

PARATECH, INC.

FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2023 AND 2022

PARATECH, INC.

YEARS ENDED OCTOBER 31, 2023 AND 2022

CONTENTS

	Page
Independent accountants' review report	1-2
Financial statements:	
Balance sheets	3-5
Statements of income	6
Statements of retained earnings	7
Statements of cash flows	8-9
Notes to financial statements	10-24



Independent Accountants' Review Report

Stockholder and Management
Paratech, Inc.

We have reviewed the accompanying financial statements of Paratech, Inc. (a corporation), which comprise the balance sheets as of October 31, 2023 and 2022, and the related statements of income, retained earnings and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Paratech, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Paratech, Inc. adopted ASU 2016-02, *Leases (Topic 842)*. Our conclusion is not modified with respect to this matter.

Ostrow Reisin Berk & Abrams, Ltd.

April 8, 2024

PARATECH, INC.

BALANCE SHEETS

October 31,	2023	2022
ASSETS		
Current assets:		
Cash	\$ 4,395,581	\$ 3,047,685
Accounts receivable, trade	2,318,681	2,583,099
Stockholder advance	84,313	75,668
Inventories	7,646,580	6,904,661
Prepaid expenses	260,219	250,361
Recoverable income taxes		15,337
Total current assets	14,705,374	12,876,811
Property, plant and equipment, net	4,473,774	4,559,672
Other assets:		
Construction in progress	245,895	102,350
Operating lease right-of-use asset	2,166,611	
Finance lease right-of-use asset	36,615	
Deposits	43,758	43,758
Total other assets	2,492,879	146,108
Total assets	\$ 21,672,027	\$ 17,582,591

See accountants' review report and notes to financial statements.

PARATECH, INC.

BALANCE SHEETS (CONTINUED)

October 31,	2023	2022
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 274,908	\$ 264,292
Current portion of operating lease liability	403,952	
Current portion of finance lease liability	5,857	
Capital lease obligation, current portion		13,892
Accounts payable	642,683	768,999
Accrued expenses:		
Real estate tax	48,583	48,583
Payroll	692,666	592,560
Interest	1,899	2,743
Income tax payable	132,689	
Contract liabilities	276,739	454,481
Total current liabilities	2,479,976	2,145,550
Long-term liabilities:		
Long-term debt, net of current portion	269,156	546,833
Operating lease liability, net of current portion	1,762,659	
Capital lease obligation, net of current portion		5,857
Deferred income taxes	564,134	810,969
Total long-term liabilities	2,595,949	1,363,659
Total liabilities	5,075,925	3,509,209

See accountants' review report and notes to financial statements.

PARATECH, INC.

BALANCE SHEETS (CONTINUED)

October 31,	2023	2022
LIABILITIES AND STOCKHOLDER'S EQUITY (CONTINUED)		
Stockholder's equity:		
Common stock:		
Voting stock, no par value; authorized 2,000 shares; issued and outstanding 1,000 shares	\$ 1,020	\$ 1,020
Non-voting stock, no par value; authorized 198,000 shares; issued 99,000 shares and outstanding 49,000 shares	49,961	49,961
Additional paid-in capital	210,000	210,000
Retained earnings	21,335,121	18,812,401
Less: Treasury stock, 50,000 shares, at cost	(5,000,000)	(5,000,000)
Total stockholder's equity	16,596,102	14,073,382
Total liabilities and stockholder's equity	\$ 21,672,027	\$ 17,582,591

See accountants' review report and notes to financial statements.

PARATECH, INC.

