BIOQUAL, Inc. **www.bioqual.com** **BIOQ(Pinksheets)**

"NEWS RELEASE"

FOR RELEASE: Immediately, September 20, 2023 Rockville, MD
CONTACT: Mark G. Lewis, Ph.D., CEO (240-404-7654)

BIOQUAL PRESENTS FINANCIAL RESULTS FOR FISCAL YEAR 2023

	2023	2022
Revenue	$ 62,663,804	$ 66,150,373
Income Before Income Tax	$ 1,133,242	$ 6,576,784
Net Income	$ 835,548	$ 5,260,569
Basic Earnings per Share of Common Stock	$ .93	$ 5.88
Diluted Earnings per Share of Common Stock	$ .93	$ 5.88
Weighted Average Number of Shares Outstanding For Basic Earnings Per Share	894,416	894,416
Weighted Average Number of Shares Outstanding For Diluted Earnings Per Share	894,416	894,423

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 you 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.

BIOQUAL, INC.

FINANCIAL STATEMENTS

MAY 31, 2023 AND 2022

Table of Contents

Independent Auditor's Report

To the Board of Directors
Bioqual, Inc.
Rockville, Maryland

Opinion

We have audited the accompanying financial statements of **Bioqual, Inc.**, which comprise the Balance Sheets as of May 31, 2023 and 2022, and the related Statements of Income, Stockholders' Equity, and Cash Flows for the years then ended, and the related notes to the financial statements.

In our opinion, the 2023 financial statements referred to above present fairly, in all material respects, the financial position of **Bioqual, Inc.** as of May 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Bioqual, Inc.** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements as of May 31, 2022, were audited by Aronson LLC who merged with Aprio, LLP as of January 1, 2023, and whose report dated September 14, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Independent Auditor's Report (Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Bioqual, Inc.'s** ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Bioqual, Inc.'s** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Bioqual, Inc.'s** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Aprio, LLP

Rockville, Maryland

September 15, 2023

Bioqual, Inc.

Balance Sheets

May 31,	**2023**	2022
Assets		
Current assets		
Cash and cash equivalents	**$ 7,279,356**	$ 2,184,245
Accounts receivable	**20,641,512**	26,763,589
Prepaid expenses and other current assets	**2,019,004**	2,780,212
Total current assets	**29,939,872**	31,728,046
Property and equipment		
Leasehold improvements	**11,781,747**	10,794,189
Furniture, fixtures and equipment	**18,841,101**	17,597,000
Total property and equipment	**30,622,848**	28,391,189
Less: Accumulated depreciation and amortization	**(17,790,984)**	(15,522,693)
Net property and equipment	**12,831,864**	12,868,496
Operating lease right-of-use assets	**17,516,721**	17,717,506
Goodwill	**1,028,408**	1,028,408
Total assets	**$ 61,316,865**	$ 63,342,456
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	**$ 1,594,010**	$ 3,289,119
Accrued compensation and related liabilities	**2,304,290**	2,240,152
Deferred revenue	**956,875**	1,165,061
Operating lease liabilities, current portion	**3,441,982**	3,071,111
Total current liabilities	**8,297,157**	9,765,443
Long-term liabilities		
Operating lease liabilities, net of current portion	**15,166,190**	15,653,827
Deferred income taxes	**239,900**	250,700
Total liabilities	**23,703,247**	25,669,970
Commitments and contingencies		
Stockholders' equity		
Common stock - $0.01 par value, 5,000,000 shares authorized, 1,599,408 shares issued, and 894,416 shares outstanding at May 31, 2023 and 2022	**15,994**	15,994
Treasury stock, at cost	**(1,041,240)**	(1,041,240)
Additional paid-in capital	**7,364,934**	7,364,934
Retained earnings	**31,273,930**	31,332,798
Total stockholders' equity	**37,613,618**	37,672,486
Total liabilities and stockholders' equity	**$ 61,316,865**	$ 63,342,456

