

Moro Corporation and Subsidiaries

Consolidated Financial Report
December 31, 2011

Moro Corporation and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
Moro Corporation and Subsidiaries
Wayne, Pennsylvania

We have audited the accompanying consolidated balance sheets of Moro Corporation and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Moro Corporation and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Blue Bell, Pennsylvania
May 14, 2012

Moro Corporation and Subsidiaries

**Consolidated Balance Sheets
December 31, 2011 and 2010**

	2011	2010
Assets		
Current Assets		
Cash	\$ 1,746,899	\$ 2,450,269
Trade receivables less allowance for doubtful accounts of \$239,559 and \$477,500 at 2011 and 2010, respectively	5,266,150	4,794,600
Accounts receivable on contracts (including retentions)	17,591,823	11,290,710
Inventories	3,389,636	3,733,682
Costs and estimated earnings in excess of billings on uncompleted contracts	5,071,466	2,433,780
Prepaid income taxes	87,289	108,805
Prepaid and other current assets	448,926	281,629
Total current assets	33,602,189	25,093,475
Property and Equipment, net	3,113,280	3,511,246
Deferred Financing Fees, net of accumulated amortization of \$10,802 and \$7,558 in 2011 and 2010, respectively	27,827	31,071
Deferred Income Taxes	190,626	-
Other Assets	6,340	7,237
Covenant Not to Compete, net of accumulated amortization of \$34,000 and \$10,000 in 2011 and 2010, respectively	86,000	110,000
Goodwill	1,819,646	1,819,646
	\$ 38,845,908	\$ 30,572,675
Liabilities and Stockholders' Equity		
Current Liabilities		
Lines of credit	\$ 13,261,373	\$ 7,162,505
Current portion of long-term debt	824,056	717,659
Trade accounts payable	8,561,587	4,363,565
Accrued expenses	1,583,522	1,917,591
Due to former owners	132,935	528,803
Billings in excess of costs and estimated earnings on uncompleted contracts	1,215,118	1,304,118
Total current liabilities	25,578,591	15,994,241
Long-Term Liabilities		
Long-term debt	999,332	1,553,453
Subordinated debentures	2,600,000	2,600,000
Loan payable - officer	204,000	-
Deferred income taxes	-	329,978
	3,803,332	4,483,431
Commitments and Contingencies (Notes 9 and 11)		
Stockholders' Equity		
Preferred stock, \$.001 par value, authorized 5,000,000 shares; none issued or outstanding	-	-
Common stock, \$.001 par value, authorized 25,000,000 shares; issued and outstanding 6,369,643 shares at December 31, 2011 and 2010	6,370	6,370
Additional paid-in capital	963,205	963,205
Retained earnings	8,494,410	9,125,428
Total stockholders' equity	9,463,985	10,095,003
	\$ 38,845,908	\$ 30,572,675

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Operations Years Ended December 31, 2011 and 2010

	2011	2010
Revenues		
Construction material sales, net	\$ 21,754,634	\$ 19,655,241
Mechanical contracts revenue earned	<u>69,072,974</u>	<u>38,271,540</u>
	<u>90,827,608</u>	<u>57,926,781</u>
Cost of revenues		
Cost of goods sold	17,550,870	17,022,611
Cost of mechanical contracts revenue earned	<u>60,853,766</u>	<u>29,482,731</u>
	<u>78,404,636</u>	<u>46,505,342</u>
Gross profit	12,422,972	11,421,439
Operating expenses		
Selling, general and administrative	13,228,608	10,908,332
Gain on insurance recoveries	<u>(139,751)</u>	<u>-</u>
Income (loss) from operations	<u>(665,885)</u>	<u>513,107</u>
Other income (expense)		
Interest income	4,975	19,503
Interest expense	(551,303)	(442,698)
Gain on bargain purchases (net of deferred taxes)	-	276,798
Other	<u>130,106</u>	<u>112,086</u>
	<u>(416,222)</u>	<u>(34,311)</u>
Income (loss) before income taxes	(1,082,107)	478,796
Provision for (benefit from) income taxes	<u>(451,089)</u>	<u>16,758</u>
Net income (loss)	<u>\$ (631,018)</u>	<u>\$ 462,038</u>

