Unaudited Financial Statements and Management's Discussion & Analysis

For the quarterly period ended <u>November 30, 2020</u>

<u>BIOQUAL, INC.</u>

Prepared by:

David Newcomer
Chief Financial Officer

BIOQUAL, INC.

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BIOQUAL, INC.
UNAUDITED BALANCE SHEETS, NOVEMBER 30, 2020 AND MAY 31, 2020

ASSETS	**November 30, 2020**	May 31, 2020
CURRENT ASSETS:		
Cash and cash equivalents	**$ 7,488,996**	$ 10,256,437
Accounts receivable:		
Trade	**13,346,267**	10,378,195
Unbilled – current	**4,505,706**	4,071,024
Prepaid expenses	**1,554,555**	1,360,954
Income taxes receivable	**626,700**	188,300
Total current assets	**27,522,224**	26,254,910
FIXED ASSETS:		
Leasehold improvements	**5,719,008**	5,514,605
Furniture, fixtures and equipment	**14,662,493**	13,582,937
Total	**20,381,501**	19,097,542
Less accumulated depreciation and amortization	**(13,060,167)**	(12,450,988)
Fixed assets, net	**7,321,334**	6,646,554
OTHER ASSETS:		
Other intangibles, net	**854**	5,975
Goodwill	**1,028,408**	1,028,408
Operating lease right-of-use assets	**14,675,777**	14,849,174
Cash value of officers' life insurance policies	**763,347**	763,347
Total other assets	**16,468,386**	16,646,904
TOTAL	**$ 51,311,944**	$ 49,548,368
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	**2,233,320**	2,476,101
Accrued compensation and related liabilities	**1,109,673**	1,504,216
Operating lease liabilities, current	**3,160,811**	2,873,963
Deferred revenue	**1,080,993**	828,183
Total current liabilities	**7,584,797**	7,682,463
Deferred income taxes	**412,700**	412,700
Operating lease liabilities, non-current	**12,883,333**	13,271,008
Total liabilities	**20,880,830**	21,366,171
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 $.01 per share; 5,000,000 shares authorized; 1,599,408 shares issued; 894,416 shares outstanding	**15,994**	15,994
Additional paid-in capital	**7,364,934**	7,360,161
Retained earnings	**24,091,426**	21,847,282
Treasury stock, at cost	**(1,041,240)**	(1,041,240)
Total stockholders' equity	**30,431,114**	28,182,197
TOTAL	**$ 51,311,944**	$ 49,548,368

See Management's Discussion and Analysis.

BIOQUAL, INC.
UNAUDITED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED NOVEMBER 30,

	2020	2019
REVENUES:		
Contract revenues	**$13,565,708**	$ 11,222,962
Total Revenues	**13,565,708**	11,222,962
OPERATING EXPENSES:		
Contract	**10,072,739**	8,578,373
General and administrative	**1,428,024**	1,418,100
Total Operating Expenses	**11,500,763**	9,996,473
OPERATING INCOME	**2,064,945**	1,226,489
INTEREST EXPENSE	**(0)**	(4,147)
INTEREST INCOME	**669**	35,699
INCOME BEFORE INCOME TAXES	**2,065,614**	1,258,041
PROVISION FOR INCOME TAXES	**(604,200)**	(366,200)
NET INCOME	**$ 1,461,414**	$ 891,841
BASIC EARNINGS PER SHARE	**$ 1.63**	$ 1.00
DILUTED EARNINGS PER SHARE	**$ 1.63**	$ 1.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	**893,976**	893,416
EFFECT OF DILUTIVE SECURITIES – RESTRICTED SHARES	**0**	422
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR DILUTED EARNINGS PER SHARE	**893,976**	893,838

See Management’s Discussion and Analysis.

