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Since 1953

2019 ANNUAL REPORT



Atec

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Contents

Vital Link's Large Jet Engine Test Facility in the Netherlands, the first of a series of international Test Cells for Pratt & Whitney entered the construction and installation phase of the Project.


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Executive Letter

Dear Shareholders,

Atec, Inc. continued our enterprise growth in 2019. Our combined efforts across all our companies yielded our highest revenue year on record, with $97.4M in revenues, up 62% over 2018. Our increased revenue along with our continuing focus on production process improvement, project management and intercompany workflow yielded a record net income of $6.35M for 2019, an increase of 130% over our 2018 results, even with our considerable facility enhancement expenditures to enable our continued growth. Retention and recruitment of diverse, capable personnel is also a key goal for our expansion.

Total assets grew 17% to $75,213,445 and equity grew 26% approaching $29 million. Our current asset to liability ratio of 1.57 is up from 2018 as well, remaining healthy as we continue to expand our resources. We have spent over $6 million on capital expenditures from 2017-2019 as an example of the commitment we are making to our business. We were blessed with realized annual awards of over $85M in 2019 for our team. We finished 2019 with a total realized backlog in excess of $140M with over 360 employees across our family.

In April of 2019 our subsidiary Vital Link, Inc. completed negotiations and was awarded from the USAF our follow-on Hush House facilities repair contract at $250M of 8.5-year duration. This program began to produce revenue in 2019 for our operation and will be running full steam in late 2020 and beyond. Our Sustainment and Repair service contracts continue to be a large segment of our business mix. The Atec companies now have multiple multi-year repair contracts worldwide.

Our operations in the Middle Eastern theater continued to expand with the award of a major turboshaft test cell upgrade serviced by our Dubai office with support from our Atec and VLE engineering team. 2019 also saw Atec invigorate our efforts on Maintenance Service Agreements (MSAs) with key test cell clients. We expect these efforts to begin to bear fruit beginning in 2020. Atec and Vital Link worked throughout 2019 on the installation phase for international Depot Test Cells for the Joint Strike Fighter for Pratt & Whitney, the USAF and their international partners.

Our Space Systems business also continued to expand with Aerojet Rocketdyne and Boeing contracting Atec to build space components from rocket engine valves for multiple engine platforms to SLS vehicle components to ISS systems. Atec was awarded another significant contract by Boeing Space Systems in 2019 for the manufacture and supply of solar array mounting systems for the International Space Station.

Atec's present challenge is balancing our growth to meet customer expectations for Quality and Delivery from Design to Production. We made great strides in 2019 in developing our core Project Management infrastructure/review process, including maturing our use of modern ERP "all-inclusive" strategies to meet these challenges. "Planning to Win" continues to drive every aspect of our business.

Our brands, products, services and our expertise continue to be acknowledged worldwide. While we did not make any acquisitions in 2019, we continue to examine acquisitions as part of our growth strategy.

Your support and His 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

We have audited the accompanying consolidated financial statements of Atec, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Atec, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a matter - New Accounting Standards

As discussed in Notes 1 and 2 to the accompanying consolidated financial statements, on January 1, 2019, the Company adopted Accounting Standard Topic 606, *Revenue from Contracts with Customers*, and Accounting Standard Update 2016-18, *Restricted Cash*. Our opinion is not modified with respect to these matters.

Emphasis of a Matter – COVID-19 and CARES Act

As more fully described in Note 12 to the consolidated financial statements, the Company may be materially impacted by the outbreak of a novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. Also, on March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide certain relief as a result of the COVID-19 outbreak. The Company is currently evaluating how these events will impact its consolidated financial position, results of operations, and cashflow. Our opinion is not modified with respect to these matters.

BDO USA, LLP

September 25, 2020

An Augmentor Tube for the Large Jet Engine Test Facility in the Netherlands is inspected by the customer prior to disassembly and shipment. Vital Link’s large facility provides the ability to fully assembly and fit check large fabricated structures prior to shipment to reduce the risk of field installation delays and costly technical issues.

