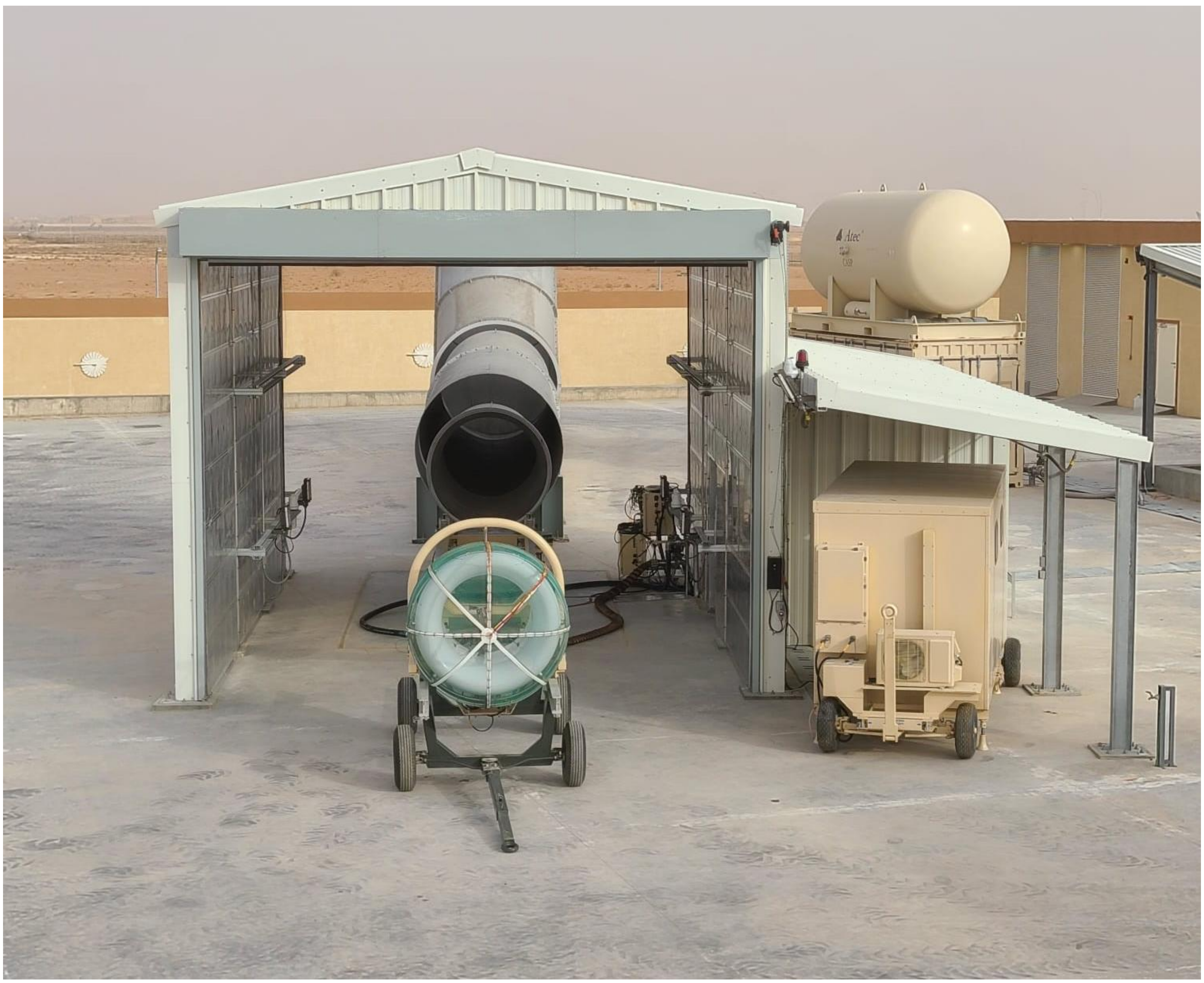
Atec • Celtech • Hager Machine & Tool • Vital Link Europe • Vital Link •
Since 1953

2020 ANNUAL REPORT


Atec

Contents

Atec, deemed an essential business for national security purposes by the Secretary of Defense, remained at full production throughout Covid-19 closures. Many safeguards were put in place to keep our machinists, and other employees, protected while remaining productive.

Dear Shareholders,

Atec, Inc. had a remarkable year in 2020, especially given the pandemic conditions that have gripped our world for the past 19 months. We were truly blessed to continue our total enterprise growth again in 2020. Our combined efforts across all our companies yielded our highest revenue year on record, with $110.6M in revenues, up 14% over our previous record year in 2019. Our increased revenue along with our continuing focus on detailed project management, financial accountability, process improvement, and increased utilization of our enterprise-wide ERP system for workflow yielded a record net income of $6.45M for 2020. We continued our aggressive reinvestment of income into facility enhancement to facilitate our growth. Strategic planning and retention / recruitment of diverse, capable personnel remain as key goals as we move forward into 2021 and beyond.

