Quadlogic Controls Corporation

Financial Statements
Years Ended February 29, 2020
and February 28, 2019

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Contents

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Independent Auditor's Report

Board of Directors
Quadlogic Controls Corporation
Long Island City, New York

We have audited the accompanying financial statements of Quadlogic Controls Corporation (the Company), which comprise the balance sheets as of February 29, 2020 and February 28, 2019, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quadlogic Controls Corporation as of February 29, 2020 and February 28, 2019, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - COVID-19

As more fully described in Note 15 to the financial statements, the Company may be materially impacted by the outbreak of a novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020.

BDO USA, LLP

August 4, 2020

Quadlogic Controls Corporation

Balance Sheets

As of		February 29, 2020		February 28, 2019
Assets				
Current Assets				
Cash	$	**1,946,866**	$	97,342
Accounts receivable, trade, net of allowance for doubtful accounts of $64,328 and $64,298 in 2020 and 2019, respectively		**1,906,636**		2,775,077
Inventories, net		**1,017,402**		1,008,890
Holdback receivable (Note 3)		**575,000**		-
Prepaid expenses and other current assets		**227,114**		191,756
Total Current Assets		**5,673,018**		4,073,065
Property and Equipment, Net		**682,823**		814,672
Other Assets				
Intangible assets, net		**222,525**		369,635
Lease deposits		**191,854**		191,854
Total Other Assets		**414,379**		561,489
Total Assets	$	**6,770,220**	$	5,449,226
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable	$	**1,540,561**	$	1,969,676
Accrued expenses and other liabilities		**661,234**		685,115
Accrued compensation		**701,746**		485,321
Installment debt payable to related party		**302,496**		376,852
Current maturities of capital lease obligations		**25,610**		23,448
Customer deposits		**64,669**		78,000
Total Current Liabilities		**3,296,316**		3,618,412
Non-Current Liabilities				
Secured line of credit - borrowings		**1,305,671**		1,102,234
Other non-current liabilities		**381,893**		561,285
Capital lease obligations, net of current maturities		**71,981**		97,591
Total Non-Current Liabilities		**1,759,545**		1,761,110
Total Liabilities		**5,055,861**		5,379,522
Commitments				
Shareholders' Equity				
Common stock - $0.001 par value; 20,000,000 shares authorized, and 11,835,351 and 11,638,351 shares issued and outstanding as of February 29, 2020 and February 28, 2019, respectively		**11,835**		11,638
Additional paid-in capital		**9,643,737**		9,582,434
Accumulated deficit		**(7,941,213)**		(9,524,368)
Total Shareholders' Equity		**1,714,359**		69,704
Total Liabilities and Shareholders' Equity	$	**6,770,220**	$	5,449,226

See accompanying notes to financial statements.

Quadlogic Controls Corporation

Statements of Income

Year ended		February 29, 2020		February 28, 2019
Revenues				
Meter sales	**$**	**6,871,200**	$	8,204,674
Billing and technical services		**5,868,837**		6,249,277
Total Revenues		**12,740,037**		14,453,951
Cost of Goods Sold				
Cost of meters sold		**4,839,998**		5,615,046
Cost of billing and technical services		**3,419,902**		3,198,150
Total Cost of Goods Sold		**8,259,900**		8,813,196
Gross Profit		**4,480,137**		5,640,755
Operating Expenses				
Selling		**1,222,692**		1,500,430
Research and development		**921,081**		1,127,740
General and administrative		**2,822,420**		2,750,858
Total Operating Expenses		**4,966,193**		5,379,028
Operating (Loss) Income		**(486,056)**		261,727
Other (Expense) Income				
Interest expense		**(161,596)**		(179,370)
Other expense, net		**(28,193)**		(29,023)
Income from license and equipment transfer, net		**2,259,000**		-
Total Other Income (Expense)		**2,069,211**		(208,393)
Net Income	**$**	**1,583,155**	$	53,334

See accompanying notes to financial statements.