Consolidated Balance Sheet

December 31,		2019		2018
Assets				
Current Assets				
Cash and cash equivalents	$	2,790,711	$	2,542,264
Restricted cash		1,672,462		1,672,462
Accounts receivable, net		19,527,257		10,234,868
Unbilled revenue		-		2,359,004
Costs and estimated earnings in excess of billings on uncompleted contracts		14,228,243		12,461,335
Inventories, net		9,707,688		8,652,817
Prepaid expenses		892,144		462,500
Foreign sales tax receivable		964,415		-
Income tax receivable		1,001,633		953,177
Total Current Assets		50,784,553		39,338,427
Property and Equipment, less accumulated depreciation and amortization		14,869,740		14,859,395
Other Assets		1,441,653		1,832,558
Inventories, net		2,864,420		1,451,380
Prepaid Foreign Income Tax		1,974,893		1,316,744
Restricted Cash - noncurrent		418,116		2,090,578
Goodwill, net		2,860,070		3,265,346
Total Assets	$	75,213,445	$	64,154,428
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable	$	6,567,507	$	3,599,555
Accrued expenses		2,284,370		1,578,996
Long-term debt and capital leases, current maturities		3,361,757		3,423,815
Billings in excess of costs and estimated earnings on uncompleted contracts		19,889,708		19,363,182
Income tax payable		208,269		-
Total Current Liabilities		32,311,611		27,965,548
Long-Term Debt and Capital Leases, net of current maturities		13,889,217		11,861,040
Deferred Income Taxes		56,914		1,335,350
Total Liabilities		46,257,742		41,161,938
Commitments and Contingencies (Note 11)				
Stockholders' Equity				
Common stock		114,659		121,875
Additional paid-in capital		760,557		1,140,394
Accumulated other comprehensive (loss) income		(33,010)		149,734
Retained earnings		28,575,721		22,042,711
Treasury stock, at cost		(462,224)		(462,224)
Total Stockholders' Equity		28,955,703		22,992,490
Total Liabilities and Stockholders' Equity	$	75,213,445	$	64,154,428

See accompanying notes to consolidated financial statements.

Consolidated Statement of Operations

Years Ended December 31,	2019	2018
Contract Revenue	$ 97,410,130	$ 60,106,878
Contract Costs	89,150,349	56,481,254
Gross Profit	8,259,781	3,625,624
Non-Reimbursable Contract Costs	1,877,014	896,845
Income from Operations	6,382,767	2,728,779
Other Income (Expense)		
Interest expense	(832,925)	(804,056)
Other	378,781	564,755
Other Income (Expense), net	(454,144)	(239,301)
Income Before Income Tax Expense	5,928,623	2,489,478
Income Tax Expense (Benefit)		
Current - state	159,924	-
Current - federal	514,125	(415,067)
Deferred - federal	(1,278,436)	298,576
Total Income Tax Expense (Benefit)	(604,387)	(116,491)
Net Income	6,533,010	2,605,969
Other Comprehensive Income		
Foreign Currency Translation Adjustment	(182,744)	149,734
Total Comprehensive Income	$ 6,350,266	$ 2,755,703

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholder's Equity

	Common Stock*		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at January 1, 2018	1,218,751	$ 121,875	$ 1,140,394	$ -	$ 19,436,742	116,612	$ (462,224)	$ 20,236,787
Foreign currency translation gain	-	-	-	149,734	-	-	-	149,734
Net income	-	-	-	-	2,605,969	-	-	2,605,969
Balance at December 31, 2018	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

* $0.10 par value; 4,000,000 shares authorized,
1,146,591 and 1,218,751 shares issued as of December 31, 2019 and 2018, respectively,
1,029,979 and 1,102,139 shares outstanding as of December 31, 2019 and 2018, respectively.

See accompanying notes to consolidated financial statements.

Atec's ADAQ™ Data Acquisition and Control System, installed at SR Technics facility in Zurich, Switzerland further expands Atec's ADAQ™ capabilities to meet the high demands of the Large Commercial Turbofan Test Cell market. ADAQ™ 4.0 provides high channel density with increased data capacity and processing speed, Fully Automated Testing Capabilities, and an improved user interface, The system maintains the modular plug-and-play concept that provides customers improved maintainability with the ability to integrate additional engine models into the highly scalable system with minimal customer impact.