Total assets remained relatively constant at $73,266,856, while equity grew 22% to $35.4 million in 2020. Our asset to liability ratio of 1.93 is up from 2019 as well, continuing our commitment to fiscal planning as we expand our resources. We were blessed with realized annual awards of over $94 million in 2020 for our team. We finished 2020 with a total realized backlog in excess of $136M with over 390 employees across our family.

Our USAF multi-year sustainment contracts at both Vital Link and Atec continued to produce excellent results for our enterprise across 2020. Our Field Teams from both companies persevered through all manner of obstacles including the pandemic as well as severe weather to break records for number of field repairs completed in 2020. Our emphasis on packaged products such as thrust stands, air start, fuel and oil systems as well as our proven ADAQ™ Data Acquisition systems yielded multiple delivery orders being issued in 2020 by the USAF.

Atec and Vital Link continued work throughout 2020 on the installation phase for three international Depot Test Cells for the Joint Strike Fighter for Pratt & Whitney, the USAF and their international partners. As of this writing all three of our Depot Test Cells have successfully met all performance criteria for testing the JSF turbine engines. Atec also continued our efforts promoting Maintenance Service Agreements (MSAs) with test cell clients, and the signing of our first key clients occurred in late 2020.

Our Space Systems business continued the expansion trend seen in 2019, with Aerojet Rocketdyne and Boeing placing critical contracts with Atec to build space components. These programs ranged from rocket engine valves for multiple engine platforms to SLS vehicle components to ISS systems. Atec was asked by Boeing to expedite the IROSA contract awarded in 2019 to meet aggressive new launch dates. Atec's team successfully expedited all seven kit deliveries to meet NASA's launch dates in support of the International Space Station repower efforts.

Atec's largest challenge remains balancing our rapid growth to meet customer expectations for Quality and Delivery from Design through Production. Our Project Management initiative coupled with our Strategic Planning efforts produced measurable, positive results in 2020 across our enterprise. "Planning to Win" continues to drive every aspect of our business, involving winning as a good corporate citizen for our country as well.

Our brands, products, services, and our expertise are acknowledged worldwide. Atec did not make any acquisitions in 2020, however we continue to examine acquisitions as part of our growth strategy.

Your support and God's blessings continue to anchor our company as we move forward.

May God bless the United States of America.

Howard F. Lederer
Chairman & CEO

Paul R. Fenley
President & COO

Independent Auditor's Report

To the Stockholders and Board of Directors
Atec, Inc.
Houston, Texas

Opinion

We have audited the consolidated financial statements of Atec, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

August 20, 2021

While the Covid-19 pandemic delayed many field installations, it did not delay the requirement to complete the products, systems, and equipment that would later be installed. Three 8,000 Gallon Fuel Systems are shown in different stages of production at Celtech's facility in Carlsbad, New Mexico.

Consolidated Balance Sheet

December 31,	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 2,313,099	$ 2,790,711
Restricted cash	418,116	1,672,462
Accounts receivable, net	21,582,956	19,527,257
Costs and estimated earnings in excess of billings on uncompleted contracts	14,137,055	14,228,243
Inventories, net	11,518,397	9,707,688
Prepaid expenses	932,326	892,144
Foreign sales tax receivable	623,893	964,415
Income tax receivable	953,783	1,001,633
Total Current Assets	52,479,625	50,784,553
Property and Equipment, less accumulated depreciation and amortization	15,227,430	14,869,740
Other Assets	838,713	1,441,653
Inventories, net of current portion	2,266,294	2,864,420
Prepaid Foreign Income Tax	-	1,974,893
Restricted Cash - noncurrent	-	418,116
Goodwill, net	2,454,794	2,860,070
Total Assets	$ 73,266,856	$ 75,213,445
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 7,218,544	$ 6,567,507
Accrued expenses	4,918,036	2,284,370
Long-term debt and capital leases, current maturities	4,665,559	3,361,757
Billings in excess of costs and estimated earnings on uncompleted contracts	3,447,443	19,889,708
Income tax payable	205,945	208,269
Total Current Liabilities	20,455,527	32,311,611
Other long-term liability	748,199	-
Long-Term Debt and Capital Leases, net of current maturities	15,949,315	13,889,217
Deferred Income Taxes	711,734	56,914
Total Liabilities	37,864,775	46,257,742
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Common stock	114,659	114,659
Additional paid-in capital	760,557	760,557
Accumulated other comprehensive loss	(83,490)	(33,010)
Retained earnings	35,072,579	28,575,721
Treasury stock, at cost	(462,224)	(462,224)
Total Stockholders' Equity	35,402,081	28,955,703
Total Liabilities and Stockholders' Equity	$ 73,266,856	$ 75,213,445

See accompanying notes to consolidated financial statements.