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2011 and 2010

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, January 1, 2010	\$ 6,370	\$ 963,205	\$ 8,663,390	\$ 9,632,965
Net income	-	-	462,038	462,038
Balance, December 31, 2010	6,370	963,205	9,125,428	10,095,003
Net loss	-	-	(631,018)	(631,018)
Balance, December 31, 2011	<u>\$ 6,370</u>	<u>\$ 963,205</u>	<u>\$ 8,494,410</u>	<u>\$ 9,463,985</u>

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Net income (loss)	\$ (631,018)	\$ 462,038
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	1,005,728	903,254
Amortization	27,244	13,245
Provision for bad debts	102,459	91,253
Loss on sale of property and equipment	7,145	22,603
Deferred income taxes (benefit)	(520,604)	(2,744)
Gain on bargain purchases (net of deferred taxes)	-	(276,796)
(Increase) decrease in:		
Trade receivables	(574,009)	278,415
Accounts receivable on contracts	(6,301,113)	266,168
Inventories	344,046	(439,126)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,637,686)	(486,260)
Prepaid income taxes	21,516	(108,805)
Other current assets	(167,297)	44,637
Other assets	897	897
Increase (decrease) in:		
Trade accounts payable	4,198,022	(1,613,724)
Due to former owners	(395,868)	528,803
Accrued expenses	(334,069)	(149,713)
Income taxes payable	-	(317,400)
Billings in excess of costs and estimated earnings on uncompleted contracts	(89,000)	67,411
Net cash used in operating activities	(5,943,607)	(715,844)
Cash Flows from Investing Activities		
Acquisition of businesses, net of cash acquired	-	(3,579,463)
Purchase of property and equipment	(657,640)	(1,014,718)
Proceeds from disposal of property and equipment	42,733	26,644
Net cash used in investing activities	(614,907)	(4,567,537)

(Continued)

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Financing Activities		
Proceeds from subordinated debentures	\$ -	\$ 350,000
Loan from officer	204,000	-
Proceeds from lines of credit	8,420,551	3,247,453
Repayments of lines of credit	(2,321,683)	(1,052,947)
Proceeds of long-term debt	378,175	818,732
Principal payments of long-term debt	(825,899)	(598,049)
	<u>5,855,144</u>	<u>2,765,189</u>
Net cash provided by financing activities	5,855,144	2,765,189
	<u>(703,370)</u>	<u>(2,518,192)</u>
Net decrease in cash	(703,370)	(2,518,192)
Cash, beginning	<u>2,450,269</u>	<u>4,968,461</u>
Cash, ending	<u><u>\$ 1,746,899</u></u>	<u><u>\$ 2,450,269</u></u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u><u>\$ 545,297</u></u>	<u><u>\$ 535,916</u></u>
Cash paid for taxes	<u><u>\$ 191,232</u></u>	<u><u>\$ 430,423</u></u>

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Operating Cycle and Summary of Significant Accounting Policies

Nature of Business: Moro Corporation (the "Company") is engaged in two lines of business – Construction Materials and Construction Contracting.

The Construction Materials line of business commenced on March 31, 2000 when the Company purchased substantially all of the operating assets of J.M. Ahle Co., Inc., a New Jersey corporation ("Ahle"). Ahle is a fabricator of reinforcing steel and a distributor of construction accessories sold to customers located in metropolitan New York City, throughout New Jersey and in eastern Pennsylvania. This line of business also includes the operations of Whaling City Iron ("Whaling"), which was purchased April 12, 2004. Whaling is a distributor of reinforcing, structural and miscellaneous steel sold to contractors, end users, and metalworking firms located in the greater Boston, MA and Providence, RI areas. The typical operating cycle for Ahle and Whaling, from receipt of a purchase order to the delivery of goods, ranges from several days to several months.