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

Years Ended May 31,		**2023**		2022
Revenue	**$**	**62,663,804**	$	66,150,373
Operating expenses				
Contract		**54,019,116**		53,145,304
General and administrative		**7,541,724**		6,472,436
Total operating expenses		**61,560,840**		59,617,740
Operating income		**1,102,964**		6,532,633
Other income				
Interest income		**28,268**		1,513
Other income		**2,010**		42,638
Total other income		**30,278**		44,151
Income before provision for income taxes		**1,133,242**		6,576,784
Provision for income taxes		**297,694**		1,316,215
Net income	**$**	**835,548**	$	5,260,569
Basic earnings per share	**$**	**0.93**	$	5.88
Diluted earnings per share	**$**	**0.93**	$	5.88
Weighted average number of shares outstanding for basic earnings per share		**894,416**		894,416
Weighted average number of shares outstanding for diluted earnings per share		**894,416**		894,423

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

	Common Stock		Treaury Stock				
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Total
Balance, June 1, 2021	1,599,408	$ 15,994	704,992	$ (1,041,240)	$ 7,364,934	$ 27,190,249	$ 33,529,937
Dividends declared - $1.25 per share	-	-	-	-	-	(1,118,020)	(1,118,020)
Net income	-	-	-	-	-	5,260,569	5,260,569
Balance, May 31, 2022	1,599,408	15,994	704,992	(1,041,240)	7,364,934	31,332,798	37,672,486
Dividends declared - $1.00 per share	-	-	-	-	-	(894,416)	(894,416)
Net income	-	-	-	-	-	835,548	835,548
Balance, May 31, 2023	1,599,408	$ 15,994	704,992	$ (1,041,240)	$ 7,364,934	$ 31,273,930	$ 37,613,618

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

Years Ended May 31,		**2023**		2022
Cash flows from operating activities				
Net income	**$**	**835,548**	$	5,260,569
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization		**2,277,117**		1,712,571
Operating lease right-of-use-assets		**3,557,220**		6,472,827
Deferred income taxes		**(10,800)**		193,000
Gain on termination of officers' life insurance		**-**		(42,638)
(Increase) decrease in				
Accounts receivable		**6,122,077**		(6,655,114)
Prepaid expenses and other current assets		**761,208**		(1,286,709)
Increase (decrease) in				
Accounts payable		**(1,695,109)**		1,181,396
Accrued compensation and related liabilities		**64,138**		91,364
Income taxes payable		**-**		(81,900)
Deferred revenue		**(208,186)**		289,340
Operating lease liabilities		**(3,473,201)**		(6,821,342)
Net cash provided by operating activities		**8,230,012**		313,364
Cash flows from investing activities				
Purchases of property and equipment		**(2,242,485)**		(4,885,189)
Proceeds from the sale of fixed assets		**2,000**		-
Proceeds from redemption of life insurance		**-**		154,388
Net cash used in investing activities		**(2,240,485)**		(4,730,801)
Cash flows from financing activities				
Dividends paid		**(894,416)**		(1,118,020)
Net change in cash and cash equivalents		**5,095,111**		(5,535,457)
Cash and cash equivalents at beginning of year		**2,184,245**		7,719,702
Cash and cash equivalents at end of year	**$**	**7,279,356**	$	2,184,245
Supplemental information:				
Income taxes paid	**$**	**1,456,037**	$	2,309,000
Recognition of right-of-use asset	**$**	**3,356,096**	$	11,112,689
Recognition of operating lease liability	**$**	**3,356,096**	$	11,112,689

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

1. Organization and significant accounting policies

Organization: Bioqual, Inc. (the Company), 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.

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. None 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, 2023, the Company had negotiated final settlements on indirect cost rates through May 2018. 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, which 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, 2023 and 2022, 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.

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.

Concentration of credit risks arising from cash deposits in excess of insured limits: The Company maintains cash balances at one commercial bank, this balance can exceed the Federal Deposit Insurance Corporation ("FDIC") insured deposit limit of $250,000 per financial institution. At May 31, 2023 and 2022, the Company's cash balances held at the commercial bank exceeded the FDIC limit by approximately $8,140,000 and $2,534,000, respectively. The Company has not experienced any losses through the date when the financial statements were available to be issued.

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, 2023 and 2022, 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, 2023 and 2022 was $2,277,117 and $1,712,571, 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.

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, 2023 and 2022. There were no changes to the carrying value of goodwill during the years ended May 31, 2023 and 2022.

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, 2023 and 2022, there were no accruals for uncertain tax positions. Tax years from May 31, 2020 through the current year remain open for examination by federal and state tax authorities.

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. During the year ended May 31, 2023, there were no dilutive equity securities issued. During the year ended May 31, 2022, there were 7 dilutive potential common shares.

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 $806,046 and $1,114,966 during the years ended May 31, 2023 and 2022, respectively.