Consolidated Statement of Operations

Years Ended December 31,	2020	2019
Contract Revenue	$ 110,618,781	$ 97,410,130
Contract Costs	100,123,071	89,150,349
Gross Profit	10,495,710	8,259,781
Non-Reimbursable Contract Costs	929,327	1,877,014
Income from Operations	9,566,383	6,382,767
Other Income (Expense)		
Interest expense	(605,640)	(832,925)
Other	432,984	378,781
Other Expense, net	(172,656)	(454,144)
Income Before Income Tax Expense	9,393,727	5,928,623
Income Tax Expense (Benefit)		
Current - state	139,483	159,924
Current - federal	258,513	514,125
Current - foreign	1,095,854	-
Deferred - federal	1,403,019	(1,278,436)
Total Income Tax Expense (Benefit)	2,896,869	(604,387)
Net Income	6,496,858	6,533,010
Other Comprehensive Loss		
Foreign currency translation adjustment	(50,480)	(182,744)
Total Comprehensive Income	$ 6,446,378	$ 6,350,266

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholder's Equity

	Common Stock*		Additional Paid-in	Accumulated Other Comprehensive	Retained	Treasury Stock		
	Shares	Amount	Capital	Income (Loss)	Earnings	Shares	Amount	Total
Balance at January 1, 2019	1,218,751	$ 121,875	$ 1,140,394	$ 149,734	$ 22,042,711	116,612	$ (462,224)	$ 22,992,490
Foreign currency translation loss	-	-	-	(182,744)	-	-	-	(182,744)
Stock repurchased and cancelled	(72,160)	(7,216)	(379,837)	-	-	-		(387,053)
Net income	-	-	-	-	6,533,010	-	-	6,533,010
Balance at December 31, 2019	1,146,591	114,659	760,557	(33,010)	28,575,721	116,612	(462,224)	28,955,703
Foreign currency translation loss	-	-	-	(50,480)	-	-	-	(50,480)
Net income	-	-	-	-	6,496,858	-	-	6,496,858
Balance at December 31, 2020	1,146,591	$ 114,659	$ 760,557	$ (83,490)	$ 35,072,579	116,612	$ (462,224)	$ 35,402,081

*** $0.10 par value; 4,000,000 shares authorized, 1,146,591 shares issued as of December 31, 2020 and 2019, and 1,029,979 shares outstanding as of December 31, 2020 and 2019.**

See accompanying notes to consolidated financial statements.

Beyond new capital investments, Atec also analyzed the utilization of various assets and enacted various plans to improve the efficiency and utilization of current assets. Shown above, is the relocation of the Doosan VCF 850L from Vital Link, where it was rarely used, to Atec's Hager Campus where it is used daily.

Consolidated Statement of Cash Flows

Years Ended December 31,		2020		2019
Cash Flows from Operating Activities				
Net Income	$	6,496,858	$	6,533,010
Adjustments to reconcile net income to net cash used in operating activities:				
Loss on disposal of assets		4,381		7,833
Depreciation and amortization		2,714,342		2,543,413
Bad debts		-		911,251
Deferred income taxes		1,403,019		(1,278,436)
Changes in operating assets and liabilities, net of effects of acquisition:				
Accounts receivable		(2,055,699)		(10,203,640)
Unbilled revenue		-		2,359,004
Costs and estimated earnings in excess of billings on uncompleted contracts		91,188		(1,766,908)
Inventories		(1,212,583)		(2,467,911)
Prepaid expenses		(40,182)		(429,644)
Prepaid foreign income tax		1,226,694		(658,149)
Foreign sales tax receivable		340,522		(964,415)
Other assets		602,940		390,905
Income tax receivable and payable		45,526		159,813
Accounts payable and accrued expenses		3,284,703		3,673,326
Other long-term liability		748,199		-
Billings in excess of cost and estimated earnings on uncompleted contracts		(16,442,265)		526,526
Net Cash Used in Operating Activities		(2,792,357)		(664,022)
Cash Flows from Investing Activities				
Capital expenditures		(2,173,137)		(1,876,315)
Net Cash Used in Investing Activities		(2,173,137)		(1,876,315)
Cash Flows from Financing Activities				
Borrowings of long-term debt		13,891,900		11,250,000
Payments on long-term debt		(10,376,020)		(8,850,010)
Payments on capital leases		(649,980)		(713,871)
Stock repurchased		-		(387,053)
Net Cash Provided by Financing Activities		2,865,900		1,299,066
Effects of Exchange Rate Changes		(50,480)		(182,744)
Net Decrease in Cash and Cash Equivalents and Restricted Cash		(2,150,074)		(1,424,015)
Cash and Cash Equivalents and Restricted Cash - Beginning of Year		4,881,289		6,305,304
Cash and Cash Equivalents and Restricted Cash - End of Year	$	2,731,215	$	4,881,289
Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	$	778,103	$	1,037,388
Cash paid for income taxes	$	112,000	$	1,338,149
Non-Cash Investing and Financing Activities				
Capital leases for purchases of equipment	$	498,000	$	280,000

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Business and Basis of Presentation

The consolidated financial statements of Atec, Inc. include the accounts of Atec, Inc. and its wholly-owned subsidiaries, Atec Commercial Systems, Inc., Atec Resources, Inc., Vital Link, Inc., Vital Link Europe, Ltd. and Celtech Corporation (the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

Atec, Inc. engineers and custom-manufactures a broad spectrum of parts, assemblies and systems. Atec, Inc. performs engineering and project services, as well as manufactures electronics and information control systems complementing precision to heavy mechanical machining and fabrication. Design, prototyping, repair, field service, construction management, build-to-specification and build-to-print efforts are regularly provided for projects under contract. Atec, Inc. serves governmental agencies, aerospace, energy service and other industrial scientific markets.

