method was 39% of revenue was recognized.

For financial statement purposes, revenue is recognized on a percentage-of-completion basis. Progress billings against the cost of contracts. The asset, "costs in excess of billings," represents revenue recognized in excess of billings. The liability, "billings in excess of costs," represents billings in excess of costs.

## Shipping

Shipping and handling costs

The provision for income taxes is based on the transactions reported in the financial statements. Such taxes are payable. The provision for income taxes is recognized for the expected tax liability. Differences between the tax and book income are recognized as liabilities. Deferred taxes are recognized for the tax rates expected to be in effect at the time the tax liability is settled.

The Company's practice is to  
    matters in interest income  
selling, general and admini  
    have any accrued interest  
balance sheets at May 31, 2  
interest expense or penalties  
    during the years e

The Company's tax returns fo  
    will be subject to examina  
During 2012, the Company  
2007 through 2011 were exa  
    examinations resulted in n  
    Accordingly, no f

returns is permitted. Additionally, the Company's financial statements are subject to examination by state and federal regulators.

Certain jurisdictions impose additional requirements on nonexempt customers. The Company's policies and procedures for nonexempt customers and remits the entire amount of the payment to the applicable law. The Company excludes the amount of the collection from its revenue.

#### **Stock-Based Compensation**

The Company measures compensation expense for share-based payments to employees based on the fair value cost in income over the period of the service provided to provide service in exchange for the compensation expense for the period. The total compensation expense for the period was \$116 million.

#### **New Accounting Standards**

In May 2011, the FASB issued *ASU 2011-04, Fair Value Measurement*. This amendment requires the use of fair value measurements for certain assets and liabilities in financial statements prepared in accordance with GAAP. The Financial Reporting Standards Board also issued *ASU 2011-05* required during interim and annual periods ending on or after 15, 2011. We do not expect the adoption of these standards to have a significant impact on our financial statements.

Other recently issued ASC amendments are not significant.

**2. Acc**

Customers  
Customers - retention  
Other

Less allowance for doubtful

Raw materials  
Work-in-process  
Finished goods

Less allowance for obsolescence

**4. Costs and Estimated**

Costs incurred on uncompleted  
Estimated earnings

Less billings to date

Amounts are included in the  
fol

Costs and estimated earnings  
billings  
Billings in excess of costs and  
earnings

## 5. Maintenance

Maintenance and other  
Less allowance for obso

Maintenance and other inve  
have a product life-cycle  
represents certain items th  
service of products sold,  
spon

This inventory is particularly  
near term due to its use in in  
introduction of new produc  
product obsolescence. Ther  
recorded an allowance

The provision for potential  
each of the years

## 6. Prop

Land  
Buildings and improve  
Machinery and equipm

Office furniture and equipment  
Autos and trucks

Less accumulated depreciation

Depreciation expense was \$  
May 31, 2014

## 7. Short-term debt

The Company has a credit facility with a bank, with interest rates based on 30, 60, 90 or 180 day LIBOR plus .25%. The line is secured by inventory, general intangible assets and real property. This line of credit is subject to the conditions applied by the bank.

The total amount outstanding under the credit facility was \$258,000. There is no amount outstanding as of May 31, 2014.

The Company uses a cash management program that allows it to draw against the available line of credit on a daily basis. Outstanding amounts totaled \$226,413 and \$354,000 as of May 31, 2014 and 2013, respectively. All amounts are in U.S. dollars.





**8. L**

Total  
Less current p

The aggregate maturities o  
2012

The Company manufacture  
products that have many di  
similar products are included  
Dampers, Fluidicshoks®, Cr  
Shock Absorbers, Liquid  
Management does not trac  
down by these categories. S  
to three general groups of  
aerospace / defense. A br  
groups of

Construction  
Aerospace / Defe  
Industrial

Sales to three customers  
respectively) of net sale  
approximated 37% (21%, 9

**10.**

Current tax provision (

Federal  
State

Deferred tax provision  
Federal  
State

A reconciliation of provision  
income tax provision at the

Computed tax provision at the  
statutory rate  
State income tax - net of Fed  
Tax effect of permanent differ  
Research tax credits  
Other permanent differences  
Other

Effective income tax rate

Significant components of  
liabilities of

Deferred tax assets:  
Allowance for doubtful  
Tax inventory adjustme  
Allowance for obsolete  
Accrued vacation  
Accrued commissions  
Warranty reserve  
Stock options issued for

Deferred tax liabilities:  
Excess tax depreciation  
Net deferred tax assets

Realization of the deferred tax assets is dependent upon the Company generating sufficient taxable income against which the assets can be used. The Company prudence requires that deferred tax assets may not be recorded against tax benefits that have not been recorded against taxable income. The Company believes it is more likely than not that the deferred tax assets are recoverable. The Company has adopted potential tax planning strategies that may increase the amount of taxable income. The amount of deferred tax assets that are realizable however, could be affected by changes in future taxable income are recorded. The Company has approximately \$2.8 million of deferred tax assets that it expects to realize the deferred tax

