

PARATECH, INC.

FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2024 AND 2023

PARATECH, INC.

YEARS ENDED OCTOBER 31, 2024 AND 2023

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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, 2024 and 2023, 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.

Ostrow Reisin Berk & Abrams, Ltd.

January 29, 2025

PARATECH, INC.

BALANCE SHEETS

| October 31, | 2024 | 2023 |
|------------------------------------|---------------|---------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 7,116,527 | \$ 4,395,581 |
| Accounts receivable, trade | 4,395,829 | 2,318,681 |
| Stockholder advance | 97,323 | 84,313 |
| Inventories | 8,297,630 | 7,646,580 |
| Prepaid expenses | 308,186 | 260,219 |
| Total current assets | 20,215,495 | 14,705,374 |
| Property, plant and equipment, net | 5,189,393 | 4,473,774 |
| Other assets: | | |
| Construction in progress | 171,282 | 245,895 |
| Operating lease right-of-use asset | 1,762,659 | 2,166,611 |
| Finance lease right-of-use asset | | 36,615 |
| Deposits | 43,758 | 43,758 |
| Total other assets | 1,977,699 | 2,492,879 |
| Total assets | \$ 27,382,587 | \$ 21,672,027 |

See accountants' review report and notes to financial statements.

PARATECH, INC.

BALANCE SHEETS (CONTINUED)

| October 31, | 2024 | 2023 |
|---|------------------|------------------|
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 181,350 | \$ 274,908 |
| Current portion of operating lease liability | 418,131 | 403,952 |
| Finance lease liability | | 5,857 |
| Accounts payable | 929,711 | 642,683 |
| Accrued expenses: | | |
| Real estate tax | 48,583 | 48,583 |
| Payroll | 702,168 | 692,666 |
| Interest | 1,020 | 1,899 |
| Income tax payable | 604,948 | 132,689 |
| Contract liabilities | 191,114 | 276,739 |
| Total current liabilities | 3,077,025 | 2,479,976 |
| Long-term liabilities: | | |
| Long-term debt, net of current portion | 85,600 | 269,156 |
| Operating lease liability, net of current portion | 1,344,528 | 1,762,659 |
| Deferred income taxes | 199,454 | 564,134 |
| Total long-term liabilities | 1,629,582 | 2,595,949 |
| Total liabilities | 4,706,607 | 5,075,925 |

See accountants' review report and notes to financial statements.

PARATECH, INC.

BALANCE SHEETS (CONTINUED)

| October 31, | 2024 | 2023 |
|--|---------------|---------------|
| 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 | 27,414,999 | 21,335,121 |
| Less: Treasury stock, 50,000 shares, at cost | (5,000,000) | (5,000,000) |
| Total stockholder's equity | 22,675,980 | 16,596,102 |
| Total liabilities and stockholder's equity | \$ 27,382,587 | \$ 21,672,027 |

See accountants' review report and notes to financial statements.

PARATECH, INC.

STATEMENTS OF INCOME

| Years ended October 31, | 2024 | 2023 |
|--|---------------|---------------|
| Sales | \$ 39,980,588 | \$ 30,860,257 |
| Cost of goods sold | 20,414,658 | 16,216,170 |
| Gross profit | 19,565,930 | 14,644,087 |
| Gain on foreign currency transactions | 216,528 | 186,494 |
| Gain on sale of vehicles | 34,500 | 65,166 |
| Total operating revenue | 19,816,958 | 14,895,747 |
| Operating expenses: | | |
| Selling | 5,308,471 | 4,363,274 |
| General and administrative | 7,050,127 | 5,597,750 |
| Total operating expenses | 12,358,598 | 9,961,024 |
| Income from operations | 7,458,360 | 4,934,723 |
| Other income (expense): | | |
| Loan impairment loss | | (1,647,285) |
| Interest income | 157,565 | 9,022 |
| Interest expense | (16,972) | (27,527) |
| Other expense | (44,228) | (26,732) |
| Total other income (expense) | 96,365 | (1,692,522) |
| Income before provision for income taxes | 7,554,725 | 3,242,201 |
| Provision for income taxes | 1,474,847 | 719,481 |
| Net income | \$ 6,079,878 | \$ 2,522,720 |

See accountants' review report and notes to financial statements.

PARATECH, INC.

STATEMENTS OF RETAINED EARNINGS

| | Retained earnings |
|----------------------------------|----------------------|
| Balance, November 1, 2022 | \$ 18,812,401 |
| Net income | 2,522,720 |
| Balance, October 31, 2023 | 21,335,121 |
| Net income | 6,079,878 |
| Balance, October 31, 2024 | \$ 27,414,999 |

See accountants' review report and notes to financial statements.