STATEMENTS OF INCOME

Years ended October 31,	2023	2022
Sales	\$ 30,860,257	\$ 23,711,532
Cost of goods sold	16,216,170	12,450,809
Gross profit	14,644,087	11,260,723
Gain (loss) on foreign currency transactions	186,494	(292,298)
Gain (loss) on sale of vehicles	65,166	(20,740)
Total operating income	14,895,747	10,947,685
Operating expenses:		
Selling	4,363,274	4,310,715
General and administrative	5,597,750	5,528,514
Total operating expenses	9,961,024	9,839,229
Income from operations	4,934,723	1,108,456
Other income (expense):		
Loan impairment loss	(1,647,285)	
Interest income	9,022	13,003
Interest expense	(27,527)	(36,318)
Other expense	(26,732)	(9,653)
Total other expense, net	(1,692,522)	(32,968)
Income before provision for income taxes	3,242,201	1,075,488
Provision for income taxes	719,481	289,044
Net income	\$ 2,522,720	\$ 786,444

See accountants' review report and notes to financial statements.

PARATECH, INC.

STATEMENTS OF RETAINED EARNINGS

	Retained earnings
Balance, November 1, 2021	\$ 18,025,957
Net income	786,444
Balance, October 31, 2022	18,812,401
Net income	2,522,720
Balance, October 31, 2023	\$ 21,335,121

See accountants' review report and notes to financial statements.

PARATECH, INC.

STATEMENTS OF CASH FLOWS

Years ended October 31,	2023	2022
Cash flows from operating activities:		
Net income	\$ 2,522,720	\$ 786,444
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	727,250	570,427
Amortization of operating lease right-of-use asset	363,267	
Amortization of finance lease right-of-use asset	14,646	
Deferred income tax provision (benefit)	(246,835)	99,501
(Gain) loss on sale of vehicles	(65,166)	20,740
Loan impairment loss	1,647,285	
(Increase) decrease in operating assets:		
Accounts receivable, trade	264,418	(502,513)
Inventories	(741,919)	(1,893,563)
Prepaid expenses	(9,858)	(58,426)
Recoverable income taxes	15,337	(14,694)
Increase (decrease) in operating liabilities:		
Accounts payable	(126,316)	349,168
Accrued payroll	100,106	80,246
Accrued interest	(844)	(92)
Operating lease liability	(363,267)	
Income tax payable	132,689	
Contract liabilities	(177,742)	201,739
Net cash provided by (used in) operating activities	4,055,771	(361,023)
Cash flows from investing activities:		
Advances to related party	(1,647,285)	
Purchases of property, plant, equipment and construction in progress	(836,158)	(1,409,210)
Advance to stockholder	(8,645)	(4,300)
Proceeds from the sale of vehicles	65,166	24,000
Net cash used in investing activities	(2,426,922)	(1,389,510)

See accountants' review report and notes to financial statements.

PARATECH, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended October 31,	2023	2022
Cash flows from financing activities:		
Principal payments on long-term debt	\$ (267,061)	\$ (310,704)
Payments on finance lease liability	(13,892)	
Principal payments on capital lease obligation		(13,270)
Net cash used in financing activities	(280,953)	(323,974)
Net increase (decrease) in cash	1,347,896	(2,074,507)
Cash, beginning of year	3,047,685	5,122,192
Cash, end of year	\$ 4,395,581	\$ 3,047,685
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 28,371	\$ 36,410
Income taxes	\$ 324,620	\$ 204,237
Supplemental disclosure of non-cash investing and financing activity:		
Equipment purchase financed with note payable		\$ 446,250
Supplemental cash flows information related to leases is as follows:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating lease	\$ 457,200	
Operating cash flows from finance lease (interest payments)	\$ 617	
Financing cash flows from finance lease (principal payments)	\$ 13,892	
Operating lease right-of-use asset obtained in exchange for operating lease liability	\$ 1,802,179	

See accountants' review report and notes to financial statements.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Description of operations:

Paratech, Inc. (the Company) manufactures and sells emergency rescue and safety equipment and tools to fire equipment distributors and dealers worldwide. Paratech Denmark is the European branch of the Company and distributes products worldwide.

