BIOQUAL, INC.

AUDITED FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017

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Independent Auditor's Report

Board of Directors
Bioqual, Inc.
Rockville, Maryland

We have audited the accompanying financial statements of **Bioqual, Inc.**, which comprise the Balance Sheets as of May 31, 2018 and 2017, and the related Statements of Income, Stockholders' Equity and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report (continued)

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Bioqual, Inc.** as of May 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Aronson LLC

Rockville, Maryland
August 30, 2018

May 31,	**2018**	2017
Assets		
Current assets		
Cash and cash equivalents	**$ 10,160,610**	$ 9,288,447
Accounts receivable - contracts	**9,265,372**	8,276,378
Income taxes receivable	**427,425**	77,733
Prepaid expenses	**400,026**	258,103
Total current assets	**20,253,433**	17,900,661
Property and equipment		
Leasehold improvements	**4,832,367**	4,516,584
Furniture, fixtures and equipment	**10,137,723**	8,445,039
Total property and equipment	**14,970,090**	12,961,623
Less: Accumulated depreciation and amortization	**(10,682,020)**	(10,013,672)
Net property and equipment	**4,288,070**	2,947,951
Other assets		
Cash surrender value of officers' life insurance	**708,491**	769,937
Intangible assets, net	**26,463**	36,707
Goodwill	**1,028,408**	1,028,408
Deferred income taxes	**-**	76,200
Total other assets	**1,763,362**	1,911,252
Total assets	**$ 26,304,865**	$ 22,759,864

	2018	2017
Liabilities and Stockholders' Equity		
Current liabilities		
Note payable, current portion	**$ 250,115**	$ 317,214
Accounts payable	**1,803,654**	1,241,025
Accrued compensation and related liabilities	**1,045,125**	1,332,178
Deferred revenue	**365,014**	209,193
Total current liabilities	**3,463,908**	3,099,610
Long term liabilities		
Note payable, net of current portion	**-**	250,115
Deferred rent	**685,677**	494,973
Deferred income taxes	**105,700**	-
Total long term liabilities	**791,377**	745,088
Total liabilities	**4,255,285**	3,844,698
Commitments and contingencies		
Stockholders' equity		
Common stock - $0.01 par value, 5,000,000 shares authorized; 1,599,408 shares issued; and 894,416 and 893,416 outstanding at May 31, 2018 and 2017, respectively	**15,994**	15,994
Treasury stock, at cost	**(1,041,240)**	(1,042,135)
Additional paid-in capital	**7,333,827**	7,326,328
Retained earnings	**15,740,999**	12,614,979
Total stockholders' equity	**22,049,580**	18,915,166
Total liabilities and stockholders' equity	**$ 26,304,865**	$ 22,759,864

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Bioqual, Inc.

Statements of Income

Years Ended May 31,	**2018**	2017
Contract revenue	**$ 35,884,965**	$ 36,602,975
Operating expenses		
Contract	**27,159,725**	26,699,285
General and administrative	**3,452,397**	3,359,730
Total operating expenses	**30,612,122**	30,059,015
Operating income	**5,272,843**	6,543,960
Other income (expense)		
Interest income	**46,777**	7,760
Interest expense	**(49,342)**	(68,480)
Gain on disposal of property and equipment	**16,000**	3,700
Total other income (expense)	**13,435**	(57,020)
Income before income taxes	**5,286,278**	6,486,940
Provision for income taxes	**1,624,208**	2,523,812
Net income	**$ 3,662,070**	$ 3,963,128
Basic earnings per share	**$ 4.10**	$ 4.44
Diluted earnings per share	**$ 4.10**	$ 4.44
Weighted average number of shares outstanding for basic earnings per share	**893,416**	893,416
Weighted average number of shares outstanding for diluted earnings per share	**893,448**	893,416

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Statements of Stockholders' Equity

	Common Stock		Treasury Stock				
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Total
Balance, June 1, 2016	1,599,408	$ 15,994	705,992	$ (1,042,135)	$ 7,326,328	$ 9,053,888	$ 15,354,075
Dividends declared - $.45 per share	-	-	-	-	-	(402,037)	(402,037)
Net income	-	-	-	-	-	3,963,128	3,963,128
Balance, May 31, 2017	1,599,408	15,994	705,992	(1,042,135)	7,326,328	12,614,979	18,915,166
Issuance of restricted stock	-	-	(1,000)	895	(895)	-	-
Stock compensation expense	-	-	-	-	8,394	-	8,394
Dividends declared - $.60 per share	-	-	-	-	-	(536,050)	(536,050)
Net income	-	-	-	-	-	3,662,070	3,662,070
Balance, May 31, 2018	1,599,408	$ 15,994	704,992	$ (1,041,240)	$ 7,333,827	$ 15,740,999	$ 22,049,580

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Bioqual, Inc.