Consolidated Statement of Cash Flows

Years Ended December 31,	2019	2018
Cash Flows from Operating Activities		
Net Income	$ 6,533,010	$ 2,605,969
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Loss on disposal of assets	7,833	136,991
Depreciation and amortization	2,543,413	2,361,212
Bad debts	911,251	-
Deferred income taxes	(1,278,436)	298,576
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	(10,203,640)	(4,171,720)
Unbilled revenue	2,359,004	2,261,905
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,766,908)	(4,228,499)
Inventories	(2,467,911)	(1,076,937)
Prepaid expenses and other assets	(1,003,154)	(1,565,153)
Income tax receivable and payable	(498,336)	(1,967,417)
Prepaid foreign incoome tax	-	(1,316,744)
Accounts payable and accrued expenses	3,673,326	627,661
Billings in excess of cost and estimated earnings on uncompleted contracts	526,526	13,151,556
Net Cash (Used in) Provided by Operating Activities	(664,022)	7,117,400
Cash Flows from Investing Activities		
Capital expenditures	(1,876,315)	(2,081,168)
Net Cash Used in Investing Activities	(1,876,315)	(2,081,168)
Cash Flows from Financing Activities		
Borrowings of long-term debt	11,250,000	5,122,462
Payments on long-term debt	(8,850,010)	(11,006,587)
Payments on capital leases	(713,871)	(412,547)
Stock repurchased	(387,053)	-
Net Cash Provided by (Used in) Financing Activities	1,299,066	(6,296,672)
Effects of Exchange Rate Changes	(182,744)	149,734
Net Decrease in Cash and Cash Equivalents and Restricted Cash	(1,424,015)	(1,110,706)
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	6,305,304	7,416,010
Cash and Cash Equivalents and Restricted Cash - End of Year	$ 4,881,289	$ 6,305,304
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,037,388	$ 920,729
Cash paid for income taxes	$ 1,338,149	$ 1,410,953
Non-Cash Investing and Financing Activities		
Capital leases for purchases of equipment	$ 280,000	$ 694,000

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.

Revenue Recognition

The Company accounts for revenue recognition in accordance with Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which the Company adopted on January 1, 2019, using the modified retrospective transition approach to all contracts. The Company evaluated the distinct performance obligations and the pattern of revenue recognition of its significant contracts upon adoption of the standard. Consequently, after its review of contracts, the Company concluded that the impact of adopting this standard did not have an impact to retained earnings as of January 1, 2019.

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, 2019 and 2018, 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 year ended December 31, 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 billed accounts receivable, unbilled receivables and 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 year ended December 31, 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 year ended December 31, 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 new 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. Historically, the Company has excluded these amounts from the calculation of revenue. These taxes will continue to be excluded from the transaction price.
- 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

On January 1, 2019, the Company adopted Accounting Standard Update ("ASU") 2016-18, *Restricted Cash*. This ASU, updates ASC 230 to require that restricted cash and cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statements of cash flows. Consequently, transfers between cash and restricted cash are not presented as a separate line item in the operating, investing or financing sections of the cash flow statements. The amendments in this ASU are to be applied using a retrospective transition method to each period presented and hence was applied to the Company's 2018 consolidated statement of cash flows. Other than the change in presentation in the consolidated statements of cash flows there was no impact on the Company's consolidated financial statements as a result of adoption of this ASU.

The Company's restricted cash, totaling $2,090,578 and $3,763,040 at December 31, 2019 and 2018, respectively, serves as collateral for the principal and interest payments of notes with former owners of Vital Link which have an outstanding balance of $2,047,577 and $3,547,577 at December 31, 2019 and 2018, respectively (see Note 5).

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

December 31,	**2019**	**2018**
Cash	$ 2,790,711	$ 2,542,264
Restricted cash - current	1,672,462	1,672,462
Restricted cash - noncurrent	418,116	2,090,578
Total	$ 4,881,289	$ 6,305,304

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 $929,890 and $18,639 is necessary as of December 31, 2019 and 2018, 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 is no impairment or impairment indicators of its long-lived assets during the years ended December 31, 2019 or 2018.

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 2019 and 2018.

At December 31, 2019 and 2018, goodwill was approximately $4,088,000 and $4,088,000, respectively, and accumulated amortization was approximately $1,228,000 and $823,000, respectively. Amortization expense was approximately $405,000 and $423,000 for the years ended December 31, 2019 and 2018, respectively. Annual amortization expense is expected to be approximately $405,000 each of the next five years.

Income Taxes

Deferred taxes result from temporary differences between the financial statement and income tax bases of assets and liabilities. 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 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 a 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. The Company has not recognized any liabilities in the accompanying consolidated financial statements for uncertain tax positions. The Company’s Federal tax returns from 2014 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.

