Regional Brands Inc.
Audited Financial Statements
As of and for the Years Ended December 31, 2020 and 2019

REGIONAL BRANDS INC.

FINANCIAL STATEMENTS

CONTENTS

FreedMaxick CPAs, P.C.

Independent Auditor's Report

To the Board of Directors and Stockholders
Regional Brands Inc.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Regional Brands Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits as of and for the years ended December 31, 2020 and 2019, in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Brands Inc. 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.

Freed Maxick CPAs, P.C.

Buffalo, New York
April 28, 2021

REGIONAL BRANDS INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31, 2020	As of December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,118,662	$ 6,314,326
Short-term investments	2,662,367	2,072,956
Accounts receivable, net of allowance for doubtful accounts	6,669,052	8,118,713
Inventories, net	731,787	843,231
Costs and estimated earnings in excess of billings on uncompleted contracts	2,630,421	3,625,612
Prepaid expenses and other current assets	1,164,335	526,107
Total current assets	16,976,624	21,500,945
Equipment, net	512,215	1,163,321
Right of use assets	2,038,901	1,112,747
Intangibles, net	1,000,000	2,200,000
Goodwill	3,045,481	3,045,481
Other assets	554,333	468,015
Deferred taxes	1,044,647	332,418
Total assets	$ 25,172,201	$ 29,822,927
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 958,235	$ 3,083,217
Accrued expenses and other current liabilities	466,945	636,325
Line of credit	1,637,622	3,533,049
Current portion of lease liability	418,246	435,157
Current portion of Senior Subordinated Note	-	33,460
Current portion of Subordinated Term Note	-	250,000
Billings in excess of costs and estimated earnings on uncompleted contracts	1,293,941	871,974
Total current liabilities	4,774,989	8,843,182
Lease liability	1,620,655	677,590
Senior Subordinated Note, net	-	212,215
Subordinated Term Note	2,000,000	1,937,500
Total liabilities	8,395,644	11,670,487
Commitments (Note 11)		
Stockholders' equity:		
Preferred stock $.01 par value, 50,000 shares authorized; issued and outstanding -none	-	-
Common stock $.00001 par value, 3,000,000 shares authorized and 1,227,757 and 1,274,603 shares issued and outstanding at December 31, 2020 and 2019, respectively	13	13
Additional paid-in capital	18,663,899	20,497,964
Accumulated deficit	(1,887,355)	(2,154,984)
Total Regional Brands Inc. stockholders' equity	16,776,557	18,342,993
Noncontrolling interest in consolidated subsidiary	-	(190,553)
Total stockholders' equity	16,776,557	18,152,440
Total liabilities and stockholders' equity	$ 25,172,201	$ 29,822,927

The accompanying notes are an integral part of the consolidated financial statements

REGIONAL BRANDS INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2020	**2019**
Sales	$ 36,977,125	$ 40,952,599
Cost of sales	28,603,070	30,151,651
Gross profit	8,374,055	10,800,948
Operating expenses (income):		
Selling	4,281,773	4,896,566
General and administrative	4,299,329	4,610,878
Amortization of intangible assets	1,200,000	1,200,000
Impairment of ERP system	400,000	-
PPP loan forgiveness	(1,508,630)	-
Total operating expenses	8,672,472	10,707,444
Operating (loss) income	(298,417)	93,504
Other income (expense):		
Other income	215,673	294,927
Interest expense	(232,200)	(304,583)
Interest income	29,228	25,380
	12,701	15,724
(Loss) income before income taxes	(285,716)	109,228
Income tax benefit (expense)	542,441	(85,288)
Net income	256,725	23,940
Less: Loss attributed to noncontrolling interest	10,904	4,352
Income attributable to common stockholders	$ 267,629	$ 28,292
Income per common share- basic and diluted	$ 0.21	$ 0.02
Weighted average common shares outstanding - basic and diluted	1,250,599	1,274,603

The accompanying notes are an integral part of the consolidated financial statements

REGIONAL BRANDS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional	Accumulated	Noncontrolling	Stockholders'
	Shares	Amount	Paid-in capital	Deficit	Interest	Equity
Balance at January 1, 2019	1,274,603	$ 13	$ 20,428,933	$ (2,183,276)	$ (173,359)	$ 18,072,311
Noncontrolling interest distribution	-	-	-	-	(12,842)	(12,842)
Stock based compensation	-	-	69,031	-	-	69,031
Net income	-	-	-	28,292	(4,352)	23,940
Balance at December 31, 2019	1,274,603	13	20,497,964	(2,154,984)	(190,553)	18,152,440
Acquisition of common stock	(46,846)	-	(808,093)	--	-	(808,093)
Equity based compensation	-	-	49,949	-	-	49,949
Net income	-	-	-	267,629	(10,904)	256,725
Acquisition of noncontrolling interests	-	-	(1,075,921)	-	201,457	(874,464)
Balance at December 31, 2020	1,227,757	$ 13	$ 18,663,899	$ (1,887,355)	$ -	$ 16,776,557

The accompanying notes are an integral part of the consolidated financial statements

REGIONAL BRANDS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2020	2019
Cash flows from operating activities:		
Net income	$ 256,725	$ 23,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity based compensation	49,949	69,031
Depreciation and amortization	307,289	271,165
Amortization and write-off of debt issuance costs	46,101	25,146
Impairment of ERP system	400,000	-
Amortization of intangible assets	1,200,000	1,200,000
Unrealized (gain) on investments	(1,114)	(21,132)
Provision for doubtful accounts receivable	-	59,373
Change in inventory obsolescence reserve	(43,551)	65,159
Gain on sale of equipment	(800)	(4,006)
Deferred income taxes	(236,230)	16,921
Changes in operating assets and liabilities:		
Accounts receivable	1,449,661	(404,522)
Inventories	154,995	(152,433)
Costs and estimated earnings in excess of billings on uncompleted contracts	995,191	(1,888,063)
Prepaid expenses and other assets	(724,547)	(218,089)
Accounts payable	(2,124,982)	1,587,668
Accrued expenses and other current liabilities	(169,421)	(139,840)
Billings in excess of costs and estimated earnings on uncompleted contracts	421,965	356,731
Net cash provided by operating activities	1,981,231	847,049
Cash flows from investment activities:		
Purchase of equipment	(87,532)	(408,368)
Net (purchase) sale of short- term investments	(588,297)	142,393
Proceeds from equipment sales	32,150	5,700
Net cash used by investment activities	(643,679)	(260,275)
Cash flows from financing activities:		
Repayment of Senior Subordinated Note	-	(28,680)
Repayment of Subordinated Term Note	(187,500)	(250,000)
Net (payments) borrowings on line of credit	(1,895,427)	841,673
Acquisition of common stock	(808,093)	-
Acquisition of noncontrolling interests-Lorraine Parties	(1,350,420)	-
Acquisition of Senior Subordinated Note-Lorraine Parties	(291,776)	-
Noncontrolling interest distributions	-	(42,958)
Net cash (used) provided by financing activities	(4,533,216)	520,035
Net (decrease) increase in cash and cash equivalents	(3,195,664)	1,106,809
Cash and cash equivalents at beginning of year	6,314,326	5,207,517
Cash and cash equivalents at end of year	$ 3,118,662	$ 6,314,326
Cash paid for:		
Income taxes	$ 361,000	$ 235,000
Interest	$ 227,000	$ 295,400

The accompanying notes are an integral part of the consolidated financial statements.