Quadlogic Controls Corporation

Statements of Changes in Shareholders' Equity

	Common Stock		Additional		
	Number of Shares	Par Value	Paid-in Capital	Accumulated Deficit	Total
Balance, February 28, 2018	11,373,351	$ 11,373	$ 9,499,549	$ (9,577,702)	$ (66,780)
Issuance of common stock to directors	215,000	215	67,935	-	68,150
Vesting of restricted common stock to employees	50,000	50	14,950	-	15,000
Net income	-	-	-	53,334	53,334
Balance, February 28, 2019	11,638,351	11,638	9,582,434	(9,524,368)	69,704
Issuance of common stock to directors	120,000	120	38,280	-	38,400
Vesting of restricted common stock to employees	77,000	77	23,023	-	23,100
Net income	-	-	-	1,583,155	1,583,155
Balance, February 29, 2020	11,835,351	$ 11,835	$ 9,643,737	$ (7,941,213)	$ 1,714,359

See accompanying notes to financial statements.

Quadlogic Controls Corporation

Statements of Cash Flows

Year ended		February 29, 2020		February 28, 2019
Cash Flows from Operating Activities				
Net income	$	**1,583,155**	$	53,334
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		**257,713**		225,186
Provision for doubtful accounts		**30**		1,388
Stock-based compensation		**61,500**		83,150
Loss on write-off of patents		**119,313**		-
Changes in assets and liabilities:				
Accounts receivable		**868,411**		(1,022,035)
Inventories		**(8,512)**		741,056
Holdback receivable		**(575,000)**		-
Prepaid expenses and other current assets		**(35,358)**		(21,445)
Accounts payable		**(429,115)**		391,143
Customer deposits		**(13,331)**		(24,809)
Accrued expenses and other liabilities		**(23,881)**		(94,558)
Accrued compensation		**216,425**		(73,915)
Other non-current liabilities		**(179,392)**		(240,551)
Net Cash Provided by Operating Activities		**1,841,958**		17,944
Cash Flows from Investing Activities				
Purchase of property and equipment		**(132,051)**		(69,552)
Sale of property and equipment		**41,000**		-
Patent acquisition costs		**(7,016)**		(11,882)
Net Cash Used in Investing Activities		**(98,067)**		(81,434)
Cash Flows from Financing Activities				
Principal debt repayments		**(97,804)**		(131,221)
Borrowing from line of credit		**12,920,112**		14,004,379
Repayments of line of credit		**(12,716,675)**		(13,840,420)
Net Cash Provided by Financing Activities		**105,633**		32,738
Net Increase (Decrease) in Cash		**1,849,524**		(30,752)
Cash, beginning of year		**97,342**		128,094
Cash, end of year	$	**1,946,866**	$	97,342
Supplemental Disclosure of Cash Flow Information				
Interest paid	$	**131,574**	$	176,331
Supplemental Disclosure of Noncash Investing and Financing Activities				
Prepaid insurance financed by installment notes	$	**140,000**	$	47,834
Acquisition of third-party software under financing arrangement		**-**		160,000
Acquisition of property and equipment under capital lease		**-**		133,793

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

This summary of the significant accounting policies of Quadlogic Controls Corporation (Quadlogic, or the Company) is presented to assist in the understanding of the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

History and Business Activity

The Company is in the business of electricity metering. The business consists of two groups: The Systems Group designs, manufactures and sells "smart" metering systems, digital electricity meters and associated equipment that measure and remotely monitor the time and amount of electricity consumption and other diagnostics. Most Quadlogic meters feature the Company's proprietary robust power line communications technology. Increasingly, the Company is joining the Internet of Things (IoT) world with products like its new Qlic TM eMeter and QBrick revenue meters that employ other communications modes and become part of a multi-utility data and communications hub. The Services Group consists of technical services including meter reading, customer billing, and system repair and maintenance.

The Company's revenues for the fiscal years ended February 29, 2020 and February 28, 2019 included sales to foreign customers of 26.5% and 30.6%, respectively. Canadian sales represented 25.8% and 26.4% and other foreign sales represented 0.7% and 4.2% of total revenues for the fiscal years ended February 29, 2020 and February 28, 2019, respectively. The Company's customers include real estate development and construction companies, owners and operators of multi-tenant commercial and residential buildings and distributors.

