

Unaudited Financial Statements and Management's Discussion & Analysis

For the quarterly period ended February 28, 2022

BIOQUAL, INC.

Prepared by:

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BIOQUAL, INC.

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BIOQUAL, INC.**UNAUDITED BALANCE SHEETS, FEBRUARY 28, 2022 AND MAY 31, 2021**

<u>ASSETS</u>	<u>February 28, 2022</u>	<u>May 31, 2021</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,388,995	\$ 7,719,702
Accounts receivable:		
Trade	18,477,505	14,564,386
Unbilled – current	6,352,755	5,544,089
Prepaid expenses	2,446,550	1,493,503
Total current assets	<u>29,665,806</u>	<u>29,321,680</u>
PROPERTY AND EQUIPMENT:		
Leasehold improvements	10,466,078	7,611,183
Furniture, fixtures and equipment	17,220,901	15,894,816
Total	27,686,978	23,505,999
Less accumulated depreciation and amortization	(15,070,488)	(13,810,121)
Property and equipment, net	<u>12,616,490</u>	<u>9,695,878</u>
OTHER ASSETS:		
Security Deposits	18,551	-
Goodwill	1,028,408	1,028,408
Operating lease right-of-use assets	18,554,670	13,262,424
Cash value of officers' life insurance policies	111,750	111,750
Total other assets	<u>19,713,379</u>	<u>14,402,582</u>
TOTAL	<u>\$ 61,995,675</u>	<u>\$ 53,420,140</u>
 <u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,922,854	\$ 2,107,723
Accrued compensation and related liabilities	1,749,067	2,148,788
Accrued income taxes	-	81,900
Operating lease liabilities, current	3,170,043	3,303,062
Deferred revenue	1,912,448	875,721
Total current liabilities	<u>9,754,412</u>	<u>8,517,194</u>
Deferred income taxes	57,700	57,700
Operating lease liabilities, non-current	16,398,610	11,315,309
Total liabilities	<u>26,210,722</u>	<u>19,890,203</u>
 <u>STOCKHOLDERS' EQUITY</u>		
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	7,364,934
Retained earnings	29,445,265	27,190,249
Treasury stock, at cost	(1,041,240)	(1,041,240)
Total stockholders' equity	<u>35,784,953</u>	<u>33,529,937</u>
TOTAL	<u>\$ 61,995,675</u>	<u>\$ 53,420,140</u>

See Management's Discussion and Analysis.

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

	<u>2022</u>	<u>2021</u>
REVENUES:		
Contract revenues	<u>\$ 17,132,276</u>	<u>\$ 12,584,303</u>
Total Revenues	<u>17,132,276</u>	<u>12,584,303</u>
OPERATING EXPENSES:		
Contract	<u>13,893,134</u>	<u>9,724,978</u>
General and administrative	<u>2,028,853</u>	<u>1,480,163</u>
Total Operating Expenses	<u>15,921,988</u>	<u>11,205,141</u>
OPERATING INCOME	<u>1,210,288</u>	<u>1,379,162</u>
INTEREST INCOME	<u>-</u>	<u>298</u>
INCOME BEFORE INCOME TAXES	<u>1,210,288</u>	<u>1,379,460</u>
PROVISION FOR INCOME TAXES	<u>(353,700)</u>	<u>(403,500)</u>
NET INCOME	<u>\$ 856,588</u>	<u>\$ 975,960</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.96</u>	<u>\$ 1.09</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.96</u>	<u>\$ 1.09</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	<u>894,416</u>	<u>894,416</u>
EFFECT OF DILUTIVE SECURITIES – OPTIONS WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR DILUTED EARNINGS PER SHARE	<u>15</u> <u>894,431</u>	<u>-</u> <u>894,416</u>

See Management's Discussion and Analysis.