REGIONAL BRANDS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regional Brands Inc. ("the Company", "we" and "us") is a holding company formed to acquire substantial ownership in regional companies with strong brand recognition, stable revenues and profitability. The Company has been pursuing a business strategy whereby it was seeking to engage in an acquisition, merger or other business combination transaction with undervalued businesses (each, a "Target Company") with a history of operating revenues in markets that provide opportunities for growth.

On November 1, 2016, the Company's subsidiary, B.R. Johnson, LLC ("BRJ LLC") acquired (the "Acquisition") substantially all of the assets of B.R. Johnson, Inc. ("BRJ Inc."), a seller and distributor of windows, doors and related hardware as well as specialty products for use in commercial and residential buildings (the "Business"). Following the Acquisition, BRJ LLC carried on the business and operations of BRJ Inc.

The Acquisition was consummated pursuant to an Asset Purchase Agreement, dated as of November 1, 2016 (the "APA"). Total consideration for the Acquisition was approximately $15.4 million (subject to customary working capital adjustments), including delivery by BRJ LLC of a promissory note for $2,500,000 to BRJ Inc. (the "Subordinated term note"), which is subordinate to the loan described below. The Company provided $10.95 million in debt and equity financing to complete the Acquisition, including $7.14 million of a $7.5 million subordinated loan (the "Senior subordinated note") and $3.81 million in preferred equity of BRJ LLC with the remainder from bank financing, the Subordinated term note and entities affiliated with Lorraine Capital, LLC. After the Acquisition and prior to February 6, 2020, the Company held 76.17% of the common membership interests and 95.22% of the preferred membership interests of BRJ LLC, pursuant to the B.R. Johnson, LLC Limited Liability Company Agreement (the "LLC Agreement") entered into by and among Lorraine Capital, LLC (which owned 20% of the common membership interests), Regional Brands Inc. and BRJ Acquisition Partners, LLC (which owned the remaining 3.83% of the common membership interests and 4.78% of the preferred membership interests, and a participation interest in $358,696 of the Senior subordinated note).

Purchase of Membership Interests from Lorraine Parties (the "February 2020 Transaction")- On February 6, 2020, the Company purchased all of the outstanding membership interests in BRJ LLC that it did not previously own and the participation interest in the Senior subordinated note (the "February 2020 Transaction") from Lorraine and BRJ Acquisition Partners, LLC (collectively, the "Lorraine Parties") pursuant to a Membership and Participation Interests Purchase Agreement, dated as of February 6, 2020, by and between the Lorraine Parties, BRJ LLC and the Company. The Company paid the Lorraine Parties approximately $1,649,000 in cash in the February 2020 Transaction, which included accrued and unpaid interest and distributions on the purchased membership and participation interests. Following the completion of the February 2020 Transaction, BRJ LLC was wholly owned by the Company.

As part of the February 2020 Transaction, Regional purchased from BRJ Acquisition Partners its participating interest in $358,696 of original principal amount of the $7,500,000 Senior Subordinated Note previously received by the Company from Regional pursuant to the Loan and Security Agreement, dated November 1, 2016, by and between the Company and Regional. As a result of the purchase, Regional holds all of the continuing lender interest in the Senior Subordinated Notes.

In connection with the February 2020 Transaction and pursuant to the Purchase Agreement, the Lorraine Parties also caused certain of their individual affiliates who collectively owned approximately 57% of the outstanding common stock of Airways Door Service, Inc. to transfer their full interest in such common stock to two individuals designated by Regional, who are members of the Company's Board of Managers.

Covid-19- On January 20, 2020, the World Health Organization declared the coronavirus ("Covid-19') outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restriction on travel, quarantines in certain areas, and forced closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. While it is unknown how long these conditions will last and what the financial effect will be to the Company, it could lead to declining revenue and significantly impact the Company's financial position.

Recent developments- Several factors contributed to our 2020 results. COVID-19 negatively affected many industries including the construction industry in which we operate. The construction industry in New York State ("NYS") was adversely affected by mandated NYS regulations during 2020. Such regulations prevented companies not considered performing a function considered "essential" from operating on construction sites. Essential services were limited to work done on Infrastructure, Health Care facilities and Public schools.

NOTE 1- NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a result of these restrictions, many of the Company's operations came to a standstill. Essentially most of our projects involving installed field labor could not operate for a period of nearly two months. This resulted in numerous field employee layoffs. Eventually, the Company's projects were reclassified as essential. However, due to the institution of several COVID safety protocols that adversely affected efficiency, most of our projects incurred significantly more man-hours than originally expected. In addition, because of the NYS mandated COVID requirements, the timeline of several projects originally scheduled to be started and completed in 2020 were delayed and rescheduled to be completed beyond 2020.

Gross profit margins for 2020 were negatively impacted due to 1) actual contract costs exceeding estimates due to delays, inefficiencies and additional man hours caused by Covid-19; 2) actual 2020 costs exceeding original cost estimates to complete for certain contracts entered into in 2019 and prior, and 3) a significant contract whereby we significantly under estimated the costs resulting in poor margins.

Business Initiatives – In an effort to address the negative impacts of Covid-19 and the decline in financial results and to improve our financial performance, we have taken a number of actions, including the following:

- In April 2020, BRJ LLC received proceeds of approximately $1.5 million under the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP"). BRJ LLC believes they have met all the requirements under the PPP and will not be required to repay any portion of the proceeds received.

- By completing the February 2020 Transaction, BRJ LLC became wholly owned by us, which enabled them to terminate the management services that were being provided by Lorraine and appoint all of the members of its Board of Managers.

- We changed the leadership at BRJ LLC by appointing an Executive Chairman and a Chief Executive Officer, each of whom have extensive experience with operating the business in the past and together have over 50 years of experience in the industry.

- The BRJ management team will focus on improving customer satisfaction, optimizing product and customer mix, increasing profit margins through better pricing processes and operational efficiencies, enhancing business capabilities and reducing costs by streamlining operations and restructuring management.

