



BUTLER AMERICA AEROSPACE, LLC

Financial Statements

Years Ended March 31, 2020 and 2019

With Report of Independent Auditors

BUTLER AMERICA AEROSPACE, LLC

Table of Contents

	Page
Report of Independent Auditors	1
Balance Sheets	3
Statements of Operations	4
Statements of Member's Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Butler America Aerospace, LLC:

We have audited the accompanying financial statements of Butler America Aerospace, LLC, which comprise the balance sheet as of March 31, 2020, and the related statements of operations, member's equity and cash flows for the year 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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 2020 financial statements referred to above present fairly, in all material respects, the financial position of Butler America Aerospace, LLC as of March 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

The accompanying financial statements of Butler America Aerospace, LLC as of March 31, 2019 and for the year then ended were audited by other auditors whose report thereon dated August 2, 2019, expressed an unmodified opinion on those financial statements.

KPMG LLP

New York, New York
September 4, 2020

BUTLER AMERICA AEROSPACE, LLC

Balance Sheets

March 31, 2020 and 2019

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 3,233,553	2,432,598
Accounts receivable, net	12,882,673	9,020,682
Unbilled revenue	2,633,838	3,401,013
Prepaid expenses and other current assets	762,506	846,998
Total current assets	19,512,570	15,701,291
Property and equipment, net	1,521,549	1,765,591
Other noncurrent assets	2,171,025	1,545,946
Total assets	<u>\$ 23,205,144</u>	<u>19,012,828</u>
Liabilities and member's equity		
Current liabilities:		
Line of credit with Parent	\$ 2,777,151	2,697,850
Accounts payable	250,185	368,811
Accrued employee cost	1,666,549	1,412,147
Payable to Parent	3,047,230	2,063,204
Accrued liabilities	1,075,513	1,338,068
Total current liabilities	8,816,628	7,880,080
Other noncurrent liabilities	1,516,963	1,443,300
Total liabilities	10,333,591	9,323,380
Member's equity	12,871,553	9,689,448
Total liabilities and member's equity	<u>\$ 23,205,144</u>	<u>19,012,828</u>

See accompanying notes to financial statements.

BUTLER AMERICA AEROSPACE, LLC

Statements of Operations

Years ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue	\$ 78,283,263	72,201,478
Cost of revenue	<u>62,996,109</u>	<u>58,937,653</u>
Gross profit	15,287,154	13,263,825
Selling, general and administration expenses	10,220,229	12,775,704
Depreciation and amortization	718,666	677,334
Other expense, net	<u>538,487</u>	<u>145,411</u>
Operating income (loss)	3,809,772	(334,624)
Interest expense	<u>78,914</u>	<u>100,522</u>
Income (loss) before income taxes	3,730,858	(435,146)
Provision for income tax	<u>548,753</u>	<u>77,039</u>
Net income (loss)	<u>\$ 3,182,105</u>	<u>(512,185)</u>

See accompanying notes to financial statements.

BUTLER AMERICA AEROSPACE, LLC

Statements of Member's Equity

Years ended March 31, 2020 and 2019

Balance at March 31, 2018	\$ 10,201,633
Net income (loss)	<u>(512,185)</u>
Balance at March 31, 2019	9,689,448
Net income (loss)	<u>3,182,105</u>
Balance at March 31, 2020	<u><u>\$ 12,871,553</u></u>

See accompanying notes to financial statements.

BUTLER AMERICA AEROSPACE, LLC

Statements of Cash Flows

Years ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities:		
Net income (loss)	\$ 3,182,105	(512,185)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	723,541	677,334
Changes in assets and liabilities:		
Accounts receivables and unbilled revenue	(3,094,816)	455,190
Prepaid expenses and other current assets	84,492	42,123
Other noncurrent assets	(625,079)	(188,388)
Accrued employee costs	254,402	(391,576)
Accounts payable	(118,626)	(673,274)
Payable to Parent	984,026	94,768
Accrued liabilities	(262,556)	416,281
Accrued interest expense	79,301	84,501
Other noncurrent liabilities	73,663	86,119
Net cash provided by operating activities	<u>1,280,453</u>	<u>90,893</u>
Investing activities:		
Purchase of property and equipment	<u>(479,498)</u>	<u>(469,190)</u>
Net cash used in investing activities	<u>(479,498)</u>	<u>(469,190)</u>
Financing activities:		
Borrowing from Parent	<u>—</u>	<u>900,000</u>
Net cash provided by financing activities	<u>—</u>	<u>900,000</u>
Net change in cash and cash equivalents	800,955	521,703
Cash and cash equivalents, beginning	<u>2,432,598</u>	<u>1,910,895</u>
Cash and cash equivalents, end	<u>\$ 3,233,553</u>	<u>2,432,598</u>

See accompanying notes to financial statements.

