BIOQUAL, INC.

AUDITED FINANCIAL STATEMENTS

MAY 31, 2021 AND 2020

Bioqual, Inc.

Table of Contents

aronson LLC
ASSURANCE | TAX | CONSULTING

111 Rockville Pike
Suite 600
Rockville, Maryland 20850

301.231.6200
301.231.7630
www.aronsonllc.com
info@aronsonllc.com

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, 2021 and 2020, 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 entity'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 entity'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, 2021 and 2020, 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
September 14, 2021

Certified Public Accountants & Management Consultants

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

111 Rockville Pike | Suite 600 | Rockville, Maryland 20850 | 301.231.6200 | 301.231.7630 | www.aronsonllc.com | info@aronsonllc.com

May 31,	**2021**	2020
Assets		
Current assets		
Cash and cash equivalents	**$ 7,719,702**	$ 10,256,437
Accounts receivable - contracts	**20,108,475**	14,449,219
Income taxes receivable	**-**	188,300
Prepaid expenses	**1,493,503**	1,360,954
Total current assets	**29,321,680**	26,254,910
Property and equipment		
Leasehold improvements	**7,611,183**	5,514,605
Furniture, fixtures and equipment	**15,894,816**	13,582,937
Total property and equipment	**23,505,999**	19,097,542
Less: Accumulated depreciation and amortization	**(13,810,121)**	(12,450,988)
Net property and equipment	**9,695,878**	6,646,554
Other assets		
Operating lease right-of-use assets	**13,262,424**	14,849,174
Cash surrender value of officers' life insurance	**111,750**	763,347
Intangible assets, net	**-**	5,975
Goodwill	**1,028,408**	1,028,408
Total other assets	**14,402,582**	16,646,904
Total assets	**$ 53,420,140**	$ 49,548,368

Bioqual, Inc.

Balance Sheets

	2021	2020
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	**$ 2,107,723**	$ 2,476,101
Accrued compensation and related liabilities	**2,148,788**	1,504,216
Income taxes payable	**81,900**	-
Deferred revenue	**875,721**	828,183
Operating lease liabilities, current portion	**3,303,062**	2,873,963
Total current liabilities	**8,517,194**	7,682,463
Long term liabilities		
Operating lease liabilities, net of current portion	**11,315,309**	13,271,008
Deferred income taxes	**57,700**	412,700
Total long term liabilities	**11,373,009**	13,683,708
Total liabilities	**19,890,203**	21,366,171
Commitments and contingencies		
Stockholders' equity		
Common stock - $0.01 par value, 5,000,000 shares authorized, 1,599,408 shares issued, and 894,416 shares outstanding at May 31, 2021 and 2020, respectively	**15,994**	15,994
Treasury stock, at cost	**(1,041,240)**	(1,041,240)
Additional paid-in capital	**7,364,934**	7,360,161
Retained earnings	**27,190,249**	21,847,282
Total stockholders' equity	**33,529,937**	28,182,197
Total liabilities and stockholders' equity	**$ 53,420,140**	$ 49,548,368

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

Bioqual, Inc.

Statements of Income

Years Ended May 31,	**2021**	2020
Contract revenue	**$ 57,683,502**	$ 46,360,201
Operating expenses		
Contract	**43,709,349**	36,672,568
General and administrative	**5,417,399**	4,365,581
Total operating expenses	**49,126,748**	41,038,149
Operating income	**8,556,754**	5,322,052
Other income (expense)		
Interest income	**1,841**	114,817
Interest expense	**-**	(10,451)
Other income	**57,430**	62,520
Total other income	**59,271**	166,886
Income before income taxes	**8,616,025**	5,488,938
Provision for income taxes	**2,289,200**	1,258,000
Net income	**$ 6,326,825**	$ 4,230,938
Basic earnings per share	**$ 7.08**	$ 4.74
Diluted earnings per share	**$ 7.08**	$ 4.73
Weighted average number of shares outstanding for basic earnings per share	**894,054**	893,416
Weighted average number of shares outstanding for diluted earnings per share	**894,054**	893,971

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

Bioqual, Inc.