Recent accounting pronouncement:

Effective November 1, 2022, the Company adopted ASU 2016-02, *Leases (Topic 842)* using the modified retrospective transition method. This guidance requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The Company elected the package of practical expedients to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any existing leases. In addition, the Company elected to use hindsight to determine the lease terms of existing leases and assess impairment of right-of-use assets at the adoption date.

The adoption of this standard resulted in the recognition of an operating lease right-of-use asset totaling \$727,699, an operating lease liability totaling \$727,699, a finance lease right-of-use asset totaling \$51,261 and a finance lease liability totaling \$19,749 as of November 1, 2022. See Note 8 for a description of lease commitments as of October 31, 2023.

The Company elected to apply the provisions of Topic 842, *Leases* at November 1, 2022 through a cumulative-effect adjustment. As a result, comparative information for the prior period has not been adjusted and is reported under the accounting standards that were in effect for the prior period under Topic 840, *Leases*.

Foreign operations:

Assets located outside the United States accounted for approximately 19% and 23% of total assets at October 31, 2023 and 2022, respectively. The transactions of the foreign branch, Paratech Denmark, are translated into U.S. dollars for assets, liabilities, revenues and expenses. Paratech Denmark transacts business in the Euro, the Danish Krone and the U.S. dollar, with the U.S. dollar being its functional currency. Historically, foreign currency fluctuations have not been material to the financial statements.

Transaction gains and losses generated by the effect of foreign exchange rates on recorded assets and liabilities denominated in a currency different from the functional currency of the Company are recorded in the period in which they occur.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued)

Cash:

Cash includes bank accounts in the U.S. and Denmark. Cash maintained in these bank accounts may, at times, exceed federally-insured limits. At October 31, 2023 and 2022, the uninsured balance was approximately \$4,462,000 and \$2,741,000, respectively. Management believes that the Company is not exposed to any significant credit risk on cash.

Trade accounts receivable:

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances based on its assessment of the current status of individual accounts. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. There is no allowance for doubtful accounts at October 31, 2023 and 2022.

Inventories:

The Company states inventories at the lower of first-in, first-out cost or net realizable value. Net realizable value is based on the selling price. The Company reviews the components of its inventory periodically for excess, obsolete and impaired inventory and records a reduction to the carrying value when identified.

Property, plant and equipment:

Property, plant and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives as follows:

	Asset life
Computer equipment and software	3-5 years
Furniture and equipment	5-10 years
Machinery and equipment	10 years
Tools and dies	10 years
Vehicles	5 years

Leasehold improvements are amortized over the shorter of their useful life or the life of the lease.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued)

Property, plant and equipment: (continued)

Property, plant and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

Research and development costs:

Costs for research and development are expensed when incurred. Total research and development costs charged to general and administrative expenses approximated \$520,000 and \$430,000 for the years ended October 31, 2023 and 2022, respectively.

Shipping and handling costs:

Freight costs of \$402,000 and \$445,000 are included in cost of goods sold for the years ended October 31, 2023 and 2022, respectively. Shipping supplies and expenses of approximately \$497,000 and \$376,000 are included in general and administrative expenses for the years ended October 31, 2023 and 2022, respectively.

Advertising costs:

Advertising costs are expensed as incurred. Such costs approximated \$115,000 and \$182,000 for the years ended October 31, 2023 and 2022, respectively.

Leases accounted for under Topic 840, *Leases*:

The Company records rent on a straight-line basis over the lease terms. The difference, if any, between rent expense and the amount paid is credited to deferred rent, which is reflected as a liability on the balance sheets. When the amount paid exceeds rent expense, the difference will be charged against the liability.