The Company's stock is not listed on any organized exchange but is traded on the over-the-counter market. The Company's common stock is quoted on the Over-The-Counter Markets under the symbol (QDLC) and experiences limited trading activity.

As further detailed in Note 15 - Subsequent Events, the recent outbreak of the novel coronavirus (COVID-19), which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the U.S. and global economies and is expected to impact the Company's results of operations, financial position and liquidity in 2020. Additionally, on March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act).

Use of 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 the 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.

Accounts Receivable

The Company carries its accounts receivable at cost less allowances for doubtful accounts and returns. On a periodic basis, the Company evaluates its accounts receivable and establishes allowances for doubtful accounts and returns based on a history of past write-offs, collections, returns and current conditions.

Revenue Recognition

The Company recognizes revenue from the sale of electric metering equipment at the time of shipment to the customer. Revenues from meter reading and billing services, repair, technical services, and commissioning revenue, are recognized at the time the services are rendered.

Fair Value of Financial Instruments

The Company follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 – These are unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 – These are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – These are inputs that are unobservable for the asset or liability.

The carrying value of the Company's cash, accounts receivable and accounts payable approximates their fair values based on the short-term nature of such items. The carrying value of the installment debt and secured line of credit approximates fair value since the interest rate is at terms currently available to the Company.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out basis.

Income Taxes

The Company provides for income taxes and recognizes deferred tax assets and liabilities on the balance sheets using the liability method for income taxes. The liability method requires that all deferred tax balances be determined by using the applicable tax rate expected to be in effect when the taxes will actually be paid, or when refunds are received. The applicable tax rate is applied to the differences between the tax bases of assets and liabilities and to their reported amounts in the financial statements. The resulting deferred tax asset or liability is adjusted to reflect changes in tax laws as they occur. Valuation allowances are established, if necessary, to reduce the deferred tax assets and liabilities (see Note 11).

Depreciation and Amortization

Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the related assets, as follows:

	Years
Machinery and equipment	5
Furniture and office equipment	3-7
Computer equipment and software costs	3-5
Tools, dies and molds	3

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease.

Expenditures for maintenance and repairs are expensed as incurred, while renewals and betterments that materially extend the life of an asset are capitalized. The cost of assets sold, retired, or otherwise disposed of, and the related allowance for depreciation, are eliminated from the accounts, and any resulting gain or loss is recognized.

Patents

The Company owns various patents of technology concerning its electronic metering systems and processes. The costs associated with the acquisition of patents, and the costs of registering the patents, are capitalized and amortized on the straight-line basis over their remaining lives. Amortization expense for the fiscal years ended February 29, 2020 and February 28, 2019 amounted to approximately $27,100 and $25,500, respectively.

Trademarks

The Company owns two trademarks in various countries. The cost of registering the trademarks is capitalized and amortized on the straight-line basis over the remaining lives. Amortization expense for the fiscal years ended February 29, 2020 and February 28, 2019 amounted to approximately $7,700 and $2,300, respectively.

Research and Development

Research and development costs are expensed as incurred.

Shipping and Handling

Shipping and handling costs incurred in shipping products to customers are expensed as incurred and included in cost of meters sold. Shipping costs totaled approximately $50,000 and $104,000 for the fiscal years ended February 29, 2020 and February 28, 2019, respectively. All shipping and handling costs billed to customers are recorded in revenue.

Stock-Based Compensation

The Company follows the provisions of ASC 718 for stock-based compensation. This statement requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award over the service period.

2. Concentrations

The Company maintains its cash balances in financial institutions in New York. From time to time, the Company has cash balances that may exceed federally insured limits.

The Company’s trade receivables are potentially subject to credit risk. The Company extends credit to its customers based upon an evaluation of the customers’ financial condition and credit history. The Company’s policies do not require collateral to support accounts receivable. However, because of the diversity and creditworthiness of the individual accounts that comprise the total balance, management does not believe that the Company is subject to any significant credit risk.