Statements of Stockholders' Equity

	Common Stock		Treasury Stock				
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Total
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	-	-	-	-	13,167	-	13,167
Dividends declared - $0.70 per share	-	-	-	-	-	(626,091)	(626,091)
Net income	-	-	-	-	-	4,230,938	4,230,938
Balance, May 31, 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
Dividends declared - $1.10 per share	-	-	-	-	-	(983,858)	(983,858)
Net income	-	-	-	-	-	6,326,825	6,326,825
Balance, May 31, 2021	1,599,408	$ 15,994	704,992	$ (1,041,240)	$ 7,364,934	$ 27,190,249	$ 33,529,937

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

Bioqual, Inc.

Statements of Cash Flows

Years Ended May 31,	**2021**	2020
Cash flows from operating activities		
Net income	**$ 6,326,825**	$ 4,230,938
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**1,365,108**	1,061,312
Amortization of operating lease right-of-use-assets	**3,090,495**	3,215,328
Deferred income taxes	**(355,000)**	204,300
Gain on termination of officers' life insurance	**(52,930)**	-
Stock compensation expense	**4,773**	13,167
Change in cash surrender value of officers' life insurance	**(4,500)**	(62,520)
(Increase) decrease in		
Accounts receivable - contracts	**(5,659,256)**	(3,020,250)
Prepaid expenses	**(132,549)**	(826,850)
Income tax receivable	**188,300**	(88,300)
Increase (decrease) in		
Accounts payable	**(368,378)**	1,164,444
Accrued compensation and related liabilities	**644,572**	344,930
Income taxes payable	**81,900**	-
Deferred revenue	**47,538**	558,551
Operating lease right-of-use lease liability	**(3,030,345)**	(2,716,118)
Net cash provided by operating activities	**2,146,553**	4,078,932
Cash flows from investing activities		
Purchases of property and equipment	**(4,408,457)**	(2,404,012)
Proceeds from redemption of life insurance	**709,027**	-
Net cash used by investing activities	**(3,699,430)**	(2,404,012)
Cash flows from financing activities		
Dividends paid	**(983,858)**	(626,091)

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

Bioqual, Inc.

Statements of Cash Flows (continued)

Years Ended May 31,	**2021**	2020
Net change in cash and cash equivalents	**(2,536,735)**	1,048,829
Cash and cash equivalents at beginning of year	**10,256,437**	9,207,608
Cash and cash equivalents at end of year	**$ 7,719,702**	$ 10,256,437
Supplemental information:		
Income taxes paid	**$ 2,344,000**	$ 1,142,000
Interest paid	**$ -**	$ 10,451
Recognition of right-of-use asset	**$ 1,503,745**	$ 18,064,502
Recognition of operating lease liability	**$ 1,503,745**	$ 18,861,088
Derecognition of deferred rent liability	**$ -**	$ 796,586

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 and commercial clients by providing research services in the following in-vitro and in-vivo research areas: cancer, malaria and viruses, including HIV, SIV, Zika, SARS, hepatitis, and influenza. Additional offerings include biocontainment up to level 3 for both laboratory and laboratory animal research including emerging diseases such as COVID-19. The Company is headquartered in Rockville, Maryland.

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 Recognition: The majority of the Company's revenues from contracts with customers are for support provided to the National Institutes of Health (NIH) for research services for certain diseases and medical research areas, including cancer, AIDS, hepatitis, influenza, immunology, malaria, emerging diseases, such as COVID-19, and breeding and development of genetically defined animals. The Company performs under various types of contracts, which include cost-reimbursable or cost-plus-fixed-fee (CPFF), time-and-materials (T&M), fixed-price-per-unit (FP-U), and fixed-price-milestone (FP-M) contracts.