PARATECH, INC.

STATEMENTS OF CASH FLOWS

| Years ended October 31, | 2024 | 2023 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Net income | \$ 6,079,878 | \$ 2,522,720 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 715,387 | 727,250 |
| Amortization of operating lease right-of-use asset | 403,952 | 363,267 |
| Amortization of finance lease right-of-use asset | 36,615 | 14,646 |
| Deferred income tax benefit | (364,680) | (246,835) |
| Gain on sale of vehicles | (34,500) | (65,166) |
| Loan impairment loss | | 1,647,285 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable, trade | (2,077,148) | 264,418 |
| Inventories | (651,050) | (741,919) |
| Prepaid expenses | (47,967) | (9,858) |
| Recoverable income taxes | | 15,337 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 287,028 | (126,316) |
| Accrued payroll | 9,502 | 100,106 |
| Accrued interest | (879) | (844) |
| Operating lease liability | (403,952) | (363,267) |
| Income tax payable | 472,259 | 132,689 |
| Contract liabilities | (85,625) | (177,742) |
| Net cash provided by operating activities | 4,338,820 | 4,055,771 |
| Cash flows from investing activities: | | |
| Advances to related party | | (1,647,285) |
| Purchases of property, plant, equipment and construction in progress | (1,356,393) | (836,158) |
| Advance to stockholder | (13,010) | (8,645) |
| Proceeds from the sale of vehicles | 34,500 | 65,166 |
| Net cash used in investing activities | (1,334,903) | (2,426,922) |

See accountants' review report and notes to financial statements.

PARATECH, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

| Years ended October 31, | 2024 | 2023 |
|--|--------------|--------------|
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | \$ (277,114) | \$ (267,061) |
| Payments on finance lease liability | (5,857) | (13,892) |
| Net cash used in financing activities | (282,971) | (280,953) |
| Net increase in cash | 2,720,946 | 1,347,896 |
| Cash, beginning of year | 4,395,581 | 3,047,685 |
| Cash, end of year | \$ 7,116,527 | \$ 4,395,581 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | \$ 17,851 | \$ 28,371 |
| Income taxes | \$ 973,310 | \$ 324,620 |
| 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 | \$ 480,000 | \$ 457,200 |
| Operating cash flows from finance lease (interest payments) | \$ 66 | \$ 617 |
| Financing cash flows from finance lease (principal payments) | \$ 5,857 | \$ 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:

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance significantly changes how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from an incurred credit loss methodology to an expected credit loss methodology, which requires consideration of a broad range of reasonable and supportable information to measure credit loss estimates. The standard also requires additional disclosures to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Company that are subject to the guidance in Topic 326 are trade accounts receivable. The Company adopted this standard effective November 1, 2023. The cumulative effect of adopting Topic 326 was not material to the financial statements.

Foreign operations:

Assets located outside the United States accounted for approximately 16% and 19% of total assets at October 31, 2024 and 2023, 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, 2024 and 2023, the uninsured balance was approximately \$6,914,000 and \$4,462,000, respectively. Management believes that the Company is not exposed to any significant credit risk on cash.

Trade accounts receivable:

Prior to adoption of Topic 326, Current Expected Credit Losses

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 was no allowance for doubtful accounts at October 31, 2023.

After adoption of Topic 326, Current Expected Credit Losses

Trade accounts receivable consist of receivables from contracts with customers. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Trade accounts receivable are typically outstanding for 30 days or less. Management evaluates the collectibility of trade accounts receivable and records an allowance for credit losses representing the estimate of expected losses that result from all possible default events over the expected life of the receivables. The allowance is estimated based on historical write-off experience and current expectations of future credit losses informed by industry and regional economic data, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The Company assesses collectibility by pooling receivables where similar characteristics exist. The risk characteristics include type of receivable, terms and the location of the customer. The allowance for credit losses, write-off activity and recoveries for the period presented are not material to the financial statements.

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.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued)

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.

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 \$750,000 and \$520,000 for the years ended October 31, 2024 and 2023, respectively.

Shipping and handling costs:

Freight costs of \$346,000 and \$402,000 are included in cost of goods sold for the years ended October 31, 2024 and 2023, respectively. Shipping supplies and expenses of approximately \$612,000 and \$497,000 are included in general and administrative expenses for the years ended October 31, 2024 and 2023, respectively.

Advertising costs:

Advertising costs are expensed as incurred. Such costs approximated \$188,000 and \$115,000 for the years ended October 31, 2024 and 2023, respectively.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued)

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.