The Construction Contracting line of business commenced on October 1, 2002 when the Company purchased substantially all of the operating assets of Rado Enterprises, Inc., ("Rado") offset by certain amounts payable. Rado fabricates sheet metal ductwork and process piping and provides mechanical contracting services to commercial customers primarily located in the central and the northeastern section of Pennsylvania. Effective February March 1, 2006, the Company purchased substantially all of the operating assets and assumed certain liabilities of Appolo Heating, Inc. ("Appolo"). Appolo sells, installs and services heating, ventilating and air conditioning (HVAC) systems to both residential and commercial customers located primarily between the greater Albany and the Northern West Chester County sections of New York State. Effective November 1, 2007, the Company purchased substantially all of the operating assets and assumed certain liabilities of J&J Sheet Metal Works, Inc. ("J&J Sheet Metal"). J&J Sheet Metal fabricates and installs sheet metal ductwork sold to commercial customers located primarily in the greater Binghamton, New York area. Effective February 1, 2008, the Company purchased substantially all of the operating assets and assumed certain liabilities of J&J Heating and Cooling, Inc. ("J&J Heating"). J&J Heating sells, installs and services heating, ventilating and air conditioning (HVAC) systems to both residential and commercial customers located primarily in the greater Binghamton, New York area. Effective August 1, 2010, the Company purchased substantially all of the operating assets and assumed certain liabilities of Titchener Iron Works, Inc. ("Titchener"). Titchener fabricates and installs structural and miscellaneous steel sold to commercial customers located primarily in the greater Binghamton, New York area. Effective September 1, 2010, the Company purchased substantially all of the operating assets and assumed certain liabilities of Rondout Electric, Inc. ("Rondout"). Rondout is an electrical contractor for public and private sector customers located primarily between the greater Albany and the Northern Westchester sections of New York State. The typical operating cycle for these businesses, from the award of a contract through completion of the contract, ranges from several days up to a period of approximately two years.

The Company's products/services are used primarily in construction projects such as highways, bridges, industrial and commercial buildings, hospitals, schools, office buildings, residential structures, and other kinds of structures. The Company's customers are mainly contractors and end users.

A summary of the Company's significant accounting policies is as follows:

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions are eliminated in consolidation.

Trade Receivables and Accounts Receivable on Contracts: Trade receivables and accounts receivable on contracts are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, using historical experience applied to an aging of accounts, and considering a customer's financial condition, credit history and current economic conditions. Trade receivables and accounts receivable on contracts are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Operating Cycle and Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk: The Company maintains substantially all of its depository accounts in a single financial institution. Accounts in the bank are guaranteed by the Federal Depository Insurance Corporation (FDIC) up to \$250,000. At various times throughout the year the Company had cash balances that exceeded the FDIC limit. Management believes that the Company places the cash with a high credit quality financial institution.

The Company grants credit, generally without collateral, to its customers, which are public and private companies and state and federal agencies. Management believes that its contract acceptance, billing and collection policies are adequate to minimize potential credit risk.

The Company is exposed to credit loss in the event of nonperformance by its subcontractors. At December 31, 2011, management was not aware of any significant nonperforming subcontractors.

Trade receivables and accounts receivable on contracts are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days unless such balances are in accordance with contract terms. Interest is generally not charged on past due trade receivables.

Inventory: Inventory is recorded at the lower of cost or market using the first-in, first-out (FIFO) method. As of December 31, 2011 and 2010, all inventories consist of raw materials, equipment and parts, which are available for resale.

Property and Equipment: Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Machinery and equipment	7
Vehicles	5
Office equipment	5

Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the improvements.

Maintenance and repairs are charged to expense as incurred. Expenditures for major renewals and improvements that extend the useful lives of the assets are capitalized.

Deferred Financing Costs: Deferred financing costs arising from the incurrence of long-term debt are being amortized using the effective interest method over the life of the related debt instruments.

Goodwill: Goodwill represents the cost in excess of the fair value of the net assets acquired in purchase transactions. Goodwill is subject to periodic testing for impairment. In September 2011, a newly issued accounting standard was issued to amend and simplify the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative assessment, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. This amendment is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted and the Company has elected to do so. Through its qualitative assessment, the Company determined it was not necessary to perform the two-step impairment analysis.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Operating Cycle and Summary of Significant Accounting Policies (Continued)

Covenant Not to Compete: The Company entered into a covenant not to compete in connection with the acquisition of Titchener during August 2010. The covenant is amortized over the life of the agreement. Amortization expense was \$24,000 for the year ended December 31, 2011. Future amortization will be \$24,000 annually for the next 3 years and will be \$14,000 for the year ended December 31, 2015.

Long-Lived Assets: Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. An impairment loss would be recognized when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount and fair value of the asset and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Revenue Recognition: Revenue from product sales is recognized upon shipment to customers, title passing and all obligations of the Company have been satisfied. Provisions for returns are provided for in the same period the related sales are recorded.

Shipping and handling charges to customers are included in net sales and the related shipping and handling costs incurred by the Company are included in cost of goods sold.

