

MORO CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2022

MORO CORPORATION AND SUBSIDIARIES

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MORO CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
MARCH 31, 2022

	<u>2022</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	
Cash	\$ 586,458
Accounts receivable, net	2,757,511
Contract receivables, net	7,090,579
Inventories, net	5,301,428
Contract assets	4,497,568
Prepaid expenses and other current assets	521,397
Prepaid income taxes	231,054
TOTAL CURRENT ASSETS	<u>20,985,995</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation	987,930
Right of use (ROU) assets from operating leases	1,418,667
Right of use (ROU) assets from finance leases, net of amortization	1,033,363
OTHER ASSETS	
Deferred income taxes, net	110,560
Goodwill	1,262,798
TOTAL OTHER ASSETS	<u>1,373,358</u>
TOTAL ASSETS	<u>\$ 25,799,313</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Line of credit	\$ 2,980,893
Current portion of long-term debt	34,971
Current portion of operating lease liabilities	509,915
Current portion of finance lease liabilities	277,411
Accounts payable	4,062,458
Accrued expenses and other current liabilities	920,414
Contract liabilities	1,458,501
TOTAL CURRENT LIABILITIES	<u>10,244,563</u>
LONG TERM LIABILITIES	
Long-term debt, net of current portion	128,194
Operating lease liabilities, net of current portion	906,175
Finance lease liabilities, net of current portion	584,901
TOTAL LONG TERM LIABILITIES	<u>1,619,270</u>
TOTAL LIABILITIES	<u>11,863,833</u>
<u>STOCKHOLDERS' EQUITY</u>	
Common stock, \$.001 par value,	
25,000,000 shares authorized; 6,369,337 shares issued;	
6,119,337 shares outstanding	6,370
Additional paid-in-capital	963,205
Retained earnings	13,065,905
	<u>14,035,480</u>
Treasury stock, at cost, 250,000 shares	(100,000)
TOTAL STOCKHOLDERS' EQUITY	<u>13,935,480</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 25,799,313</u>

MORO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE PERIOD ENDING MARCH 31, 2022

	<u>2022</u>	<u>% of Earned Revenues</u>
EARNED REVENUES		
Construction material sales	\$ 3,547,573	25.8%
Construction contracts revenue earned	10,195,374	74.2%
TOTAL EARNED REVENUES	<u>13,742,947</u>	<u>100.0%</u>
COST OF EARNED REVENUES		
Cost of goods sold	2,927,836	21.3%
Cost of construction contracts revenue earned	7,917,659	57.6%
TOTAL COST OF EARNED REVENUES	<u>10,845,495</u>	<u>78.9%</u>
GROSS PROFIT	2,897,452	21.1%
GENERAL AND ADMINISTRATIVE EXPENSES	<u>3,597,171</u>	<u>26.2%</u>
INCOME/(LOSS) FROM OPERATIONS	<u>(699,719)</u>	<u>-5.1%</u>
OTHER INCOME (EXPENSE)		
Interest expense	(54,233)	-0.4%
Gain on sale of property and equipment	7,731	0.1%
Other income (expense)	6,581	0.0%
NET OTHER INCOME (EXPENSES)	<u>(39,921)</u>	<u>-0.3%</u>
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	(739,640)	-5.4%
INCOME TAX EXPENSE/(BENEFIT)	<u>(219,134)</u>	<u>-1.6%</u>
NET INCOME/(LOSS)	<u>\$ (520,506)</u>	<u>-3.8%</u>
NET INCOME/(LOSS) PER SHARE, BASIC & DILUTED	<u>\$ (0.09)</u>	
Weighted average common shares and diluted potential common shares.	<u>6,119,337</u>	

MORO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE PERIOD ENDING MARCH 31, 2022

	Common Stock		Additional	Retained	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Stockholders' Equity
Balance, December 31, 2021	6,369,337	\$ 6,370	\$ 963,205	\$ 13,586,411	250,000	\$ (100,000)	\$ 14,455,986
Net Income/(Loss)	-	-	-	(520,506)	-	-	(520,506)
Balance, March 31, 2022	<u>6,369,337</u>	<u>\$ 6,370</u>	<u>\$ 963,205</u>	<u>\$ 13,065,905</u>	<u>250,000</u>	<u>\$ (100,000)</u>	<u>\$ 13,935,480</u>