Atec Commercial Systems, Inc. supervises new operations and organizes development and marketing of corporate proprietary products. Atec Resources, Inc. is engaged in oil and gas exploration through various ownership interests in projects conducted by operating industry partners. Vital Link, Inc. manufactures, constructs and sustains hush houses and noise suppressors as well as manufactures structural steel, electrical systems, acoustic panels, enclosures and assemblies, mechanical systems for hush houses, ground support equipment, adapters, thrust stands, augmenters, fire suppression systems and other specialty equipment items and provides administrative services. Celtech Corp. engineers and manufactures aerospace equipment and is located in New Mexico.

Vital Link Europe, Ltd. (United Kingdom and Turkey) engages in the design, installation and commissioning of turbojet, prop and shaft engine test cells.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and have been prepared assuming the Company will continue as a going concern.

Revenue Recognition

The Company accounts for revenue recognition in accordance with Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*.

The Company recognizes revenues from providing services to its customers under time and material contracts and lump-sum contracts.

The Company determines its revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations within the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations within the contract
- Recognition of revenue when, or as the performance obligation has been satisfied

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC Topic 606. A contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. In assessing the recognition of revenue, the Company evaluates whether two or more contracts should be combined and accounted for as one contract and if the combined or single contract should be accounted for as multiple performance obligations which could change the amount of revenue and profit (loss) recorded in a period. The majority of the Company's contracts with customers are accounted for as one performance obligation, as the majority of tasks and services are part of a single project and are recognized as "over-time" as the services are performed.

The Company offers assurance type warranties and when necessary, accrues its estimated exposure for warranty claims at the time of sale based upon the length of the warranty period, warranty costs incurred, and any other related information known to the Company as needed. As of December 31, 2020 and 2019, the Company did not accrue for future warranty costs nor record any associated warranty expense related to its contracts.

The Company's performance obligations are satisfied predominately over-time as work progresses and measured utilizing an input method based on the costs of time and materials incurred for each project, which include direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. During the years ended December 31, 2020 and 2019, substantially all of the Company's revenues were recorded over-time either as a time and material or lump sum contract.

Contract Estimates

Accounting for contracts utilizing the over-time method is based on various assumptions to project the outcome of future events that can exceed a year. These assumptions include labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; and the availability and timing of funding from the customer. The Company reviews and updates its contract-related estimates each reporting period. The Company recognizes adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognizes the total loss in period it is identified. In addition, any costs incurred on a project that do not add to the contract's progress are expensed as incurred as a period cost.

Contract Balances

The timing of revenue recognition, billings and cash collections results in contract assets such as costs and estimated earnings in excess of billings on uncompleted contracts, and contract liabilities such as deferred revenue and billings in excess of costs and estimated earnings on uncompleted contracts on the consolidated balance sheet. The majority of the Company's contract amounts are billed as work progresses in accordance with agreed-upon contractual terms. Billing sometimes occurs subsequent to revenue recognition, resulting in contract assets. However, the Company sometimes receives advances or deposits from its customers, before revenue is recognized, resulting in contract liabilities. These assets and liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period.

Change Orders

Change orders are modifications of an original contract, which effectively change deliverables under a contract without adding new provisions. Either the Company or its customers and suppliers may initiate change orders. Change orders may include changes in specifications or design, manner of performance, equipment, materials, scope of work, and/or the period of completion of the project. Change orders occur when changes are experienced once a contract has begun. Change orders are documented, and the terms of change orders are agreed with the customer before the work is performed. The Company analyzes its change orders to determine if they should be accounted for as a modification to an existing contract or a new stand-alone contract.

The Company's change orders are generally modifications to existing contracts and are included in the total estimated contract revenue when it is probable that the change order will result in additional value that can be reliably estimated and realized. The Company utilizes the variable consideration provisions, specifically the most likely amount measurement method, to record the revenue or portion thereof associated with unapproved change orders. For the years ended December 31, 2020 and 2019, the Company recognized no revenues related to unapproved change orders.

Capitalized Contract Costs

Certain eligible costs can be capitalized when the costs related directly to the contract, are expected to be recovered, and generate or enhance resources to be used in satisfying the performance obligation. During the years ended December 31, 2020 and 2019, the Company noted no material contract costs incurred on its contracts that were eligible to be capitalized.

Practical Expedients and Exemptions

The Company has elected the following practical expedients and exemptions as allowed under the revenue guidance:

- Financing - The Company has elected to not adjust the consideration for the effects of a significant financing component as the term of the majority of contracts is twelve months or less.