Concentration 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 the years ended December 31, 2019 and 2018. 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 resulted in loss of $182,744 in 2019 and a gain of $149,734 in 2018.

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 2019 and 2018.

Fair Value of Financial Instruments

Generally accepted accounting principles 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 sale tax receivable

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

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the December 31, 2019 presentation. These reclassifications have no impact on total assets, total liabilities, stockholders' equity or comprehensive income.

2. Uncompleted Contracts

As of December 31, 2019 and 2018, contracts totaling approximately $195,489,435 and $180,676,211, respectively, were in process. Information with respect to these uncompleted contracts is summarized as follows:

December 31,	**2019**	**2018**
Costs incurred	$ 118,843,082	$ 60,901,403
Estimated earnings	392,332	(789,826)
	119,235,414	60,111,577
Less: billings-to-date	(124,896,879)	(67,013,424)
Total	$ (5,661,465)	$ (6,901,847)

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

December 31,	**2019**	**2018**
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 14,228,243	$ 12,461,335
Billings in excess of costs and estimated earnings on uncompleted contracts	(19,889,708)	(19,363,182)
Total	$ (5,661,465)	$ (6,901,847)

Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable. At December 31, 2019 and 2018, the Company had $1,413,000 and $634,000, respectively, of accrued expenses related to contracts in progress expected to incur losses.

3. Inventories

At December 31, 2019 and 2018, inventories consisted of the following:

December 31,		2019		2018
Current:				
Work in progress	$	1,177,857	$	2,006,582
Raw materials		8,529,831		6,646,235
Total current	$	9,707,688	$	8,652,817
Long-Term:				
Raw materials	$	2,985,660	$	1,690,670
Less: inventory reserve		(121,240)		(239,290)
Total long-term	$	2,864,420	$	1,451,380

Other than work in process, 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, based on the estimated time it will take to use the excess parts and the net realizable value, has classified the inventories as either current or long-term, along with recording the appropriate reserve, in order for inventories to be carried at the lower of cost or net realizable value. As of December 31, 2019 and 2018, the inventory reserve was $121,240 and $239,290, respectively.

4. Property and Equipment

Property and equipment at December 31, 2019 and 2018 consisted of the following:

December 31,	Estimated Useful Lives (Years)		2019		2019
Land	-	$	2,195,200	$	2,195,200
Furniture and fixtures	5-7		443,758		436,011
Building	27.5-38.5		6,657,590		6,284,474
Machinery and equipment	3-7		15,319,967		13,976,405
Building improvements	3-39		3,594,045		3,140,951
			28,210,560		26,033,041
Less: accumulated depreciation and amortization			(13,340,820)		(11,173,646)
Total		$	14,869,740	$	14,859,395

As of December 31, 2019 and 2018, equipment under capital lease, included within the machinery and equipment balance above, amounted to approximately $2,642,000 and $2,350,000, respectively, with accumulated depreciation of $749,486 and $399,284, respectively.

Depreciation on property and equipment expense amounted to approximately $2,138,000 and $1,955,000 for the years ended December 31, 2019 and 2018, respectively.

5. Long-Term Debt

Credit Facility

At December 31, 2019 and 2018, the Company has a credit agreement consisting of a revolving line of credit and a term note. The credit agreement is collateralized by substantially all of the Company's assets.

On March 18, 2016, the Company entered into an amendment on its credit facility which increased the revolving line of credit to $8,000,000 and extended the maturity date to March 18, 2018. On January 10, 2017, the Company renewed the credit facility and extended its maturity date to March 18, 2020. 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, 2019). 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 is March 21, 2021. At December 31, 2019 and 2018, the Company had a balance of $5,000,000 and $0, respectively, on the 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, 2019.

Term Notes

On January 10, 2017, the Company entered into two term notes that provided $9 million and $3 million 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, 2019). At December 31, 2019, the Company had a balance of $7,687,500 and $1,250,000 on term notes A and B, respectively. At December 31, 2018, the Company had a balance of $8,137,500 and $1,850,000 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 million as part of the purchase of the Company. 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. Payments of the principal and interest is secured by a restricted cash account with a balance of approximately $2,091,000 and $3,763,000 at December 31, 2019 and 2018, 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, 2019 and 2018, the Company had a balance of $400,000 and $450,000, respectively, related to this note payable.