Contract Revenue and Cost Recognition: Revenues from mechanical contracts are recognized on the percentage-of-completion method, measured by the percentage of direct cost incurred to date to the estimated total direct cost for each contract. That method is used because management considers total direct cost to be the best available measure of progress on the contracts. Revenues from time and material contracts are recognized currently as the work is performed.

Contract costs include all direct material, labor, subcontractor and those indirect costs that relate to contract performance. All other costs are expensed as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. The Company recognizes claim and contract modification costs as they are incurred and revenues when realization is probable and the amount can be reliably estimated, which is generally at the time a claim or contract modification is accepted by all parties. Because of the inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change in the near term.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Stock-Based Compensation: Stock-based compensation costs are measured based on the fair value of the equity instrument awarded and recognized over the vesting period of each award.

Income Taxes: The Company files a Federal consolidated tax return which includes all entities identified in "Nature of Business" section on Note 1. The Company and its subsidiaries' file separate state tax returns for each entity. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Operating Cycle and Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued): Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs: Advertising costs are charged to expense as incurred. Total advertising costs were \$189,750 and \$179,147 for the years ended December 31, 2011 and 2010, respectively.

Sales Taxes: The Company collects sales tax in the various states in which it conducts business. The amounts collected and remitted to the states are excluded from revenues and costs of revenues.

Reclassification: Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

Subsequent Events: The Company has evaluated subsequent events through May 14, 2012, the date the financial statements were available to be issued. In March 2012, the Company settled two claims against customers for \$842,500. These amounts were received in March 2012 and affected 2012 pretax income by \$627,500.

Note 2. Acquisitions

During August 2010, the Company purchased certain operating assets and assumed certain liabilities of Titchener Iron Works, Inc. The results of business operations since acquisition are included in the consolidated financial statements.

The aggregate purchase price was \$1,227,033. The Company funded the acquisition through available cash resources. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

Account receivable on contracts	\$ 687,908
Inventory	79,000
Costs and estimated earnings in excess of billings on uncompleted contracts	316,654
Property and equipment	359,850
Covenant not to compete	120,000
Other current assets	30,000
Total fair value of assets acquired	<u>1,593,412</u>
Liabilities assumed, principally a deferred tax liability and billings in excess of costs and estimated earnings on uncompleted contracts	<u>341,929</u>
Net fair value of assets acquired	1,251,483
Purchase price	<u>1,227,033</u>
Gain on bargain purchase	<u>\$ 24,450</u>

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Acquisitions (Continued)

During September 2010, the Company purchased certain operating assets and assumed certain liabilities of Rondout Electric, Inc. The results of business operations since acquisition are included in the consolidated financial statements.

The aggregate purchase price was \$2,352,428. The Company funded the acquisition through (1) available cash resources of \$1,000,000, (2) the proceeds of a bank line of credit of \$628,000, (3) the proceeds of a bank term loan of \$195,000, payable in seventy two (72) equal monthly installments plus interest, (4) the proceeds of a sellers note of \$250,000 payable in 5 equal annual installments and (5) a working capital adjustment payable to the seller of \$279,428. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

Account receivable on contracts	\$ 3,078,637
Inventory	235,302
Costs and estimated earnings in excess of billings on uncompleted contracts	979,698
Property and equipment	677,650
Other current assets	<u>192,383</u>
Total fair value of assets acquired	5,163,670
Accounts payable and accrued expenses	1,972,360
Billings in excess of costs and estimated earnings on uncompleted contracts	416,814
Deferred tax liability	169,720
Total liabilities assumed	2,558,894
Net fair value of assets acquired	2,604,776
Purchase price	<u>2,352,428</u>
Gain on bargain purchase	<u><u>\$ 252,348</u></u>

Note 3. Contract Receivables

Contract receivables consist of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Completed contract and time and material jobs	\$ 3,470,403	\$ 3,326,854
Contracts in progress	11,510,063	6,763,434
Retainage (due upon completion of contracts)	<u>2,611,357</u>	<u>1,200,422</u>
	<u><u>\$ 17,591,823</u></u>	<u><u>\$ 11,290,710</u></u>

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Property and Equipment

The following summarizes the principal components of property and equipment as of December 31, 2011 and 2010:

