Unaudited Financial Statements and Management's Discussion & Analysis

For the quarterly period ended February 28, 2021

BIOQUAL, INC.

Prepared by:

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Chief Financial Officer

BIOQUAL, INC.

INDEX

Financial Information **Page**

Financial Statements.

BIOQUAL, INC.
UNAUDITED BALANCE SHEETS, FEBRUARY 28, 2021 AND MAY 31, 2020

ASSETS	**February 28, 2021**	May 31, 2020
CURRENT ASSETS:		
Cash and cash equivalents	**$ 5,027,745**	$ 10,256,437
Accounts receivable:		
Trade	**14,881,058**	10,378,195
Unbilled – current	**4,223,133**	4,071,024
Prepaid expenses	**1,826,540**	1,360,954
Income taxes receivable	**432,700**	188,300
Total current assets	**26,391,176**	26,254,910
FIXED ASSETS:		
Leasehold improvements	**6,347,572**	5,514,605
Furniture, fixtures and equipment	**15,254,187**	13,582,937
Total	**21,601,759**	19,097,542
Less accumulated depreciation and amortization	**(13,395,457)**	(12,450,988)
Fixed assets, net	**8,206,302**	6,646,554
OTHER ASSETS:		
Other intangibles, net	**0**	5,975
Goodwill	**1,028,408**	1,028,408
Operating lease right-of-use assets	**13,919,161**	14,849,174
Cash value of officers' life insurance policies	**763,347**	763,347
Total other assets	**15,710,916**	16,646,904
TOTAL	**$ 50,308,394**	$ 49,548,368
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	**863,690**	2,476,101
Accrued compensation and related liabilities	**1,221,202**	1,504,216
Operating lease liabilities, current	**3,244,984**	2,873,963
Deferred revenue	**1,116,141**	828,183
Total current liabilities	**6,446,017**	7,682,463
Deferred income taxes	**412,700**	412,700
Operating lease liabilities, non-current	**12,042,603**	13,271,008
Total liabilities	**18,901,320**	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 $.01 per share; 5,000,000 shares authorized; 1,599,408 shares issued; 894,416 shares outstanding	**15,994**	15,994
Additional paid-in capital	**7,364,934**	7,360,161
Retained earnings	**25,067,386**	21,847,282
Treasury stock, at cost	**(1,041,240)**	(1,041,240)
Total stockholders' equity	**31,407,074**	28,182,197
TOTAL	**$ 50,308,394**	$ 49,548,368

See Management's Discussion and Analysis.

BIOQUAL, INC.
UNAUDITED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED FEBRUARY 28 AND FEBRUARY 29,

	2021	2020
REVENUES:		
Contract revenues	**$12,584,303**	$ 11,593,217
Total Revenues	**12,584,303**	11,593,217
OPERATING EXPENSES:		
Contract	**9,724,978**	9,289,570
General and administrative	**1,480,163**	1,311,226
Total Operating Expenses	**11,205,141**	10,600,796
OPERATING INCOME	**1,379,162**	992,421
INTEREST EXPENSE	**(0)**	(0)
INTEREST INCOME	**298**	25,885
INCOME BEFORE INCOME TAXES	**1,379,460**	1,018,306
PROVISION FOR INCOME TAXES	**(403,500)**	(297,900)
NET INCOME	**$ 975,960**	$ 720,406
BASIC EARNINGS PER SHARE	**$ 1.09**	$ 0.81
DILUTED EARNINGS PER SHARE	**$ 1.09**	$ 0.81
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	**894,416**	893,416
EFFECT OF DILUTIVE SECURITIES – RESTRICTED SHARES	**0**	427
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR DILUTED EARNINGS PER SHARE	**894,416**	893,843

See Management’s Discussion and Analysis.