BUTLER AMERICA AEROSPACE, LLC

Notes to Financial Statements

Years ended March 31, 2020 and 2019

(1) Organization and Nature of Operations

Butler America Aerospace, LLC (hereinafter referred to as the “Company”) serves customers primarily in the aerospace and defense industries in USA, to whom it provides engineering & design services in the areas of mechanical and structural design, electrical design, tool design and aftermarket engineering services. The Company was incorporated on June 22, 2016 in USA.

The Company was acquired by HCL America Inc. on January 3, 2017 and it is a wholly-owned subsidiary of HCL America Inc. (the “Parent” or “Member”).

(2) Summary of Significant Accounting Policies

(a) Basis of Preparation and Principles of Consolidation

The accompanying financial statements are prepared on the basis of U. S. generally accepted accounting principles (“U.S. GAAP”).

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on management’s best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. Changes in estimates are reflected in the financial statements in the period in which the changes are made. Actual results could differ from those estimates.

(c) Revenue Recognition

Under FASB ASC Topic 605, revenue reflected in the Company’s statements of operations represent services rendered for which the Company maintains a primary contractual relationship with its customers.

The Company recognizes revenue upon concluding that all of the fundamental criteria for revenue recognition have been met, which is generally when there is persuasive evidence of an arrangement, service has been delivered to the customer, the amount of the fees to be paid by the customer is fixed or determinable and collection of the fees is reasonably assured or probable. The Company’s contracts can be primarily categorized as time-and-material or fixed price contracts.

The Company accounts for time and material contracts over the period of performance, predominately based on labor hours incurred. Under these types of contracts, there is no predetermined fee. Instead, the Company negotiates hourly billing rates and charges the clients based upon actual hours expended on a project.

The Company recognizes revenues for fixed price contracts consistent with the performance of the services, which are generally on a pro-rata basis over the life of the contractual arrangement.

BUTLER AMERICA AEROSPACE, LLC

Notes to Financial Statements

Years ended March 31, 2020 and 2019

Billed contract receivables represent amounts billed to clients in accordance with contracted terms but not collected as of the end of the reporting period. Unbilled revenue represent revenue from efforts expended and fees earned that are not billed as of period-end. The Company reduces contract receivables by recording an allowance for doubtful accounts to account for the estimated impact of collection issues resulting from a client's inability or unwillingness to pay valid obligations to the Company. The resulting provision for doubtful accounts is recorded within selling, general and administrative expenses on the statements of operations. There were \$36 and \$47,498 of write-offs for the years ended March 31, 2020 and 2019.

(d) Property and Equipment

Property and equipment is recorded at historical cost less accumulated depreciation. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in the statements of operations.

Depreciation is provided using the straight-line method, based on useful lives of the assets which are as follows:

Asset description	Asset life (in years)
Computer hardware	5 to 7
Computer software	3 to 5
Furniture and fixtures	5 to 7
Office equipment	5 to 7
Automobiles	5

Leasehold improvements are amortized on a straight-line basis over the shorter of the lease period or the estimated useful life of the asset. The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment at March 31, 2020 and 2019.

BUTLER AMERICA AEROSPACE, LLC

Notes to Financial Statements

Years ended March 31, 2020 and 2019

(e) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by valuation allowances when in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company is a single-member limited liability company and is disregarded for federal income tax Purposes. The Company's results of operations as a disregarded entity are included in the HCL America Inc's federal, state and local tax returns which are then included in a consolidated/combined return. Current and deferred taxes are allocated to the Company under the "separate-return" method. Under this method, the Company is assumed to file a separate return with the taxing authority, thereby reporting their taxable income or loss and paying the applicable tax to, or receiving the appropriate refund from, HCL America Inc as if the Company was a separate taxpayer.

The Company recognizes tax positions in the statement of operations only when it is more likely than not that the position will be sustained upon examination by relevant taxing authorities based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the statement of financial condition including related interest and penalties. Interest and penalties are included in operating expenses.