MORO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDING MARCH 31, 2022

	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income/(Loss)	\$ (520,506)
Adjustments to reconcile net income/(loss) to net cash flows from operating activities	
Depreciation and amortization	171,045
Bad debt expense	102,722
Gain from sales of property and equipment	(7,731)
ASC-842 Operating lease expense adjustments	(7,327)
Decrease / (increase) in operating assets	
Accounts receivable	384,871
Contract receivables	227,098
Inventories	(119,151)
Contract assets	(59,490)
Prepaid expenses and other current assets	28,548
Prepaid income taxes	(231,054)
Increase / (decrease) in operating liabilities	
Accounts payable	212,420
Accrued expenses and other current liabilities	(37,535)
Income taxes payable	(48,008)
Contract liabilities	452,420
Total Adjustments	<u>1,068,828</u>
NET CASH FLOWS FROM/(USED) IN OPERATING ACTIVITIES	<u>548,322</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	7,731
Purchase of property and equipment	(52,362)
NET CASH FLOWS FROM/(USED) IN INVESTING ACTIVITIES	<u>(44,631)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net borrowings/(repayments) of lines of credit	(490,352)
Principal payments of finance lease liabilities	(62,621)
Principal payments of long-term debt	(10,791)
NET CASH FLOWS FROM/(USED) FINANCING ACTIVITIES	<u>(563,764)</u>
NET INCREASE/(DECREASE) IN CASH	(60,073)
CASH - BEGINNING OF YEAR	<u>646,531</u>
CASH - END OF PERIOD	<u><u>\$ 586,458</u></u>

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) **Nature of business**

The operations of Moro Corporation ("Moro") and its wholly-owned subsidiaries (collectively referred to as the "Company") consist primarily of the fabrication and sale of construction materials and construction contracting.

(2) **Summary of significant accounting policies**

Principles of consolidation - The consolidated financial statements include the accounts of Moro and its wholly-owned subsidiaries, Appolo Heating, Inc. ("Appolo"), J&J Sheet Metal Works, Inc. ("J&J"), Titchener Iron Works, Inc. ("Titchener"), Rondout Electric, Inc. ("Rondout"), J.M. Ahle Co., Inc. ("Ahle") and its unincorporated division Whaling City Iron ("Whaling"). All material intercompany accounts and transactions are eliminated.

Appolo's operations consist of sales, installation, and service of heating, ventilation, and air conditioning systems and related piping and sheet metal work, primarily in the greater Albany, Hudson Valley, and Binghamton areas in the State of New York.

J&J's operations consist of fabrication and installation of sheet metal ductwork to commercial customers primarily in the greater Binghamton, New York area.

Titchener's operations consist of fabrication and installation of structural and miscellaneous steel to commercial customers primarily in the greater Binghamton, New York area. See Note 20, regarding the closing of Titchener, which is scheduled to occur during the second quarter of 2022.

Rondout's operations consist of electrical contracting services for public and private sector customers primarily in the Hudson Valley and Northern Westchester County areas in the State of New York.

Ahle's operations consist of fabrication of reinforced steel and distribution of construction accessories in the Metropolitan New York City, New Jersey, and Eastern Pennsylvania areas. Ahle's operations include the operations of Whaling, whose operations consist of fabrication of reinforced steel and distribution of reinforcing, structural, and miscellaneous steel in the greater Boston, MA and Providence, RI areas.

The Company extends credit to its customers, the majority of which are located in Central/Northern New York State, and does not require collateral. Appolo, J&J, and Rondout, as a condition for entering into some of their construction contracts, had outstanding surety bonds as of March 31, 2022.

Use of estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management's estimates and assumptions include, but are not limited to, estimates of contract revenue, costs and gross profit, collectability of contract and accounts receivable, the value of goodwill, and salvage values and estimated useful lives of property and equipment. Management's estimates and assumptions are derived from, and are continually evaluated based upon, available information, judgment, and experience. Because of inherent uncertainties in estimating costs on construction contracts, it is at least reasonably possible that the estimates used will change within the near term.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Operating cycle – The Company's contracting work is performed primarily under fixed-price and time and materials type contracts. The length of the Company's contracts varies, but is typically completed in periods of one year or less. In situations where contracts are in excess of one year, any correlating contract assets and liabilities are typically included in current assets and current liabilities in the accompanying consolidated balance sheets as they are generally resolved within one year of the balance sheet date.

Revenue recognition – The Company recognizes revenue from construction contracts in accordance with FASB Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Topic 606 provides a five-step model for recognizing revenue from contracts with customers as follows:

1. Identify the contract;
2. Identify the performance obligation(s);
3. Determine the transaction price;
4. Allocate the transaction price; and
5. Recognize revenue.