- In April 2021 BRJ LLC received approximately $1.4 million of additional funds under the PPP.

Reclassifications – Certain 2019 amounts have been reclassified to conform to the 2020 financial statement presentation.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiary, B.R. Johnson, LLC ("BRJ LLC"). All intercompany balances and transactions have been eliminated in consolidation. Through February 6, 2020, the Company controlled but did not own all of the preferred and common membership interests of BRJ LLC, therefore, earnings and losses of BRJ LLC attributable to the noncontrolling interests and distributions have been made in accordance with the B.R. Johnson LLC Limited Liability Company Agreement. Subsequent to February 6, 2020, as a result of the February 2020 Transaction, BRJ LLC became wholly owned and therefore, there no longer are any noncontrolling interests.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and be based on events different from those assumptions. Future events and their effects cannot be predicted with certainty; estimating, therefore, requires the exercise of judgment. Thus, accounting estimates change as new events occur, as more experience is acquired or as additional information is obtained. We believe the most significant estimates and judgments are associated with revenue recognition for our contracts, including estimating costs and the recognition of unapproved change orders and claims.

Common Shares Issued and Earnings Per Share - Common shares issued are recorded based on the value of the shares issued or consideration received, including cash, services rendered or other non-monetary assets, whichever is more readily determinable. The Company presents basic and diluted earnings per share. Basic earnings per share reflect the actual weighted average number of shares issued and outstanding during the period. Diluted earnings per share are computed including the number of additional shares that would have been outstanding if dilutive potential shares had been issued. In a loss period, the calculation for basic and diluted earnings (loss) per share is considered to be the same, as the impact of potential common shares issued is anti-dilutive. In calculating income per common share, income attributable to common shareholders is reduced, when applicable, by distributions made to certain noncontrolling interests in the Company's consolidated subsidiary.

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments - Financial instruments include cash, accounts receivable, accounts payable, accrued expenses, line of credit and long-term debt. Fair values were assumed to approximate carrying values for these financial instruments because of their immediate or short term maturity and the fair value of the line of credit and long-term debt approximates the carrying value as the stated interest rates approximate market rates currently available to the Company.

Fair value is defined 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. The Fair Value Measurement Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's valuation techniques used to measure the fair value of money market funds, certificate of deposits, and certain marketable equity securities were derived from quoted prices in active markets for identical assets or liabilities.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments

The tables below presents the Company's assets and liabilities measured at fair value on a recurring basis aggregated by the level in the fair value hierarchy within which those measurements fall.

Assets	**Level 1**	**Level 2**	**Level 3**	**December 31, 2020**
Marketable Equity Securities	$2,662,367	$ -	$ -	$ 2,662,367
Money Market Funds	$3,115,012	$ -	$ -	$ 3,115,012

Assets	**Level 1**	**Level 2**	**Level 3**	**December 31, 2019**
Marketable Equity Securities	$2,072,956	$ -	$ -	$ 2,072,956
Money Market Funds	$6,193,712	$ -	$ -	$ 6,193,712

The Company did not have any fair value measurements within Level 2 or Level 3 of the fair value hierarchy as of December 31, 2020 or 2019.

Cash Equivalents – All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Amounts included in cash equivalents in the accompanying balance sheet are money market funds and certificates of deposit whose adjusted costs approximate fair value.

Short-Term Investments – The Company's investments consist of investments in marketable equity related securities. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the classifications at each balance sheet date. The investments are classified as either short-term or long-term based on the nature of each security and its availability for use in current operations. The investments are carried at fair value using quoted market prices in active markets for each marketable security. Unrealized gains or losses on securities are recognized as a component of other income included in our consolidated statements of income.

Consolidated Statement of Cash Flows Data- Noncash transactions include the recording of a right-of-use asset and related lease liability of approximately $1.2 million upon the adoption of the new lease accounting standard effective January 1, 2019 and $1.5 million and $0.3 million for leases entered into during the years ended December 31, 2020 and 2019, respectively.

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

Revenue Recognition - The Company recognizes revenue under ASC Topic 606, revenue recognition. We recognize revenue when the following criteria are met: 1) Contract with the customer has been identified; 2) Performance obligations in the contract have been identified; 3) Transaction price has been determined; 4) The transaction price has been allocated to the performance obligations; and 5) Revenue is recognized when (or as) performance obligations are satisfied.

A significant portion of our revenue is derived from long-term contracts and is recognized using the percentage of completion ("POC") method, primarily based on the percentage that actual costs-to-date bear to total estimated costs to complete each contract. We utilize the cost-to-cost approach to estimate POC as we believe this method is less subjective than relying on assessments of physical progress. Under the cost-to-cost approach, the use of estimated costs to complete each contract is a significant variable in the process of determining recognized revenue and is a significant factor in the accounting for contracts. Significant estimates that impact the cost to complete each contract are costs of materials, components, equipment, labor and subcontracts; labor productivity; schedule durations, including subcontractor or supplier progress; liquidated damages; contract disputes, including claims; achievement of contractual performance requirements; and contingency, among others. All business lines utilize the POC method, which are supported by specific written documents, which include contract price, scope, and payment terms. Our contract price is fixed for the scope of work specified and we generally have no variable consideration. We frequently negotiate change orders for additional work to be performed which typically relate to the initial performance obligation. Our customer payment terms are typical for our industry. For most contracts under the POC method, progress payments, less retainage, are made shortly after the contractor receives payments from the owner. For the remainder of our business, standard terms require that amounts due are paid 30 days after invoice date. For the business accounted for using the POC method, we have determined that we have one performance obligation due to the high degree of inter-dependability and highly integrated nature of the work. Performance obligations for the remainder of our business are generally supported by written contracts or purchase orders, which require the delivery of goods or services and the revenue is recognized upon shipment of those goods or performance of the services. The majority of our performance obligations are typically completed within one year.

We have elected the practical expedients for not adjusting the promised amount of consideration for the effects of financing components when, at contract inception, the period between the transfer of good or service and when the customer pays is expected to be less than one year and for recognizing incremental costs of obtaining a contract as incurred as they would otherwise have been amortized over one year or less. We have made an accounting policy election to treat any common carrier shipping and handling activities as a fulfillment cost, rather than a separate obligation or promised service.

Sales and usage taxes are excluded from revenues. Costs incurred on jobs in process include all direct material and labor costs and certain indirect costs. General and administrative and precontract costs are charged to expense as incurred.

Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates. Revisions in estimated profits for contracts accounted for under the POC method are made in the period in which circumstances requiring the revision become known. During 2020, the effect of changes in estimated contract costs decreased gross profit by approximately $955,000, decreased net income by approximately $704,000 and decreased income per common share (net of income taxes) by $0.56. During 2019, the effect of changes in estimated contract costs decreased gross profit by approximately $410,000, decreased net income by approximately $303,000 and decreased income per common share (net of income taxes) by $0.24.