Stock-based compensation: The Company measures compensation expense for its stock-based compensation plan based on the grant date fair value of the equity instruments, which is generally recognized as compensation expense ratably over the service period. Stock-based compensation expense is determined using the Black-Scholes model, with the following significant assumptions:

	2023	2022
Volatility	-	25%
Expected term	-	5 years
Annual dividend rate	-	1.33%
Risk free interest rate	-	1.02%

Volatility was determined by reference to the historical volatility of similar publicly traded companies, as the Company's own shares lack sufficient trading history to determine volatility. Expected term represents the midpoint between the vesting period and contractual term. The annual dividend rate is based on management's expectation of dividends expected be paid in the foreseeable future. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with a term approximating the expected term of the options. The Company accounts for forfeitures when they occur.

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 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, 2023 and 2022.

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 includes in the initial lease term any renewal options determined to be reasonably certain of exercise. 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; therefore 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.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through September 15, 2022, which is the date the financial statements are available to be issued.

2. Accounts receivable - contracts

Accounts receivable at May 31, 2023 and 2022, 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:

		2023		2022
Billed receivables	**$**	**17,451,629**	$	19,880,639
Unbilled receivables		**3,189,883**		6,882,950
Total	**$**	**20,641,512**	$	26,763,589

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.

As of May 31, 2023, two customers generated approximately 24% of total contract revenues. These customers also comprised approximately 10% of total receivables as of May 31, 2023. As of May 31, 2022, two customers generated approximately 29% of total contract revenues. These customers also comprised approximately 24% of total contract receivables as of May 31, 2022.

3. Note payable – line of credit

The Company has a line of credit arrangement with a bank which is due on demand. At May 31, 2023 and 2022, 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, 2023 or 2022. The line bears interest at the bank's prime rate plus 0.25% (8.50% at May 31, 2023) and is collateralized by all assets of the Company. At May 31, 2022, the line of credit contained various financial covenants which included maintaining certain ratios of fixed charge coverage, a maximum funded debt to EBIDTA, and a maximum debt to tangible net worth. The Company was in compliance with the financial covenants as of May 31, 2022. During the year ended May 31, 2023, the covenants were eliminated from the line of credit agreement.

On July 1, 2022, the Company executed an equipment loan with the bank under which the Company may borrow up to $500,000. As of May 31, 2023, there was no balance outstanding on the loan.

The Company has an irrevocable standby letter of credit arrangement outstanding with a bank as collateral for a lease at May 31, 2023 and 2022 for an amount of $203,400.

4. Income taxes

For the years ended May 31, 2023 and 2022, the components of the provision for income taxes consisted of:

		2023		2022
Current tax expense	$	**308,494**	$	1,123,215
Deferred tax expense (benefit)		**(10,800)**		193,000
Provision for income taxes	$	**297,694**	$	1,316,215

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, changes in prior period estimates, and state income taxes. The provision for income taxes for the years ended May 31, 2023 and 2022 reflected in the accompanying Statements of Income varies from the amount which would have been computed using statutory rates as follows:

		2023		2022
Federal taxes at statutory rate	$	**231,464**	$	1,381,125
State taxes at statutory rate, net of federal tax benefit		**61,823**		368,892
Permanent differences and other		**4,407**		(433,802)
Provision for income taxes	$	**297,694**	$	1,316,215

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, 2023 and 2022, the components of these temporary differences and the net deferred tax liability were as follows:

		2023		2022
Accrued vacation	$	**144,700**	$	96,400
Capitalized costs		**9,600**		11,600
Depreciation and amortization		**(782,100)**		(611,700)
Operating lease liability		**288,600**		273,000
Contingent consideration		**(149,500)**		(153,000)
Deferred revenue		**248,800**		133,000
Total net deferred tax liability	$	**(239,900)**	$	(250,700)

5. 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 revenue by customer and contract-type for the years ended May 31, were:

		2023		2022
U.S. Government				
Cost-Plus-Fixed-Fee	**$**	**10,588,329**	$	12,171,049
Fixed-Price-Per-Unit and Time-And-Materials		**48,032**		16,616
Fixed-Price-Milestone		**262,738**		9,846
Total U.S. Government		**10,899,099**		12,197,511
Commercial and Other				
Cost-Plus-Fixed-Fee		**672,703**		1,108,321
Fixed-Price-Per-Unit and Time-And-Materials		**43,680,147**		40,282,388
Fixed-Price-Milestone		**7,411,855**		12,562,153
Total Commercial and Other		**51,764,705**		53,952,862
Total Revenues	**$**	**62,663,804**	$	66,150,373

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 or other 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, 2023. As of May 31, 2023, the Company expects to recognize a majority of the remaining performance obligations over the next 12 months.