With the adoption of Financial Accounting Standards Board ("FASB"), Accounting Standards Codification 606, *Revenue from Contracts with Customers* ("Topic 606"), revenue is recognized upon transfer of control of promised products and services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

To determine the proper revenue recognition, the Company first evaluates whether it has a duly approved and enforceable contract with a customer, in which the rights of the parties and payment terms are identified, and collectability is probable. The Company also evaluates whether two or more contracts should be combined and accounted for as a single contract, including the purchase or work orders issued under a Master Services Agreement (MSA) or similar arrangements. In addition, the Company assesses contract modifications to determine whether the changes to existing contracts should be accounted for as part of the original contract or as a separate contract. Contract modifications for the Company generally relate to changes in contract scope and related requirements, more specifically, additional testing, studies, or similar analysis that do not add distinct services, and therefore are accounted for as part of the original contract. If contract modifications add distinct goods or services, such as additional studies that are distinct from the original or previous study(ies), and increase the contract value by the standalone selling price, those modifications are accounted for as separate contracts.

Most of the Company's contracts comprise multiple promises which can include the procurement of the appropriate animal models if not already provided by the customer or by the Company, provisions for the care and housing of the animals, and services provided for the testing, studies, and/or analysis. In all cases, the Company assesses if the multiple promises should be accounted for as separate performance obligations or combined into a single performance obligation. The Company generally separates multiple promises in a contract as separate performance obligations if those promises are distinct, both individually and in the context of the contract. If multiple promises in a contract are highly interrelated or comprise a series of distinct services performed over time, they are combined and accounted for as a single performance obligation.

The Company's contracts often contain options to extend a study, perform a follow-on study, or perform a new study which is separate and distinct from the original or previous study(ies). The options generally result in modifications to the contract and therefore, the policies governing the accounting for modifications will apply. Since the options will generally contain the same terms and conditions, including pricing terms, such options typically do not provide the customer with any material additional rights under the contract.

Contracts with the U.S. Federal government are subject to the Federal Acquisition Regulations (FAR), and priced based on estimated or actual costs of providing the goods or services. The FAR provides guidance on types of costs that are allowable in establishing prices for goods and services provided to the U.S. government and its agencies. Each Federal contract is competitively priced and solicited separately. Pricing for non-U.S. government agencies and commercial customers is based on specific negotiations with each customer. The Company excludes any taxes collected or imposed when determining the transaction price.

The transaction prices associated with the Company's CPFF and T&M contracts are variable. These variable amounts are estimated at the most likely amount that the Company expects to be entitled to based largely on an assessment of the Company's anticipated performance and all information (historical, current, and forecasted) that is reasonably available, and the potential of significant reversal of revenue.

The Company allocates the transaction price of a contract to its performance obligations in the proportion of its respective standalone selling prices. The standalone selling price of the Company's performance obligations is generally based on an expected cost-plus margin approach with relatively consistent margins applied within each major customer group. Very few, if any, of the Company's contracts contain a significant financing component, which would require an adjustment to the transaction price of the contract.

The Company recognizes revenue on a majority of the performance obligations within each contract over time as there is continuous transfer of control to the customer over the duration of the contract as the Company performs the promised services. For U.S. Federal government contracts, continuous transfer of control to the customer is evidenced by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay for costs incurred plus a reasonable profit and take control of any work-in-process. Similarly, for non-U.S. government contracts, the customer typically controls the work-in-process as evidenced by rights to payment for work performed to date plus a reasonable profit to deliver products or services that do not have an alternate use to the Company. In certain cases, when the contract does not initially provide for euthanasia at the completion of the contract, the animals may be re-purposed for a new or different and distinct study. In these cases, the re-purposing is generally not known until the end or close to the end of the original or previous study; however, this would indicate that the animals could potentially have an alternative use. Therefore, where there is a separate performance obligation associated with the procurement of the animals, the Company recognizes revenue at a point in time using a rate per unit as the animals are procured and the customer obtains control.