Accounts Receivable and Allowance for Doubtful Accounts- Accounts receivable are recorded at their invoiced amount, net of any allowance for doubtful accounts, and do not bear interest. We may be exposed to potential credit risk if our customers should encounter financial difficulties. The Company records its allowance for doubtful accounts based upon its assessment of various factors, including historical experience, age of the accounts receivable balances, credit quality of our customers, current economic conditions and other factors that may affect the customers' ability to pay. As of December 31, 2020 and 2019, our allowance for doubtful accounts was $100,000. As of December 31, 2020 and 2019, we had billed retainage receivables of $776,000 and $138,000, respectively, included in accounts receivable in the accompanying consolidated balance sheets.

Inventories - Inventories are valued at the lower of cost (first-in, first-out) or net realizable value for purchased goods. We maintain an allowance for slow-moving and unused inventories based on the historical trend and estimates. The allowance was approximately $91,000 and $135,000 as of December 31, 2020 and 2019, respectively.

Equipment- Equipment is stated at cost. Depreciation and amortization is computed using straight-line methods at rates adequate to amortize the cost of the various classes of assets over their estimated service lives, ranging from two to fifteen years.

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-lived assets, Identifiable Intangible Assets and Goodwill – Long-lived assets, identifiable intangibles assets and goodwill are reviewed periodically for impairment or when events or changes in circumstances indicate that full recoverability of net asset balances through future cash flows is in question. With respect to goodwill, the Company tests for impairment on an annual basis or in interim periods if an event occurs or circumstances change that may indicate the fair value is below its carrying amount. Factors that could trigger an impairment review include the following: (a) significant underperformance relative to expected historical or projected future operating results; (b) significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and (c) significant negative industry or economic trends.

Impairments of long-lived assets are recognized if future undiscounted cash flows from operations are not expected to be sufficient to recover the carrying value of the long-lived assets. The carrying amounts are then reduced to fair value, which is typically determined by using a discounted cash flow model.

When performing its evaluation of goodwill and identifiable intangible assets for impairment, the Company may elect to perform a qualitative assessment that considers economic, industry and company-specific factors. If, after completing the assessment, it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying value, the Company proceeds to a quantitative test. The Company may also elect to perform a quantitative test instead of a qualitative test.

Quantitative testing requires a comparison of the fair value of the reporting unit to its carrying value. The Company uses the discounted cash flow method to estimate the fair value of the reporting unit. The discounted cash flow method incorporates various assumptions, the most significant being projected revenue growth rates, operating margins and cash flows, the terminal growth rate and the weighted average cost of capital. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and any loss must be measured.

During 2020, an impairment was recorded for our ERP software (See Note 4). There were no other impairment charges recorded in the accompanying consolidated statements of operations for the years ended December 31, 2020 and 2019.

Acquisitions- We account for our acquisitions under ASC Topic 805, *Business Combinations and Reorganizations* ("ASC Topic 805"). ASC Topic 805 provides guidance on how the acquirer recognizes and measures the consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling interests, and goodwill acquired in a business combination. ASC Topic 805 also expands required disclosures surrounding the nature and financial effects of business combinations.

When we acquire a business, we allocate the purchase price to the assets acquired and liabilities assumed in the transaction at their respective estimated fair values. We record any premium over the fair value of net assets acquired as goodwill. The allocation of the purchase price involves judgments and estimates both in characterizing the assets and in determining their fair value. The way we characterize the assets has important implications, as long-lived assets with definitive lives, for example, are depreciated or amortized, whereas goodwill is tested annually for impairment. With respect to determining the fair value of assets, the most subjective estimates involve valuations of long-lived assets, such as property, plant, and equipment as well as identified intangible assets. We use all available information to make these fair value determinations and may engage independent valuation specialists to assist in the fair value determination of the acquired long-lived assets. The fair values of long-lived assets are determined using valuation techniques that use discounted cash flow methods, independent market appraisals and other acceptable valuation techniques.

Concentration of Credit Risk – The Company maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk as a result of any non-performance by the financial institutions. As of December 31, 2020 and 2019, a single customer's balance represented 16% and 12% of total accounts receivable.

Equity-Based Compensation Expense – The Company accounts for stock-based and equity-based compensation under the provisions of FASB ASC 718 "Stock Compensation." This statement requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period. We adopted ASU 2018-07, "Compensation – Stock Compensation (Topic 718) Improvements to Nonemployee Share-Based Payment Accounting" effective January 1, 2019, as required. The FASB issued this update as part of its simplification initiative. The amendments in this update expand the scope of Topic 718 to include share-based payments for acquiring goods and services from nonemployees. Since we have issued a relatively small number of stock options to nonemployees, the adoption of this standard on our consolidated financial statements and related disclosures was not material.

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes – The Company accounts for income taxes with the recognition of estimated income taxes payable or refundable on income tax returns for the current year and for the estimated future tax effect attributable to temporary differences and carryforwards. Measurement of deferred income items is based on enacted tax laws including tax rates, with the measurement of deferred income tax assets being reduced by available tax benefits not expected to be realized in the immediate future.

The Company reviews tax positions taken to determine if it is more likely than not that the position would be sustained upon examination resulting in an uncertain tax position. The Company did not have any material unrecognized tax benefits at December 31, 2020 and 2019. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense. During 2020 and 2019, the Company recognized no interest and penalties.

New Accounting Pronouncements Adopted- We adopted Accounting Standard Update ASU 2016-02 (Topic ASC 842), "Leases", as required, effective January 1, 2019, using the modified retrospective approach without adjusting comparative periods. ASC 842 retains the two-model approach to classifying leases as operating or finance leases (formerly, capital leases); however, most leases, regardless of classification type, are recorded on the balance sheet. When a lessee records a lease on the balance sheet, it will recognize a lease liability based on the present value of the future lease payments, with an offsetting entry to recognize a right-of-use (ROU) asset. A lessee uses a discount rate to determine the present value based on the rate implicit in the lease, if readily determinable, or the lessee's incremental borrowing rate.

We utilized the practical expedients provided by the guidance including the package of practical expedients not to reassess whether contracts contain a lease, lease classification, and direct costs. Since our current lease agreements, which include real estate and vehicles, are operating leases, they will continue to be accounted for as operating leases under the new standard. Accordingly, lease expense is recognized on a straight-line basis over the lease term. We have elected not to record leases with terms of 12 months or less on the balance sheet.