- Sales Tax – When sales tax is applicable to the transaction, the Company acts as an agent in the collection and remittance of sales taxes. The Company has excluded these amounts from the calculation of revenue.

- Shipping and Handling Costs - The Company has elected to account for shipping and handling activities that are incurred after the customer obtains control of the product as fulfillment costs rather than a separate service provided to the customer for which consideration would need to be allocated. These costs are recorded within contract costs in the consolidated statement of operations and comprehensive income.

Cash and Cash Equivalents

The Company considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash

The Company's restricted cash, totaling $418,116 and $2,090,578 at December 31, 2020 and 2019, respectively, serves as collateral for the principal and interest payments of notes with former owners of Vital Link which have an outstanding balance of $375,000 and $2,047,577 at December 31, 2020 and 2019, respectively (see Note 5).

The following table provides a reconciliation of cash and restricted cash reported on the consolidated balance sheets to the amounts shown in the consolidated statements of cash flows:

December 31,	2020	2019
Cash	$ 2,313,099	$ 2,790,711
Restricted cash - current	418,116	1,672,462
Restricted cash - noncurrent	-	418,116
Total	$ 2,731,215	$ 4,881,289

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under specific contractual terms. The Company performs continuing credit evaluations of customers' financial condition and generally does not require collateral.

The Company's management reviews accounts receivable on a monthly basis to determine if any receivables could potentially be uncollectible, and if so, includes a determined amount in its allowance for doubtful accounts. Based on the information available to the Company, management believes an allowance for doubtful accounts of $0 and $929,890 was necessary as of December 31, 2020 and 2019, respectively. However, actual write-offs may exceed the recorded allowance.

Inventories

Inventories are valued at the lower of cost (weighted average) or net realizable value, net of a slow-moving inventory reserve (see Note 3).

Property, Equipment, Depreciation and Amortization

Property and equipment are stated at cost, or at fair value if acquired in a business combination. Depreciation and amortization are computed over the estimated useful lives of the assets using the straight-line method for financial statement purposes. Building improvements are depreciated over the useful lives of the related assets.

The Company considers whether there is any potential impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of the assets may not be fully recoverable. Management of the Company has determined that there were no impairment indicators of its long-lived assets during the years ended December 31, 2020 or 2019.

Goodwill

Goodwill represents the excess cost of purchasing the net assets in a business combination over the fair value of the identifiable net assets and liabilities assumed at the acquisition date.

The Company has elected to apply the private company alternative which is to not recognize and measure customer related intangible assets and include them as part of goodwill, and to amortize goodwill over its estimated life of ten years using the straight-line method and only evaluate it for impairment when an event occurs or circumstances change to suggest that the carrying amount may not be recoverable. There were no indicators to suggest that the carrying amount of goodwill may not be recoverable during 2020 and 2019.

At December 31, 2020 and 2019, goodwill was approximately $4,088,000 for both years, and accumulated amortization was approximately $1,633,000 and $1,228,000, respectively. Amortization expense was approximately $405,000 for both years ended December 31, 2020 and 2019. Annual amortization expense is expected to be approximately $405,000 each of the next five years.

Income Taxes

Deferred income taxes result from temporary differences between the financial statement and income tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted income 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 income tax assets and liabilities of a change in income tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date (see Note 6).

The Company accounts for uncertainty in income taxes in accordance with guidance within the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 740-10, *Uncertain Tax Positions*. The guidance requires the impact of an income tax position to be recognized in the financial statements only if that position is more likely than not of being sustained upon examination by the taxing authority. For the year ended December 31, 2020, the Company has recognized a liability of $748,199 for an uncertain income tax position related to research and development credits pertaining to prior year which is included in the other long-term liability in the consolidated balance sheet. The Company did not recognize any liabilities in the accompanying consolidated financial statements for uncertain tax position in the year ended December 31, 2019. The Company’s Federal tax returns from 2016 are open for examination. Any interest or penalties would be recognized as a component of income tax expense.

Management Estimates and Assumptions

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

Concentrations of Credit Risk

The Company extends credit to its customers primarily in the aerospace industry, governmental agencies and to manufacturing and energy service companies. As discussed in Note 9 to the consolidated financial statements, the Company had two major customers for each of the years ended December 31, 2020 and 2019. The loss of a major customer or a significant reduction in orders and the Company’s failure to obtain other sources of revenue could have a material adverse impact on the Company’s operating results.

The Company maintains its cash in bank deposit accounts in the United States and overseas, which, at times, may exceed United States federally insured limits. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Foreign Currency

The financial position and results of operations of the Company's foreign subsidiaries are measured using the foreign subsidiary's local currency as the functional currency. Revenues and expenses of such subsidiaries have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange on the balance sheet date. The resulting translation gain and loss adjustments are recorded directly as a separate component of stockholders' equity, unless there is a sale or complete liquidation of the underlying foreign investments. Foreign currency translation adjustments for the years ended December 31, 2020 and 2019 resulted in a loss of $50,480 and $182,744, respectively.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. Foreign currency transaction gains and losses were minimal in 2020 and 2019.