On FP-M contracts, for the performance obligation(s) where revenue is recognized over time, the Company uses a method that measures the extent of progress towards completion of a performance obligation, principally using an output method. Under the output method, revenue is recognized based on the best measure of progress relevant to the performance obligation and services provided. The output measure primarily used is a method in which revenue is recognized based upon the proportion of total study-related procedures and/or tests performed to date to estimated total procedures and/or tests through completion of the study. This ratio is computed using the value associated with each procedure and/or test performed because certain procedures could be considered more valuable than others. Additionally, on certain FP-M contracts where the care and housing of the animals is considered a separate performance obligation, revenue is recognized over time using a straight-line method since control of the services is provided to the customer relatively evenly over the period of performance. On certain other contracts, principally for T&M, FP-U, and CPFF, revenue is recognized using the right-to-invoice practical expedient as the Company is contractually able to invoice the customer based on the control transferred to the customer.

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, 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 FP-M type contracts, that are 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 years ended May 31, 2021 and 2020, there were no material modifications recorded related to work previously performed on 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.

Government contracts: 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.

Contract costs: Contract costs generally include direct costs such as those associated with procuring the animal models, materials, labor, subcontract costs, costs for housing and care of the animals, and indirect costs identifiable with or allocable to a specific contract. Costs are expensed as incurred, except for costs associated with procuring the animals for contracts where euthanasia is directed by the customer. Such costs are capitalized and amortized on a straight-line basis over the expected life of that contract.

The Company does not incur significant incremental costs to acquire contracts. As a result, costs are expensed as incurred.

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.

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, 2021 and 2020, 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. Depreciation and amortization expense for the years ended May 31, 2021 and 2020 was $1,359,133 and $1,051,068, respectively.

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, 2021 and 2020. There were no changes to the carrying value of goodwill during the years ended May 31, 2021 and 2020.

Intangible assets: Intangible assets consist of customer contracts and relationships and an accreditation acquired in a previous 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, 2021 and 2020, 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. The resulting net deferred asset or liability is classified as noncurrent on the balance sheet. 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, 2021 and 2020, there were no accruals for uncertain tax positions. Tax years from May 31, 2018 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 no dilutive equity securities issued during the years ended May 31, 2021 or 2020.

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 $828,840 and $1,126,953 during the years ended May 31, 2021 and 2020, 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.

Leases: The Company enters into leases as a lessee for certain buildings, land and equipment. The Company's leases typically have lease terms between three years and ten years and may include one or more renewal options. Under Accounting Standards Codification (ASC) 842, at contract inception the Company determines whether a contract is or contains a lease and whether the lease should be classified as an operating or finance lease. Operating lease balances are included in operating lease right-of-use assets and operating lease liabilities in the accompanying Balance Sheets for the years ended May 31, 2021 and 2020.

The Company recognizes operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments over the lease term at the commencement date. The Company uses it's incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments and the appropriate lease classification. Many of the Company's leases include renewal options aligned with any extended contract terms. The Company defines the initial lease term to include renewal options determined to be reasonably certain. When the Company adopted ASC 842, it elected not to recognize a right-of-use asset and a lease liability for leases with an initial term of 12 months or less; it recognizes lease expense for these leases on a straight-line basis over the lease term. The Company also elected not to separate lease components from nonlease components and applied this to all material classes of leased assets.

Finance leases are not material to the Company's financial statements and the Company is not a lessor in any material arrangements. The Company does not have any material restrictions or covenants in the lease agreements, sale-leaseback transactions, land easements or residual value guarantees.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through September 14, 2021, which is the date the financial statements are available to be issued.

2. Accounts receivable

Accounts receivable at May 31, 2021 and 2020, 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:

	2021	2020
Billed receivables	**$ 14,564,386**	$ 10,378,195
Unbilled receivables	**5,544,089**	4,071,024
Total	**$ 20,108,475**	$ 14,449,219

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.

Three customers generated approximately 39% and 48% of total contract revenues for the years ended May 31, 2021 and 2020, respectively. These customers also comprised approximately 40% and 36% of total receivables as of May 31, 2021 and 2020, respectively.