BIOQUAL, INC.
UNAUDITED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED NOVEMBER 30,

	2020	2019
REVENUES:		
Contract revenues	**$28,486,183**	$ 21,290,838
Total Revenues	**28,486,183**	21,290,838
OPERATING EXPENSES:		
Contract	**21,046,146**	15,632,914
General and administrative	**2,878,787**	2,584,868
Total Operating Expenses	**23,924,933**	18,217,782
OPERATING INCOME	**4,561,250**	3,073,056
INTEREST EXPENSE	**(0)**	(10,451)
INTEREST INCOME	**1.352**	69,919
INCOME BEFORE INCOME TAXES	**4,562,602**	3,132,524
PROVISION FOR INCOME TAXES	**(1,334,600)**	(916,200)
NET INCOME	**$ 3,228,002**	$ 2,216,324
BASIC EARNINGS PER SHARE	**$ 3.61**	$ 2.48
DILUTED EARNINGS PER SHARE	**$ 3.61**	$ 2.48
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	**893,694**	893,416
EFFECT OF DILUTIVE SECURITIES – RESTRICTED SHARES	**0**	422
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR DILUTED EARNINGS PER SHARE	**893,694**	893,838

See Management’s Discussion and Analysis.

BIOQUAL, Inc.

Unaudited Statements of Stockholders' Equity

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance, June 1, 2020	1,599,408	15,994	704,992	(1,041,240)	7,360,161	21,847,282	28,182,197
Stock compensation expense	-	-	-	-	4,773	-	4,773
Dividend declared - $1.10 per share						(983,858)	(983,858)
Net Income	-	-	-	-	-	3,228,002	3,228,002
Balance November 30, 2020	1,599,408	15,994	704,992	(1,041,240)	7,364,934	24,091,426	30,431,114

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance, June 1, 2019	1,599,408	$ 15,994	704,992	$ (1,041,240)	$ 7,346,994	$ 18,242,435	$ 24,564,183
Stock compensation expense	-	-	-	-	6,582	-	6,582
Dividend declared - $.70 per share						(626,091)	(626,091)
Net Income	-	-	-	-	-	2,216,324	2,216,324
Balance November 30, 2019	1,599,408	15,994	704,992	(1,041,240)	7,353,576	19,832,668	26,160,998

See Management's Discussion and Analysis.

BIOQUAL, INC.
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED NOVEMBER 30,

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 3,228,002**	$ 2,216,324
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation and amortization	**614,300**	448,341
Amortization of operating lease right-of-use asset	**1,474,016**	1,614,784
Stock compensation expense	**4,773**	6,583
(Increase) decrease in		
Accounts receivable	**(3,402,754)**	(6,226,986)
Prepaid expenses	**(632,001)**	(268,977)
Increase (decrease) in		
Accounts payable	**(242,781)**	(46,459)
Accrued compensation and related liabilities	**(394,543)**	(290,894)
Operating lease liability	**(1,401,446)**	(1,426,406)
Deferred revenue	**252,810**	2,303,821
NET CASH PROVIDED BY OPERATING ACTIVITIES	**(499,624)**	(1,669,869)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	**(1,283,959)**	(776,561)
NET CASH USED BY INVESTING ACTIVITIES	**(1,283,959)**	(776,561)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend paid	**(983,858)**	(626,091)
NET CASH USED BY FINANCING ACTIVITIES	**(983,858)**	(626,091)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,767,441)**	(3,072,521)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**10,256,437**	9,207,608
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 7,488,996**	$ 6,135,087
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	**$ 0**	$ 10,451
Income Taxes	**$ 1,764,000**	$ 1,062,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Recognition of ROU asset	**$ 16,149,791**	$ 17,235,776
Recognition of operating lease liability	**$ 17,445,588**	$ 18,032,362
Derecognition of deferred rent liability	**$ 0**	$ 796,586

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.