Leases accounted for under Topic 842, *Leases*:

The Company determines whether a contract is a lease at the contract's inception. Identified leases are subsequently measured, classified, and recognized at lease commencement as either a finance lease or an operating lease. Right-of-use assets and lease liabilities are recognized at the commencement date of the lease based on the estimated present value of lease payments to be made over the expected lease term. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued)

Leases accounted for under Topic 842, *Leases*: (continued)

The lease payments are discounted to present value using a discount rate based on a term commensurate with the lease terms at the lease commencement date. For its operating lease, the Company has elected to use a risk-free discount rate for all underlying assets. For its finance lease, the Company uses the rate implicit in the lease for the discount rate. The portion of payments on operating lease liabilities related to interest, along with the amortization of the related right-of-use assets is recognized as operating lease cost. Operating lease cost is recognized on a straight-line basis over the term of the lease. The amortization of right-of-use assets under finance leases is recognized as depreciation and amortization expense. Finance lease right-of-use assets are generally amortized over the lesser of the useful life of the underlying asset or lease term. However, if ownership of the leased asset transfers to the Company at the end of the lease term or the Company is reasonably certain to exercise a purchase option, then the finance lease right-of-use asset is amortized over the asset's useful life.

The Company elected to apply the short-term lease exception to all leases with a term of one year or less at the lease commencement date for all classes of underlying assets. Lease payments for short-term leases are recognized on a straight-line basis over the lease term.

The Company elected to treat the lease and non-lease components of its leases as a single lease component for all classes of underlying assets.

Use of estimates:

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events:

Management of the Company has reviewed and evaluated subsequent events through April 8, 2024, the date the financial statements were available to be issued.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Revenue from contracts with customers

Performance obligations:

The Company sells to customers through standalone purchase orders. All contracts have one performance obligation which is satisfied at a point in time upon transfer of control of the goods to the customer. Revenue is based on consideration specified in a contract with a customer. Consideration is measured at contract inception based on the amount that the Company expects to be entitled to in the contract.

The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product to a customer. The Company transfers control over a product based on FOB shipping terms as specified in the customer contract.

The party responsible for the shipping and handling cost is identified on each specific purchase order. When it has been determined that the Company is responsible for the shipping and handling cost, the cost of the outbound freight is accounted for as fulfillment cost and is included in cost of goods sold.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue producing transaction, that are collected by the Company from a customer, are excluded from revenue.

The Company provides various warranties against manufacturing defects in its products sold ranging from one to five years depending on the product. Tool sales are provided a limited lifetime warranty. Warranty claims are not material to the financial statements and are recorded as an expense when the customer makes a warranty claim.

The Company's performance obligations for contracts with customers all have durations of one year or less. As a result, the Company is not required to separately disclose aggregate amounts of unsatisfied, or partially satisfied, performance obligations at the end of the period. No other practical expedients were applied.

Sales are typically billed upon shipment of goods and are due within 30 days of invoice. Some contracts require the customer to pay a deposit prior to shipping the goods.

Variable consideration:

The nature of the Company's business gives rise to variable consideration. Variable consideration is estimated at the inception of the contract based on various factors such as terms provided for in a customer purchase agreement, as well as based on historical trends with the customer.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Revenue from contracts with customers (continued)

Variable consideration: (continued)

Certain customers are eligible for sales discounts for early payments. Typical discounts are 2% for payments made within 10 days. Management estimates the amount of discounts to be allocated to the transaction price based on historical trend analysis of sales made with the specific customer.

Management estimates the amount of products to be returned based on historical trend analysis, and allocates this amount to the transaction price at the inception of the contract.

Contract balances:

Contract liabilities represent deposits received from customers before the Company has satisfied their performance obligation under the contract. Contract liabilities were \$276,739, \$454,481 and \$252,742 at October 31, 2023, 2022 and 2021, respectively. Total trade accounts receivable relating to contracts with customers were \$2,318,681, \$2,583,099 and \$2,080,586 at October 31, 2023, 2022 and 2021, respectively.

Significant judgments:

Significant judgments are required to be made by management to determine the appropriate approach to applying the revenue recognition criteria. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of revenue recognized will not occur when the uncertainty associated with customer discounts and returns are resolved.