The Company and its subsidiaries have filed income tax returns. As of the end of the period, investment tax credit carryforwards are available, expiring

## 11. Earnings

Basic earnings per common share are calculated as earnings available to common stockholders divided by the number of common shares outstanding.

shares outstanding for the pe  
reflects the weighted-average  
potential common

A reconciliation of weighte  
weighted-average common s

Average common shares outs  
Common shares issuable und  
Average common shares outs  
dilution

## 12. Relate

The Company had no relat  
May 3

## 13. Employ

In March 2004, the Compa  
stock for issuance pursu  
purchase plan. Participatio  
voluntary for all eligible e  
common shares can be ma  
payroll deductions. At the e  
contributions will be applied  
share value equal to the mea  
of the stock on that date. The  
at the end of each calendar c  
During the years ended M  
\$10.19 price per share) and  
common shares, respective

31, 2012, 232,739 sha

**14. St**

In 2008, the Company adopted a new stock option plan. The Company to grant both incentive stock options and non-qualified stock options. The incentive stock options are subject to the Internal Revenue Code Section 422. The non-qualified stock options have been granted to the Company's directors of the Company and certain key employees. The plan expires on May 31, 2012. Under the plan, the fair market value of the stock at the time the Options vest immediately and

Using the Black-Scholes option pricing model, the estimated fair value of each option was \$1.00 during 2012 and \$2.00 during 2011. The assumptions noted in the following table are based on the historical volatility of the Company's stock, the interest rate for periods with a maturity similar to the grant. The expected life of the options is based on the Company's history of stock exercises from the date of grant. The Company uses historical data for the expected employee termination assumption. The Company has never paid dividends and does not anticipate doing so in the future.

Risk-free interest rate  
 Expected life of the options  
 Expected volatility  
 Expected dividends

The following is a summary of the Company's stock options:

	Shares
Outstanding - May 31, 2010	193,750
Options granted	40,250
	5,000

Less: options exercised	
Outstanding - May 31, 2011	229,000
Options granted	40,250
Less: options exercised	105,500
Outstanding - May 31, 2012	163,750

We calculated intrinsic value as the difference between the market price lower than the market price as of the balance sheet dates. The amount of intrinsic value of the options as of the end of each period is the difference between the exercise price and the market price of our common shares as of that date (138,750 at May 31, 2012 and 138,750 at May 31, 2011). As of May 31, 2012, the Company's closing stock price was \$16.25 per share for future grants under the plan. As of May 31, 2011, \$16,250 was received from the exercise of options in fiscal years ended May 31, 2012 and 2011.

The following table summarizes the number of outstanding options as of May 31, 2012:

Range of Exercise Prices	Number of Options
\$2.00-\$3.00	20,000
\$3.01-\$4.00	750
\$5.01-\$6.00	71,500
\$6.01-\$7.00	46,500
\$11.01-\$12.00	25,000
\$2.00-\$7.00	163,750

The following table summarizes the outstanding

Outstanding and Exercisable	Number of Options
Range of Exercise Prices	
\$2.00-\$3.00	30,000
\$3.01-\$4.00	17,250
\$5.01-\$6.00	115,250
\$6.01-\$7.00	66,500
\$2.00-\$7.00	229,000

**15.1**

The Company has 2,000,000 shares of preferred stock which may be converted into common stock. Each series shall have such rights, preferences and privileges as shall be fixed by the terms of the certificate of incorporation.

**16.**

During the year ended May 31, 2014, the Company purchased 1,000,000 shares of its common stock for \$10,000,000, net of fees, under a share repurchase program. Purchase price was \$10.00 per share.

During the year ended May 31, 2013, the Company purchased 1,000,000 shares of its common stock for \$10,000,000, net of fees, under a share repurchase program. Purchase price was \$10.00 per share.

**17.1**

The Company maintains a 401(k) plan for its full-time employees pursuant to Section 401(a) of the Internal Revenue Code. The Company matches a percentage of the employees' elective deferrals subject to limitations. The Company also makes discretionary contributions to the plan as determined by the Board of Directors. The amount of discretionary contributions was \$55,003 for the year ended December 31, 2018.

## 18. Fair Value

The carrying amounts of cash, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of their short-term nature. The carrying amounts of long-term debt approximate fair value because the fixed rates are similar to market rates.

The carrying amount of long-term debt is less than fair value because the fixed rates are lower than market rates. The Company has not measured the fair value of debt.

## 19. Cash

Interest paid

Income taxes paid

## 20. Legal

There are no legal proceedings pending or threatened against the Company.