Fair Value of Financial Instruments

U.S. GAAP 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 and establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorized assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

Level 1 - Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Other inputs that are observable directly or indirectly such as quoted prices in markets that are not active; or other inputs which are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

The Company's financial instruments consist mainly of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and borrowings under the Company's credit facility and term notes.

The carrying amount of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amount of the Company's long-term debt approximated fair value because the Company's borrowing rate is similar to other financial instruments with similar maturities and terms.

Foreign Sales Tax Receivable

As of December 31, 2020 and 2019, foreign sales tax receivable related to Vital link Europe, Ltd amounted to $623,893 and $964,415, respectively.

2. Uncompleted Contracts

As of December 31, 2020 and 2019, contracts totaling approximately $137,952,091 and $195,489,435, respectively, were in process. Information with respect to these uncompleted contracts is summarized as follows:

December 31,	**2020**	**2019**
Costs incurred	$ 172,130,162	$ 118,843,082
Estimated earnings	6,643,492	392,332
	178,773,654	119,235,414
Less: billings-to-date	(168,084,042)	(124,896,879)
Total	$ 10,689,612	$ (5,661,465)

These amounts were included in accompanying consolidated balance sheets under the following captions:

December 31,	**2020**	**2019**
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 14,137,055	$ 14,228,243
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,447,443)	(19,889,708)
Total	$ 10,689,612	$ (5,661,465)

Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable. At December 31, 2020 and 2019, the Company had $1,000,000 and $1,413,000, respectively, of accrued expenses related to contracts in progress expected to incur losses.

3. Inventories

At December 31, 2020 and 2019, inventories consisted of the following:

December 31,	**2020**	**2019**
Current:		
Work in progress	$ 1,409,920	$ 1,177,857
Raw materials	10,108,477	8,529,831
Total current	$ 11,518,397	$ 9,707,688
Long-term:		
Raw materials	$ 2,266,294	$ 2,985,660
Less: inventory reserve	-	(121,240)
Total long-term	$ 2,266,294	$ 2,864,420

Other than work in progress, the Company's inventories include items that have been present for more than a year and are not readily usable in contracts currently in progress. These items are an accumulation of unused parts from past contracts and large inventory purchases of commonly used parts to take advantage of discounts available. The Company has classified inventories as either current or long-term based on the estimated time it will take to use the excess parts. As of December 31, 2020 and 2019, the inventory reserve was $0 and $121,240, respectively.

4. Property and Equipment

Property and equipment at December 31, 2020 and 2019 consisted of the following:

December 31,	Estimated Useful Lives (Years)	2020	2019
Land	-	$ 2,195,200	$ 2,195,200
Furniture and fixtures	5-7	446,607	443,758
Building	27.5-38.5	6,920,332	6,657,590
Machinery and equipment	3-7	16,806,951	15,319,967
Building improvements	3-39	4,504,682	3,594,045
		30,873,772	28,210,560
Less: accumulated depreciation and amortization		(15,646,342)	(13,340,820)
Total		$ 15,227,430	$ 14,869,740

As of December 31, 2020 and 2019, equipment under capital lease, included within the machinery and equipment balance above, amounted to approximately $3,140,000 and $2,642,000, respectively, with accumulated depreciation of $1,185,045 and $749,486, respectively.

Depreciation on property and equipment expense amounted to approximately $2,309,000 and $2,138,000 for the years ended December 31, 2020 and 2019, respectively.

5. Long-Term Debt

Credit Facility

At December 31, 2020 and 2019, the Company has a credit agreement consisting of a revolving line of credit and term notes. The credit agreement is collateralized by substantially all of the Company's assets.

The revolving line of credit bears interest at a per annum rate equal to the higher of the Daily Adjusting LIBOR rate plus 2.5%, or Prime Rate but not to exceed the Maximum Rate the bank may lawfully charge (5.5% at December 31, 2020). On August 5, 2019, the Company entered into a Master Revolving agreement for a line of credit of $15,000,000 and the maturity date was March 21, 2021. On March 11, 2021, the Company renewed and extended the maturity date to March 18, 2023. At December 31, 2020 and 2019, the Company had a balance of $6,250,000 and $5,000,000, respectively, on the revolving line of credit.

The credit agreement contains certain loan covenants that, among other things, require the Company to maintain net income at the end of each December and June. Also, the Company is required to maintain a minimum tangible net worth at the end of each quarter. The Company was in compliance with such covenants at December 31, 2020.

Term Notes

On January 10, 2017, the Company entered into two term notes that provided $9,000,000 and $3,000,000 in proceeds for term note A and B, respectively. Monthly payments of $37,500 are due and payable on term note A commencing in February 2017 with a final payment of the remaining balance on January 10, 2027. Term note B is payable in monthly installments of $50,000 commencing in February 2017 with a final payment of $50,000 on January 10, 2022. The term loans bear interest at a per annum rate equal to the Daily Adjusting LIBOR rate plus 3%, but not to exceed the Maximum Rate the bank may lawfully charge (5.75% at December 31, 2020). At December 31, 2020, the Company had a balance of $7,237,500 and $650,000 on term notes A and B, respectively. At December 31, 2019, the Company had a balance of $7,687,500 and $1,250,000 on term notes A and B, respectively.