Contract balances: 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 decrease in contract assets was primarily due to the timing of billings and revenue recognized on certain contracts. The decrease also relates to fulfillment costs being capitalized on certain contracts, offset by amortization. The decrease in contract liabilities was primarily due to billings in excess of revenue recognized on certain FP contracts.

During the year ended May 31, 2023, the Company recognized revenue of approximately $1,105,061 relating to amounts that were included as contract liabilities at May 31, 2022.

During the year ended May 31, 2023, the Company recognized approximately $1,102,000 of amortization related to its fulfillment costs. The Company did not recognize any impairment losses on contract assets for the year ended May 31, 2023.

The components of contract balances as of May 31 consisted of the following:

Contract assets	**Balance Sheet line item**	**2023**		2022
Unbilled contract receivables	Accounts receivable	**$**	**3,189,883**	$ 6,882,950
Fulfillment costs	Prepaid expenses	**$**	**676,250**	$ 1,352,851

Contract liabilities	**Balance Sheet line item**	**2023**		2022
Deferred revenue	Deferred revenue	**$**	**956,875**	$ 1,165,061

As of June 1, 2021, contract assets, which consisted of unbilled contract receivables and fulfillment costs, were $5,544,089 and $1,135,135, respectively. As of June 1, 2021, billed receivables were $14,564,386. Additionally, as of June 1, 2021, contract liabilities, which consisted of deferred revenue, was $875,721.

6. Leases

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

Year ended May 31		**2023**		2022
Components of lease cost:				
Operating lease costs	**$**	**3,960,101**	$	3,944,446
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases		**3,881,320**		4,274,410
Lease liabilities arising from obtaining ROU assets:				
Operating leases		**3,356,096**		11,112,689

Weighted average remaining lease terms (in years) and discount rates for operating leases are presented in the following table:

Year ended May 31	**2023**	2022
Weighted average remaining lease term	**4.69**	5.71
Weighted average discount rate	**5.51%**	5.48%

The following table presents a maturity analysis of the Company's operating leases at May 31, 2023:

2024	$ 4,655,232
2025	4,719,085
2026	4,635,398
2027	3,337,288
2028	2,066,484
Thereafter	1,147,309
Total lease payments	20,560,794
Less imputed interest	(1,952,622)
Present value of lease liabilities	$ 18,608,172

7. Stock-based incentive plan

The Company established the 2020 Stock Incentive Plan provided for granting stock-based 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. At May 31, 2023 and 2022, 178,783 options remain available to be granted under the plan.

The following summarizes information about the stock options outstanding at May 31, 2023:

Exercise Price ($)	Options Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
82.05	100	8 years	100

During the year ended May 31, 2023, no options were granted. During the year ended May 31, 2022, 100 options were granted. During the years ended December 31, 2023 and 2022 and no options were exercised or forfeited. Total stock-based compensation expense related to the Company's stock option activity for the years ended May 31, 2023 and 2022 was immaterial.

9. Contract status

The Company has approximated the value of authorized but uncompleted contracts in progress at May 31, 2023 as follows:

Total contract price of initial contract awards including modifications, exercised options, and approved change orders	**$ 62,613,000**
Completed to date	**(44,240,000)**
Authorized backlog	**$ 18,372,000**

The foregoing contracts contain unexercised options and unfunded amounts not reflected in the above amounts totaling approximately $35,407,000 at May 31, 2023.

10. 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, 2023 and 2022 were $476,330 and $414,097, respectively.

11. Commitments and contingencies

The Company has employment agreements with certain key employees, as discussed below, which provide for a base compensation and additional incentive compensation dependent upon annual operations. The agreement for the President was effective through May 31, 2022 at which time the agreement automatically renews annually unless either party provides a 30 day notice. Due to his retirement, the Chief Financial Officer's agreement expired during the year ended May 31, 2022 and was not renewed. The agreement with the Chief Operating Officer expired on May 31, 2023. If there is a change in control, the agreements shall remain in effect for an additional two years.

12. Industry condition

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