(f) *Compensated Absences*

The employees of the Company are entitled to compensated absences. The employees can carry forward up to the specified portion of the unutilized accumulated compensated absences and utilize it in future periods or receive cash at retirement or termination of employment. The Company records an obligation for compensated absences in the period in which the employee renders the services that increases this entitlement. The Company measures the expected cost of compensated absences as the additional amount that it expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

(g) *Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity, when purchased, of three months or less to be cash equivalents. Cash and cash equivalents comprise cash at bank and in hand, which are subject to an insignificant risk of changes in value.

BUTLER AMERICA AEROSPACE, LLC

Notes to Financial Statements

Years ended March 31, 2020 and 2019

(h) Recently Issued Accounting Standards

(i) Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, with final amendments issued in 2016. The underlying principle is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides for a five-step model to determine the revenue recognized for the transfer of goods or services to customers that reflects the expected entitled consideration in exchange for those goods or services. It also provides clarification for principal-versus-agent considerations and identifying performance obligations. In addition, the FASB introduced practical expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, noncash consideration, and the presentation of sales and other similar taxes. Financial statement disclosures required under the guidance will enable users to understand the nature, amount, timing, judgments, and uncertainty of revenue and cash flows relating to customer contracts. The two permitted transition methods under the guidance are the full retrospective approach or a cumulative-effect adjustment to the opening retained earnings in the year of adoption (cumulative-effect approach). This standard will be implemented by the Company as of April 1, 2020.

(ii) Leases

In February 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on balance sheet via a right-of-use asset and a lease liability, and additional qualitative and quantitative disclosures. This standard will be implemented by the Company as of April 1, 2022.

(3) Income Taxes

The provision for income taxes for the year ended March 31, 2020 is \$548,753.

The difference between the actual tax expense and the “expected” tax expense for (computed by applying the applicable U.S. corporate tax rate of 21% to earnings before income taxes) is primarily attributable to non-deductible expenses and state taxes, and additionally for the year ended March 31, 2020 a true-up for the recording of previous years’ deferred taxes.

BUTLER AMERICA AEROSPACE, LLC

Notes to Financial Statements

Years ended March 31, 2020 and 2019

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31 are presented below:

	<u>2020</u>
Deferred tax assets:	
Accrued payroll and vacation	\$ 354,304
Accrued expenses	<u>267,255</u>
Total deferred tax assets	621,559
Deferred tax liabilities:	
Property and equipment	<u>(168,749)</u>
Total deferred tax liabilities	<u>(168,749)</u>
Net deferred tax assets	<u><u>\$ 452,810</u></u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the expected availability of future taxable income during the periods in which those temporary differences become deductible and prior to the expiration of the deferred tax assets as governed by the Internal Revenue Code. The Company has not recorded any valuation allowances as of March 31, 2020.

(4) Concentration of Credit Risk

The Company's customers are concentrated in the aerospace industry. The Company's largest customer accounted for approximately 46% and 60% of revenues during the years ended March 31, 2020 and 2019, respectively, and approximately 49% and 43% of accounts receivable at March 31, 2020 and 2019, respectively.

BUTLER AMERICA AEROSPACE, LLC

Notes to Financial Statements

Years ended March 31, 2020 and 2019

(5) Property and Equipment

Property and equipment consist of the following:

	2020	2019
Leasehold improvements	\$ 448,673	521,024
Computer hardware	2,221,775	1,978,128
Automobile	—	9,237
Computer software	3,857,340	4,514,405
Office equipment	94,800	94,800
Furniture and fixtures	544,172	584,504
	<u>7,166,760</u>	<u>7,702,098</u>
Less accumulated depreciation	<u>(5,645,211)</u>	<u>(5,936,507)</u>
Property and equipment, net	<u>\$ 1,521,549</u>	<u>1,765,591</u>

(6) Lease Commitments

The company has entered into operating lease agreements for buildings that expire at various times through 2025. Monthly payments range from \$3,172 to \$137,200. Rent expense was \$1,608,809 and \$1,517,995 during the years ended March 31, 2020 and 2019, respectively, and is included as a component of selling, general and administration expenses on the statements of operations.