Items of Note

In the second quarter of fiscal year 2021, which commenced on September 1, 2020, the Company realized net income of $1,461,414, a 63.9% increase compared to net income of $891,841 for the second quarter of fiscal year 2020. Net income for the first six months of fiscal year 2021 totaled $3,228,002, a 45.6% increase compared to the net income of $2,216,324 for the first six months of fiscal year 2020. See Results of Operations below for more detail on the increase in net income.

During the second quarter of fiscal year 2021, the NIAID provided $8,125,898 of incremental funding for the first option year of the contract entitled "Animal Care and Laboratory Support Services to the Vaccine Research Center." The seven-year contract has a maximum potential funding amount of $69,174,672 including all options. The cumulative funding of the contract increased from $7,883,552 to $16,009,450. The incremental funding covers costs incurred from September 28, 2020 through September 27, 2021. There are, however, no assurances that any other options will be exercised under this contract.

On October 21, 2020, the Company held its Annual Meeting of Shareholders (the "Annual Meeting"). Set forth below are the proposals voted upon at the Annual Meeting and the final voting results.

As of the close of business on September 1, 2020, the record date for the Annual Meeting, 894,416 shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), were outstanding and entitled to vote. 859,997 shares of Common Stock were voted in person or by proxy at the Annual Meeting, representing 96.2% percent of the shares entitled to be voted.

Proposal 1 – Election of Directors. The Company's shareholders elected each of the directors listed below to serve on the Board until the Company's next Annual Meeting of shareholders or until their successors have been duly elected or appointed, as set forth below.

Director	For	Withheld	Non Votes
Mark G. Lewis, Ph.D.	799,431	5,716	54,850
Charles C. Francisco	799,481	5,666	54,850
Charles F. Gauvin	799,481	5,666	54,850
Michael P. O'Flaherty	799,431	5,716	54,850
David B. Landon, Ph.D.	804,431	716	54,850
Vivek R. Shinde Patil, Ph.D.	804,381	766	54,850

Proposal 2 – To Approve a Proposal for the Establishment of a Stock Incentive Plan. The Company's shareholders approved the establishment of the 2020 Stock Option Plan.

For	Against	Abstain	Non Votes
783,325	20,512	1,310	54,850

Proposal 3 – Ratification of Independent Auditors. The Company's shareholders ratified the Company's selection of Aronson LLC to serve as the Company independent auditors for the fiscal year ending May 31, 2021.

For	Against	Abstain
844,112	7,004	8,881

Based on fiscal year 2020 earnings, the Board of Directors declared a cash dividend of $1.10 per share for shareholders of record on September 28, 2020. The dividend was paid on October 21, 2020. This amount is $.40 per share greater than the $.70 per share cash dividend paid on October 16, 2019.

On November 25, 2020, the Board determined that it would be in the best interest of the Company's shareholders and therefore resolved to amend the Stock Incentive Plan by reducing the number of shares that may be issued pursuant to the Plan from 500,000 to 180,000 shares of the Company's common stock and to increase the percentage of shares that may be issued as Incentive Stock Options from 5 percent of the then issued and outstanding common stock of the Company to 20 percent of such common stock. The amendments described above are subject to the approval by a majority of the Company's shareholders within 12 months of the resolution.

COVID-19

During the second quarter of fiscal year 2021, the Company continued its support of many government, university and commercial clients pursuing COVID-19 vaccine and therapeutics candidates. During the second quarter, the Company executed contracts to support COVID-19 related research and vaccine development with seventeen new clients. Additionally, there were more than 40 new COVID-19 studies initiated by previously existing clients. Most of the COVID-19 studies have a period of performance of approximately one month.

During fiscal year 2021, in collaboration with other organizations, BIOQUAL staff have been listed as co-authors of several peer reviewed articles in scientific journals. Certain data included in the articles were obtained during studies performed in our laboratories. Several of the articles are available for review on the Company's website (www.bioqual.com).