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

	<u>2022</u>	<u>2021</u>
REVENUES:		
Contract revenues	<u>\$ 47,806,600</u>	<u>\$ 41,070,486</u>
Total Revenues	<u>47,806,600</u>	<u>41,070,486</u>
OPERATING EXPENSES:		
Contract	<u>37,170,731</u>	<u>30,771,124</u>
General and administrative	<u>5,868,889</u>	<u>4,358,950</u>
Total Operating Expenses	<u>43,039,621</u>	<u>35,130,074</u>
OPERATING INCOME	4,766,979	5,940,412
INTEREST INCOME	<u>657</u>	<u>1,650</u>
INCOME BEFORE INCOME TAXES	4,767,636	5,942,062
PROVISION FOR INCOME TAXES	<u>(1,394,600)</u>	<u>(1,738,100)</u>
NET INCOME	<u>\$ 3,373,036</u>	<u>\$ 4,203,962</u>
BASIC EARNINGS PER SHARE	<u>\$ 3.77</u>	<u>\$ 4.70</u>
DILUTED EARNINGS PER SHARE	<u>\$ 3.77</u>	<u>\$ 4.70</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR BASIC EARNINGS PER SHARE	894,416	893,932
EFFECT OF DILUTIVE SECURITIES – OPTIONS	<u>10</u>	<u>-</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR DILUTED EARNINGS PER SHARE	<u>894,426</u>	<u>893,932</u>

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, 2021	1,599,408	15,994	704,992	(1,041,240)	7,364,934	27,190,249	33,529,937
Dividend declared - \$1.25 per share						(1,118,020)	(1,118,020)
Net Income	-	-	-	-	-	3,373,036	3,373,036
Balance February 28, 2022	1,599,408	15,994	704,992	(1,041,240)	7,364,934	29,445,265	35,784,953

	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	-	-	-	-	-	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

See Management's Discussion and Analysis.

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

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 3,373,036	\$ 4,203,962
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	1,260,367	950,444
Amortization of operating lease right-of-use asset	5,617,109	2,230,630
Stock compensation expense	-	4,773
(Increase) decrease in		
Accounts receivable	(4,721,786)	(4,654,972)
Prepaid expenses	(953,047)	(709,986)
Security deposits	(18,551)	-
Increase (decrease) in		
Accounts payable	815,131	(1,612,411)
Accrued compensation and related liabilities	(399,721)	(283,014)
Operating lease liabilities	(5,959,074)	(2,158,001)
Accrued income taxes	(81,900)	-
Deferred revenue	1,036,727	287,958
NET CASH USED BY OPERATING ACTIVITIES	<u>(31,708)</u>	<u>(1,740,617)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(4,180,979)</u>	<u>(2,504,217)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(4,180,979)</u>	<u>(2,504,217)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend paid	<u>(1,118,020)</u>	<u>(983,858)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,118,020)</u>	<u>(983,858)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(5,330,707)</u>	<u>(5,228,692)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>7,719,702</u>	<u>10,256,437</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 2,388,995</u>	<u>\$ 5,027,745</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income Taxes	<u>\$ 2,063,165</u>	<u>\$ 2,014,000</u>
 SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Recognition of ROU asset	<u>\$ 11,046,585</u>	<u>\$ 16,149,791</u>
Recognition of operating lease liability	<u>\$ 11,046,585</u>	<u>\$ 17,445,588</u>

See Management's Discussion and Analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interim Financial Statements

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

Items of Note

In the third quarter of fiscal year 2022, which commenced on December 1, 2021, the Company's total revenues were \$17,232,176, compared to \$12,584,303 for the third quarter of 2021, a 36% increase, and total revenues for the first nine months of FY 2022 rose to \$47,806,000 from \$41,070,486 in the first nine months of FY 2021, an increase of 16%. The Company realized net income of \$856,588, a 12% decrease compared to net income of \$975,960 for the third quarter of fiscal year 2021. Net income for the first nine months of fiscal year 2022 totaled \$3,373,036, a 20% decrease compared to the net income of \$4,203,962 for the first nine months of fiscal year 2021. See Results of Operations below for more detail on the decrease in net income despite the increase in total revenues.