The future minimum lease payments under operating leases are as follows:

	Operating leases
Year ending March 31:	
2021	\$ 1,121,516
2022	1,030,036
2023	846,165
2024	781,885
2025	113,529
Thereafter	<u>—</u>
Total minimum lease payments	<u>\$ 3,893,131</u>

BUTLER AMERICA AEROSPACE, LLC

Notes to Financial Statements

Years ended March 31, 2020 and 2019

(7) Fair Value Measurements

The Company's financial instruments include cash and cash equivalents, investments, and long-term debt. These financial instruments potentially subject the Company to concentrations of credit risk. To minimize the risk of credit loss, these financial instruments are primarily held with accredited financial institutions. The carrying value of the Company's financial instruments approximate fair value. The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques.

Investments include investments in a trading asset portfolio maintained to generate returns to offset changes in certain liabilities related to deferred compensation arrangements. The Company assesses declines in the value of individual investments to determine whether such decline is other than temporary and thus the investment is impaired by considering available evidence. No impairment charge was recorded for the years ended March 31, 2020 and 2019.

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which the Company would transact, and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs that are generally unobservable and may not be corroborated by market data.

Financial Assets and Liabilities Measured on a Recurring Basis

The Company's financial assets and liabilities are measured and recorded at fair value, except for long-term debt. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

BUTLER AMERICA AEROSPACE, LLC

Notes to Financial Statements

Years ended March 31, 2020 and 2019

The following table summarizes the valuation of the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2020 and 2019:

	<u>March 31, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<i>(In U.S. dollars)</i>		
Assets				
Plan assets for deferred compensation ⁽¹⁾	\$ 1,685,452	1,685,452	—	—
Liabilities				
Deferred compensation liabilities ⁽²⁾	\$ 1,516,963	1,516,963	—	—
	<u>March 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<i>(In U.S. dollars)</i>		
Assets				
Plan assets for deferred compensation ⁽¹⁾	\$ 1,519,844	1,519,844	—	—
Liabilities				
Deferred compensation liabilities ⁽²⁾	\$ 1,451,847	1,451,847	—	—

(1) Plan assets are comprised of investments in mutual funds, which are intended to fund liabilities arising from the Company's deferred compensation plan. These investments are carried at fair value, which is based on quoted market prices at period end in active markets.

(2) The Company offers certain employees the opportunity to participate in a deferred compensation plan. A participant's deferrals are invested in a variety of participant directed stock and bond mutual funds. Changes in the fair value of these securities are measured using quoted prices in active markets based on the market price per unit multiplied by the number of units held exclusive of any transaction costs. A corresponding adjustment for changes in fair value of the equity securities is also reflected in the changes in fair value of the deferred compensation obligation.

BUTLER AMERICA AEROSPACE, LLC

Notes to Financial Statements

Years ended March 31, 2020 and 2019

(8) Related Party Transactions

On February 10, 2017, the Company entered into a line of credit facility with the Parent, with a capacity of \$2,000,000. Under the terms of the line of credit, base rate borrowings are subject to an interest rate of LIBOR plus 1.0%.

In addition, the Company entered into another line of credit with the Parent with a capacity of \$1,000,000 on June 28, 2017. Under the terms of the line of credit, base rate borrowings are subject to an interest rate of LIBOR plus 1.0%.

The outstanding balances on both lines of credit, including related interest payable, were \$2,777,151 and \$2,697,850 as of March 31, 2020 and 2019, respectively.

(9) Subsequent Events

The Company has evaluated subsequent events through September 4, 2020, the date the Company's financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The pandemic has significantly impacted the economic conditions in the U.S., accelerating during the first half of March, as federal, state and local governments react to the public health crisis, creating significant uncertainties in the economy. Butler America Aerospace, LLC has been designated as an essential business, critical to our country's infrastructure pursuant to Presidential Policy Directive 21. Since then, the Company has been impacted by a downturn in new requirements, while the majority of our projects remain open and we continue to provide contracted services.

The Company cannot reasonably estimate the length or severity of this pandemic, however, as a result of these developments the Company expects an adverse impact on its sales, results of operations and cash flows in 2020. In response to these developments, the Company has placed a freeze on hiring as well as wage increases. The Company also anticipates short-term closures of some of our facilities as demand for certain products decreases and employees will either be laid-off or furloughed. In addition to these cost reductions, the Company has taken actions to safeguard its capital position by applying for a loan through the SBA Paycheck Protection Program to provide additional liquidity.