New Accounting Pronouncements Issued – In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses". This ASU requires an entity to change its accounting approach in determining impairment of certain financial instruments, including trade receivables, from an "incurred loss" to a "current expected credit loss" model. The standard will be effective for our fiscal year beginning in 2023, including interim periods within such fiscal years. Early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment", which eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. The annual assessment of goodwill impairment will be determined by using the difference between the carrying amount and the fair value of the reporting unit. For the Company, the standard is effective for annual and interim impairment tests performed in periods beginning after December 15, 2020 and is to be applied on a prospective basis. The Company is currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740)". The ASU simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new standard also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies 1) the accounting for transactions that result in a step-up in the tax basis of goodwill; and 2) that single-member limited liability companies and similar disregarded entities that are not subject to income tax are not required to recognize an allocation of consolidated income tax expense in their separate financial statements. The standard will be effective for our fiscal year beginning in 2021and interim periods within that year. Early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements.

No other recently issued or effective ASU had, or is expected to have, a material effect on the Company's results of operations, financial condition, or liquidity.

Subsequent Events - These financial statements have not been updated for subsequent events occurring after April 28, 2021, which is the date these financial statements were available to be issued.

NOTE 2. FEBRUARY 2020 TRANSACTION

On February 6, 2020, the Company paid the Lorraine Parties approximately $1,649,000 in cash, which included the acquisition of all of the outstanding membership interests in BRJ LLC that it did not previously own, the participation interest in the Senior subordinated note and related unpaid interest and distributions on the purchased membership and participation interests. To account for the transaction 1) the cost of the purchase of the noncontrolling membership interests of approximately $1,350,000 was charged against additional paid-in capital; 2) the remaining amount (approximately $201,000) of the noncontrolling interest included in the balance sheet at the date of the transaction was charged to additional paid-in capital, and 3) the deferred tax impacts were credited to paid-in capital (see Note 12. Income Taxes).

NOTE 3. REVENUES AND CONTRACTS IN PROCESS

The following table presents our revenues disaggregated by contracts accounted for using the percentage of completion method:

	Year Ended December 31,	
	2020	**2019**
Contracts under percentage of completion	$ 28,369,111	$ 31,460,091
All other	8,608,014	9,492,508
Total revenue	$ 36,977,125	$ 40,952,599

Projects with costs and estimated earnings recognized to date in excess of cumulative billings is reported on the accompanying consolidated balance sheets as an asset as costs and estimated earnings in excess of billings. Projects with cumulative billings in excess of costs and estimated earnings recognized to date is reported in the accompanying balance sheet as a liability as billings in excess of costs and estimated earnings. The following is information with respect to uncompleted contracts:

	December 31	
	2020	**2019**
Costs incurred on uncompleted contracts	$ 22,898,575	$ 18,681,934
Estimated Earnings	5,797,379	6,088,267
	28,695,954	24,770,201
Less billings to date	27,359,474	(22,016,563)
	$ 1,336,480	$ 2,753,638

Included in the balance sheet as follows:		
Under current assets:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,630,421	$ 3,625,612
Under current liabilities:		
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,293,941)	(871,974)
	$ 1,336,480	$ 2,753,638

The Company had unbilled retainage receivables of approximately $1,021,000 and $1,638,000 at December 31, 2020 and 2019, respectively, which are included in Costs and estimated earnings in excess of billings in the consolidated balance sheets.

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed. As of December 31, 2020, the aggregate amounts of the transaction prices allocated to the remaining performance obligations, for contracts to be recognized using the percentage of completion method, were approximately $19.0 million.

NOTE 4. EQUIPMENT

Equipment is summarized as follows:

	Estimated Useful Life	December 31, 2020	December 31, 2019
Vehicles	3 – 5 years	$ 419,518	$ 431,697
Warehouse and shop tools and equipment	2 – 15 years	415,255	414,268
Office and showroom furniture and computer equipment	2 – 7 years	210,387	195,633
Computer software	2 – 5 years	146,937	683,776
		1,192,097	1,725,374
Less accumulated depreciation and amortization		(679,882)	(562,053)
		$ 512,215	$ 1,163,321

Included in computer software at December 31, 2019 are costs of approximately $572,000 for an enterprise resource planning system that was implemented and placed into service in 2019. Amortization of the computer software began in 2019 when the asset was placed into service. In 2020, the Company determined that a major portion of the system placed in service in 2019 was not meeting the objectives set forth when designing the ERP system's capabilities and therefore, was not operating effectively and is no longer expected to provide substantive service potential to the organization. The Company has reverted to some of their previously used software. As a result, an impairment charge of $400,000 was recorded in 2020.

NOTE 5. INTANGIBLE ASSETS

Intangible assets that arose from business acquisitions consist of the following:

	Estimated life	December 31, 2020	December 31, 2019
Covenants not to compete	5 years	$ 6,000,000	$ 6,000,000
Accumulated amortization		(5,000,000)	(3,800,000)
Net		$ 1,000,000	$ 2,200,000

The remaining balance of $1,000,000 will be amortized in 2021.

NOTE 6. DEBT

Credit Facility

BRJ LLC has a Credit and Security Agreement with KeyBank, N.A. ("KeyBank"), dated November 1, 2016 ("Credit Agreement") that includes revolving loans and letters of credit with a sublimit of $500,000 for letters of credit. On September 5, 2019, BRJ LLC entered into a First Amendment Agreement (the "Amendment") which amended the Credit Agreement by providing for, among other things, an increase in the maximum borrowing amount available pursuant to the Credit Agreement from $6,000,000 to (1) $8,000,000 for the period beginning September 5, 2019 and ending December 31, 2019 and (2) $7,000,000 on January 1, 2020 and thereafter. On April 14, 2021, BRJ LLC entered into an Amended and Restated Revolving Credit Note Agreement ("Amended Note") in connection with a Forbearance Agreement with KeyBank (see below). The Amended Note reduces maximum borrowings to $5,000,000.

Interest under the Credit Agreement is payable monthly and prior to the date of the Amended Note, accrued pursuant to the "base rate" of interest, which is equal to the highest of (a) KeyBank, N.A.'s prime rate, (b) one-half of one percent (0.50%) in excess of the Federal Funds Effective Rate of the Federal Reserve Bank of New York, and (c) one hundred (100) basis points in excess of the London Interbank Offered Rate for loans in Eurodollars with an interest period of one month, plus any applicable margin. The Amended Note accrues interest at the prime rate plus 0.75%. The Credit Agreement also requires the payment of certain fees, including, but not limited to, letter of credit fees.

