

Risk Factors Comparison 2023-07-27 to 2022-07-14 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text Section**

Risks Related to Business Operations and Our Industry We rely heavily on U. S. ~~government~~ **Government** programs for a substantial portion of our business. Accordingly, changes in U. S. ~~government~~ **Government** priorities or delays or reductions in spending by the U. S. ~~government~~ **Government** on such programs could have a material adverse effect on our business, financial position, results of operations and / or cash flows. Either as a prime contractor or as a subcontractor, we rely heavily on U. S. ~~government~~ **Government** programs, from which we derived approximately **95 % and 94 % and 91 %** of our sales in **fiscal 2023 and fiscal 2022 and fiscal 2021**, respectively. These U. S. ~~government~~ **Government** programs may be only partially or incrementally funded and are subject to potential termination, may be subject to funding reductions and / or delays due to changes in government priorities or other factors. Whether direct contracts with the U. S. ~~government~~ **Government** or contracts with prime contractors to the U. S. ~~government~~ **Government**, our contracts typically are funded at a level less than the full contract value and require periodic incremental additional funding in order to continue. Should circumstances change regarding funding and sufficient funding become unavailable, contracts may be terminated, delayed significantly or put on stop work status. U. S. ~~government~~ **Government** contracts are subject to congressional funding, which may be unavailable due to changes in priorities or subject to continuing resolution, which may result in funding reductions, eliminations or other effects that could impact our business. Furthermore, budget uncertainty, the risk of future budget cuts, the potential for U. S. ~~government~~ **Government** shutdowns, and the federal debt ceiling could also adversely affect our industry and the funding for our current and future contracts. If appropriations are delayed or a government shutdown was to occur and was to continue for an extended period of time, we could be at risk of program or contract cancellations and other disruptions and nonpayment. Finally, shifting funding priorities or federal budget changes, could also result in reductions in overall spending on our contracts and projects, which could adversely impact our business. Changes in funding priorities could reduce opportunities in existing programs and in future programs where we intend to compete. While we would expect to compete and be well positioned as the incumbent on existing programs, we may not be successful and, even if we are successful, the replacement programs may be funded at lower levels. We depend heavily on a small number of larger customers for a substantial portion of our business. The loss of one or more of our largest customers or programs could have a material adverse effect on our business, financial position, results of operations and / or cash flows. The Company' s products are sold to both commercial and governmental customers. For **fiscal 2023 and fiscal 2022 and fiscal 2021**, approximately **95 % and 94 % and 91 %** of the Company' s sales, respectively, were made under contracts to the U. S. ~~government~~ **Government** or subcontracts for U. S. ~~government~~ **Government** end- use. As a subcontractor, the Company is reliant on a few large customers that generally hold the ultimate contract with the U. S. ~~government~~ **Government**. During **fiscal year 2022-2023, Lockheed Martin, Northrop Grumman Company, Lockheed Martin Corporation Office of Naval Research** and BAE Systems each accounted for more than 10 % of the Company' s consolidated revenues. These customers typically incorporate our products into larger programs. If these customers encounter technical, financial or other issues unrelated to our products that affect the larger program' s operations, the related program may be terminated or require expensive, unanticipated revisions. These issues, although unrelated to our products, could adversely impact us if our customers' contracts with the U. S. ~~government~~ **Government** become subject to re- competition or are ultimately cancelled. Additionally, our larger customers are sophisticated corporations with large research and development staffs and budgets. If one or more sought to design and manufacture replacements for our products, they could potentially discontinue their need for our products. Alternatively, our larger customers could look to replace our products with the products of one or more of our competitors. The loss of the U. S. ~~government~~ **Government** or one or more of our other larger customers or programs could adversely affect our business, financial position, results of operations and / or cash flows We use estimates when accounting for contracts. Changes in estimated contract revenues and / or changes in costs can affect our profitability and our overall financial position. Contract accounting requires significant judgment by the Company' s management with respect to estimating contract revenues and costs. Due to the nature and complexity of many of our contracts, the estimation of total revenues and costs at completion is subject to many variables and often difficult to predict accurately. As a result, it has, and could in the future, be possible that the Company' s estimates when accounting for contracts may prove to be materially incorrect. The Company' s operating income can be adversely affected when estimated contract costs increase. Reasons for increased estimated contract costs include: design issues; changes in estimates of the nature and complexity of the work, including technical or quality issues or requests for additional work; production challenges, including those resulting from the timeliness of customer funding, unavailability or reduced productivity of