During the previous fiscal year and continuing into fiscal year 2021, the Company temporarily shifted its focus away from supporting AIDS, influenza and other infectious disease research to apply the majority of its resources to supporting the global need for vaccines and therapeutics to combat COVID-19. The Company continued to perform then on-going non-COVID-19 contracts; however, no new non-COVID 19 contacts were started during this time. Although the

Company had a few non-COVID-19 contracts cancelled, the lost revenue was replaced by contracts related to potential COVID-19 vaccines and therapeutics. During fiscal year 2021, the Company began to re-initiate work with clients involved with in-vivo testing programs related to research efforts to develop vaccines and therapies against emerging diseases including AIDS, Zika, Chikungunya and others as well as influenza. The Company believes it has the capacity and resources to support all of these efforts simultaneously. Approximately 45% of the revenues generated this fiscal year were in support of COVID-19 related research.

Results of Operations

Three Months Comparison

The $2,342,746 increase in revenues to $13,565,708 for the quarter ended November 30, 2020, compared to $11,222,962 for the quarter ended November 30, 2019, is primarily the result of an increase in contract activity in commercial contracts of approximately $3,040,000 compared to the second quarter of the previous fiscal year. Additionally, revenues for grants increased by approximately $56,000 compared to the second quarter of the previous fiscal year. The increase in revenues was partially offset by a decrease in revenue generated by government contracts of approximately $753,000. The increase in commercial contract revenues is primarily the result of new COVID-19 related contracts. The decrease in government contracts is primarily due to the completion of several task orders under certain master contracts with no new task orders under those contracts awarded during this quarter.

The $1,494,366 increase in contract operating expenses for the quarter ended November 30, 2020, primarily reflects increases in expenses incurred of approximately $1,136,000 related to higher contract materials and supplies costs and higher labor and related benefits costs of approximately $850,000 compared to similar costs incurred in the second quarter of the previous fiscal year. The increases above were partially offset by decreases of approximately $357,000 in purchases of nonhuman primates and other research animals and a decrease in subcontractor cost of approximately $195,000 compared to similar costs incurred in the second quarter of fiscal year 2020.

General and Administrative (G&A) expenses for the quarter ended November 30, 2020 increased by $9,924 compared to similar costs incurred in the second quarter of the previous fiscal year, which was an increase of less than one percent.

The $838,456 increase in operating income primarily reflects the profits earned on a higher volume of commercial contracts revenue during this quarter compared to the second quarter of the previous fiscal year.

Six Months Comparison

The $7,195,345 increase in revenues to $28,486,183 for the six months ended November 30, 2020, compared to $21,290,838 for the six months ended November 30, 2019, is primarily the result of an increase in contract activity in commercial contracts of approximately $9,046,000 compared to the second quarter of the previous fiscal year. Additionally, revenues for grants increased by approximately $82,000 compared to the first six months of the previous fiscal year. The increase in revenues was partially offset by a decrease in revenue generated by government contracts of approximately $1,932,000. The increase in commercial contract revenues is primarily the result of new COVID-19 related contracts. The decrease in government contracts is primarily due to the completion of several task orders under certain master contracts with no new task orders under those contracts awarded during the first six month of fiscal year 2021.

The $5,413,232 increase in contract operating expenses for the six months ended November 30, 2020, primarily reflects increases in expenses incurred of approximately $1,970,000 related to the purchase of nonhuman primates, higher labor and related benefits costs of approximately $1,451,000, higher contract materials and supplies costs of approximately $1,918,000 and higher depreciation and facilities related costs of approximately $245,000 compared to similar costs incurred in the first six months of the previous fiscal year. The increases above were partially offset by a decrease of approximately $436,000 in subcontractor costs compared to similar costs incurred in the first six months of fiscal year 2020.

The $293,919 increase in General and Administrative (G&A) expenses for the six months ended November 30, 2020, primarily reflects increases in administrative labor and related benefits costs of approximately $276,000 and higher consultants and accounting fees of approximately $15,000 compared to similar costs incurred in the first six months of the previous fiscal year.