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.

Contract liabilities:

Contract liabilities represent deposits received from customers before the Company has satisfied their performance obligation under the contract.

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.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued)

Subsequent events:

Management of the Company has reviewed and evaluated subsequent events through January 29, 2025, the date the financial statements were available to be issued.

Subsequent to October 31, 2024, the sole stockholder entered into negotiations for a sale of all shares to an Employee Stock Ownership Plan (ESOP). The Company is expected to borrow approximately \$14,000,000 from a bank in order to finance the sale. The duration, interest rate and payment terms of the financing arrangement are still in negotiations with the bank. The sale is expected to occur on January 31, 2025. In conjunction with the sale, the Company has filed an election to change their reporting year-end to be on a calendar basis starting on January 1, 2025. Additionally, as of January 1, 2025, the Company has filed an election to be taxed as an S-Corporation.

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 at the point of shipment.

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 activities, the activities of the outbound freight is accounted for as fulfillment activities 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's performance obligations for contracts with customers all have durations of one year or less.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Revenue from contracts with customers (continued)

Performance obligations: (continued)

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.

Certain customers are eligible for sales discounts for early payments. Typically 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 were \$191,114, \$276,739 and \$454,481 at October 31, 2024, 2023 and 2022, respectively. Total trade accounts receivable relating to contracts with customers were \$4,395,829, \$2,318,681 and \$2,583,099 at October 31, 2024, 2023 and 2022, respectively. There were no contract assets at October 31, 2024, 2023 and 2022.

Disaggregation of revenue:

Performance obligations are satisfied at a single point in time, when the goods are shipped from the Company's warehouse. 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.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Revenue from contracts with customers (continued)

Sales commissions:

The Company pays sales commission on certain sales. Since all performance obligations are satisfied in one year or less, the Company elected the practical expedient to expense all the sales commissions at the time the performance obligation in the related contract is satisfied.

3. Inventories

Inventories consist of the following:

| October 31, | 2024 | 2023 |
|-------------------|--------------|--------------|
| Raw materials | \$ 4,365,082 | \$ 3,789,120 |
| Work in process | 489,635 | 414,361 |
| Finished goods | 3,442,913 | 3,443,099 |
| Total inventories | \$ 8,297,630 | \$ 7,646,580 |

4. Property, plant and equipment

The Company's property, plant and equipment as of October 31, 2024 and 2023 is as follows:

| October 31, | 2024 | 2023 |
|---|--------------|--------------|
| Computer equipment and software | \$ 1,069,673 | \$ 1,063,326 |
| Furniture and equipment | 387,568 | 387,568 |
| Leasehold improvements | 2,055,345 | 1,974,888 |
| Machinery and equipment | 9,515,238 | 8,736,683 |
| Tools and dies | 1,558,685 | 1,242,357 |
| Vehicles | 1,273,970 | 1,082,358 |
| | 15,860,479 | 14,487,180 |
| Less accumulated depreciation and amortization | (10,671,086) | (10,013,406) |
| Property, plant and equipment, net | \$ 5,189,393 | \$ 4,473,774 |

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.

During the year ended October 31, 2023, the Company provided capital advances totaling \$1,193,722 to EagleAir, Inc. The Company had also guaranteed approximately \$450,000 of Eagle Air, Inc.'s bank debt. 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. 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, | 2024 | 2023 |
|-----------------------------|----------------|----------------|
| Total assets | \$ 758,000 | \$ 1,244,000 |
| Total liabilities | \$ 2,404,000 | \$ 2,771,000 |
| Total stockholder's deficit | \$ (1,646,000) | \$ (1,527,000) |

| Years ended October 31, | 2024 | 2023 |
|-------------------------|--------------|--------------|
| Total revenues | \$ 3,944,000 | \$ 3,228,000 |
| Total net income (loss) | \$ (419,000) | \$ 549,000 |

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 \$480,000 and \$371,523 for the years ended October 31, 2024 and 2023, respectively.

The Company has noninterest-bearing amounts due from its sole stockholder of \$97,323 and \$84,313 at October 31, 2024 and 2023, 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, 2024, the maturity date of the line of credit was extended to June 1, 2025. All other terms remained unchanged. Interest is payable at the greater of the prime rate or 6%. Interest on the line of credit was 8.0% and 8.5% at October 31, 2024 and 2023, respectively. There was \$-0- outstanding at October 31, 2024 and 2023.