During the third quarter of fiscal year 2022, the National Institute of Allergy and Infectious Diseases (NIAID) provided \$6,881,551 of incremental funding for the second 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 \$18,182,752 to \$25,064,303. The incremental funding covers costs incurred from September 28, 2021, through September 27, 2022. There are, however, no assurances that any other options will be exercised under this contract.

Subsequent to the end of the third quarter, the NIAID exercised the second option year and provided incremental funding totaling \$611,610 on two task orders under the contract entitled "Simian Vaccine Evaluation Units (SVEUs)". The total obligated funding for the two task orders is \$1,786,708 which covers costs through March 31, 2023. The seven-year contract has a maximum potential funding amount of \$6,682,071 including all options. The cumulative funding of the contract increased from \$1,706,057 to \$2,317,667. There are, however, no assurances that any other options will be exercised, or any other task orders awarded under this contract.

COVID-19

BIOQUAL staff have been listed as co-authors of several peer-reviewed COVID-19 related 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).

BIOQUAL continues to attract COVID-19 related contracts due to its experience working with the virus and its capacity to perform research in a Biosafety Level 3 (BSL-3) environment. Approximately 38% of the revenues generated this quarter and 44% of the revenues generated in the first nine months of the year were in support of COVID-19 related research. The Company is also performing in-vivo and in-vitro studies to assist the federal government, universities and

commercial organizations with their research efforts to develop vaccines and therapies against other diseases including AIDS, Zika, Chikungunya and others, including influenza.

Results of Operations

Three Months Comparison

The \$4,547,973 increase in revenues to \$17,132,276 for the quarter ended February 28, 2022, compared to \$12,584,303 for the quarter ended February 28, 2021, is primarily the result of increases in revenue generated by commercial contracts of approximately \$2,560,000, including a continuing influx of clients requesting COVID studies, and an increase in government contract revenue of approximately \$1,592,000, primarily due to billing for the second installment payment of the purchase of the PET/CT scanning equipment for the NIAID contract entitled “Animal Care and Laboratory Support Services to the Vaccine Research Center” mentioned previously in the “Results of Operations” section from the financial statements for the period ended November 30, 2021. Additionally, revenues for grants increased by approximately \$396,000 compared to the third quarter of the previous fiscal year.

The \$4,168,156 increase in contract operating expenses for the quarter ended February 28, 2022, primarily reflects increases in expenses in operations labor and related benefits costs reflecting the impact of continued hiring of staff to support the increasingly complex operational and regulatory issues involved in performing services for our clients as well as keeping pace with increased contract activity and increases in pay rates for certain labor categories.

The \$548,690 increase in General and Administrative (G&A) expenses for the quarter ended February 28, 2022, primarily reflects increases in administrative labor and related benefits costs and temporary labor compared to similar costs incurred in the third quarter of the previous fiscal year. The increased labor costs (both employees and non-employee) reflect additional staff to respond to the increased administrative effort needed to keep pace with the increased contract activity.

The \$168,874 decrease in operating income and \$119,372 decrease in net income primarily are the result of the increased costs described above during this quarter compared to the third quarter of the previous fiscal year.

Nine Months Comparison

The \$6,736,114 increase in revenues to \$47,806,600 for the nine months ended February 28, 2022, compared to \$41,070,486 for the nine months ended February 28, 2021, is primarily the result of an increase in contract activity in commercial contracts of approximately \$3,650,000, an increase in government contracts of approximately \$2,332,000, and an increase in revenue for grants of approximately \$754,000 compared to the first nine months of the previous fiscal year. The increase in commercial contract revenues is primarily the result of new COVID-19 related contracts. The increase in government contracts is primarily due to billing for the first two installments of the purchase of the PET/CT scanning equipment on the NIAID contract entitled “Animal Care and Laboratory Support Services to the Vaccine Research Center” mentioned previously in the “Results of Operations” section from the financial statements for the period ended November 30, 2021.

The \$6,399,607 increase in contract operating expenses for the nine months ended February 28, 2022, primarily reflects increases in expenses related to higher labor and related benefits costs of

approximately \$2,200,000 resulting from the increase in the number of employees and increase in pay rates for certain labor categories, higher contract materials and supplies costs of approximately \$2,790,000 reflecting the increase in contract activity, and higher depreciation and facilities related costs of \$697,000.