The $1,488,194 increase in operating income primarily reflects the profits earned on a higher volume of commercial contracts revenue during this quarter compared to the first six months of the previous fiscal year.

Liquidity and Capital Resources

During the first six months of fiscal year 2021, the Company directed approximately $1,232,000 towards capital expenditures compared to approximately $777,000 in the first six months of fiscal year 2020. These expenditures were necessary to provide additional equipment and nonhuman primate (NHP) and rodent cages for research being performed in the Company's laboratories including approximately $220,000 for items to support COVID-19 research contracts. The Company has been able to continue to fund all of these expenditures through the use of available cash provided by profits.

During the next six months, the Company estimates the aggregate purchase price of equipment to upgrade older equipment, enhance its capabilities, add nonhuman primate and small animal caging, and to renovate animal housing space will total approximately $750,000.

In addition to the $750,000 described in the previous paragraph, the Company estimates that it will purchase an additional $800,000 in infrastructure, cage washing, sanitation, and animal care equipment over the next three to nine months in connection with the construction of approximately 10,700 square feet of space in its 9600 Medical Center Dr. facility to be utilized as a vivarium for small animals. That project is currently in the permitting phase. With the assistance of the A&E firm, the Company is currently determining the construction costs of the vivarium. The construction costs are currently estimated at between $3,500,000 and $4,000,000. The estimated construction costs total does not include the $800,000 for equipment mentioned earlier in this paragraph. Management is developing its approach to funding the construction costs for this project. Due to delays in attaining building permits, the Company anticipates the vivarium will be operational not earlier than July 2021.

The Company is obligated, as lessee, under non-cancelable operating leases covering its facilities and certain equipment at various dates through 2027. Rent expense for the first six months of fiscal year 2021 was approximately $1,936,000. As of November 30, 2020, the total of the future minimum rental payments is approximately $18,502,000.

During the first quarter of fiscal year 2021, the Company entered into a lease for 9,416 square feet of office space located at 9620 Medical Center Drive, Rockville, Maryland for a term of seven years and four months including an option for 5 additional years, with total lease payments of approximately $1,387,000. The lease commenced on July 1, 2020 and the Company will utilize this space to accommodate the expected continued growth of its staff and to provide adequate space for social distancing until the end of the COVID-19 pandemic.

Other than the items mentioned above, the Company does not anticipate other substantial capital and other expenditures during fiscal year 2021. 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 $2,000,000 line of credit with M&T Bank available to help cover costs of its daily operations. The line of credit is due on demand and renewable annually. As of November 30, 2020, there was no balance due on the line of credit. The interest rate on funds drawn on the line of credit is the prime rate plus .25%. As of November 30, 2020, the interest rate on the line of credit pursuant to the formula was 3.50%. On November 30, 2020, the Company had a balance of cash and cash equivalents of $7,488,996. 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 and its capital needs through the end of fiscal year 2021.

The following provides additional information on select balance sheet items: 1) the $2,968,072 increase in trade accounts receivable primarily reflects the impact of the increased volume of commercial contracts activity compared to the end of the previous fiscal year; 2) unbilled accounts receivable increased $434,682 primarily reflecting the costs to be billed to a client in December 2020; 3) the $394,543 decrease in accrued compensation and related liabilities primarily reflects the payment of the accrued fiscal year 2020 bonuses during the first quarter of fiscal year 2021; and 4) the $252,810 increase in deferred revenue reflects an increase in the amount of advanced billings related to the increased volume of commercial contracts activity during the second quarter of fiscal year 2021.

In response to the effects on the economy of COVID-19, the Company continues to stay in contact with its critical suppliers to ensure the continued delivery of necessary materials to keep our employees safe and healthy at the workplace as well as to continue to provide animal husbandry and required procedures for our clients. To date, the Company has been able to procure adequate quantities of critical materials and supplies to continue operations. Based on market demand, the Company has had to pay higher prices for certain critical items which may have a short-term negative impact on the results of operations. There are, however, no assurances that BIOQUAL will be able to continue obtaining such critical materials without interruption.