Statements of Cash Flows

Years Ended May 31,		**2018**		2017
Cash flows from operating activities				
Net income	**$**	**3,662,070**	$	3,963,128
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization		**741,518**		625,246
Deferred income taxes		**181,900**		(41,943)
Change in contingent consideration payable		**-**		(63,500)
Gain on disposal of property and equipment		**(16,000)**		(3,700)
Stock compensation expense		**8,394**		-
Change in cash surrender value of officers' life insurance		**(12,092)**		4,787
(Increase) decrease in				
Accounts receivable - contracts		**(988,994)**		1,046,706
Prepaid expense		**(141,923)**		(198,041)
Income tax receivable		**(349,692)**		(77,733)
Increase (decrease) in				
Accounts payable		**562,629**		18,682
Accrued compensation and related liabilities		**(287,053)**		162,589
Income taxes payable		**-**		(256,512)
Deferred revenue		**155,821**		88,415
Deferred rent		**190,704**		126,048
Net cash provided by operating activities		**3,707,282**		5,394,172
Cash flows from investing activities				
Proceeds from sale of property and equipment		**16,000**		3,700
Purchases of property and equipment		**(2,071,393)**		(741,775)
Proceeds from loan on life insurance		**73,538**		4,011
Redemption of life insurance		**-**		155,574
Net cash used by investing activities		**(1,981,855)**		(578,490)
Cash flows from financing activities				
Principal payments on note payable		**(317,214)**		(302,727)
Dividends paid		**(536,050)**		(402,037)
Net cash used by financing activities		**(853,264)**		(704,764)

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Years Ended May 31,	**2018**	2017
Net change in cash and cash equivalents	**872,163**	4,110,918
Cash and cash equivalents at beginning of year	**9,288,447**	5,177,529
Cash and cash equivalents at end of year	**$ 10,160,610**	$ 9,288,447
Supplemental information:		
Income taxes paid	**$ 1,792,000**	$ 1,580,000
Interest paid	**$ 49,342**	$ 68,480

The accompanying Notes to Financial Statements are an integral part of these financial statements.

1. Organization and significant accounting policies

Organization: Bioqual, Inc., a Delaware Corporation, was founded in 1981. The Company supports the National Institutes of Health by providing research services in the following research areas: cancer, AIDS, hepatitis, influenza, immunology, transgenics, contraception, breeding and development of genetically defined animals, and neurobiology and behavior. The Company is headquartered in Rockville, Maryland. On February 21, 2014, the Company acquired the assets of Advanced Bioscience Laboratories, Inc. (ABL)'s in-vivo animal model services-related business.

Effective April 24, 2018, the Company reduced the authorized number of common shares from 25,000,00 to 5,000,000.

Use of accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue: Revenue from cost-type contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs and an allocable portion of the fixed fee. Revenue from fixed-price type contracts is recognized under the percentage-of-completion method of accounting, with costs and estimated profits included in contract revenue as work is performed. If actual and estimated costs to complete a contract indicate a loss, provision is made currently for the loss anticipated on the contract. Revenue from time and materials contracts is recognized as costs are incurred at amounts represented by the agreed-upon billing amounts. As soon as it is determined that it is probable a contract will result in a loss and the loss can be reasonably estimated, the entire loss is charged to operations.

Revenue recognized on contracts for which billings have not been presented to customers at year end is included in the accounts receivable - contracts classification on the accompanying balance sheets.

Revenue yet to be recognized on contracts for which billings have been presented to customers is reflected in the accompanying balance sheets as deferred revenue.

Cash and cash equivalents: Cash and cash equivalents consist of financial instruments with original maturities of less than three months. At times, the Company's cash balances may exceed Federally insured limits. The Company does not believe that this results in any significant risk.

Government contracts: A portion of the Company's revenue is from U.S. Government contracts (primarily the National Institutes of Health). The indirect rates used in cost-plus-fixed-fee contracts are subject to final negotiated settlements for each fiscal year. In management's opinion, final settlement of indirect rates will not have a material effect on the Company's financial position or results of operations when settled. The Company does not require collateral for its government billings and does not consider its accounts receivable to be a significant risk.