For the fiscal years ended February 29, 2020 and February 28, 2019, revenues derived from two customers amounted to $2,764,131, or 21.7%, and $2,373,988, or 16.4%, of total revenues, respectively. As of February 29, 2020 and February 28, 2019, accounts receivable from three customers accounted for 60.6% and 32.1% of total receivables, respectively.

The Company relies on a limited number of outside vendors who currently supply necessary components for the manufacture of meters. The Company is subject to the risk that it may not be able to obtain sufficient quantities or reasonable prices. The Company purchased inventory and services from its three largest vendors of $1,098,362 and $1,234,824 for the years ended February 29, 2020 and February 28, 2019, respectively. This represents 24.7% and 25.8% of the total purchases for years ended February 29, 2020 and February 28, 2019, respectively.

3. License and Equipment Transfer Agreement, Net

On February 11, 2020, the Company entered into a License and Equipment Transfer Agreement, which granted Trilliant Networks (Canada) Inc. (TNCI) an exclusive license to manufacture and distribute the Company's legacy “Family 5” line of smart electricity meters for Canada and other global markets. The Company retained the right to distribute the “Family 5” line of products within the United States alongside its new “Q” line of metering and building monitoring products that will be distributed throughout the world. In connection with the license and equipment transfer agreement, the Company received proceeds of $1,725,000 in February 2020. The agreement also includes a receivable of $575,000, which is recorded as a Holdback Receivable on the balance sheet and is payable to the Company upon the earlier of the date that TNCI or its contract manufacturer has successfully manufactured one functioning sample of each SKU of the Family 5 Meters that passes functional and calibration tests or November 1, 2020, provided that the Company continues to not be in material default of performance of its obligations under the agreement. These performance obligations include the transfer of the exclusive international license, rights to the documentation, know-how and bill of materials related to the Family-5 meters, and title transfer for manufacturing equipment each of which had been provided to the buyer in February 2020. As part of the same agreement the Company entered into an agreement to manufacture and for TNCI to order a minimum of 2,000 units of specific SKU's of Family 5 Meters at prices per the standard price list and to perform certain other services as an accommodation to facilitate the switchover. Each of these additional services is expected to be provided by the Company to the buyer in fiscal 2021. Income from the license and equipment transfer was $2,259,000 for the year ended February 29, 2020 and is recorded net of the $41,000 net book value of property and equipment, which had been sold to the buyer.

4. Inventories, Net

Inventories, net, consisted of the following:

	February 29, 2020	February 28, 2019
Raw materials	**$ 267,316**	$ 238,002
Work-in-progress	**546,189**	408,185
Finished goods	**203,897**	362,703
Inventories, Net	**$ 1,017,402**	$ 1,008,890

As of February 29, 2020 and February 28, 2019, the Company has inventory reserves of $605,423 and $509,533, respectively, of which $419,733 and $421,519, respectively, related to the Energy Guard product line.

5. Property and Equipment, Net

Property and equipment, net, consisted of the following:

	February 29, 2020	February 28, 2019
Machinery and equipment	**$ 541,741**	$ 1,221,744
Furniture and office equipment	**344,311**	414,204
Leasehold improvements	**1,554,046**	1,554,046
Computer equipment and software costs	**338,277**	313,792
Tools, dies and molds	**36,000**	184,005
	2,814,375	3,687,791
Less: accumulated depreciation and amortization	**(2,131,552)**	(2,873,119)
Property and Equipment, Net	**$ 682,823**	$ 814,672

Included in machinery and equipment cost are construction-in-process assets with a cost of $55,999, which had not yet been placed into service as of February 29, 2020. Included in computer equipment and software costs were construction-in-process assets with a cost of $180,000, which had not yet been placed into service as of February 28, 2019.

The Company disposed of $242,168 and $319,796 worth of fully depreciated fixed assets in the fiscal years ended February 29, 2020 and February 28, 2019, for no gain or loss. Additionally, for the year ended February 29, 2020, the title to machinery and equipment and tools, dies, and molds with a net book value of $38,950 and $2,050, respectively had been sold to an outside third party as part of a License and Equipment Transfer Agreement. There was no similar arrangement during the year ended February 28, 2019.

Depreciation and amortization expense for the fiscal years ended February 29, 2020 and February 28, 2019 amounted to approximately $222,900 and $197,000, respectively.