Notes to financial statements

Risks and uncertainties

The expanding coronavirus outbreak (COVID-19) could adversely impact the Company's operations, suppliers or other vendors, and customer base. Any quarantines, labor shortages or other disruptions to operations, or those of customers, may adversely impact the Company's revenues, ability to deliver its services, and operating results. In addition, a widespread health crisis will adversely affect the local and global economies, resulting in an economic downturn that could affect demand for the Company's services, collectability of receivables, and valuation of investments. Management is unable to predict the near and long-term effects on the Company.

Leases

The Company adopted ASC Topic 842, *Leases*, on June 1, 2019 using a modified retrospective transition approach. As permitted by ASC 842, the Company elected not to reassess (i) whether any expired or existing contracts are leases or contain leases, (ii) the lease classification of any expired or existing leases, and (iii) the initial direct costs for existing leases.

The Company leases certain assets, consisting primarily of real estate, and assesses at contract inception whether a non-real estate contract is, or contains, a lease. A right-of-use asset and lease liability is recorded on the balance sheet for all leases except those with an original lease term of twelve months or less. The Company's leases typically have lease terms between three years and ten years and may include one or more renewal options. At lease commencement, the Company assesses whether it is reasonably certain to exercise a renewal option, or reasonably certain not to exercise a termination option, by considering various economic factors. Options that are reasonably certain of being exercised are factored into the determination of the lease term, and related payments are included in the calculation of the right-of-use asset and lease liability.

The Company uses its incremental borrowing rate to calculate the present value of lease payments when the interest rate implicit in a lease is not disclosed. Variable lease payments that are linked to a certain rate or index, such as the CPI, are included in the present value of lease payments and measured using the prevailing rate or index at lease commencement, with changes in the associated rate or index recognized in earnings during the period in which the change occurs. The right-of-use asset and lease liability are not remeasured as a result of any subsequent change in the index or rate unless remeasurement is required for another reason. Variable lease payments that are not linked to a certain rate or index are comprised primarily of operating costs.

The components of total lease cost and other supplemental lease information are presented in the following tables:

	For the Six Months Ended November 30, 2020
Components of lease cost:	
Operating lease costs	1,936,088
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	1,863,518
Lease liabilities arising from obtaining ROU assets (subsequent to adoption)	
Operating leases	113,487

Weighted average remaining lease terms and discount rates are presented in the following table:

	November 30, 2020
Weighted average remaining lease term (in years):	
Operating leases	5.04
Weighted average discount rate (annual):	
Operating leases	5.57%

The following table presents a maturity analysis of the Company's operating liabilities at November 30, 2020:

	Operating Leases
Year 1	3,973,580
Year 2	3,789,026
Year 3	3,563,282
Year 4	2,859,029
Year 5	2,071,458
Thereafter	2,245,372
Total lease payments	18,501,746
Less: imputed interest	(2,457,604)
Present value of lease liabilities	16,044,141

Revenue recognition accounting

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 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 November 30, 2020, the Company had negotiated final settlements on indirect cost rates through 2014. On December 23, 2020, the Company negotiated final settlement on indirect rates for fiscal years 2015 and 2016. 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.

Changes in estimates related to contracts with performance obligation(s) accounted for using the output method on fixed-price-milestone (FP-M) type contracts, that is primarily based on a proportion of study-related procedures and/or tests, are recognized in the period in which such changes are made on a cumulative catch-up basis. This basis recognizes in the current period the cumulative effect of the changes on current and prior periods based on the performance obligations' related proportionate progress towards completion.

For the six months ended November 30, 2020, there were no material modifications recorded related to work previously performed on FP-M type contracts prior to the execution of formal modifications or amendments. A significant change in one or more estimates could affect the profitability of one or more of the performance obligations.