BIOQUAL, INC.
UNAUDITED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED FEBRUARY 28 AND FEBRUARY 29,

	2021	2020
REVENUES:		
Contract revenues	**$41,070,486**	$ 32,884,055
Total Revenues	**41,070,486**	32,884,055
OPERATING EXPENSES:		
Contract	**30,771,124**	24,922,484
General and administrative	**4,358,950**	3,896,094
Total Operating Expenses	**35,130,074**	28,818,578
OPERATING INCOME	**5,940,412**	4,065,477
INTEREST EXPENSE	**(0)**	(10,451)
INTEREST INCOME	**1.650**	95,804
INCOME BEFORE INCOME TAXES	**5,942,062**	4,150,830
PROVISION FOR INCOME TAXES	**(1,738,100)**	(1,214,100)
NET INCOME	**$ 4,203,962**	$ 2,936,730
BASIC EARNINGS PER SHARE	**$ 4.70**	$ 3.29
DILUTED EARNINGS PER SHARE	**$ 4.70**	$ 3.29
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	**893,932**	893,416
EFFECT OF DILUTIVE SECURITIES – RESTRICTED SHARES	**0**	427
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR DILUTED EARNINGS PER SHARE	**893,932**	893,843

See Management's Discussion and Analysis.

BIOQUAL, Inc.

Unaudited Statements of Stockholders' Equity

	Common Stock		Treasury Stock		Additional Paid-In	Retained	
	Shares	Amount	Shares	Amount	Capital	Earnings	Total
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	-	-	-	-	-	4,203,962	4,203,962
Balance February 28, 2021	1,599,408	15,994	704,992	(1,041,240)	7,364,934	25,067,386	31,407,074

	Common Stock		Treasury Stock		Additional Paid-In	Retained	
	Shares	Amount	Shares	Amount	Capital	Earnings	Total
Balance, June 1, 2020	1,599,408	$ 15,994	704,992	$ (1,041,240)	$ 7,346,994	$18,242,435	$ 24,564,183
Stock compensation expense	-	-	-	-	9,875	-	9,875
Dividend declared - $.70 per share						(626,091)	(626,091)
Net Income	-	-	-	-	-	2,936,730	2,936,730
Balance February 28, 2020	1,599,408	15,994	704,992	(1,041,240)	7,356,869	20,553,074	26,884,697

See Management's Discussion and Analysis.

BIOQUAL, INC.
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED FEBRUARY 28 AND FEBRUARY 29,

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 4,203,962**	$ 2,936,730
Adjustments to reconcile net income to net cash		
(used by) provided by operating activities:		
Depreciation and amortization	**950,444**	705,760
Amortization of operating lease right-of-use asset	**2,230,630**	2,276,751
Stock compensation expense	**4,773**	9,875
(Increase) decrease in		
Accounts receivable	**(4,654,972)**	(2,585,567)
Prepaid expenses	**(709,986)**	(53,532)
Increase (decrease) in		
Accounts payable	**(1,612,411)**	455,878
Accrued compensation and related liabilities	**(283,014)**	(195,370)
Operating lease liability	**(2,158,001)**	(2,084,118)
Deferred revenue	**287,958**	1,280,004
NET CASH (USED BY) PROVIDED BY OPERATING ACTIVITIES	**(1,740,617)**	2,746,411
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	**(2,504,217)**	(1,290,054)
NET CASH USED BY INVESTING ACTIVITIES	**(2,504,217)**	(1,290,054)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend paid	**(983,858)**	(626,091)
NET CASH USED BY FINANCING ACTIVITIES	**(983,858)**	(626,091)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(5,228,692)**	830,266
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**10,256,437**	9,207,608
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 5,027,745**	$ 10,037,874
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	**$ 0**	$ 10,451
Income Taxes	**$ 2,014,000**	$ 1,142,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Recognition of ROU asset	**$ 16,149,791**	$ 17,276,698
Recognition of operating lease liability	**$ 17,445,588**	$ 18,073,284
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 third quarter of fiscal year 2021, which commenced on December 1, 2020, the Company realized net income of $975,960, a 35.5% increase compared to net income of $720,406 for the third quarter of fiscal year 2020. Net income for the first nine months of fiscal year 2021 totaled $4,203,962, a 43.2% increase compared to the net income of $2,936,730 for the first nine months of fiscal year 2020. See Results of Operations below for more detail on the increase in net income.

COVID-19

During the third 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 third quarter, the Company executed contracts to support COVID-19 related research and vaccine development with eleven new clients. Additionally, there were more than 50 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 43% of the revenues generated this fiscal year were in support of COVID-19 related research.