qualified labor; the availability, performance, and quality of significant subcontractors; supplier issues, including the costs, timeliness and availability of materials and components; changes in laws or regulations; actions necessary for long- term customer satisfaction; and natural disasters or other matters. We have filed, and may file, requests for equitable adjustment or claims to seek recovery in whole or in part for our increased costs and aim to protect against these risks through contract terms and conditions when practical, but the prime contractor or the U. S. ~~government~~ **Government** may disagree with our requests or may not have funding to cover them. Due to their nature, fixed price contracts inherently tend to have more financial risk than cost- type contracts, including as a result of inflationary pressures, labor shortages, and increased labor rates. In **fiscal 2022-2023, 89-81 %** of our sales were derived from fixed- price contracts. While the Company' s management uses its best judgment to estimate costs associated with fixed- price contracts, future events may require adjustments, which could ultimately adversely affect the Company' s operating income. Under cost- type contracts, allowable costs incurred by the contractor are generally subject to reimbursement plus a fee. These

cost- type programs typically have award or incentive fees that are uncertain and may be earned over extended periods or towards the end of the contract. In these cases, the associated financial risks are primarily in recognizing profit, which ultimately may not be earned, or program cancellation if cost, schedule, or technical performance issues arise. Changes in underlying assumptions, circumstances or estimates, and the failure to prevail on related claims for equitable adjustments could have a material adverse effect on our business, financial position, results of operations and / or cash flows. We face substantial competition in our industry, and if we fail to win future business or experience undue pricing pressures as a result of such competition, our business, financial position, results of operations and / or cash flows could be adversely affected. We operate in a highly competitive industry focused on very high- performance products. Many of our competitors are larger, have greater financial resources and have larger research and development and marketing staffs. While we also maintain a robust internal research and development program that is intended to maintain our technical edge, the Company is limited in its resources and ultimately may not be able to successfully compete. Technology is advancing rapidly, and if we are unable to respond effectively to competition, we may lose existing customers, fail to win future business or experience undue pricing pressures that could affect our financial performance. Certain of our current technologies may become subject to significant future advancements, which may make our products obsolete or non- competitive. Competitors may be able to develop new manufacturing technologies that afford them cost and / or schedule advantages compared to our products. Customers may elect a less expensive product, even where it offers lower performance, in cases where that performance difference becomes less, compared to our current products. Specifically, the emergence of numerous low earth orbit (LEO) commercial satellite systems that have significantly lower requirements for life in orbit may result in new products based on commercial parts and processes not required for the high performance and / or longer lived geo- synchronous orbit (GEO) satellites for which the Company has typically developed products. This may result in a migration to less capable, but less expensive products compared to what the Company has traditionally produced. This may result in reduced market share, lower revenues and impact our business operations and financial conditions. Additionally, competitors may have the benefit of other contracts that enable them to produce in volume with a concomitant cost advantage that affords them a price advantage. Many of our customers have in-house capability to develop products comparable to ours and may opt to do so. Accordingly, if we are unable to continue to compete successfully against our current or future competitor competitors, we may experience declines in future revenues and market share, which could have a material adverse effect on our financial position, results of operations and / or cash flows. Our products, which are often incorporated into larger systems, are technologically complex and require state- of- the- art technology and manufacturing expertise. Any defect in the design, materials or workmanship with respect to our product could result in system failure. Our products are technologically complex and require state- of- the- art technology and manufacturing expertise. If a defect in design, materials or workmanship is not identified prior to delivery, the defect can result in product failure and potentially the loss of mission capability for the systems into which our products are integrated. Costly satellites cannot be recovered from orbit to repair failed sub- systems, therefore failure of a Company product incorporated into a satellite may result in the complete loss of the satellite with a significant impact to the Company' s reputation and future business prospects. Penalties and possible litigation may result from these types of problems, with potential significant impact to our financial position, results of operations and / or cash flows. We are dependent on numerous suppliers for various parts, materials, test services, facility operations and infrastructure. If these suppliers fail to perform or we are unable to procure or experience significant delays with respect to needed products, materials or services, our financial position, results of operations and / or cash flows could be materially adversely effected affected. We are