Remaining Performance Obligations: Remaining performance obligations represent the expected value (transaction price) of executed contracts, both funded and unfunded, less revenue recognized to date. Remaining performance obligations do not include future potential purchase or work orders expected to be awarded under Master Service Agreement (MSA) or similar agreements.

As of November 30, 2020, the Company expects to recognize a majority of the remaining performance obligations over the next 12 months.

Disaggregation of Revenues: The Company disaggregates revenue by customer-type and contract-type as these categories best represent how the nature, timing and uncertainty of the Company's revenue and cash flows are affected by the U.S. government procurement environment and economic factors.

Disaggregated revenue by customer-type and contract type was as follows:

Revene by Customer Type and Contract Type	Three Months Ended November 30, 2020	Six Months Ended November 30, 2020
National Institutes of Health (NIH)		
Cost-Plus-Fixed-Fee	$ 1,979,845	$ 4,072,803
Fixed-Price-Per-Unit and Time-And-Materials	-	-
Fixed-Price-Milestone	-	-
Total National Institutes of Health	1,979,845	4,072,803
Commercial and Other		
Cost-Plus-Fixed-Fee	$ 554,459	$ 1,180,652
Fixed-Price-Per-Unit and Time-And-Materials	8,481,014	16,419,472
Fixed-Price-Milestone	2,550,390	6,813,256
Total Commercial and Other	11,585,863	24,413,380
Total Revenues	$ 13,565,708	$ 28,486,183

Cost-plus-fixed-fee (CPFF) contracts are generally lower risk and have lower profits. Time-and-materials (T&M) and fixed-price-per-unit (FP-U) contracts are also low risk, but profits may vary depending on actual labor costs compared to negotiated contract billing rates. FP-M contracts offer the potential for higher profits while increasing the Company's exposure to risk of cost overruns.

Contract Assets and Liabilities: Contract assets include unbilled contract receivables, which is the amount of revenue recognized that exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Contract assets also include incremental fulfillment costs where, under certain fixed-price contracts, costs are incurred usually at the beginning of the contract performance, where the single performance obligation has not yet been completely satisfied. Contract liabilities consist of deferred revenue.

The components of contract assets and contract liabilities consisted of the following:

		November 30, 2020	June 1, 2020
Contract assets:	**Balance sheet line item:**		
Unbilled contract receivables (1)	Accounts receivable - contracts	**$ 4,505,706**	$ 4,071,204
Fulfillment costs	Prepaid expenses	**$ 892,748**	$ 901,356
Contract liabilities:	**Balance sheet line item:**		
Deferred revenue	Deferred revenue	**$ 1,080,993**	$ 828,183

The increase in "Contract assets" was primarily due to the timing of billings and revenue recognized on certain contracts. The increase also relates to fulfillment costs being capitalized on certain contracts, offset by amortization for the six months ended November 30, 2020. The increase in "Contract liabilities" was primarily due to billings in excess of revenue recognized on certain FP-M contracts.

During the six months ended November 30, 2020, the Company recognized revenue of approximately $551,200 relating to amounts that were included as a contract liability at June 1, 2020.

During the six months ended November 30, 2020, the Company recognized approximately $871,000 of amortization related to its fulfillment costs. The Company did not recognize any impairment losses on contract assets for the six months ended November 30, 2020.

(1) Balances include primarily timing differences between what the Company has billed or has the right to bill as of the period end as compared with the revenue recognized, on FP-M and CPFF type contracts.

Forward Looking Information

Statements herein that are not descriptions of historical facts are forward-looking and subject to risks 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; the Company’s ability to obtain new government or commercial contracts; continued demand for the use of animal models in scientific research; the Company’s ability to perform under its contracts in accordance with the requirements of the contracts; the actual costs incurred in performing the Company’s contracts and its ability to manage its costs, including its capital expenditures; 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.