	2011	2010
Machinery and equipment	\$ 4,263,361	\$ 4,020,093
Vehicles	2,644,409	2,514,902
Office equipment	895,596	830,019
Leasehold improvements	456,451	411,659
	<u>8,259,817</u>	<u>7,776,673</u>
Less: accumulated depreciation	5,146,537	4,265,427
	<u>\$ 3,113,280</u>	<u>\$ 3,511,246</u>

Note 5. Costs and Estimated Earnings on Uncompleted Contracts

Information regarding uncompleted contracts as of December 31, 2011 and 2010 is as follows:

	2011	2010
Total amount of contracts in process	<u>\$115,706,466</u>	<u>\$99,386,041</u>
Costs incurred on uncompleted contracts	\$ 78,755,393	\$59,494,090
Estimated earnings	11,060,524	9,594,225
	<u>89,815,917</u>	<u>69,088,315</u>
Less: billings to date	85,959,569	67,958,653
	<u>\$ 3,856,348</u>	<u>\$ 1,129,662</u>

The above is included in the accompanying consolidated balance sheets under the following captions:

	2011	2010
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 5,071,466	\$ 2,433,780
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>(1,215,118)</u>	<u>(1,304,118)</u>
	<u>\$ 3,856,348</u>	<u>\$ 1,129,662</u>

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Demand Notes Payable, Bank

The Company, through its subsidiaries, maintains equipment and working capital line of credit facilities. The facilities are collateralized by substantially all of the Company's assets. The credit facilities also require the Company to maintain certain financial covenants. As of December 31, 2011, the Company determined that it was not in compliance with the debt service coverage ratio requirement and received a waiver from the lender.

On August 15, 2011, the Company increased its working capital credit facility with a bank from \$12,000,000 to \$15,000,000, and the term of the facility was extended through June 30, 2013. At December 31, 2011 and 2010, borrowings were \$13,261,373 and \$7,162,505, respectively, and unused available borrowings were \$1,783,695 and \$2,784,275, respectively. Amounts borrowed under this facility bear interest payable in arrears at a rate of prime plus one quarter percent or thirty day LIBOR plus two hundred (200) basis points during each LIBOR interest period providing leverage is 2.00 to 1.0 or less (as defined in the agreement). If leverage exceeds 2.00 to 1.0, the interest rate is LIBOR plus 225 basis points or prime plus 50 basis points. The choice of prime or LIBOR is up to the Company. At December 31, 2011, the interest rate charged by the bank was 2.29% (LIBOR plus 2.00%). The Company can prepay amounts under this credit facility without penalty or premium but with accrued interest to date of such prepayment or the amount prepaid.

The equipment line of credit facilities, which mature on June 30, 2012, entitle the Company to borrow an amount, which, in the aggregate, shall not exceed \$1,500,000. At December 31, 2011 and 2010, there were no amounts borrowed under these credit facilities.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt

Long-term debt consists of the following as of December 31, 2011 and 2010:

	2011	2010
Term loans, bank, due October 2013, payable in equal monthly payments of \$42,055 including principal and interest at LIBOR plus 225 basis points (2.54% at December 31, 2011)	\$ 1,067,242	\$ 1,279,111
Auto loans, due August 2012, payable in 48 monthly payments of \$3,287, which includes interest at 5.9%	25,600	62,340
Term loan, bank, due May 2013, payable in equal monthly principal payments of \$3,274 plus interest at 7.5%	54,942	94,226
Term loan, bank, due February 2015, payable in equal monthly payments of \$637 plus interest at 6%	21,982	28,059
Term loan, bank, due July 2015, payable in equal monthly payments of \$4,255 including principal and interest at LIBOR plus 225 basis points (2.54% at December 31, 2011)	178,109	224,055
Term loan, bank, due December 2016, payable in equal monthly payments of \$2,923 including principal and interest at LIBOR plus 225 basis points (2.54% at December 31, 2011)	150,747	181,605
Term loans, bank, due October 2016, payable in equal monthly payments of \$2,366 including principal and interest at LIBOR plus 225 basis points (2.54% at December 31, 2011)	124,766	151,716
Term loan, former owner, due September 2015, payable in equal annual payments of \$50,000	200,000	250,000
	<u>1,823,388</u>	<u>2,271,112</u>
Less: current portion	824,056	717,659
	<u>\$ 999,332</u>	<u>\$ 1,553,453</u>

The bank term loans are secured by trade receivables and inventory. The auto loans are secured by the vehicles financed.