Accounts receivable: The Company provides for an allowance for doubtful accounts based on management's best estimate of possible losses determined principally on the basis of historical experience and specific allowances for known troubled accounts, if needed. All accounts, or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. At May 31, 2018 and 2017, management deemed all accounts receivable to be collectible.

Property and equipment: Property and equipment are recorded at the original cost and are being depreciated on a straight-line basis over estimated lives of three to ten years. Leasehold improvements are amortized over the life of the assets or the remaining period of the lease, whichever is shorter.

Goodwill: Goodwill is tested for impairment on an annual basis, and between annual tests when indicators of impairment exist. Goodwill is written down when impaired. The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the Company determines that it is more likely than not that the reporting unit's fair value is greater than its carrying amount, then the two step quantitative test is not required. To conduct the qualitative test, the Company identifies the most relevant factors of fair value which they determined to be significant when evaluating goodwill for impairment. These factors include general economic conditions, specific industry conditions and multiples, overall financial performance and operations, and other relevant company specific events.

If the Company determines that the two step quantitative test is required, the first step is to compare the fair value of the reporting unit with its carrying amount. If the fair value of the reporting unit is greater than the carrying amount, then the goodwill is not considered impaired. If the fair value of the reporting unit is less that its carrying value, then goodwill is deemed to be impaired and an impairment loss is calculated.

The Company determined that goodwill was not impaired based on management's consideration of qualitative factors that existed as of May 31, 2018 and 2017. There were no changes to the carrying value of goodwill during the years ended May 31, 2018 and 2017.

Intangible assets: Intangible assets consist of customer contracts and relationships and an accreditation acquired in the ABL acquisition. Intangible assets and other long-lived assets are reviewed for impairment whenever events or other changes in circumstances indicate that the carrying amount may not be recoverable. In reviewing for impairment, the Company compares the carrying value of the relevant assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets' fair value and their carrying value.

At May 31, 2018 and 2017, management determined that there were no indicators of impairment of intangible assets.

Income taxes: Current income tax expense is the amount of income taxes expected to be payable for the current year. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable earnings. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized.

The Company evaluates uncertainty in income tax positions taken or expected to be taken on a tax return based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement and is recognized in the Company's financial statements. To the extent that the Company's estimates change or the final tax outcome of these matters is different than the amounts that have been recorded, such differences will impact the income tax provision when such determinations are made. If applicable, the Company records interest and penalties as a component of income tax expense. As of May 31, 2018 and 2017, there were no accruals for uncertain tax positions. Tax years from May 31, 2015 through the current year remain open for examination by federal and state tax authorities.

Fair value of financial instruments: The carrying amounts of obligations approximate their fair value due to the short-term nature or their underlying terms.

Earnings per share: The Company calculates basic and diluted earnings per share. Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted-average number of common shares plus dilutive potential common shares, if any. There were 1,000 of dilutive shares issued during the year ended May 31, 2018. There were no dilutive equity securities during the year ended May 31, 2017.

Research and development: Research and development expenses consist primarily of compensation and related costs for personnel responsible for the research and development of new and existing products and services. The Company expenses research and development costs as incurred. The Company incurred research and development costs of $268,000 and $334,000 during the years ended May 31, 2018 and 2017, respectively.

Long-lived assets and impairment: The Company periodically evaluates the carrying value of long-lived assets, including, but not limited to, property and equipment and other assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such an asset are separately identifiable and are less than its carrying value. In that event, a loss is recognized to the extent that the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Newly adopted accounting pronouncements: In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which requires all deferred income tax assets and liabilities to be classified as noncurrent on the balance sheet. The new standard is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company has adopted this requirement retrospectively in the current period. The Company reclassified $112,400 of current deferred income tax assets and $36,200 of long term deferred income tax liabilities ($76,200, net) to other assets as of May 31, 2017.

Recently issued accounting pronouncements not yet adopted: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the existing accounting standards for revenue recognition. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, resulting in a one-year deferral of the effective date of ASU 2014-09. The ASU will become effective for the Company on June 1, 2018. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. Various updates have been issued to clarify the guidance in Topic 606. The new standard permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of applying the guidance recognized at the date of initial application (the modified retrospective method). The Company is currently evaluating the potential effects on its financial statements as well as its accounting policies and procedures. The Company has not selected a transition method for adoption nor determined the potential effects on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the existing lease accounting standard and sets out principles for the recognition, measurement, presentation and disclosure of leases. Under the new guidance, a lessee will be required to recognize lease assets and lease liabilities for all leases with lease terms in excess of twelve months. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. ASU 2016-02 becomes effective for the Company on June 1, 2019. The Company is in the process of evaluating the impact of this new guidance.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through August 30, 2018, which is the date the financial statements are available to be issued.