Disaggregation of revenue:

Performance obligations are satisfied at a single point in time, when the goods are shipped from the Company's warehouse at FOB shipping terms. These performance obligations consist of sales of product. Various economic factors affect revenues and cash flows. The majority of sales are made to fire rescue distribution companies throughout the world. The nature, amount, timing and uncertainty of revenue and cash flows of the Company are impacted by its major customer concentrations described in Note 11. The Company does not have any significant financing components as payment is received at or shortly after the point of sale.

Sales commissions:

The Company pays sales commission on certain sales. The commissions are expensed at the time the performance obligation in the related contract is satisfied.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Inventories

Inventories consist of the following:

October 31,	2023	2022
Raw materials	\$ 3,789,120	\$ 3,557,909
Work in process	414,361	308,823
Finished goods	3,443,099	3,037,929
Total inventories	\$ 7,646,580	\$ 6,904,661

4. Property, plant and equipment

The Company's property, plant and equipment as of October 31, 2023 and 2022 is as follows:

October 31,	2023	2022
Computer equipment and software	\$ 1,063,326	\$ 1,031,376
Furniture and equipment	387,568	387,568
Leasehold improvements	1,974,888	1,687,566
Machinery and equipment	8,736,683	8,719,371
Tools and dies	1,242,357	1,166,319
Vehicles	1,082,358	1,031,191
	14,487,180	14,023,391
Less accumulated depreciation and amortization	(10,013,406)	(9,463,719)
Property, plant and equipment, net	\$ 4,473,774	\$ 4,559,672

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Related party

EagleAir, Inc. manufactures high pressure breathing air systems and is 100% owned by the Company's sole stockholder. The Company guaranteed approximately \$450,000 of EagleAir, Inc.'s bank debt at October 31, 2022. This debt carried an interest rate of the greater of the prime rate or 6% and required interest-only payments with a maturity date of June 1, 2023. The guarantee was provided by the Company due to EagleAir, Inc. experiencing financial difficulties in recent years.

During the year ended October 31, 2023, the Company provided capital advances totaling \$1,193,722 to EagleAir, Inc. In October 2023, the Company paid off the entirety of the bank debt totaling \$453,563 due to EagleAir, Inc.'s default on the debt. In addition, the Company wrote off the \$1,193,722 of advances as a result of EagleAir, Inc.'s inability to repay the advances. In total, the Company has recognized \$1,647,285 of impairment losses for the year ended October 31, 2023.

EagleAir, Inc. is considered a variable interest entity (VIE). A VIE should be consolidated if the party with an ownership, contractual or other interest in the VIE that is considered a variable interest has the power to direct the VIE's most significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. A variable interest holder that consolidates the VIE is called the primary beneficiary. The Company has determined that it is not the primary beneficiary of EagleAir, Inc. because the Company lacks the power to direct the activities of EagleAir, Inc. that most significantly impacts their economic performance. Therefore, consolidation in the Company's financial statements is not required.

Summarized financial information of EagleAir, Inc. is approximately as follows:

October 31,	2023	2022
Total assets	\$ 1,244,000	\$ 1,079,000
Total liabilities	\$ 2,771,000	\$ 3,834,000
Total stockholder's deficit	\$ (1,527,000)	\$ (2,755,000)
Years ended October 31,	2023	2022
Total revenues	\$ 3,228,000	\$ 4,032,998
Total net income (loss)	\$ 549,000	\$ (1,133,000)

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Related party (continued)

The Company leases its U.S. facilities from LBN, LLC under an operating lease expiring on October 31, 2028 (Note 8). A family member of the sole stockholder is the single member of LBN, LLC. Rent expense was \$371,523 and \$388,800 for the years ended October 31, 2023 and 2022, respectively.