NOTE 6. DEBT (CONTINUED)

Amounts borrowed under the Credit Agreement are payable upon demand of KeyBank, or the lenders, or upon acceleration as a result of an event of default, as defined in the Credit Agreement. The Credit Agreement is secured by substantially all of our assets and contains customary financial and other covenant requirements, including, but not limited to, a covenant requiring our consolidated fixed charge coverage ratio ("FCCR") to not be less than 1.15 to 1.00. BRJ LLC failed to comply with this covenant as of December 31, 2019 and at the end of June, September and December of 2020, which were events of default. On April 14, 2021, BRJ LLC entered into a Forbearance Agreement with KeyBank, which extends to December 31, 2021 (the "Forbearance Period"). Subject to BRJ LLC's compliance with each of the terms and conditions of the Forbearance Agreement, KeyBank, without waiving, curing or ceasing the continuance of the defaults under the terms of the loan documents, agrees not to exercise or enforce any right or remedy to which KeyBank is entitled in respect of the loan documents through the Forbearance Period. If at any time an event of default shall occur, the Forbearance Period shall terminate immediately at KeyBank's option. Upon termination of the Forbearance Period, whether by passage of time or at KeyBank's election after the occurrence of an event of default, KeyBank shall be free to exercise all of its rights and remedies under the loan documents and applicable law.

Various conditions must be met under the Forbearance Agreement, including entering into the Amended Note and not permitting BRJ LLC's consolidated fixed charge coverage ratio to be less than 1.75 to 1.00: (i) for the fiscal quarter ending March 31, 2021, as calculated for the fiscal quarter period ending on such date; (ii) for the fiscal quarter ending June 30, 2021, as calculated for the two consecutive fiscal quarter periods ending on such date; (iii) for the fiscal quarter ending September 30, 2021, as calculated for the three consecutive fiscal quarter periods ending on such date; and (iv) for the fiscal quarter ending December 31, 2021, as calculated for the four consecutive fiscal quarter periods ending on such date. KeyBank has various remedies upon an event of default, including increasing the interest rate to the prime rate plus 2.75% related to amounts borrowed under the Amended Note .

The effective interest rate at December 31, 2020 was 3.50% (4.06% at December 31, 2019). The aggregate borrowings outstanding under the Credit Facility at December 31, 2020 were $1,637,622 ($3,533,049 at December 31, 2019). The bank has also issued letters of credit on behalf of BRJ LLC in the amount of $250,000 that expires on December 1, 2021.

Senior Subordinated Note

BRJ LLC borrowed an aggregate of $7,500,000 under the Senior Subordinated Note pursuant to a Loan and Security Agreement (the "Loan Agreement") with the Company. The Company provided $7,141,304 of the funding and $358,696 was participated. The Senior Subordinated Note (the "Note") accrues interest at a rate of 6% per annum, payable quarterly on the first day of each calendar quarter. The Note is secured by substantially all of BRJ LLC's assets. The Note and the security interest created under the Loan Agreement are subordinated to the Credit Agreement with KeyBank and the security interest of the lenders under the Credit Agreement. All of the covenants contained in the Credit Facility are incorporated by reference in the Loan Agreement. The Loan Agreement contains customary events of default, including in the case of an event of default under the Credit Agreement. The Company was not in compliance with the FCCR under the Credit Agreement at December 31, 2019 and at the end of June, September and December of 2020. The Company has informed BRJ LLC that they do not intend to demand payment of the Note for the noncompliance with the FCCR. Under the original terms, BRJ LLC is required to repay a portion of the principal amount of the Senior Subordinated Note on each anniversary of the execution of the Loan Agreement.

During 2019, BRJ LLC repaid $600,000 of the borrowings under the Note including $571,300 and $476,100, respectively, to the Company with the balance paid to BRJ Acquisition Partners, LLC. The amount of the debt that was participated, net of the unamortized debt discount, is shown in the accompanying consolidated balance sheets as Senior Subordinated Note and had a balance outstanding of $245,675 at December 31, 2019. As part of the February 2020 Transaction (See Note 1) entered into on February 6, 2020, the Company purchased from BRJ Acquisition Partners its participation interest in $358,696 of original principal amount ($291,776 outstanding at December 31, 2019) of the $7,500,000 Senior Subordinated Note. As a result of the purchase, as of February 6, 2020, the Company holds all of the continuing lender interest in the Term Loan and, accordingly, wrote off the remaining amount ($43,500) of unamortized debt discount

In August 2020, the maturity date of the Note was extended from November 2021 to November 2024 and in September 2020, the annual principal payments were deferred to 2022.

Subordinated Term Note

On November 1, 2016, BRJ LLC issued a $2,500,000 subordinated promissory note to BRJ Inc. as part of the purchase price for the Acquisition (the "Subordinated Term Note"). The Subordinated Term Note is payable to BRJ Inc. and accrues interest at a rate of 5.25% per annum, payable quarterly, with the principal due in equal quarterly installments of $62,500, which commenced on November 1, 2018. In August 2020, the maturity date of the Subordinated Term Note was extended from November 2021 to November 2024 and in September 2020, the quarterly principal payments were deferred to 2022. The Subordinated Term Note is subordinated to the Credit Facility and the Loan Agreement.

NOTE 6. DEBT (CONTINUED)

Maturities of Long-Term Debt

Scheduled maturities of long-term debt (exclusive of lease liabilities) at December 31, 2020 are as follows:

2021	$ -
2022	250,000
2023	250,000
2024	1,500,000
	$2,000,000

NOTE 7. STOCKHOLDERS' EQUITY

On November 1, 2016, BRJ LLC sold 4.78% of its preferred membership interests for aggregate net proceeds of $128,534. This amount is included in noncontrolling interest in the accompanying consolidated financial statements, adjusted for activities related to the noncontrolling shareholder since that date and prior to the February 2020 Transaction. BRJ LLC's Limited Liability Company Agreement provides for distributions of available cash to be made to the preferred members until they receive a cumulative preferred return of five percent per annum, compounded annually, on their unreturned preferred capital.

In 2020, the Company purchased 46,846 shares of its common stock for a total of $808,093.

NOTE 8. EQUITY INCENTIVE PLANS

2016 Equity Incentive Plan

On April 8, 2016, the Company adopted the 2016 Equity Incentive Plan (the "Equity Incentive Plan"), which was amended and restated as of June 15, 2017. The maximum number of shares of the Company's common stock available for issuance under the Equity Incentive Plan through the grant of non-qualified stock options, restricted stock, restricted stock units and other awards is 130,000. Awards may be granted to employees, officers, directors, consultants, agents, advisors and independent contractors of the Company and its related companies. Stock based compensation includes expenses related to all stock-based awards. Such awards include options, warrants and stock grants. The Company did not grant any options during 2020 and 2019. Prior to 2018, the Company issued stock options that vest in 60 equal monthly installments and expire after15 years.