2. Accounts receivable

Accounts receivable at May 31, 2018 and 2017, consist of amounts due under contracts in progress with Federal government agencies (primarily the National Institutes of Health) educational institutions and commercial companies. The components of accounts receivable are as follows at May 31:

	2018	2017
Billed receivables	**$ 7,341,309**	$ 6,498,760
Unbilled receivables	**1,924,063**	1,777,618
Total	**$ 9,265,372**	$ 8,276,378

All billed and unbilled receivable amounts are expected to be collected during the next fiscal year. Unbilled receivables relate to revenue recognized on contracts for which billings have not been presented to customers.

Four customers generated approximately 39% and 51% of total contract revenues for the years ended May 31, 2018 and 2017, respectively. These customers also comprised approximately 15% and 37% of total receivables as of May 31, 2018 and 2017, respectively.

3. Intangible assets

Intangible assets consisted of the following at May 31, 2018 and 2017:

	2018		2017		
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization	Weighted Average Life
Customer contracts & relationships	**$ 70,000**	**$ (43,537)**	$ 70,000	$ (33,293)	7
Accreditation	**204,000**	**(204,000)**	204,000	(204,000)	2
Total	**$ 274,000**	**$ (247,537)**	$ 274,000	$ (237,293)	-

The definite lived intangible assets have no residual value at the end of their useful lives. Amortization expense for the years ended May 31, 2018 and 2017 was $10,244 each year. Estimated amortization expense for the next three years as of May 31, 2018 is as follows:

Year Ending May 31		Amount
2019	**$**	**10,244**
2020		**10,244**
2021		**5,975**

4. Note payable - line of credit

The Company has a line of credit arrangement with a bank which is due on demand. At May 31, 2018 and 2017, the maximum amount available under the arrangement was $2,000,000. The amount available under the line is the lesser of $2,000,000, or, the total of 90% of eligible government receivables, plus 80% of eligible commercial receivables less the amount outstanding for letters of credit. There was no balance outstanding on the line at May 31, 2018 or 2017. The line bears interest at the bank's prime rate plus .25% (5.00% at May 31, 2018) and is collateralized by all assets of the Company. The line of credit contains various financial covenants which include maintaining certain ratios of fixed charge coverage, a maximum funded debt to EBITDA, and a maximum debt to tangible net worth. The Company was in compliance with the financial covenants as of May 31, 2018 and 2017.

The Company had an irrevocable standby letter of credit arrangement outstanding with a bank as collateral for a lease at May 31, 2018 and 2017 for an amount of $203,400.

5. Note payable

The Company had the following note payable outstanding at May 31:

		2018		2017
Note payable to a financial institution related to the acquisition of ABL, payable in monthly installments of principal and interest of $28,087, with interest at 4.62%, final payment February 2019.	**$**	**250,115**	$	567,329
Less: Current portion		**(250,115)**		(317,214)
Long-term portion	**$**	**-**	$	250,115

6. Income taxes

For the years ended May 31, 2018 and 2017, the components of the provision for income taxes consisted of:

	2018	2017
Current tax expense	**$ 1,442,308**	$ 2,565,755
Deferred tax expense (benefit)	**181,900**	(41,943)
Provision for income taxes	**$ 1,624,208**	$ 2,523,812

On December 22, 2017, the U.S. Tax Cuts and Jobs Act, or Tax Act, was enacted by the U.S. government. Among other provisions, the Tax Act reduced the federal corporate tax rate to 21% from the existing maximum rate of 35%, effective January 1, 2018. Non calendar year filers use a blended tax rate during the year of adoption. The Company recorded a tax benefit of $79,269 related to the revaluation of its net deferred tax liabilities during the year ended May 31, 2018.