Maturities of long-term debt are as follows:

Years Ending December 31,	
2012	\$ 824,056
2013	571,968
2014	220,851
2015	169,451
2016	37,062
	<u>\$ 1,823,388</u>

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

Debentures: During 2010, the Company issued 8% non-convertible subordinated debentures totaling \$350,000. The debentures mature on December 31, 2016. Interest is payable semi-annually.

During 2009, the Company issued 8% non-convertible subordinated debentures totaling \$500,000. The debentures mature on December 31, 2016. Interest is payable semi-annually.

During 2007, the maturity of the 10% convertible subordinated debentures totaling \$475,000 was extended to September 30, 2012 and the conversion price on these debentures was \$3.00 per common share. Interest is payable semi-annually. If all of the debentures were converted, a total of 158,333 common shares would be issued, which the Company has reserved.

During 2006, the Company issued 10% convertible subordinated debentures totaling \$1,275,000. The debentures are due at various dates in 2013. Interest is payable semi-annually. The debentures are convertible any time prior to maturity into the Company's common stock, \$.001 par value, at a conversion price of \$4.00 per common share. If all of the debentures were converted, a total of 318,750 common shares would be issued, which the Company has reserved.

Note 8. Stock Option Plan

The Company's Stock Option Plan and Agreement ("Plan") permits the grant of share options to its employees for the purpose of advancing the interests of the Company by providing an incentive to the employees through the encouragement of stock ownership in the Company by the employee. Effective June 2007 and January 2008, Management approved a stock option agreement, pursuant to which a certain employee was granted the right to purchase, in the aggregate, 100,000 and 50,000 shares of common stock, respectively. During 2009, those options were cancelled. There were no options granted during the year ended December 31, 2010.

During February 2011, the Company granted 500,000 stock options to an employee. The options vest over 4 years, have an exercise price of \$1 for 375,000 options and \$2 for 125,000 options. The Company calculated the related expense using the Black-Scholes model and deemed the compensation expense amount to be insignificant for 2011. Inputs to the Black-Scholes method include an estimated term of 4 years, an interest-free rate of 1.85% volatility of 89%, a dividend rate at \$0 and a stock price at the date of grant of \$0.76. As of December 31, 2011, no options are exercisable and the unrecognized compensation costs approximate \$200,000 (pre-tax).

Note 9. Commitments and Contingencies

The Company is negotiating construction contract change orders and claims with customers in the ordinary course of business. In the opinion of management, it is not possible to determine the outcome of these negotiations and no amounts have been recognized in the financial statements for these matters.

The Company, as a condition for entering into construction contracts, had outstanding surety bonds of \$17,620,622 and \$1,680,746 as of December 31, 2011 and 2010, respectively. The President of the Company personally guaranteed a maximum of \$3,000,000 of the outstanding surety bonds as of December 31, 2011.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Preferred Stock

The Company has authorized 5,000,000 shares of Preferred Stock, par value \$.001 per share. The preferred stock may be issued in one or more series, and may have special rights, liquidation references, and qualifications, limitations, or restrictions as shall be stated in the resolution or resolutions providing for the issue thereof adopted by the Board of Directors of the Company, from time to time. No preferred stock has been issued as of December 31, 2011.

Note 11. Leases

Two subsidiaries of the Company lease office, warehouse and shop facilities from a real estate entity owned by the President of the Company, who is the Company's principal shareholder. The three leases, requiring annual payments of \$132,000, \$51,000, and \$24,000, end in May 2013, April 2014, and January 2013, respectively, and provide for renewal options for a total of an additional fifteen years. One subsidiary of the Company leases office space partially owned by the President of this subsidiary.

The lease, requiring annual payments of \$64,356, expires in October 2012 and provides for a renewal option for an additional five years. Also, one subsidiary of the Company leases office space owned by the President of this subsidiary. The lease, requiring annual payments of \$18,000, expires in December 2012. The Company believes that the lease payments approximate the fair market value lease payments for the property based upon advice from independent professional real estate appraisal firms. The Company has not guaranteed the debt of the real estate entities owned by either the principal or minority shareholder of the Company. The Company is committed to various other noncancelable operating leases which expire at various dates through 2020.