The Company records share based payments under the provisions of FASB ASC 718 "Compensation - Stock Compensation." Stock based compensation expense is recognized over the requisite service period based on the grant date fair value of the awards. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

The Company estimated the expected volatility based on data used by its peer group of public companies. The expected term was estimated using the simplified method. The risk-free interest rate assumption was determined using the equivalent U.S. Treasury bonds yield over the expected term. The Company has never paid any cash dividends and does not anticipate paying any cash dividends in the foreseeable future. Therefore, the Company assumed an expected dividend yield of zero.

All options were granted in 2016 with a grant date fair value of $6.29 per share. The significant assumptions used in determining the grant date fair value were volatility of 52%, expected term of 7 years, risk-free interest rate of 1.47% and no expected dividend payments.

NOTE 8. EQUITY INCENTIVE PLANS (CONTINUED)

There were no options granted, exercised, cancelled or forfeited during 2020 and 2019. A summary of all stock options is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Outstanding, December 31, 2020 and 2019	42,596	$ 16.00	11.3 years	$ -
Exercisable, December 31, 2020	37,926	$ 16.00	11.3 years	$ -
Expected to vest, December 31, 2020	4,670	$ 16.00	11.3 years	$ -

During 2020 and 2019, stock compensation expense for options vested was $41,600 and $69,031, respectively.

At December 31, 2020, there was approximately $14,000 of unrecognized compensation cost related to non-vested options. This cost is expected to be recognized over a weighted average period of approximately 0.3 years.

Value Appreciation Units

BRJ LLC adopted the B.R. Johnson, LLC 2020 Incentive Plan in order to induce eligible employees to continue to dedicate service to the Company and to contribute to its success. The incentive plan provides for the grant of Value Appreciation Units ("VAU"). Each unit represents one-tenth of one percent of the Common Membership Interests of BRJ LLC. The unit value is the difference between the Fair Market Value of a Common Membership Interest on the Measurement Date less the Base Amount ($4,860 for units granted in 2020). If a participant is employed with BRJ LLC on the date of a change in control, the Measurement Date is the date of the change in control. If employment with BRJ LLC terminates prior to a change in control due to death, disability or termination without cause (voluntary or involuntary), then the Measurement Date for the participant's vested units is the date of termination of employment and the unit value of the participant's vested units is the appreciation in the value of one-tenth of one percent of the Common Membership Interests between the grant date and such Measurement Date. The payment of such vested units will not be made until the consummation of a change in control.

We account for the VAUs under the provisions of FASB ASC 718 "Compensation - Stock Compensation." Compensation expense is recognized over the requisite service period based on the grant date fair value of the awards. The fair value of each VAU is estimated on the date of grant using the Black-Scholes option-pricing model.

The Company estimated the expected volatility based on the trading of the Company's stock, as it's only operating subsidiary is BRJ LLC.

The expected term was estimated based on the expected time period of a change in control and the demographics of the participants. The risk-free interest rate assumption was determined using the equivalent U.S. Treasury bonds yield over the expected term. BRJ LLC makes distributions related to the Company's Common Membership Interests for income taxes only, therefore, we used an expected dividend yield of zero. The significant assumptions used in determining the grant date fair value were volatility of 75%, expected term of 5 years and risk-free interest rate of 0.29%. The VAUs vest monthly over a 5-year period. Forfeitures are accounted for when they occur.

During 2020 a total of 70 VAUs were granted, and there were no VAUs exercised, cancelled or forfeited. A summary of all VAUs is as follows:

	Units	Base Amount Per Unit	Expected Term	Aggregate Intrinsic Value
Outstanding, December 31, 2020	70	$4,860	5 years	$0.00
Exercisable, December 31, 2020	5.2	$4,860	5 years	$0.00
Nonvested, December 31, 2020	64.8	$4,860	5 years	$0.00

NOTE 8. EQUITY INCENTIVE PLANS (CONTINUED)

During 2020, the fair value of the VAUs that vested amounted to approximately $8,350 and stock compensation expense for the VAUs vested was $8,350. The weighted-average grant date fair value per unit of the VAUs vested during 2020 was $1,600.

At December 31, 2020, there was approximately $103,700 of unrecognized compensation cost related to non-vested VAUs. This cost is expected to be recognized over a weighted average period of approximately 4.6 years.

NOTE 9. EMPLOYEE RETIREMENT PLAN

BRJ LLC maintains a defined contribution retirement plan under Section 401(K) of the Internal Revenue Code. All full-time employees of BRJ LLC are eligible to participate. The total employer contributions to the plan were approximately $143,000 and $145,000 during 2020 and 2019, respectively.

NOTE 10. RELATED PARTY TRANSACTIONS

On April 8, 2016, the Company entered into a Management Services Agreement (the “MSA”), between the Company and Ancora Advisors, LLC (“Ancora”), whereby Ancora agreed to provide specified services to the Company in exchange for a quarterly management fee in an amount equal to 0.14323% of the Company’s shareholders’ equity (excluding cash and cash equivalents) as shown on the Company’s consolidated balance sheet as of the end of each fiscal quarter of the Company. The management fee with respect to each fiscal quarter is payable no later than 10 days following the issuance of the Company’s consolidated financial statements for such fiscal quarter, and in any event no later than 60 days following the end of each fiscal quarter. For 2020 and 2019, Ancora agreed to waive payment of the management fees.

On November 1, 2016, BRJ LLC entered into a Management Services Agreement (the “BRJ MSA”) whereby Lorraine agreed to provide specified management, financial and reporting services to us in exchange for an annual management fee. In connection with the February 2020 Transaction, the BRJ MSA and Lorraine’s management services to the BRJ LLC thereunder, were terminated on February 6, 2020. During 2020 and 2019, no amounts were expensed or paid by BRJ LLC for Lorraine management fees under the BRJ MSA

BRJ LLC has a relationship with a union qualified commercial window subcontractor, Airways Door Service, Inc. (“ADSI”), which is advantageous in situations that require union installation and repair services. In connection with the acquisition of B.R. Johnson, Inc., individuals affiliated with Lorraine acquired 57% of ADSI’s common stock with the remaining common stock owned by three of the BRJ LLC’s employees. In connection with the February 2020 Transaction, individuals affiliated with Lorraine transferred their full interest in the 57% of ADSI’s common stock held by them to two members of the BRJ LLC’s Board of Managers. BRJ LLC paid ADSI for its services approximately $2,760,000 and $2,776,000 during 2020 and 2019, respectively. In addition, BRJ LLC provides ADSI services utilizing an agreed-upon fee schedule. These services include accounting, warehousing, equipment use, employee benefit administration, risk management coordination and clerical functions. The fee for these services was approximately $147,000 and $125,000 for 2020 and 2019, respectively.

BRJ LLC leases a facility from its current and former employees and the related terms and amounts are included in Note 11 below.