Acquisition Notes

On January 1, 2017, the Company entered into several notes with the former owner of Vital Link totaling $6,000,000 as part of the purchase of Vita Link Europe, Ltd. Quarterly payments totaling $419,000 shall be due on January, April, July and October commencing on April 2017 with the remaining principal and interest payable on February 2021. At December 31, 2020 and 2019, the Company had a balance of $375,000 and $2,047,577, respectively, related to these notes payable. Payments of the principal and interest is secured by a restricted cash account with a balance of approximately $418,000 and $2,091,000 at December 31, 2020 and 2019, respectively, which is classified as restricted cash in the accompanying consolidated balance sheets.

On June 30, 2017, the Company entered into a note with Astronics Test Systems, Inc. for $575,000 as part of the purchase of assets from Astronics Test Systems, Inc. Payment of $25,000 was paid on January 1, 2018, which will be followed by 10 equal payments of $50,000 due the first of January and July of each year with the final payment being due and payable on July 1, 2023. At December 31, 2020 and 2019, the Company had a balance of $250,000 and $400,000, respectively, related to this note payable.

Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) Loan

The Company qualified for loans under the SBA PPP and received proceeds in the amount $5,141,900 in April 2020. The loan amount was advanced at an interest rate of 1.00% and is payable in seventeen consecutive monthly payments of principal and interest starting August 2021 with the final payment due April 2022. At December 31, 2020, the current and long-term maturities of the loans under PPP were $2,823,058 and $2,318,842, respectively.

The application for these funds required the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company. This certification further requires the Company to take into account its current business activity and ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The forgiveness of the loan attendant to these funds is dependent on the Company having initially qualified for the loan and qualifying for forgiveness of such loan is based on its adherence to the forgiveness criteria.

The loans under PPP are subject to any new guidance and new requirements released by the Department of the Treasury who has indicated that all entities that have received funds in excess of $2,000,000 will be subject to a government audit to further ensure loans under PPP are limited to eligible borrowers in need.

The Company submitted the loan forgiveness application in February 2021. In July 2021, the Company received approval that the full amount of the PPP loan had been forgiven by SBA.

Capital Leases

The Company has several capital lease commitments for the purchase of machinery and equipment. As of December 31, 2020, future minimum rental payments required under capital leases were as follows:

Years Ending December 31,		
2021	$	342,251
2022		223,634
2023		160,997
2024		26,607
Total minimum rental obligation		753,489
Less: amount representing interest		(43,015)
Present value of capital lease payment		710,474
Less: current portion		(649,980)
Long-term portion	$	60,494

The future maturities of long-term debt, including capital leases, as of December 31, 2020, are as follows:

Years Ending December 31,		
2021	$	4,665,559
2022		3,129,126
2023		6,906,430
2024		476,259
2025		450,000
Thereafter		4,987,500
	$	20,614,874

6. Income Taxes

Deferred income taxes are determined based on the temporary differences between the financial statement and income tax bases of assets and liabilities as measured by the enacted income tax rates, which will be in effect when these differences reverse. Significant components of the Company's deferred income tax assets and liabilities as of December 31, 2020 and 2019 are as follows:

December 31,		2020		2019
Deferred Income Tax (Liabilities) Assets:				
Accruals and reserves	$	682,855	$	816,640
General business credits		925,609		1,371,118
Inventory		-		25,470
Property and equipment		(2,155,358)		(2,138,239)
Other		(164,840)		(131,903)
Deferred income tax liability, net	$	(711,734)	$	(56,914)

The effective income tax rate for the year ended December 31, 2020 is higher than the statutory rate primarily due to foreign income taxes, uncertain tax position reserve related to research and development tax credits and offset by research and development tax credits generated in the current year.

The effective tax rate for the year ended December 31, 2019 is lower than the statutory rate primarily due to research and development tax credits claimed by the Company.

As of December 31, 2020 and 2019, prepaid foreign income tax related to Vital Link Europe, Ltd. was $0 and $1,974,893, respectively.

7. Warrants

The Chief Executive Officer has a warrant agreement to purchase up to 800,000 shares of common stock at $2.50 per share which expires on December 31, 2035. Another member of management has warrants to purchase up to 100,000 shares of common stock at $2.50 per share, which expire on December 31, 2035.

8. Equity Incentive Plan

The Company has adopted the 2015 Long-Term Incentive Plan (the "Equity Plan") which provides awards in the form of option grants to officers, directors, and employees of the Company giving them the right and option to purchase all or any part of their allocated amount of shares of the Company's common stock at a purchase price equal to the fair market value of the share as of the grant date.

During the year ended December 31, 2020, the Company has not issued any option grants or had any other related activity.