In 2016, the Company entered into a note with the former owner of Hager Machine and Tool, Inc. for $527,500. At December 31, 2017, the Company had a balance of $250,000. This note payable was paid in full in 2018.

Capital Leases

The Company incurred several capital lease commitments for the purchase of machinery and equipment. As of December 31, 2019, future minimum rental payments required under capital leases were as follows:

Year Ending December 31,		
2020	$	569,941
2021		186,467
2022		67,850
2023		63,857
2024		29,145
Total minimum rental obligation		917,260
Less: amount representing interest		(51,363)
Present value of capital lease payment		865,897
Less: current portion		(689,068)
Long-term portion	$	176,829

The future maturities of long-term debt, including capital leases, as of December 31, 2019, are as follows:

Year Ending December 31,		
2020	$	3,361,757
2021		6,699,738
2022		661,565
2023		610,713
2024		479,701
Thereafter		5,437,500
	$	17,250,974

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 tax rates, which will be in effect when these differences reverse. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

December 31,		**2019**		**2018**
Deferred Tax (Liabilities) Assets:				
Accruals and reserves	$	816,640	$	(159,551)
Inventory		25,470		54,735
Property and equipment		(2,138,239)		(2,153,555)
Other		(131,903)		14,575
General business credits		1,371,118		908,446
Deferred tax liability, net	$	(56,914)	$	(1,335,350)

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. Excluding this item, the overall effective tax rate would be approximately 23%.

The effective tax rate for the year ended December 31, 2018 is lower than the statutory rate primarily due to research and development tax credits and prior year adjustments. Excluding these items, the overall effective tax rate would be approximately 23%.

As of December 31, 2019 and 2018 prepaid foreign income tax related to Vital Link Europe, Ltd. was $1,974,893.

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.

The Company’s stock option activity for the years ended December 31, 2019 and 2018 was as follows:

	Shares	Weighted Exercise Price
Outstanding at December 31, 2017	207,000	$ 2.50
Granted	15,000	7.25
Exercised	-	-
Canceled or expired	(1,500)	2.50
Outstanding at December 31, 2018	220,500	$ 2.82
Granted	55,500	9.03
Exercised	-	-
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, 2019 and 2018, the Company's stock-based compensation expenses were de minimus.

9. Major Customers

During the years ended December 31, 2019 and 2018, 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,	**2019**	**2018**
Customer A	45.9%	44.4%
Customer B	27.8%	14.6%

At December 31, 2019 and 2018, the Company had the following receivables as a percentage of the Company's total trade accounts receivable from these customers:

December 31,	**2019**	**2018**
Customer A	67.2%	34.4%
Customer B	7.0%	14.8%

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 2019 and 2018, the Company made employee matching contributions of approximately $616,000 and $550,000, respectively.

11. Commitments and Contingencies

Leases

The Company has an operating lease for a portion of its warehouse space in Texas expiring in August 2026, an operating lease for corporate apartment in New Mexico expiring in November 2020 and various office equipment leases expiring through 2023. Rental commitments are as follows:

Year Ending December 31,		
2020	$	436,760
2021		440,570
2022		438,628
2023		239,691
2024		96,556
Thereafter		85,510
	$	1,737,715

Total rental expense for the years ended December 31, 2019 and 2018 was approximately $368,000 and $447,000, respectively.

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. Subsequent Events

Management of the Company evaluated subsequent events through September 25, 2020, which is the date the consolidated financial statements were available to be issued.

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 spreads 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 these consolidated financial statements. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

In addition, the adverse economic effects of the COVID-19 outbreak and the uncertainty it created is expected to cause delays in customer awards until the Company's customers are able to determine with more certainty the impact from COVID- 19 and clearer future projections. This could have an adverse effect on the Company's future operations.

Although the Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, 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 2020.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes 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 Paycheck Protection Program 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, funds under the Paycheck Protection Program in April 2020, in the amount of approximately $5,141,900. The application for these funds requires 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 its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on its future adherence to the forgiveness criteria.

The Company continues to examine the impact that the CARES Act may have on its business. Currently, the Company is unable to determine the impact that the CARES Act will have on its financial condition, results of operation, or liquidity.