NOTE 11. LEASES AND COMMITMENTS

Leases primarily relate to BRJ LLC’s offices, warehouses, operating facilities and automobiles. Lease expense was approximately $526,000 and $496,000 for the years ended December 31, 2020 and 2019, respectively. The right-of-use assets and related lease liability was approximately $1.2 million as of January 1, 2019. The lease terms range in length from 36 to 72 months. Certain leases contain renewal options that we are not reasonably certain to exercise and therefore have been excluded from the future minimum lease payments. In 2020, the BRJ LLC decided that it would exercise its five-year renewal option related to its offices and warehouse in Syracuse, New York. The present value of future lease payments for the renewal, using a discount rate of 3.5%, is $1,484,000 and such amounts are included in the right of use assets and lease liability in the consolidated balance sheet at December 31, 2020 and in the future minimum lease payments in the table below. The weighted-average remaining lease term as of December 31, 2019 and 2020 was 3.2 and 4.2 years, respectively. The weighted-average discount rate used to determine the present value of future lease payments is 3.9% because the implicit rate in each lease is not readily determinable. The Company uses its incremental borrowing rate to determine the present value of lease payments.

NOTE 11. LEASES AND COMMITMENTS (CONTINUED)

The future minimum lease payments under the lease agreements and a reconciliation to the amount of the net present value of such payments at December 31, 2020 are as follows:

2021	$	445,026
2022		404,410
2023		385,779
2024		375,949
2025		324,000
Thereafter		270,000
Total		2,205,164
Discount on future payments		(166,263)
Lease liability at December 31,2020		2,038,901
Current portion		(418,246)
	$	1,620,655

BRJ LLC is a member of a captive insurance entity, to provide for the potential liabilities for certain risks including workers' compensation, general liability, and automotive. Liabilities associated with the risks that are retained by us are not discounted and are estimated, in part, by considering historical claims experience, demographic factors and severity factors. As of December 31, 2020 and 2019, no liability has been recorded because a material liability for additional costs is considered remote. As a member of the captive insurance entity, the BRJ LLC was required to provide an equity contribution of $30,000 and dividend pool contributions of $295,000, which are included in other assets in the accompanying consolidated balance sheets as of December 31, 2020 and 2019. In addition, as a member of the captive, we are entitled to dividends when we have favorable experience resulting in a positive dividend pool balance. The dividends are payable starting in 2020, subject to the approval of the captives' Board of Directors. We received a dividend payment of approximately $5,000 in 2020. The amount of cumulative dividends earned each year will increase or decrease depending on claims experience. At December 31, 2020 and 2019, the Company recognized a cumulative dividend receivable of $200,000 and $114,000, respectively, due to favorable claims experience, which is included in other assets in the balance sheet. The dividend income was recorded as a reduction of insurance expense, which is part of general and administrative expenses in the consolidated statements of income.

NOTE 12. INCOME TAXES

Income tax (benefit) expense is summarized as follows:

	Year Ended December 31,	
	2020	**2019**
Current:		
Federal	$ (278,926)	$ 44,087
State	(27,285)	24,280
Total current	(306,211)	68,367
Deferred		
Federal	(177,478)	12,713
State	(58,752)	4,208
Total deferred	(236,230)	16,921
Total income tax (benefit) expense	$ (542,441)	$ 85,288

As part of the February 2020 Transaction, the Company acquired the remaining membership interests in BRJ LLC. Accordingly, following consummation of the transaction, BRJ LLC was wholly owned by the Company. Internal Revenue Service Revenue Ruling 99-6 (situation 1) provides the federal tax guidance when a member of a multi-member LLC purchases all the interest of the other members. From the purchaser's perspective, the LLC is deemed to liquidate, and the remaining member is deemed to purchase the assets just distributed to the exiting members, thus resulting in a tax basis in the assets acquired equal to the amount paid for the interests. Additionally, the acquisition of the noncontrolling interest resulted in BRJ LLC becoming a disregarded entity of the Company for income tax purposes.

NOTE 12. INCOME TAXES (CONTINUED)

For accounting purposes, all of the individual deferred tax attributes related to the inside basis of BRJ LLCs assets and liabilities have been recorded and the deferred tax basis in the Company's Investment in subsidiary was eliminated. The tax effect of the February 2020 Transaction resulted in a net deferred tax asset of approximately $476,000, which offsets the amount we paid to acquire the noncontrolling interests that was recorded as a reduction in paid-in capital.

The significant components of the deferred tax assets and liabilities are summarized below.

	Year Ended December 31,	
	2020	**2019**
Deferred tax assets (liabilities):		
Deferred tax assets:		
Investment in subsidiary-BRJ LLC	$ -	$ 307,495
Stock compensation	75,588	61,852
Lease liability	560,698	-
Intangible assets and goodwill	1,175,915	-
Other	58,231	-
Total deferred tax assets	1,870,432	369,347
Deferred tax liabilities:		
State income taxes	(54,561)	(17,362)
Fixed assets	(127,035)	-
Right-of-use assets	(560,698)	-
Other	(83,491)	(19,567)
Total deferred tax liabilities	(825,785)	(36,929)
Net deferred income tax assets	$ 1,044,647	$ 332,418

The Company files income tax returns in the U.S. federal jurisdiction and in certain states. The tax years 2017-2019 generally remain open to examination by these taxing authorities.

A reconciliation of income tax expense using the U.S. federal statutory income tax rate of 21% compared with the actual income tax expense reported on the consolidated statements of income is summarized in the following table.

	Year Ended December 31,	
	2020	**2019**
Income tax (benefit) expense at federal statutory rate	$ (60,001)	$ 22,938
State income taxes, net of federal benefit	(91,238)	1,857
Non-deductible expenses	10,500	49,631
Costs qualifying for use of PPP proceeds	(316,812)	-
Rate differential of net operating loss carryback	(113,478)	-
Permanent differences and other adjustments	28,588	10,862
Income tax (benefit) expense	$ (542,441)	$ 85,288

NOTE 13. PAYCHECK PROTECTION PROGRAM

On April 20, 2020, BRJ LLC received $1,508,630 under the PPP. We have elected an accounting policy to analogize International Accounting Standard 20, Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20") and account for the PPP as a government grant. Under IAS 20, a government grant is recognized when there is reasonable assurance that the Company has complied with the provisions of the grant.

We have elected to follow the grant income approach under IAS 20 and recognize earnings as funds are applied to covered expenses and classify the application of funds as a reduction of operating expense. As a result, we have reduced expenses by $1,508,630. Although we have not yet submitted an application to the SBA requesting that the PPP funds received be applied to specific covered payroll and non-payroll costs, we believe we have met all the requirements under the PPP and will not be required to repay any portion of the proceeds received.

In April 2021, BRJ LLC received $1,417,000 of additional funds under the PPP.