The Company has noninterest-bearing amounts due from its sole stockholder of \$84,313 and \$75,668 at October 31, 2023 and 2022, respectively. These balances represent short-term advances to the stockholder that are periodically repaid. Amounts are payable on demand.

6. Common stock

The Company has authorized 2,000 Class A voting shares and 1,000 shares are issued and outstanding. The Company has also authorized 198,000 Class B non-voting shares, with 99,000 shares issued, 50,000 shares in treasury and 49,000 shares outstanding. The shares of each class have identical rights and privileges except that the holders of Common Class A voting shares have full voting rights as described under the Illinois Business Corporation Act and the holders of Common Class B non-voting shares only have voting rights as described under the Illinois Business Corporation Act for a non-voting stockholder.

7. Line of credit and notes payable

The Company has a revolving line of credit with a bank in the gross amount of \$1,750,000, subject to a borrowing base. The amount borrowed cannot exceed certain percentages of accounts receivable and inventory. On June 1, 2023, the maturity date of the line of credit was extended to June 1, 2024. All other terms remained unchanged. Interest is payable at the greater of the prime rate or 6%. Interest on the loan was 8.5% and 6.25% at October 31, 2023 and 2022, respectively. There was \$-0- outstanding at October 31, 2023 and 2022.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Line of credit and notes payable (continued)

The Company also has multiple term notes payable consisting of the following:

October 31,	2023	2022
Bank note payable in monthly installments of \$12,940, including interest at a fixed rate of 2.7%, with final payment due in February 2025.	\$ 202,774	\$ 350,299
Bank note payable in monthly installments of \$11,628, including interest at a fixed rate of 4.85%, with final payment due in June 2026.	341,290	460,826
	544,064	811,125
Less current portion	(274,908)	(264,292)
Total long-term debt	\$ 269,156	\$ 546,833

Aggregate maturities on the long-term debt are as follows:

Year ending October 31:	Amount
2024	\$ 274,908
2025	181,277
2026	87,879
Total	\$ 544,064

The line of credit and bank loans are collateralized by substantially all of the assets of the Company and the sole stockholder has provided a limited guarantee of \$500,000 on the debt. The loans are subject to an annual minimum net worth covenant. At October 31, 2023, the Company was in compliance with the covenant.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Leases

The Company elected to apply the provisions of Topic 842, *Leases* at November 1, 2022 through a cumulative-effect adjustment. As a result, comparative information for the prior period has not been adjusted and is reported under the accounting standards that were in effect for the prior period under Topic 840, *Leases*.

Leases accounted for under Topic 840, *Leases*:

The Company leases an office building in Denmark which requires an annual fee of approximately \$32,000 plus value-added tax, with annual increases based on the national price index. A portion of this amount is paid in advance and the Company is responsible for its proportionate share of utilities and maintenance. Rental expense was approximately \$38,000 for the year ended October 31, 2022.

The Company also leases its U.S. facilities from LBN, LLC under an original agreement that expires on October 31, 2028 (see Note 5).

The Company leases a vehicle with monthly payments totaling approximately \$1,000. The lease expires in March 2024. Total rent expense for this lease was approximately \$11,000 for the year ended October 31, 2022.

Future minimum lease payments under the non-cancelable operating leases are as follows:

Year ending October 31:	Amount
2023	\$ 512,312
2024	498,145
2025	480,000
2026	480,000
2027	480,000
2028	480,000
Total	\$ 2,930,457

The Company is obligated under a capital lease for a vehicle. The capital lease obligation is payable in monthly installments including interest of 4.59%. The final payment is due on May 15, 2024. The lease is collateralized by the vehicle costing \$73,230 with a net book value of \$51,261 at October 31, 2022. Amortization expense related to this lease is included in depreciation and amortization expense.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Leases (continued)

Leases accounted for under Topic 840, *Leases*: (continued)

Future annual minimum lease payments under the capital lease obligation are as follows:

