

Unaudited Financial Statements and Management's Discussion & Analysis
For the quarterly period ended August 31, 2011

BIOQUAL, INC.

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BIOQUAL, INC.

INDEX

<u>Financial Information</u>	<u>Page</u>
Financial Statements.	
Unaudited Consolidated Balance Sheets, August 31, 2011 and May 31, 2011.....	2
Unaudited Consolidated Statements of Operations for the Three Months Ended August 31, 2011 and August 31, 2010.....	3
Unaudited Consolidated Statements of Cash Flows for the Three Months Ended August 31, 2011 and August 31, 2010.....	4
Management's Discussion and Analysis.....	5

BIOQUAL, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED BALANCE SHEETS, AUGUST 31, 2011 AND MAY 31, 2011

<u>ASSETS</u>	<u>August 31, 2011</u>	<u>May 31, 2011</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,760,191	\$ 2,719,179
Accounts receivable:		
Trade	4,169,792	4,326,662
Unbilled - current	2,560,071	2,785,283
Other	78	103
Prepaid expenses	297,018	68,098
Deferred income taxes - current	79,500	79,500
Total current assets	<u>10,866,650</u>	<u>9,978,825</u>
FIXED ASSETS:		
Leasehold improvements	2,987,367	2,987,367
Furniture, fixtures and equipment	8,880,438	8,867,841
Total	11,867,805	11,855,208
Less accumulated depreciation and amortization	<u>9,572,487</u>	<u>9,373,233</u>
Fixed assets, net	<u>2,295,318</u>	<u>2,481,975</u>
CASH VALUE OF OFFICERS' LIFE INSURANCE POLICIES	836,214	836,214
TOTAL	<u>\$ 13,998,182</u>	<u>\$ 13,297,014</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	580,953	598,732
Accrued compensation and related liabilities	489,923	917,164
Accrued income taxes	92,477	103,997
Deferred Revenue	1,735,026	862,306
Total current liabilities	<u>2,898,379</u>	<u>2,482,199</u>
Deferred rent	375,844	362,032
Deferred income tax liability - non current	80,000	80,000
Total liabilities	<u>3,354,223</u>	<u>2,924,231</u>
STOCKHOLDERS' EQUITY		
Preferred stock - par value of \$1.00 per share; 500,000 shares authorized; no shares issued and outstanding		
Common stock - par value of \$.01 per share; 25,000,000 shares authorized; 1,600,408 shares issued; 896,000 and 896,000 shares outstanding, respectively	16,004	16,004
Additional paid-in capital	7,328,380	7,328,380
Retained earnings	4,328,797	4,057,621
Total	11,673,181	11,402,005
Less - treasury stock, at cost	<u>(1,029,222)</u>	<u>(1,029,222)</u>
Total stockholders' equity	<u>10,643,959</u>	<u>10,372,783</u>
TOTAL	<u>\$ 13,998,182</u>	<u>\$ 13,297,014</u>

See Management's Discussion and Analysis.

BIOQUAL, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED AUGUST 31,

	<u>2011</u>	<u>2010</u>
REVENUES:		
Contract revenues	\$ <u>6,049,971</u>	\$ <u>5,455,314</u>
Total Revenues	<u>6,049,971</u>	<u>5,455,314</u>
OPERATING EXPENSES:		
Contract	4,569,744	4,482,755
General and administrative	<u>1,010,736</u>	<u>984,237</u>
Total Operating Expenses	<u>5,580,480</u>	<u>5,466,992</u>
OPERATING INCOME	469,491	(11,678)
INTEREST INCOME	<u>185</u>	<u>619</u>
INCOME BEFORE INCOME TAXES	469,676	(11,059)
PROVISION FOR INCOME TAXES	<u>(198,500)</u>	<u>0</u>
NET INCOME	<u>\$ 271,176</u>	<u>\$ (11,059)</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.30</u>	<u>\$ (0.01)</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.30</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE NUMBER OF SHARES		
OUTSTANDING FOR BASIC EARNINGS SHARE	896,000	901,750
EFFECT OF DILUTIVE SECURITIES -		
OPTIONS	<u>0</u>	<u>0</u>
WEIGHTED AVERAGE NUMBER OF SHARES		
OUTSTANDING FOR DILUTED EARNINGS		
PER SHARE	<u>896,000</u>	<u>901,750</u>

See Management's Discussion and Analysis.