The minimum commitments under noncancelable leases are:

Years Ending December 31,	Third Party Amount	Related Party Amount	Total
2012	\$ 282,144	\$ 329,356	\$ 611,500
2013	275,620	148,000	423,620
2014	273,000	54,875	327,875
2015	251,000	40,000	291,000
2016	44,500	40,000	84,500
	<u>\$ 1,126,264</u>	<u>\$ 612,231</u>	<u>\$1,738,495</u>

Total rent expense was \$778,119 and \$768,942 for the years ended December 31, 2011 and 2010, respectively, including related party expense of \$362,167 and \$309,356 for the years ended December 31, 2011 and 2010, respectively.

Note 12. Retirement Plans

The Company's sponsored retirement plans include 401(k) plans and a discretionary retirement savings plan. Union employees are covered by various union multiemployer sponsored retirement plans. Vested benefits vary in accordance with years of credited service. The Company's expense for these plans was \$332,709 and \$229,500 for the years ended December 31, 2011 and 2010, respectively.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Income Tax Provision (Benefit)

The income tax provision (benefit) consisted of the following:

	2011	2010
Current:		
Federal	\$ -	\$ -
State	67,326	18,190
	<u>67,326</u>	<u>18,190</u>
Deferred:		
Federal	(304,411)	90,267
State	(214,004)	(91,699)
	<u>(518,415)</u>	<u>(1,432)</u>
	<u>\$ (451,089)</u>	<u>\$ 16,758</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities are approximately as follows:

	2011	2010
Deferred tax asset		
Allowance for doubtful accounts	\$ 95,824	\$ 195,529
Inventories - 263 A	12,520	18,794
Federal - NOL	540,325	174,271
State - NOL	395,922	94,961
State - bonus depreciation	41,732	50,256
Acquisition Costs	29,022	41,975
Other	123,531	151,684
	<u>1,238,876</u>	<u>727,470</u>
Deferred tax liabilities		
Depreciation - property	(686,411)	(727,620)
Amortization - goodwill	(275,142)	(236,385)
Other	(86,697)	(93,443)
	<u>(1,048,250)</u>	<u>(1,057,448)</u>
	<u>\$ 190,626</u>	<u>\$ (329,978)</u>

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Income Tax Provision (Benefit) (Continued)

A reconciliation of income taxes computed at the United States federal statutory income tax rate of 34% to the provision (benefit) for income taxes reflected in the Consolidated Statements of Operations for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
U.S. federal income tax at federal statutory rate	\$ (367,916)	\$ 168,524
Deferred tax asset from bargain purchases	-	(186,020)
State and local income taxes, net of federal income tax expense	(96,807)	49,566
Other	13,634	(15,312)
	<u>\$ (451,089)</u>	<u>\$ 16,758</u>

The Company files income tax returns in the United States federal jurisdiction and various state jurisdictions. The United States federal income tax returns prior to 2008 are closed. State jurisdictions have statutes of limitations that generally range from three to five years. As of December 31, 2011, the Company has federal and state net operating losses totaling approximately \$1,600,000 and \$4,400,000, respectively.

Note 14. Major Customer and Vendors

Major Customer: One mechanical contract with mechanical contract revenue of approximately \$15,230,000 comprised 22% of total mechanical contracts revenue earned during the year ended December 31, 2011. Accounts receivable (including retentions) related to this contract at December 31, 2011, amounted to 26% of total accounts receivable on contract.

Major Vendors: For the year ended December 31, 2011, the Company had one major vendor who accounted for approximately 46% of total construction materials purchases. For the year ended December 31, 2010, the Company had two major vendors who accounted for approximately 60% of total construction materials purchases. Accounts payable related to these vendors at December 31, 2011 and 2010, amounted to 34% and 17% of total accounts payable, respectively.

Note 15. Related Party Transactions

As described in Note 11 of the consolidated financial statements, the Company has entered into lease agreements with a real estate entity owned by the President of the Company who is the Company's principal shareholder and the President of one of the subsidiaries.

The Company has an informal management agreement with an entity in which the majority shareholder has a material interest. Management fees were \$50,000 and \$60,000 for the years ended December 31, 2011 and 2010, respectively. There were no amounts owed to this entity as of December 31, 2011 and 2010.

An officer loaned the Company \$204,000 during the year ended December 31, 2011. The loan is non-interest bearing, and there are no stated repayment terms. The Company repaid \$100,000 of the loan in January 2012.