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, | 2024 | 2023 |
|---|-----------|------------|
| 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. | \$ 51,169 | \$ 202,774 |
| 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. | 215,781 | 341,290 |
| | 266,950 | 544,064 |
| Less current portion | (181,350) | (274,908) |
| Total long-term debt | \$ 85,600 | \$ 269,156 |

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

| Year ending October 31: | Amount |
|-------------------------|------------|
| 2025 | \$ 181,350 |
| 2026 | 85,600 |
| Total | \$ 266,950 |

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, 2024, the Company was in compliance with the covenant.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. 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 initial 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 remaining lease term.

The Company also leased a vehicle under a finance lease that expired in May 2024. The monthly payments were approximately \$1,000. Ownership of the vehicle transferred to the Company at the end of the lease.

The Company also leases office space in Denmark under a short-term lease expiring in December 2024. Payments for short-term leases are fixed and paid monthly. This lease has since been renewed on similar terms and matures in December 2025.

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

The components of lease expense for the years ended October 31, 2024 and 2023 consist of the following:

| Years ended October 31, | 2024 | 2023 |
|------------------------------------|------------|------------|
| Operating lease cost | \$ 480,000 | \$ 371,523 |
| Finance lease costs: | | |
| Amortization of right-of-use asset | 36,615 | 14,646 |
| Interest on lease liabilities | 66 | 617 |
| Short-term lease cost | 42,508 | 41,109 |
| Total lease costs | \$ 559,189 | \$ 427,895 |

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Leases (continued)

Future payments under the operating lease are as follows:

| Year ending October 31: | Amount |
|-----------------------------------|--------------|
| 2025 | \$ 480,000 |
| 2026 | 480,000 |
| 2027 | 480,000 |
| 2028 | 480,000 |
| Total undiscounted lease payments | 1,920,000 |
| Less imputed interest | 157,341 |
| Total operating lease liability | \$ 1,762,659 |

The following summarizes the weighted-average remaining lease term and weighted-average discount rate for the years ended October 31, 2024 and 2023:

| Years ended October 31, | 2024 | 2023 | |
|--|-----------------|-----------------|---------------|
| | Operating lease | Operating lease | Finance lease |
| Weighted-average remaining lease term (months) | 48 | 60 | 5 |
| Weighted-average discount rate | 3.51% | 3.51% | 4.59% |

In January 2025, the Company amended its office space lease to extend the lease through December 31, 2035.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Leases (continued)

Future payments under the amended office space lease are as follows:

| <u>Year ending October 31:</u> | <u>Amount</u> |
|--------------------------------|---------------------|
| 2025 | \$ 490,000 |
| 2026 | 492,000 |
| 2027 | 502,000 |
| 2028 | 504,000 |
| 2029 | 514,000 |
| 2030 | 516,000 |
| 2031 | 526,000 |
| 2032 | 528,000 |
| 2033 | 538,000 |
| 2034 | 540,000 |
| 2035 | 540,000 |
| 2036 | 90,000 |
| <u>Total</u> | <u>\$ 5,780,000</u> |

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.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Income taxes (continued)

Provision for income taxes consists of the following:

| Years ended October 31, | 2024 | 2023 |
|----------------------------------|--------------|------------|
| Current: | | |
| Federal income tax expense | \$ 1,510,139 | \$ 704,624 |
| State income tax expense | 329,388 | 261,692 |
| Total current tax provision | 1,839,527 | 966,316 |
| Deferred: | | |
| Federal income tax benefit | (272,045) | (141,896) |
| State income tax benefit | (92,635) | (104,939) |
| Total deferred tax benefit | (364,680) | (246,835) |
| Total provision for income taxes | \$ 1,474,847 | \$ 719,481 |

The net deferred tax liabilities consist of the following:

| October 31, | 2024 | 2023 |
|----------------------------------|--------------|--------------|
| Federal deferred tax liabilities | \$ (96,607) | \$ (368,652) |
| State deferred tax liabilities | (102,847) | (195,482) |
| Total deferred tax liabilities | \$ (199,454) | \$ (564,134) |

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 \$325,784 and \$283,801 for the years ended October 31, 2024 and 2023, respectively. Additionally, the plan allows for discretionary profit-sharing contributions. No discretionary profit-sharing contributions were made for the years ended October 31, 2024 and 2023.

See accountants' review report.

PARATECH, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Concentration

Two customers accounted for 23% of total sales for each of the years ended October 31, 2024 and 2023. One customer's balance in trade accounts receivable amounted to 12% of the total trade accounts receivable at October 31, 2024. There were no customer concentrations in trade accounts receivable at October 31, 2023.

See accountants' review report.