6. Intangible Assets, Net

The components and weighted-average amortization period of intangible assets are as follows:

		February 29, 2020		February 28, 2019	Weighted-Average Amortization Period (Years)
Patents	**$**	**332,436**	$	510,499	18
Trademarks		**29,964**		29,964	10
Gross Intangibles		**362,400**		540,463	
Less: accumulated amortization (patents)		**(115,429)**		(154,074)	
Less: accumulated amortization (trademarks)		**(24,446)**		(16,754)	
Intangibles, Net	**$**	**222,525**	$	369,635	

During the year ended February 29, 2020, the Company abandoned patents with a cost of $174,585 and accumulated amortization of $55,272, for a loss of $119,313. During the year ended February 28, 2019, the Company did not abandon any patents.

Amortization expense for the fiscal years ended February 29, 2020 and February 28, 2019 amounted to $34,813 and $28,186, respectively. The aggregate amortization expense related to intangible assets for the next five years is as follows:

Year ending February 28, or February 29,		
2021	$	21,798
2022		21,322
2023		18,802
2024		18,608
2025		18,413
2026 and thereafter		123,582
Total	$	222,525

7. Secured Credit Line

On October 1, 2012, the Company entered into a new loan agreement, which permitted borrowings of up to $2,000,000 under a revolving line-of-credit facility. The loan agreement shall automatically renew from year to year thereafter until amended or terminated by either party. On January 22, 2018, the loan agreement was amended until October 31, 2019 and on June 6, 2019, the loan agreement was amended further until October 31, 2021. The maximum loans and advances against accounts receivable is $2,000,000 and against inventory is $250,000. The lender agreed, at the borrower's request, to periodically re-evaluate the total facility, and may increase the facility, but not to exceed $5,000,000. This line of credit is secured by the Company's trade receivables, deposit accounts, equipment, machinery, and furniture and fixtures. Borrowings under the credit facility bear interest at prime plus 3% for loans made against accounts receivable, and interest at prime plus 5% for loans made against inventory. The minimum monthly interest charge is $4,000 for a credit line of $1,250,000 and increases to $5,000 when the total credit line exceeds $1,250,000. The agreement includes collateral monitoring fees and an annual facility fee of 2% on the line of credit. The amount borrowed at February 29, 2020 and February 28, 2019 was $1,305,671 and $1,102,233, respectively.

8. Capital Lease Obligations

On July 10, 2018, the Company entered into a five-year loan agreement with Crestmark Equipment Finance to finance $133,793 of computer equipment. The loan represents an unsecured obligation and bears interest at a rate of 8.85% per year. The loan required a down payment of $5,538 with the principal balance of $128,255 plus interest to be paid ratably with monthly payments of $2,769 over the remaining 48 months.

Future minimum lease payments for the capital leases are as follows:

Fiscal year ending February 28, or February 29,		
2021	$	33,228
2022		33,228
2023		33,228
2024		13,845
Total		113,529
Less: amount representing interest		(15,938)
Present Value of Net Minimum Lease Payments		97,591
Less: current maturities of capital leases		(25,610)
Capital Lease Obligation, net of current maturities	$	71,981

9. Convertible Preferred Stock

The Company is authorized to issue 5,000,000 shares of $.001 par value preferred stock, including 4,000,000 shares of Series A convertible preferred stock. The shares may be designated and issued by the Board of Directors at any time in one or more series that will have voting rights, mandatory interest, convertible features, and/or preferences that have not been given to shares of any other series of the Company's common stock. No shares were issued or outstanding as of February 29, 2020 and February 28, 2019.

Series A convertible preferred stock accrues cumulative dividends at the rate of 9% per annum, which are payable if and when declared by the Company's Board. Each share of preferred stock is convertible into 1.25 shares of common stock at the option of the holder at any time.

10. Commitments

In fiscal year 2007, the Company entered into a lease agreement for new facilities. The lease commenced July 1, 2007 and expires December 31, 2022. The lease is for a 15-year period and provides for minimum annual rentals plus real estate taxes and escalation charges. The facilities are located within an area that qualifies the Company for certain New York City income tax credits.