3. Intangible assets

Intangible assets consisted of the following at May 31, 2021 and 2020:

	2021		2020		
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization	Weighted Average Life
Customer contracts and relationships	**$ 70,000**	**$ (70,000)**	$ 70,000	$ (64,025)	7
Accreditation	**204,000**	**(204,000)**	204,000	(204,000)	2
Total	**$ 274,000**	**$ (274,000)**	$ 274,000	$ (268,025)	-

The definite lived intangible assets have no residual value at the end of their useful lives. Amortization expense for the years ended May 31, 2021 and 2020 was $5,975 and $10,244, respectively. As of May 31, 2021, intangible assets are fully amortized.

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, 2021 and 2020, 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, 2021 or 2020. The line bears interest at the bank's prime rate plus .25% (3.50% at May 31, 2021) 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, 2021 and 2020.

The Company has an irrevocable standby letter of credit arrangement outstanding with a bank as collateral for a lease at May 31, 2021 and 2020 for an amount of $203,400.

5. Income taxes

For the years ended May 31, 2021 and 2020, the components of the provision for income taxes consisted of:

	2021	2020
Current tax expense	**$ 2,644,200**	$ 1,053,700
Deferred tax (benefit) expense	**(355,000)**	204,300
Provision for income taxes	**$ 2,289,200**	$ 1,258,000

The differences between the amounts of income tax expense that would result from applying domestic federal statutory income tax rates to the pretax income and what is reported is related to certain nondeductible expenses and state income taxes. The provision for income taxes for the years ended May 31, 2021 and 2020 reflected in the accompanying Statements of Income varies from the amount which would have been computed using statutory rates as follows:

	2021	2020
Federal taxes at statutory rate	**$ 1,809,365**	$ 1,153,587
State taxes at statutory rate, net of federal tax benefit	**561,549**	286,419
Permanent differences and other	**(81,714)**	(182,006)
Provision for income taxes	**$ 2,289,200**	$ 1,258,000

The deferred income tax liability represents an estimate of the income tax that will be 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, 2021 and 2020, the components of these temporary differences and the net deferred tax liability were as follows:

	2021	2020
Accrued vacation	**$ 131,500**	$ 77,200
Accrued expenses	**-**	(6,300)
Capitalized costs	**13,800**	14,800
Depreciation and amortization	**(484,100)**	(703,100)
Operating lease liability	**373,100**	339,700
Contingent consideration	**(158,200)**	(150,700)
Restricted stock	**8,400**	9,100
Deferred revenue	**57,800**	6,600
Total net deferred income tax liability	**$ (57,700)**	$ (412,700)

6. Revenue from contracts with customers

Disaggregation of revenues: The Company disaggregates revenues 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 revenues for the years ended May 31, were:

Revenue by Customer and Contract Type	**2021**	2020
U.S. Government		
Cost-Plus-Fixed-Fee	**$ 7,558,536**	$ 7,727,401
Fixed-Price-Per-Unit and Time-And-Materials	**-**	2,859,814
Fixed-Price-Milestone	**20,429**	277,955
Total U.S. Government	**7,578,965**	10,865,170
Commercial and Other		
Cost-Plus-Fixed-Fee	**1,951,459**	2,466,170
Fixed-Price-Per-Unit and Time-And-Materials	**34,988,069**	23,623,463
Fixed-Price-Milestone	**13,165,009**	9,405,398
Total Commercial and Other	**50,104,537**	35,495,031
Total Revenues	**$ 57,683,502**	$ 46,360,201

CPFF contracts are generally lower risk and have lower profits. T&M and 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.

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 the potential value associated with future potential purchases, tasks, or work orders expected to be awarded under MSA or similar agreements or future option periods that are not probable of exercise as of May 31, 2021.

As of May 31, 2021, the Company expects to recognize a majority of the remaining performance obligations over the next 12 months.

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 FP contracts, costs are incurred usually at the beginning of the contract performance, where the performance obligation has not yet been completely satisfied. Contract liabilities (deferred revenue) consist of advance payments and billings in excess of revenue recognized.