dependent on numerous suppliers for various parts, materials, test services, facility operations and infrastructure who may, in turn, be affected by factors such as raw material availability, skilled personnel shortages, pandemics, major weather events or natural disasters and other impacts that affect their ability to provide the goods and services we require. Disruptions or performance problems caused by our suppliers or failure to meet regulatory or contractual requirements, have had, and may continue to have, various adverse impacts on the Company, including our ability to meet our commitments to customers. The inability of our suppliers to perform adequately has resulted in and could in the future result in the need for us to transition to alternate suppliers if available, which could result in significant incremental cost and delay or the need for us to provide other resources to support our existing suppliers. The Company is reliant on suppliers who are space- qualified, limiting the ability to procure certain key materials, such as circuit boards, from other vendors. When these key suppliers experience quality issues, their products may have to be rejected, causing delays in our ability to complete projects on schedule and at projected costs. The time and cost associated with resolution of these issues may impact our financial performance. Consolidation of the industry can result in elimination of suppliers or discontinuation of certain product lines upon which we are reliant, necessitating lifetime buys of components or the need to redesign electronics to incorporate different components, having a negative effect on our financial position, results of operations and / or cash flows. Furthermore, latent supply chain quality issues may affect our product performance and reliability, which may damage our reputation and impact future business. The success of our business and financial performance is dependent on our ability to identify, attract, train and retain a highly skilled workforce. We rely on very unique skill sets in our employee population. Our average employee tenure is approximately 15 years and the median age is approximately 55-53. Our products rely on very experienced engineers, physicists and manufacturing personnel who are trained in- house and who acquire competence only after a lengthy period of time. Given the median age of our average employee, we anticipate that a number of our key personnel will retire in the coming years. If we are unable to attract, train and retain competent and skilled replacement employees, our ability to design, develop and manufacture our products will be adversely affected. Furthermore, our operating performance is also dependent upon personnel who hold security clearances and receive substantial training to work on certain programs or tasks. If we were to experience an unanticipated attrition with respect to these employees, it will be difficult for us to replace them on a timely basis. Adverse changes in global economic or geopolitical conditions may adversely effect affect of business operations and financial condition. Global economic and geopolitical conditions may adversely affect our business operations

and financial condition. Turmoil in world financial markets may impact our supply chain resulting in unavailability of key components and materials increasing costs due to delays, need to redesign certain electronics in order to mitigate shortages or schedule impacts and costs to establish alternate qualified suppliers. These impacts may affect our business due to customer cancellations, reduced demand for our products and increased costs, which impact our financial condition. We are also subject to inflation and recessionary pressures. The current inflationary environment has and may continue to increase our cost of labor as well as our other operating costs. Likewise, deteriorating economic conditions could reduce the demand for our products, which could adversely affect our business operations and financial condition. We face various risks related to health epidemics, pandemics and similar outbreaks, which may have material adverse effects on our business, financial position, results of operations and / or cash flows. Health epidemics, pandemics and similar outbreaks, such as COVID- 19, create substantial risk to the Company. Employees work in close proximity to one another. When an employee is positive for COVID- 19 or suspected of being infected, other employees he or she has come in contact with may also be infected, with a cascading effect on the workforce. In addition to the time off to recover (or pass the CDC guideline isolation period), there is a need to clean and disinfect the areas where the employee was working and had frequented in the facility. The nature of the Company’ s business requires mostly “ hands- on ” activities related to design, manufacturing and testing. Therefore, absenteeism resulting from infectious diseases and cleaning procedures to disinfect various areas of our facilities can have a significant impact on a contract’ s schedule, with a corresponding impact to costs. The Company is not able to predict possible future pandemics, but if they manifest, they could have significant adverse effects on our business, financial position, results of operations and / or cash flows. Our business could be adversely impacted by various external disruptions. A natural disaster, terrorism, insider threat, workplace violence, civil unrest, damaging weather, fire, act of war, or similar acts or events could limit our access to our facilities or cause interruption in the supply of electricity, natural gas, or water or preclude delivery of various supplies or limit the movement of our workforce, which may have a significant adverse impact to our operations and financial performance. The nature of our business requires mostly “ hands- on ” activities at our facilities to design and manufacture our products. Additionally, our products