Rent expense charged to operations, net of income tax credits, amounted to $1,037,012 and $1,004,870 for the fiscal years ended February 29, 2020 and February 28, 2019, respectively.

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

Fiscal year ending February 29, 2020		
2021	$	943,916
2022		943,916
2023		786,597
	$	2,674,429

11. Income Taxes

Deferred tax assets arise from net operating loss carryforwards and from items that are currently expensed for financial statement purposes but are not currently deductible for income tax purposes. The components of the deferred tax asset are as follows:

		February 29, 2020		February 28, 2019
Deferred Tax Assets				
Net operating loss carryforwards	**$**	**367,864**	$	757,777
Research and development (R&D) credit carryforwards		**1,114,372**		1,106,085
Relocation and Employment Assistance Program (REAP) credit carryforward		**813,617**		933,100
Wage reduction credit		**19,200**		19,200
Accrued expenses		**185,842**		177,925
Deferred rent		**62,178**		108,804
Other reserves		**234,684**		193,245
Tax capitalization of certain inventory costs		**21,703**		21,862
Total Deferred Tax Assets		**2,819,460**		3,317,998
Deferred Tax Liability				
Depreciation		**(75,561)**		(44,544)
Total Deferred Tax Assets		**2,743,899**		3,273,454
Less: valuation allowance		**(2,743,899)**		(3,273,454)
Net Deferred Tax Asset	**$**	**-**	$	-

The Company has established a full valuation allowance against its deferred tax assets due to the uncertainty surrounding realization of such assets.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Act) was signed into law. Among other things, the Act reduced the Company's corporate federal tax rate to a flat 21%. As a result, the Company's deferred tax items are measured at an effective tax rate of 20% for federal tax purposes as of February 29, 2020.

As of February 29, 2020, the Company had federal, state and city net operating loss carryforwards of approximately $1,449,195 available to reduce any future federal, state and city taxable income. The federal, state and city net operating loss carryforwards begin expiring in February 28, 2030.

The Company has federal R&D credit carryforwards of $1,114,372, of which $26,342 will expire on March 1, 2020. The remaining R&D tax credits will start to expire in 2027. The Company also has New York City REAP credits of $813,617 that have been reduced by expiring credits of $169,143, which expired on February 29, 2020. As the REAP credits have only a five-year carryforward period, credits have begun to expire and some amount of credit will be lost each year if not used.

The Company follows ASC 740-10 (FASB Interpretation No. 48), *Accounting for Uncertainty in Income Taxes,* which clarifies the accounting for uncertainty in income taxes recognized in and entity's financial statement disclosure of tax provisions taken or expected to be taken on a tax return. The Company has not identified any uncertain tax positions that would require a provision of a liability under ASC 740-10.

Open tax years for federal income taxes are fiscal years ended 2020, 2019, 2018, and 2017. Open tax years for state income taxes range between three to four years or for fiscal years ended 2017 to 2020.

The Company's policy is to recognize interest and penalties relating to uncertain tax positions in income tax expense.

12. Employee Stock Awards and Warrants

Common Stock

During fiscal year 2020, the Company compensated each independent director $40,000 and granted 120,000 shares of the Company's common stock to its directors, which vested immediately. The grant date fair value for the 120,000 shares, which were granted on March 1, 2019, was $0.32 per share. Stock compensation costs relating to the director shares for the years ended February 29, 2020 and February 28, 2019 were $38,400 and $68,150, respectively.

Restricted Stock

The Company granted 135,000 and 200,000 restricted shares to various employees during the years ended February 29, 2020 and February 28, 2019, respectively. Vesting terms for the restricted shares granted during the year ended February 28, 2019 are time-based and stipulate that 25% of the 200,000 restricted shares will be vested on the grant date, while an additional 25% of the shares will vest on the first, second and third anniversary dates of the grants until the restricted shares are fully vested. The 135,000 restricted shares granted during the year ended February 29, 2020 will vest 20% on the grant date, while an additional 20% of the shares will vest on the first, second, third and fourth anniversary dates of the grant until the restricted shares are fully vested. The Company recognized $23,100 and $15,000 in compensation expense from the 77,000 and 50,000 restricted share awards issued to employees that vested in the fiscal years ended February 29, 2020 and February 28, 2019, respectively.