Results of Operations

Three Months Comparison

The $991,086 increase in revenues to $12,584,303 for the quarter ended February 28, 2021, compared to $11,593,217 for the quarter ended February 29, 2020, is primarily the result of an increase in contract activity in commercial contracts of approximately $1,730,000 compared to the third quarter of the previous fiscal year. Revenues for grants were relatively the same compared to the third quarter of the previous fiscal year. The increase in revenues was partially offset by a decrease in revenue generated by government contracts of approximately $740,000. 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 $435,408 increase in contract operating expenses for the quarter ended February 28, 2021, primarily reflects increases in expenses incurred of approximately $1,125,000 related to higher contract materials and supplies costs and higher labor and related benefits costs of approximately $1,165,000 compared to similar costs incurred in the third quarter of the previous fiscal year. The increases above were partially offset by decreases of approximately $1,500,000 in purchases of nonhuman primates and other research animals and a decrease in subcontractor cost of approximately $450,000 compared to similar costs incurred in the third quarter of fiscal year 2020.

The $168,937 increase in General and Administrative (G&A) expenses for the quarter ended February 28, 2021, primarily reflects increases in administrative labor and related benefits costs of approximately $85,000 and higher consultant (accounting and IT) fees of approximately $40,000 compared to similar costs incurred in the third quarter of the previous fiscal year.

The $386,741 increase in operating income primarily reflects the profits earned on a higher volume of commercial contracts revenue during this quarter compared to the third quarter of the previous fiscal year.

<u>Nine Months Comparison</u>

The $8,186,431 increase in revenues to $41,070,486 for the nine months ended February 28, 2021, compared to $32,884,055 for the nine months ended February 29, 2020, is primarily the result of an increase in contract activity in commercial contracts of approximately $10,770,000 compared to the first nine months of the previous fiscal year. Additionally, revenues for grants increased by approximately $84,000 compared to the first nine months of the previous fiscal year. The increase in revenues was partially offset by a decrease in revenue generated by government contracts of approximately $2,670,000. 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 nine month of fiscal year 2021.

The $5,848,640 increase in contract operating expenses for the nine months ended February 28, 2021, primarily reflects increases in expenses incurred of approximately $475,000 related to the purchase of nonhuman primates, higher labor and related benefits costs of approximately $2,375,000, higher contract materials and supplies costs of approximately $3,010,000 and higher depreciation and facilities related costs of approximately $490,000 compared to similar costs incurred in the first nine months of the previous fiscal year. The increases above were partially offset by a decrease of approximately $890,000 in subcontractor costs compared to similar costs incurred in the first nine months of fiscal year 2020.

The $462,856 increase in General and Administrative (G&A) expenses for the nine months ended February 29, 2020, primarily reflects increases in administrative labor and related benefits costs of approximately $360,000 and higher consultants and accounting fees of approximately $77,000 compared to similar costs incurred in the first nine months of the previous fiscal year.

The $1,874,935 increase in operating income primarily reflects the profits earned on a higher volume of commercial contracts revenue during this quarter compared to the first nine months of the previous fiscal year.

Liquidity and Capital Resources

During the first nine months of fiscal year 2021, the Company directed approximately $2,505,000 towards capital expenditures compared to approximately $1,290,000 in the first nine 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 $434,000 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 three 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 $250,000.

In addition to the $250,000 described in the previous paragraph, the Company estimates that it will purchase an additional $600,000 in infrastructure, cage washing, sanitation, and animal care equipment over the next three to six 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. The demolition phase has been completed and the project is currently in the construction phase. The total construction costs are currently estimated at between $3,500,000 and $4,000,000, of which, the Company incurred approximately $725,000 as of February 28, 2021. The estimated construction costs total does not include the $600,000 for equipment mentioned earlier in this paragraph. Management may fund the construction either by using its cash reserves or obtaining a construction loan or a combination of both. To date, all construction related costs have been paid using cash on hand.

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 nine months of fiscal year 2021 was approximately $2,913,000. As of February 28, 2021, the total of the future minimum rental payments is approximately $17,526,000.