The components of contract assets and contract liabilities as of May 31 consisted of the following:

		2021	2020
Contract assets	**Balance Sheet line item**		
Unbilled contract receivables (1)	Accounts receivable - contracts	**$ 5,544,089**	$ 4,071,024
Fulfillment costs	Prepaid expenses	**$ 1,135,135**	$ 901,356
Contract liabilities	**Balance sheet line item**		
Deferred revenue	Deferred revenue	**$ 875,721**	$ 828,183

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

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. The increase in "Contract liabilities" was primarily due to billings in excess of revenue recognized on certain FP contracts.

During the year ended May 31, 2021, the Company recognized revenue of approximately $628,000 relating to amounts that were included as a contract liability at May 31, 2020.

During the year ended May 31, 2021, the Company recognized approximately $900,000 of amortization related to its fulfillment costs. The Company did not recognize any impairment losses on contract assets for the year ended May 31, 2021.

7. Leases

As of May 31, 2021 the components of total lease cost and other supplemental lease information are presented in the following tables:

	For the year ended May 31, 2021	For the year ended May 31, 2020
Components of lease cost:		
Operating lease costs	$ 3,888,845	$ 3,757,060
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	3,828,695	3,257,849
Lease liabilities arising from obtaining ROU assets:		
Operating leases	1,503,745	136,738

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

	May 31, 2021	May 31, 2020
Weighted average remaining lease term (in years):		
Operating leases	4.65	5.30
Weighted average discount rate (annual):		
Operating leases	5.54%	5.72%

The following table presents a maturity analysis of the Company's operating leases at May 31, 2021:

	Operating leases
2022	$ 4,066,571
2023	3,527,664
2024	3,725,193
2025	2,123,318
2026	2,034,623
Thereafter	1,188,645
Total lease payments	16,666,014
Less imputed interest	(2,047,643)
Present value of lease liabilities	$ 14,618,371

8. Stock incentive plan

The Company established the 2020 Stock Incentive Plan provided for granting stock awards to employees and consultants which have a contractual term of ten years. Total options reserved under the Plan is 180,000, limited to 20% of the number of the then outstanding and issued shares of the Company's common stock, all of which remain available to be granted at May 31, 2021. During 2021 there were no options granted, forfeited or exercised.

9. 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 vested three years from the date of issuance. Stock compensation expense relating to the stock was $4,773 and $13,167 for the years ended May 31, 2021 and 2020, respectively. No compensation expense remains to be recognized in future periods.

10. Contract status

The Company has authorized but uncompleted contracts in progress at May 31, 2021, approximately as follows:

Total contract price of initial contract awards including modifications, exercised options, and approved change orders	**$ 32,920,000**
Completed to date	**(23,645,000)**
Authorized backlog	**$ 9,275,000**

The foregoing contracts contain unexercised options and unfunded amounts not reflected in the above amounts totaling approximately $62,725,000 at May 31, 2021.

11. Retirement plan

The Company sponsors a tax deferred savings plan to provide retirement benefits for all eligible employees under the Internal Revenue Code (the 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, 2021 and 2020 were $216,982 and $132,650, respectively.

12. Commitments and contingencies

The Company has employment agreements with its President, Chief Financial Officer, and Chief Operating Officer, which provide for a base compensation and additional incentive compensation dependent upon annual operations. The agreements for the President and Chief Financial Officer were effective through May 31, 2021 at which time the agreements automatically renew annually unless either party provides a 30 day notice. The agreement with the Chief Operating Officer was effective through May 31, 2020. In June 2020, a new agreement with the Chief Operating Officer was executed which expires on May 31, 2023. If there is a change in control, the agreements shall remain in effect for an additional two years.

13. 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.

14. Risks and uncertainties

The impact of the coronavirus (COVID-19) outbreak, or similar global health concerns, could negatively impact the Company's operations, suppliers or other vendors, and its customer base. The operations for certain services could be negatively impacted by the regional or global outbreak of illnesses, including COVID-19. As of the report date, management is not aware of any impacts from quarantines, labor shortages or other disruptions related to COVID-19 that would have a material adverse effect on the Company's operations.