<u>Year ending October 31:</u>	<u>Amount</u>
2023	\$ 14,508
2024	5,924
Total minimum lease payments	20,432
<u>Less amount representing interest</u>	<u>(683)</u>
Present value of net minimum lease payments	\$ 19,749

Leases accounted for under Topic 842, *Leases*:

The Company leases its U.S. facilities from LBN, LLC, a related party, under an operating lease agreement that was set to expire on October 31, 2024 (Note 5). This agreement was amended in February 2023 to extend the lease through October 31, 2028. Fixed lease payments of \$32,400 were due monthly for the first three months of the lease, which were the terms under the lease expiring on October 31, 2024. Under the revised agreement, fixed lease payments of \$40,000 are due monthly over the lease term.

The Company also leases a vehicle under a finance lease that expires in May 2024. Ownership of the vehicle will transfer to the Company at the end of the lease.

The Company also leases office space in Denmark and equipment under short-term leases.

There are no residual value guarantees, termination, or renewal options with any of the leases.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Leases (continued)

Leases accounted for under Topic 842, *Leases*: (continued)

The components of lease expense for the year ended October 31, 2023 consist of the following:

<u>Year ended October 31, 2023</u>	
Operating lease costs	\$ 371,523
Finance lease costs:	
Amortization of right-of-use assets	14,646
Interest on lease liabilities	617
Short-term lease cost	41,109
<u>Total lease costs</u>	<u>\$ 427,895</u>

Future minimum payments under the leases are as follows:

<u>Year ending October 31:</u>	<u>Operating leases</u>	<u>Finance lease</u>
2024	\$ 480,000	\$ 5,923
2025	480,000	
2026	480,000	
2027	480,000	
2028	480,000	
<u>Total undiscounted lease payments</u>	<u>2,400,000</u>	<u>5,923</u>
<u>Less imputed interest</u>	<u>233,389</u>	<u>66</u>
<u>Total lease liabilities</u>	<u>\$ 2,166,611</u>	<u>\$ 5,857</u>

The following summarizes the weighted-average remaining lease term and weighted-average discount rate for the year ended October 31, 2023:

<u>Year ended October 31, 2023</u>	<u>Operating leases</u>	<u>Finance lease</u>
<u>Weighted-average remaining lease term (months)</u>	<u>60</u>	<u>5</u>
<u>Weighted-average discount rate</u>	<u>3.51%</u>	<u>4.59%</u>

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets and research and development expenses. The deferred tax liabilities represent the future tax return consequences of those differences.

Provision for income taxes consists of the following:

Years ended October 31,	2023	2022
Current:		
Federal income tax expense	\$ 704,624	\$ 75,524
State income tax expense	261,692	114,019
Total current tax provision	966,316	189,543
Deferred:		
Federal income tax expense (benefit)	(141,896)	1,833
State income tax expense (benefit)	(104,939)	97,668
Total deferred tax provision (benefit)	(246,835)	99,501
Total provision for income taxes	\$ 719,481	\$ 289,044

The net deferred tax liabilities consist of the following:

October 31,	2023	2022
Federal deferred tax liabilities	\$ (368,652)	\$ (510,548)
State deferred tax liabilities	(195,482)	(300,421)
Total deferred tax liabilities	\$ (564,134)	\$ (810,969)

The deferred tax liabilities are included in long-term liabilities on the balance sheets.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Retirement plan

Substantially all employees of the Company have the opportunity to participate in a contributory retirement plan. The Company made mandatory contributions to this plan at a rate of 50% of the employee's contributions. Contributions made to the plan by the Company were \$283,801 and \$262,462 for the years ended October 31, 2023 and 2022, respectively.

11. Concentration

Two customers accounted for 23% and 25% of total sales for the years ended October 31, 2023 and 2022, respectively. Two customers' balances in trade accounts receivable amounted to 26% of the total trade accounts receivable at October 31, 2022. There were no customer concentrations in trade accounts receivable at October 31, 2023.