BIOQUAL, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED AUGUST 31,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ 271,176	\$ (11,059)
Adjustments to reconcile net income (loss) to net cash provided by (used by) operating activities:		
Depreciation and amortization	199,254	204,520
(Increase) decrease in		
Accounts receivable	382,107	(367,981)
Prepaid expenses	(228,920)	(332,776)
Increase (decrease) in		
Accounts payable and accrued expenses	(445,020)	(220,690)
Accrued income taxes	(11,520)	0
Deferred rent	13,812	(27,469)
Deferred revenue	<u>872,720</u>	<u>(28,480)</u>
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	<u>1,053,609</u>	<u>(783,935)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net capital expenditures	<u>(12,597)</u>	<u>(27,619)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(12,597)</u>	<u>(27,619)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend paid	<u>0</u>	<u>0</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>0</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,041,012	(811,554)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,719,179</u>	<u>3,152,624</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$3,760,191</u>	<u>\$2,341,070</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

Interest	<u>\$ 0</u>	<u>\$ 0</u>
Income Taxes	<u>\$ 210,000</u>	<u>\$ 97,000</u>

See Management's Discussion and Analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interim Financial Statements

In the opinion of management, all adjustments consisting only of normal recurring accruals necessary for a fair presentation of such amounts have been included. The results of operations for the quarter are not necessarily indicative of results for the year.

Highlights

In the first quarter of fiscal year 2012 which commenced on June 1, 2011, BIOQUAL realized a net income of \$271,176 compared to a net loss of \$11,059 for the first quarter of fiscal year 2011.

During the first quarter, the Company received a new task order under the National Institute of Allergy and Infectious Diseases (NIAID) contract entitled "Animal Care and Laboratory Support Services" totaling \$401,845 for a four month period starting July 16, 2011. This task order replaces a previous order that expired on July 15, 2011. Subsequent to the end of the first quarter, two additional task orders totaling \$280,829 were awarded to BIOQUAL. The funding is expected to cover the costs incurred through September 2012. The two new orders are for the continuation of a recently expired order and a new order. There are, however, no assurances that BIOQUAL will be awarded any other task orders under this contract.

On September 1, 2011, the Board of Directors declared a cash dividend based on fiscal year 2011 earnings of \$.16 per share for shareholders of record on September 21, 2011. The dividend was paid on October 12, 2011. This compares to the \$.16 per share cash dividend paid on October 12, 2010.

On September 23, 2011, BIOQUAL was awarded two task orders under Part C of its contract with the NIAID entitled "Animal Models of Infectious Diseases". The combined total of the two task orders is \$1,175,397 which covers costs incurred until September 29, 2012. There are, however, no assurances that BIOQUAL will be awarded any other task orders under this contract.

On September 30, 2011, BIOQUAL was awarded an Indefinite Delivery / Indefinite Quantity multiple award contract with the Environmental Protection Agency entitled "Endocrine Disruptor Screening Program Laboratory Assay Validation Studies and Technical Support". BIOQUAL was awarded a contract along with two other contractors. BIOQUAL's contract is for a maximum of \$14,033,551 (if BIOQUAL were to win all of the proposed task orders under the contract) over a five year period with a minimum guaranteed amount of \$100,000 per year. There are, however, no assurances that BIOQUAL will be awarded any task orders under this contract for more than the guaranteed amount per year.