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 animal models or enclosures or equipment during that period, the Company believes it will have sufficient capital resources to provide for the purchase of those items.

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 February 28, 2021, 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 February 28, 2021, the interest rate on the line of credit pursuant to the formula was 3.50%. On February 28, 2021, the Company had a balance of cash and cash equivalents of $5,027,745. 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 $4,502,863 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 $152,109 primarily reflecting an increase in services completed as of February 28, 2021, but not yet billed to clients as compared to services completed as of May 31, 2020, but not billed until fiscal year 2021; 3) the $283,014 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; 4) the $287,958 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; 5) the $1,612,411 decrease in accounts payable reflects a lower total amount of outstanding invoices for the purchase of nonhuman primates and subcontractors as compared to the end of the previous fiscal year; and 6) the increase in prepaid expenses of $465,586 primarily reflects an increase in deposits related to purchasing nonhuman primates.

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 its 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.

However, a significant part of the research support services provided by BIOQUAL requires the use of nonhuman primates, which are becoming more and more difficult to procure in adequate quantities to supply the demand for continuing COVID-19 vaccine and therapeutics development as well as research of other infectious diseases. The Company is working closely with its suppliers and is committing (providing cash deposits) to the purchase of nonhuman primates as soon as they become available in order to have a pipeline of animals for future studies. The Company hopes that China, a major breeder and supplier of nonhuman primates that ceased exporting nonhuman primates in 2020, will resume those exports within the next year or so. The resumption of exporting nonhuman primates by China would help alleviate the shortage of this important component of infectious disease research; however, there is no assurance that this will happen, and a continued shortage of nonhuman primates could adversely affect the Company's ability to perform new projects.

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 Nine Months Ended February 28, 2021
Components of lease cost:	
Operating lease costs	2,912,409
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	2,839,778
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:

Weighted average remaining lease term (in years):	February 28, 2021
Operating leases	4.83
Weighted average discount rate (annual):	
Operating leases	5.56%

The following table presents a maturity analysis of the Company's operating liabilities at February 28, 2021:

	Operating Leases
Year 1	4,012,721
Year 2	3,657,577
Year 3	3,588,248
Year 4	2,468,299
Year 5	2,081,189
Thereafter	1,717,451
Total lease payments	17,525,485
Less: imputed interest	(2,237,897)
Present value of lease liabilities	15,287,588

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 February 28, 2021, the Company had negotiated final settlements on indirect cost rates through 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 nine months ended February 28, 2021, 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 February 28, 2021, 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 February 28, 2021**	**Nine Months Ended February 28, 2021**
National Institutes of Health (NIH)		
Cost-Plus-Fixed-Fee	$ 1,673,305	$ 5,746,108
Fixed-Price-Per-Unit and Time-And-Materials	-	-
Fixed-Price-Milestone	-	-
Total National Institutes of Health	1,673,305	5,746,108
Commercial and Other		
Cost-Plus-Fixed-Fee	$ 354,528	$ 1,535,180
Fixed-Price-Per-Unit and Time-And-Materials	8,687,713	25,107,185
Fixed-Price-Milestone	1,868,757	8,682,013
Total Commercial and Other	10,910,998	35,324,378
Total Revenues	$ 12,584,303	$ 41,070,486

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:

		February 28, 2021	June 1, 2020
Contract assets:	**Balance sheet line item:**		
Unbilled contract receivables (1)	Accounts receivable - contracts	**$ 4,223,133**	$ 4,071,204
Fulfillment costs	Prepaid expenses	**$ 1,314,533**	$ 901,356
Contract liabilities:	**Balance sheet line item:**		
Deferred revenue	Deferred revenue	**$ 1,116,141**	$ 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 nine months ended February 28, 2021. The increase in "Contract liabilities" was primarily due to billings in excess of revenue recognized on certain FP-M contracts.

During the nine months ended February 28, 2021, the Company recognized revenue of approximately $628,408 relating to amounts that were included as a contract liability at June 1, 2020.

During the nine months ended February 28, 2021, the Company recognized approximately $901,356 of amortization related to its fulfillment costs. The Company did not recognize any impairment losses on contract assets for the nine months ended February 28, 2021.

(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.