The following table reflects the activity of restricted shares:

	Shares	Weighted-Average Grant Date, Fair Value
Unvested, February 28, 2018	-	$ -
Granted	200,000	0.30
Vested	(50,000)	0.30
Forfeited	-	-
Unvested, February 28, 2019	150,000	0.30
Granted	135,000	0.30
Vested	(77,000)	0.30
Forfeited	-	-
Unvested, February 29, 2020	208,000	$ 0.30

As of February 29, 2020, the total unrecognized compensation cost for the unvested restricted shares was $62,400 and is to be recognized over a weighted-average period of approximately 2.3 years.

Options

As of February 29, 2020 and February 28, 2019, there were no outstanding employee or director options.

Warrants

The Company has granted warrants to purchase shares of its common stock in connection with various equity transactions. There were 249,760 warrants outstanding during the years ended February 29, 2020 and February 28, 2019.

There were no warrants issued for fiscal years ended February 29, 2020 and February 28, 2019.

The Company uses the Black-Scholes pricing model to value warrants. The value of each warrant granted is estimated on the date of the grant.

13. Installment Debt Payable to Related-Party

Installment debt represents accumulated interest that accrued on unpaid compensation payable to one of the Company's officers (who is also a significant shareholder). The obligation is unsecured and bears interest at 6% per annum. Interest incurred and paid during the fiscal years ended February 29, 2020 and February 28, 2019 was $20,203 and $26,497, respectively. The current portion at February 29, 2020 and February 28, 2019 is $302,496 and $376,852, respectively, and the monthly payment is $12,080. For the year ended February 29, 2020, the full balance is current, as the debt can be called at any time by the officer.

14. Litigation

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. There are no pending significant legal proceedings to which the Company is a party for which management believes the ultimate outcome would have a material adverse effect on the Company's financial position. On January 16, 2018, the Company filed a lawsuit against its Mexican licensee, alleging, among other things, breach of contract, failure to pay royalties, and payment of royalties in the amount of $7,360,000. On January 2, 2019, the Company was awarded a default judgement by the United States District Court, Southern District of New York in the amount of $7,360,000 plus pre-judgement interest in the amount $615,773 against Pounce Electronics S.A. DE C.V., the Mexican licensee. There are no assurances of recovery.

15. Subsequent Events

Subsequent events have been evaluated through August 4, 2020, which is the date the financial statements were available to be issued.

The recent outbreak of COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the U.S. and global economies and created uncertainty regarding potential impacts to the Company's supply chain, operations and customer demand. The pandemic has the potential to impact the Company's production and the operations of its suppliers and vendors as a result of quarantines, facility closures, and travel and logistics restrictions. However, after initial uncertainties and delays, the Company is now seeing a return to more normal operations among vendors and customers. While the disruption caused by the pandemic is currently expected to be temporary, its duration is unknown and further impacts to operations, financial position and liquidity cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the CARES Act, which among other things, appropriated funds to the Small Business Administration (SBA) Paycheck Protection Program (PPP) for loans that are forgivable in certain situations in order to promote continued employment in small businesses harmed by COVID-19. Loans issued prior to June 5, 2020 have terms of two years, are unsecured, and are guaranteed by the SBA. They incur interest at a fixed rate of 1% per annum, with the first six months of interest and principal deferred. In May 2020, the Company received such a PPP loan in the amount of $1,036,103.

Some or all of the loans may be forgiven if at least 60% of the loan proceeds are used by the Company to cover payroll costs, including benefits, and if the Company maintains its employment and compensation within certain parameters during the 24-week period following the loan's origination date and complies with other relevant conditions. Moreover, employers can also defer the payroll taxes from March 27, 2020 through the end of the year and up to the date of forgiveness of the PPP loan. The Company continues to examine the impact that COVID-19 and the CARES Act may have on its business and is currently unable to determine the full impact that COVID-19 and the CARES Act will have on its financial condition, results of operation, or liquidity.