The Company's stock option activity for the year ended 2019 was as follows:

	Shares	Weighted Exercise Price
Outstanding at January 1, 2019	220,500	$ 2.82
Granted	55,500	9.03
Canceled or expired	(6,000)	2.50
Outstanding at December 31, 2019	270,000	$ 4.10

Exercise Prices	Number Outstanding	Options Outstanding Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Options Exercisable Weighted-Average Exercise Price
$ 2.50	199,500	6.4	$ 2.50	-	$ -
7.25	15,000	8.2	7.25	-	-
9.00	49,500	9.09	9.00	-	-
9.25	6,000	9.59	9.25	-	-
	270,000	7.06	$ 4.10	-	$ -

Stock-based compensation costs are generally based on the fair value calculated from the Black-Scholes model on the date of grant of stock options. The fair values of stock options are amortized as compensation expense on a straight-line basis over the vesting period of the grants. The Company recognizes forfeitures as they occur. The assumptions used for the year ended December 31, 2019 of options granted are summarized in the following table:

Expected Dividend Yield	-
Expected Volatility	60.00%
Risk-Free Interest Rates	1.90%-2.70%
Expected Option Life (in years)	7.5

During the years ended December 31, 2020 and 2019, the Company's stock-based compensation expenses were de minimus.

9. Major Customers

During the years ended December 31, 2020 and 2019, the Company had sales to certain customers in the normal course of business that represented the following percentages of total sales:

Year Ended December 31,	2020	2019
Customer A	49.1%	45.9%
Customer B	25.1%	27.8%

At December 31, 2020 and 2019, the Company had the following receivables as a percentage of the Company's total trade accounts receivable from these customers:

December 31,	2020	2019
Customer A	48.0%	67.2%
Customer B	4.0%	7.0%

10. Employee Benefit Plan

The Company provides a 401(k) savings plan whereby all eligible employees may voluntarily contribute a percentage of their compensation. The Company makes employee matching contributions and may make a profit-sharing contribution at the discretion of management. In 2020 and 2019, the Company made employee matching contributions of approximately $712,000 and $616,000, respectively.

11. Commitments and Contingencies

Leases

The Company has various operating leases with third parties for warehouse space which expire through August 2026 and office equipment which expire through November 2025. The following table summarizes the future minimum lease payments under non-cancelable operating lease obligations with third parties as of December 31, 2020.

Years Ending December 31,		
2021	$	291,494
2022		275,200
2023		143,739
2024		115,967
2025		118,182
Thereafter		27,393
	$	971,975

Total rental expense for the years ended December 31, 2020 and 2019 was approximately $445,000 and $368,000, respectively. Such amounts also consisted of month-to-month rental payments made in addition to the long-term commitments.

Litigation

From time to time, the Company may be subject to various lawsuits and claims, none of which currently, in the opinion of management with input from their attorneys, will have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

12. COVID-19 and CARES Act

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. The Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time and as such, if the pandemic continues, it may have a material adverse effect on the Company's results of future operations, financial position, and liquidity in fiscal year 2021 and beyond.

On March 27, 2020, the "Coronavirus Aid, Relief, and Economic Security ("CARES") Act" was signed into law. The CARES Act, among other things, included provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA PPP loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. The Company applied for and received loans of $5,141,900 in April 2020 under the SBA PPP as discussed in Note 5.

13. Subsequent Events

Management of the Company evaluated subsequent events through August 20, 2021, which is the date the consolidated financial statements were available to be issued.

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President, Hager

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Or, Sara Elkins
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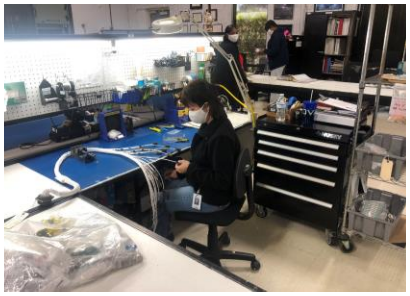
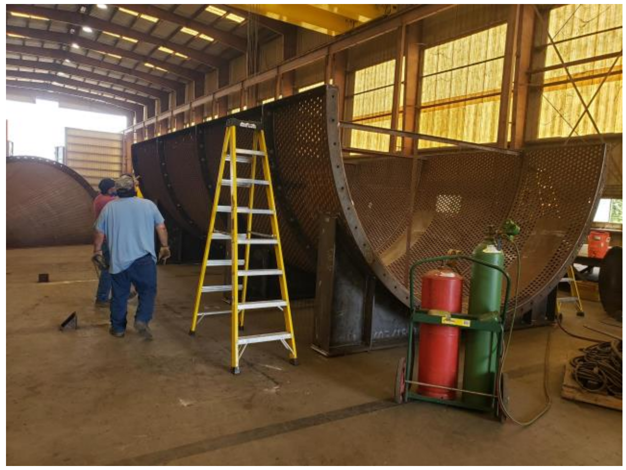
Annual Meeting Date:
October 25, 2021
2:30pm at Atec, Inc.




Support for
Aerospace & Energy

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