undergo lengthy testing, and interruption of these tests for any reason can cause damage to the product and / or necessitate the need to repeat test cycles, with adverse cost and schedule impacts. Catastrophic effects that result in intrusion of damaging water or other contaminants may cause damage to sensitive capital equipment, inventory or facilities that could be material. Our ability to recover from these catastrophes may be limited. As a result, such disruptions could adversely impact our financial position, results of operations and / or cash flows. Risks Related to Legal, Regulatory and Compliance Matters Our failure to comply with laws, regulations and / or terms we are subject to could adversely affect our business. We operate in a highly regulated industry and are routinely audited and reviewed by the U. S. **government Government** and its agencies. These agencies review performance under our contracts, our cost structure and accounting, and our compliance with applicable laws, regulations, terms and standards, as well as the adequacy of our systems in meeting government requirements. If an audit uncovers improper or illegal activities, we would be subject to possible civil and criminal penalties, sanctions, forfeiture of profits or suspension or debarment. Most of our contracts are subject to Federal Acquisition Regulations (FARs) or Defense Federal Acquisition Regulation Supplement (DFARS). Violation of any of these regulations can result in significant consequences, including fines, disbarments, or other punitive measures by the U. S. **government Government**. Additionally, the Company has defense department security clearance that is required for performance on several contracts. Failure to maintain compliant security procedures may result in suspension of our security clearance and inability to perform on current contracts, as well as limit our ability to be awarded future contracts. The Company is also subject to export control requirements, anti- boycott regulations and Office of Foreign Assets Control (OFAC) sanctions against business dealings with certain persons and entities, including its investment in Morion, Inc., a less than wholly- owned subsidiary of state- owned Russian bank Gazprombank. Violation of any of these requirements may have a material adverse effect on our financial position, results of operations and / or cash flows. We are subject to various investigations, claims, disputes, enforcement actions, litigation, and other legal proceedings that could ultimately be resolved against us. We have and may in the future become subject to investigations, claims, disputes, enforcement actions and administrative, civil or criminal litigation, arbitration or other legal proceedings across a broad array of matters, including government contracts, commercial transactions, false claims, false statements, compliance with government orders, mischarging, contract performance, fraud, procurement integrity, securities laws and requirements, products liability, warranties, hazardous materials, personal injury claims, environmental, stockholder derivative actions, acquisitions and divestitures, intellectual property, tax, corporate law and obligations, employment ~~(including our prior litigation with our founder and former President, Chief Scientist and director)~~, export / import, anti- corruption, debt and equity, labor, health and safety, the COVID- 19 pandemic and the Company’ s response to it, accidents, and employee benefits and plans, including plan administration, improper payments, and issues related to privacy and security (cyber and physical). These matters can divert financial and management resources; result in administrative, civil or criminal fines, penalties or other sanctions (including judgments, convictions, consent or other voluntary decrees or agreements), compensatory, treble or other damages, non- monetary relief, or other liabilities; and otherwise harm our business and our ability to obtain and retain new business. Certain allegations against us can lead to suspension or debarment from government contracts. A suspension or debarment could have a material adverse effect on the Company because of our reliance on U. S. **government Government** contracts. Additionally, an investigation, claim, dispute, enforcement action or litigation, even if pending or not ultimately substantiated or if fully indemnified or insured, can also negatively impact our reputation among our customers, and make it substantially more difficult for us to compete effectively for business in the future. Accordingly, investigations, claims, disputes, enforcement actions, litigation or other legal proceedings could have a material adverse effect on our financial position, results of operations and / or cash flows. **The Company’ s failure to establish and maintain effective internal control over financial reporting resulted in a material misstatement of the audited consolidated financial statements in the Form 10- K for the fiscal year ended April 30, 2022 (the “ 2022 Form 10- K ”).**

Although we have remediated the material weakness, we cannot assure you that other material weaknesses in internal control over financial reporting will not occur in the future. An ineffective control environment and could result in material misstatements in future consolidated financial statements. Additionally, the Company's failure to establish and maintain effective internal control over financial reporting could result in the Company's failure to meet its reporting and financial obligations, which in turn could have a negative impact on its financial condition. Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial statements. In the course of preparing the condensed consolidated financial statements for the second quarter of fiscal 2023, ended October 31, 2022, the Company identified revisions related to the calculations, and errors related to the presentation of contract assets and contract liabilities in the 2022 Form 10- K. Following the identification of these prior errors and revisions, management re- evaluated the Company's internal control over financial reporting as of April 30, 2022 and as of July 31, 2022 and identified certain deficiencies, which the Company concluded constituted material weaknesses in the Company's internal control over financial reporting as of April 30, 2022 and for the three months ended July 31, 2022. Under standards established by the Public Company Accounting Oversight Board (United States) (" PCAOB "), a material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness in the design of monitoring controls indicates that the Company has not sufficiently developed and / or documented internal controls by which management can review and oversee the Company's financial information to detect and correct material errors or that the personnel responsible for performing the review did not have the sufficient skill set or knowledge of the subject matter to perform a proper assessment. As a result of the material weaknesses, the Company's management concluded that the audited consolidated financial statements included in the 2022 Form 10- K were materially misstated. Accordingly, the Company filed the amendment to its 2022 Form 10- K in order to correct the audited consolidated financial statements for the fiscal year ended April 30, 2022. The material weaknesses were due to revisions related to the calculations, and errors related to the presentation of contract assets and contract liabilities. In response, the Company implemented the following remediation steps to address the material weaknesses: The Company used additional checks and balances surrounding the calculations and formulas used, as well as additional verification checks regarding the presentation of contract assets and contract liabilities to comply with current reporting requirements. As of April 30, 2023, the Company's management believes the identified material weaknesses have been remediated. The Company cannot assure you that new material weaknesses in our internal control over financial reporting will not arise in the future. Any failure to maintain existing or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in new material weaknesses in the Company's internal control over financial reporting, could result in future material misstatements in its consolidated financial statements and cause the Company to fail to meet its reporting and financial obligations, which in turn could have a negative impact on the Company's financial condition.

Risks Related to Information Technology and Intellectual Property Our business could be adversely impacted by significant cybersecurity attacks. As a U. S. government ~~Government~~ defense industry contractor, the Company has ~~experience~~ **experienced** cybersecurity attacks in the past and may be subjected to significant cybersecurity attacks in the future in an effort to, among other things, steal intellectual property, disrupt operations, embed ransomware, or initiate insider attacks. Although we implement various measures and controls to monitor and mitigate risks associated with these threats and to increase the cyber resiliency of our infrastructure and products, there can be no assurance that these processes will be sufficient. Our inability to defend effectively against cyberattacks may result in disruption of operations, loss of significant intellectual property, compromise of employee's personal information or violation of government contractor requirements for information security. These could result in reputational damage, fines, litigation, operational impacts or significant costs for mitigation and / or recovery, all with adverse consequences to our financial position, results of operations and / or cash flows. Claims by third parties that our products infringe their intellectual property could result in costly disputes and / or require us to develop alternate designs. We may become subject to claims for infringement of intellectual property, which could result in litigation costs or require us to incur costs for developing alternate designs that may require extensive testing and qualification to meet contract obligations. This could result in adverse consequences to our financial position, results of operations and / or cash flows.

Risks Related to Our Common Stock Our stock price may continue to be volatile. The trading price of our common stock may continue to be volatile. **As a result**, which may adversely affect our investors in our common stock may experience substantial losses. This volatility may or may not be related to our operating performance. Our operating results, from time to time, may be below the expectations of public market analysts and investors, which could have a material adverse effect on the market price of our common stock. The relatively low trading volume of our common stock may limit your ability to sell your shares. Although our shares of common stock are listed on the Nasdaq Global Market, we have historically experienced a relatively low trading volume of approximately 13, 000 shares per trading day. If our low trading volume continues, holders of shares of our common stock may have difficulty selling shares of our common stock in the manner, at the time, or at a price they desire. If significant existing stockholders sell large numbers of shares of our common stock, our common stock price could decline. Approximately ~~42-50~~ **74**% of our outstanding common stock is held by ~~5-6~~ individuals or entities. The market price of our common stock could decline if a large number of our shares of outstanding common stock are sold in the public market by our existing stockholders or as a result of the perception that such sales could occur. Due to the relatively low trading volume of our shares of common stock, the sale of a large number of shares of our outstanding common stock may significantly depress the price of our common stock.