The provision for income taxes for the years ended May 31, 2018 and 2017 reflected in the accompanying statements of income varies from the amount which would have been computed using statutory rates as follows:

	2018	2017
Federal taxes at statutory rate	**$ 1,512,933**	$ 2,205,560
State taxes at statutory rate, net of federal tax benefit	**311,301**	353,214
Permanent differences and other	**(120,757)**	(34,962)
Change in income tax rate	**(79,269)**	-
Provision for income taxes	**$ 1,624,208**	$ 2,523,812

The deferred income tax (liability) asset represents an estimate of the income tax that will be recoverable (due) in future periods from the cumulative temporary differences recognized for financial reporting purposes from that recognized for income tax reporting purposes. At May 31, 2018 and 2017, the components of these temporary differences and the net deferred tax (liability) asset were as follows:

	2018	2017
Accrued vacation	**$ 66,600**	$ 86,400
Accrued expenses	**-**	5,800
Capitalized costs	**32,400**	46,400
Depreciation and amortization	**(244,000)**	(51,000)
Deferred rent	**188,700**	195,200
Contingent consideration	**(158,200)**	(226,800)
Restricted stock	**2,300**	-
Accounts receivable	**6,500**	20,200
Total net deferred income tax (liability) asset	**$ (105,700)**	$ 76,200

7. Operating leases

The Company is obligated, as lessee, under non-cancelable operating leases covering its facilities and certain equipment expiring at various dates through 2026. One of the three facility leases provides an option to renew for five years. Another facility lease provides for two successive five-year renewal options. Some of the leases provide for annual increases. A deferred rent liability is recorded for the difference between the pro-rata expense recognized and the total amounts paid to date under the leases.

The following is a schedule by years of future minimum rental payments required under the operating leases that have an initial or remaining non-cancelable lease term in excess of one year as of May 31, 2018:

Year Ending May 31	Total
2019	$ 3,138,738
2020	3,207,926
2021	3,247,643
2022	3,104,880
2023	2,500,461
Thereafter	4,640,704
Total	$ 19,840,352

Total rent expense for the years ended May 31, 2018 and 2017 was approximately $3,308,000 and $3,231,000 respectively.

8. Restricted stock

During the year ended May 31, 2018, the Company granted 1,000 shares of its common stock to the President of the Company. The shares vest three years from the date of issuance. Stock compensation expense relating to the stock was $8,394 for the year ended December 31, 2018. Compensation expense of $31,106 remains to be recognized over a 2.35 year period.

9. Contract status

Provisional indirect cost rates: Billings under cost-based government contracts are calculated using provisional rates which permit recovery of indirect costs. These rates are subject to audit on an annual basis by the government agencies' cognizant audit agency. The cost audits will result in the negotiation and determination of the final indirect cost rates which the Company may use for the years audited. The final rates, if different from the provisional rates, may create a receivable or a liability.

As of May 31, 2018, the Company had negotiated final settlements on indirect cost rates through 2011. The Company periodically reviews its cost estimates and experience rates, and adjustments, if needed, are made and reflected in the period in which the estimates are revised. In the opinion of management, redetermination of any cost-based contracts for the open years will not have any material effect on the Company's financial position or results of operations.

The Company has authorized but uncompleted contracts in progress at May 31, 2018, approximately as follows:

Total contract price of initial contract awards including modifications, exercised options, and approved change orders	**$ 45,172,000**
Completed to date	**(39,390,000)**
Authorized backlog	**$ 5,782,000**

The foregoing contracts contain unexercised options and unfunded amounts not reflected in the above amounts totaling approximately $9,216,000 at May 31, 2018.

10. Retirement plan

The Company sponsors a tax deferred savings plan to provide retirement benefits for all eligible employees under the Internal Revenue Code (Code). The Company's annual contribution to the plan is based on eligible employee participation. Participating employees may voluntarily contribute a percentage of their annual salaries, not to exceed certain limits provided by the Code. The Company may make discretionary matches of each participant's contribution. Rights to benefits provided by the Company's contributions vest 20% each year after the second year of service. Participants are fully vested in their voluntary contributions. The Company's contributions for the years ended May 31, 2018 and 2017, were $124,338 and $114,511, respectively.

11. Commitments and contingencies

The Company has employment agreements with its President and CFO, which provide for a base compensation and additional incentive compensation dependent upon annual operations. The agreements are effective through May 31, 2019 at which time the agreement will automatically renew annually unless either party provides a 30 day notice. If there is a change in control, the agreements shall remain in effect for an additional two years.

12. Industry condition

The U.S. government faces substantial fiscal and economic challenges that affect funding for its non-discretionary and discretionary budgets. The funding of U.S. government programs is subject to an annual Congressional budget authorization and appropriations process which have not followed normal practices in recent years. The Company cannot predict the impact on existing, follow-on or replacement programs from potential changes in priorities.