DIRECTORS

Robert A. Hay
President
Bayou City Capital

John R. Howard
Attorney at Law

Howard F. Lederer
Chairman

Robert M. Lucas*
Technical Management Cons.
Former President
Aero Systems Engineering

Joseph M. McFadden, PhD.
Former President &
Professor Emeritus
University of St. Thomas

John Morgan, CIA*
Consultant

Emily Pataki
President,
Pedernales Electric Cooperative

James W. Pritchett
Consultant

Gen. Ben Robinson*
Owner/President
Sentry One, LLC

James Sitko
President, Vital Link

*Advisory

OFFICERS

Howard F. Lederer
Chairman/CEO

Paul R. Fenley
President/COO

Brian Durbin
Vice President/CDO

D. Michael Rigdon
Vice President/CQO, Atec
President, Celtech
President, Hager

Christopher P. Elkins
Vice President/CFO

W. Michael Patterson
Vice President/CTO

Sara L. Elkins
Vice President/CAO
Corporate Secretary

CORPORATE OFFICE

Atec, Inc.
12600 Executive Drive
Stafford, Texas 77477

SUBSIDIARIES

Celtech Corporation
1300 Terminal Drive
Carlsbad, New Mexico 88220

Atec Resources, Inc.
dba. Hager Machine & Tool, Inc.
1303 Hugh Road
Houston, Texas 77067

Vital Link, Inc.
941 Bartlett Road
Sealy, TX 77474

Vital Link, Europe
9 Stanhope Gate
Stanhope Road
Camberley, Surrey GU15 3DW
United Kingdom

Atec Engine Test Systems (S) PTE. LTD.
11 North Buona Vista Drive
#08-09, The Metropolis
Singapore (138589)

Vital Link Europe FZE
4422 Fujairah – Creative Tower
Dubai, UAE

Atec Commercial Systems, Inc.
12600 Executive Drive
Stafford, Texas 77477

Kestran, Inc.
12600 Executive Drive
Suite 214
Stafford, Texas 77477

INDEPENDENT AUDITORS

BDO USA, LLP
Houston, Texas

LEGAL COUNSEL

John R. Howard, Attorney
Houston, Texas

Ramona Murphy, Attorney
Houston, Texas

Casey Doherty, Attorney
Houston, Texas

Jeffery C. Londa, Attorney
Ogletree Deakins
Houston, Texas

Richard J. Leidl, Attorney
Washington, DC

PRINCIPAL BANK

Comerica Bank
Houston, Texas

TRANSFER AGENT

Manhattan Transfer Registrar Co.
38B Sheep Pasture Rd.
Port Jefferson, NY 11777

SHAREHOLDER CONTACT

Shareholders are invited to contact Manhattan Transfer Registrar Company with questions or stock transfer issues at: 877-645-8691

Or, Sara Elkins
Corporate Secretary
281-276-2762
selkins@atec.com
12600 Executive Drive
Stafford, Texas 77477

Annual Meeting Date:
October 26, 2020
2:30pm at Atec, Inc.


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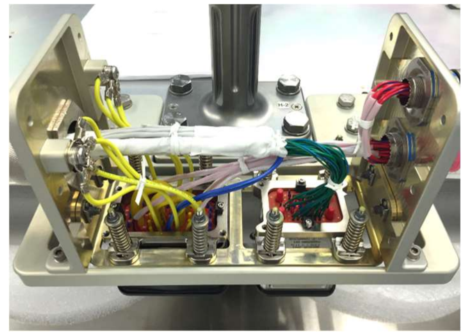


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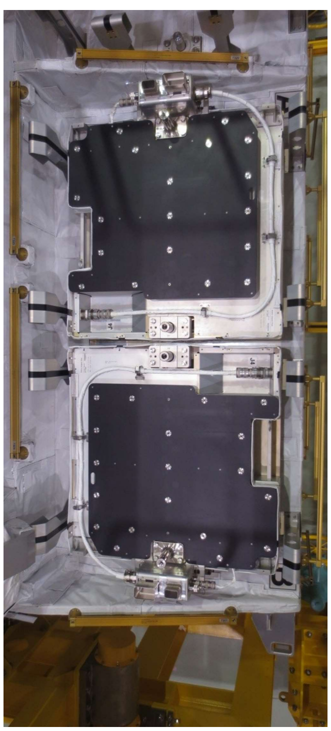

Support for
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Atec, Inc.

12600 Executive Dr.
Stafford, TX 77477-3604
Phone: (281)276-2700
Fax: (281)240-2682
www.atec.com

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