The \$1,509,939 increase in General and Administrative (G&A) expenses for the nine months ended February 28, 2022, primarily reflects increases in administrative labor and related benefits costs of approximately \$1,200,000 and higher consultants and accounting fees of approximately \$145,000 compared to similar costs incurred in the first nine months of the previous fiscal year.

The \$1,173,433 decrease in operating income and \$830,906 decrease in net income primarily reflects the higher operations labor and related benefits costs and temporary labor related to indirect (infrastructure) positions as described in the three months comparison compared to similar cost in the first nine months of the last fiscal year.

Liquidity and Capital Resources

During the first nine months of fiscal year 2022, the Company directed approximately \$4,181,000 towards capital expenditures compared to approximately \$2,505,000 in the first nine months of fiscal year 2021. These expenditures were necessary to provide additional equipment and nonhuman primate (NHP) and rodent cages for research being performed in the Company's laboratories. The Company has been able to continue to fund all of these expenditures through the use of available cash provided by profits.

During the 4th quarter of fiscal year 2022, the Company estimates the aggregate purchase price of equipment to upgrade older equipment, enhance its capabilities, add small animal caging, and to renovate animal housing space will total approximately \$400,000.

In addition to the \$400,000 described in the previous paragraph, the Company estimates that it will purchase an additional \$200,000 in infrastructure, cage washing, sanitation, and animal care equipment during the 4th quarter of fiscal year 2022 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 construction phase is on-going. The total construction costs are currently estimated at approximately \$4,600,000, of which, the Company incurred approximately \$4,300,000 as of February 28, 2022. The estimated construction costs total does not include the \$200,000 for equipment mentioned earlier in this paragraph. Management may fund the construction either by using its cash reserves, line of credit, obtaining a construction loan or a combination of any of the above. 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 2029. Rent expense for the first nine months of fiscal year 2022 was approximately \$3,091,000. As of February 28, 2022, the total of the future minimum rental payments is approximately \$23,106,000.

Other than the items mentioned above, the Company does not anticipate other substantial capital and other expenditures during fiscal year 2022. 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 February 28, 2022, 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%, which as of February 28, 2022, was 3.50%. On February 28, 2022, the Company had a balance of cash and cash equivalents of \$2,388,995. 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 2022.

The following provides additional information on select balance sheet items: 1) the \$953,047 increase in prepaid expenses is primarily due to estimated tax payments made during the first nine months of fiscal year 2022; 2) the \$3,913,119 increase in accounts receivable primarily reflects the impact of the increased volume of commercial contracts activity compared to the end of the previous fiscal year; 3) the \$808,666 increase in unbilled receivables reflects an increase in services completed as of February 28, 2022, but not yet billed to clients compared to services completed as of May 31, 2021, but not billed until fiscal year 2022; 4) the \$815,131 increase in accounts payable reflects a higher total amount of outstanding invoices for the purchase of nonhuman primates for the first nine months of fiscal year 2022 as compared to the end of the previous fiscal year; and 5) the \$1,036,727 increase in deferred revenue reflects an increase in the amount of advanced billings related to commercial contracts during the first nine months of fiscal year 2022.

Notes to financial statements

Risks and uncertainties

Since the start of the pandemic, to keep up with the increased number of contracts and the increased complexity of the COVID related contracts, taking employee turnover into consideration, the Company has increased its workforce by approximately 37%. Coupled with the increased number of employees, in order to compete with the other laboratories seeking a similar workforce, the Company has had to alter its salary structure by increasing the pay rates of certain labor categories to attract and retain employees needed to enable the Company to meet the increased demand for its services. To date, the Company has been relatively successful in acquiring sufficient staffing to keep up with contract demand. There are, however, no assurances that the Company will be able to continue to hire a sufficient number of employees to meet future contract demand.