Results of Operations

The \$594,657 increase in revenues for the quarter ended August 31, 2011 to \$6,049,971 compared to \$5,455,314 for the quarter ended August 31, 2010 is primarily comprised of three components. The first component is a net increase of \$164,092 in government contract activity primarily due to the purchase of nonhuman primates for one contract during this quarter with no similar purchase in the first quarter of fiscal year 2011. The second component is a net increase of \$564,136 in commercial contract revenue primarily reflecting increased contract activity of four contracts awarded during the fourth quarter of fiscal year 2011 and increased revenue resulting from a 40% increase in the number of nonhuman primates housed on another commercial contract compared to the same period in fiscal year 2011. The third component is a net decrease of \$133,571 in grant subcontract revenue reflecting a decrease in award activity during fiscal year 2012 compared to fiscal year 2011.

The \$86,989 increase in contract operating expenses for the quarter ended August 31, 2011 primarily reflects the net increase of costs in direct relation to the net increase in contract activity mentioned above, excluding the government contract animal purchase also mentioned above, offset by the costs (approximately \$242,000) related to the efforts of the Division of Endocrinology and Toxicology (DET) incurred in the first quarter of fiscal year 2011. General and administrative expenses increased \$26,499 compared to the first quarter of fiscal year 2011. The \$481,169 increase in operating income primarily reflects income on the increased revenues stated above and the suspension of investment in the DET activities during the third quarter of fiscal year 2011 and Management's continuing efforts to control indirect costs resulting in a higher profit margin on fixed price contracts compared to the prior fiscal year.

Liquidity and Capital Resources

During the first quarter of fiscal year 2012, BIOQUAL directed approximately \$12,600 towards capital expenditures. These expenditures are necessary to provide additional equipment for research being performed in the Company's laboratories. BIOQUAL has been able to continue to fund all of these expenditures through the use of existing cash provided by profits and its line of credit.

During the next six months, the Company estimates the aggregate purchase price of equipment to maintain state of the art laboratories and facilities to be approximately \$75,000.

Other than the items mentioned above, BIOQUAL does not currently anticipate other substantial capital expenditures during fiscal year 2012. However, if the Company is awarded new contracts that require additional equipment or animal enclosures during that period, the Company believes it will have sufficient capital resources to provide for the purchase of the equipment.

BIOQUAL has a \$500,000 line of credit with M&T Bank available to help cover costs of its daily operations. The line of credit is due on demand, renewable annually and was renewed in May, 2011. As of August 31, 2011, there was no balance on the line of credit. The interest rate on funds drawn on the line of credit is the prime rate plus .25%, which as of August 31, 2011 was 3.50%. On August 31, 2011, the Company had a balance of cash and cash equivalents of \$3,760,191. With the above line of credit and the cash resources expected to be available as a result of collection of accounts receivable, the Company believes it will have sufficient capital resources to provide for daily operations until the end of fiscal year 2012.

Other balance sheet items worth noting are: 1) the \$427,241 decrease in accrued compensation and related liabilities primarily reflects a shorter accrual period this quarter compared to the prior year end and the payment of the accrued fiscal year 2011 bonuses during the first quarter of fiscal year 2012, 2) the \$872,720 increase in deferred revenue primarily reflecting the advance billing of new commercial contracts awarded during the first quarter of fiscal year 2012, 3) the \$228,920 increase in prepaid expenses reflects prepayment of annual liability and workers compensation insurance premiums and real estate taxes, and 4) the net \$382,082 decrease in accounts receivable primarily reflects the first quarter billing of \$652,000 in costs that were unbilled at May 31, 2011 offset by \$426,788 in fiscal year 2012 costs unbilled as of August 31, 2011. Trade accounts receivable decreased \$156,870 reflecting a better than normal collections rate. Refer to the Statements of Consolidated Cash Flows on Page 4 for further detail related to the changes in cash and cash equivalents.

Forward Looking Information

Statements herein that are not descriptions of historical facts are forward-looking and subject to risk and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors including risks relating to the ability to continue to extend current government contracts and obtain new contracts; and the Company's ability to perform under its contracts in accordance with the requirements of the contracts; the actual cost incurred in performing its contracts and the Company's ability to manage its costs; uncertainties relating to clinical trials; dependence on third parties; future capital needs; the ability to fund its capital needs through the use of its cash on hand and line of credit; and the future availability and cost of financing/capital sources to the Company.