The Company continually monitors economic factors, including the labor market and the price of supplies, and adjusts its pricing to clients to reduce the potential negative impact these increasing costs would have on its operating profit. There are, however, no assurances that these pricing changes will offset the effect of negatively impacting economic factors on its operating profit.

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.

A significant part of the research support services provided by BIOQUAL requires the use of nonhuman primates, which continue to be difficult to procure in adequate quantities to satisfy the demand for continuing COVID-19 vaccine and therapeutics development as well as research of other infectious diseases. The Company continues to work 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. China, a major breeder and supplier of nonhuman primates, ceased exporting nonhuman primates in 2020. 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.

Leases

The Company enters into leases as a lessee for certain buildings 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) Topic 842, *Leases*, 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 leases balances are included in the operating lease right-of-use assets and operating lease liabilities in the accompanying Balance Sheets for the nine months ended February 28, 2022, and the year ended May 31, 2021.

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 its 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 AC 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 non-lease 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.

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

	<u>For the Nine Months Ended February 28, 2022</u>
Components of lease cost:	
Operating lease costs	3,090,421
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	2,810,866
Lease liabilities arising from obtaining ROU assets (subsequent to adoption)	
Operating leases	11,046,585

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

	<u>February 28, 2022</u>
Weighted average remaining lease term (in years):	
Operating leases	5.89
Weighted average discount rate (annual):	
Operating leases	5.48%

The following table presents a maturity analysis of the Company's operating liabilities at February 28, 2022:

	Operating Leases
Year 1	3,978,392
Year 2	3,915,925
Year 3	3,977,706
Year 4	4,013,219
Year 5	2,782,478
Thereafter	4,437,853
Total lease payments	23,105,574
Less: imputed interest	<u>(3,536,921)</u>
Present value of lease liabilities	19,568,653

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 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 February 28, 2022, 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, which 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, 2022, 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, 2022, 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:

Revenue by Customer Type and Contract Type	Three Months Ended February 28, 2022	Nine Months Ended February 28, 2022
National Institutes of Health (NIH)		
Cost-Plus-Fixed-Fee	\$ 3,585,004	\$ 8,634,127
Fixed-Price-Per-Unit and Time-And-Materials	76,324	187,432
Fixed-Price-Milestone	-	9,846
Total National Institutes of Health	<u>3,661,328</u>	<u>8,831,404</u>
Commercial and Other		
Cost-Plus-Fixed-Fee	252,223	740,461
Fixed-Price-Per-Unit and Time-And-Materials	9,443,418	27,162,787
Fixed-Price-Milestone	3,775,307	11,071,948
Total Commercial and Other	<u>13,470,948</u>	<u>38,975,196</u>
Total Revenues	<u>\$ 17,132,276</u>	<u>\$ 47,806,600</u>

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:

Contract asset and liabilities:

		February 28, 2022	June 1, 2021
Contract assets:	Balance sheet line item:		
Unbilled contract receivables ⁽¹⁾	Accounts receivable - contracts	\$ 6,352,755	\$ 5,544,089
Fulfillment costs	Prepaid expenses	1,849,012	1,135,135
		<u>\$ 8,201,767</u>	<u>\$ 6,679,224</u>
Contract liabilities:	Balance sheet line item:		
Deferred revenue	Deferred revenue	\$ 1,912,448	\$ 875,721

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, 2022. The increase in "Contract liabilities- current" was primarily due to billings in excess of revenue recognized on certain FP-M contracts.

During the nine months ended February 28, 2022, the Company recognized revenue of approximately \$430,000 relating to amounts that were included as a contract liability at June 1, 2021.

During the nine months ended February 28, 2022, the Company recognized approximately \$999,500 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, 2022.

- ⁽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. The forward-looking statements are neither promises nor guarantees, and one should not place undue reliance on these forward-looking statements because they involve known and unknown risks, uncertainties, and other factors, many of which are beyond the Company's control and which could cause actual results to differ materially from those expressed or implied by these forward-looking statements, 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 obtain sufficient numbers of animal models; the availability of adequate numbers of employees; 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.