Revenue Recognition for Construction Contracts

The Company derives the majority of its revenue from fixed-price and time and materials construction contracts. The amount of revenue to be earned from construction contracts is measured based on the amount of consideration specified in the original contract plus the value of subsequent modifications to the original contract.

To determine the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. Generally, under its construction contracts, the Company provides its customers with a significant service of integrating a complex set of tasks and components into a single project or capability, and therefore are generally accounted for as single performance obligations.

The Company evaluates whether its contracts represent one or more performance obligations which would be presented separately to account for revenue recognition. Generally, each of the Company's contracts represents a single performance obligation. This evaluation requires significant judgment and could change the amount of revenue and profit recorded in a given period.

The Company recognizes revenue from fixed-price construction contracts over time as the performance obligations are satisfied, due to the continuous transfer of control to the customer. The Company measures progress towards satisfaction of performance obligations and the amount of revenue to recognize using the cost-to-cost method, based on the ratio of costs incurred to date compared to the total amount of estimated costs at completion of the contract. The cost-to-cost method is used as it most accurately depicts the Company's performance as it directly measures the value of the services transferred to the customer. Changes to total estimated contract cost or losses, if any, are recognized in the period in which they are determined as assessed at the contract or performance obligation level. Pre-contract costs are expensed as incurred unless they are expected to be recovered from the customer.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) **Summary of significant accounting policies (continued)**

Revenue Recognition for Construction Contracts (continued)

Customer payments on contracts are typically due within 30 to 45 days of billing, depending on the contract. The payment terms of the Company's contracts from time to time require the customer to make advance payments as well as interim payments as work progresses. Advance payments generally are not considered a significant financing component as the Company expects to recognize those amounts in revenue within a year of receipt as work progresses on the related performance obligation.

Variable Consideration

The nature of the Company's contracts gives rise to several types of variable consideration, including claims and unpriced change orders; awards and incentive fees; and liquidated damages and penalties. The Company recognizes revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Company estimates the amount of revenue to be recognized on variable consideration using the expected value (i.e., the sum of a probability-weighted amount) or the most likely amount method, whichever is expected to better predict the amount. The Company's estimates of variable consideration and determination of whether to include such amounts in the transaction price are based largely on an assessment of legal enforceability, anticipated performance and any other information (historical, current or forecasted) that is reasonably available.

Factors considered in determining whether revenue associated with claims (including change orders in dispute and unapproved change orders in regard to both scope and price) should be recognized include whether the following are present: (a) the contract or other evidence provides a legal basis for the claim, (b) additional costs were caused by circumstances that were unforeseen at the contract date and not the result of deficiencies in the Company's performance, (c) claim-related costs are identifiable and considered reasonable in view of the work performed, and (d) evidence supporting the claim is objective and verifiable. If the requirements for recognizing revenue for claims or unapproved change orders are met, revenue is recorded only when the costs associated with the claims or unapproved change orders have been incurred and is constrained to the extent that it is not probable that a significant reversal of revenue will be recognized. Back charges to suppliers or subcontractors are recognized as a reduction of cost when it is determined that recovery of such cost is probable and the amounts can be reliably estimated. Disputed back charges are recognized when the same requirements described above for claims accounting have been satisfied.

Contract Estimates and Modifications

Due to the nature of the work required to be performed on the Company's performance obligations, the estimation of total revenue and cost at completion is complex, subject to many variables and requires significant judgment. As a significant change in one or more of these estimates could affect the profitability of the Company's contracts, management routinely reviews and updates contract-related estimates through a disciplined project review process in which management reviews the progress and execution of each performance obligation and the related estimated costs to complete. As part of this process, management reviews information including, but not limited to, outstanding contract matters, progress towards completion, program schedule and the associated changes in estimates of revenues and costs. Management must make assumptions and estimates regarding the availability and productivity of labor, the complexity of the work to be performed, the availability and cost of materials, the performance of subcontractors, and the availability and timing of funding from the customer, along with other risks inherent in performing services under all contracts where the company recognizes revenue over-time using the cost-to-cost input method.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Contract Estimates and Modifications (continued)

The Company recognizes changes in contract estimates on a cumulative catch-up basis in the period in which the changes are identified. Such changes in contract estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in a prior period. Changes in contract estimates may also result in the reversal of previously recognized revenue if the current estimate differs from the previous estimate. If at any time the estimate of contract or performance obligation profitability indicates an anticipated loss on the contract or performance obligation, the total loss is recognized in the period it is identified.

Contracts are often modified to account for changes in contract specifications and requirements. Most of the Company's contract modifications are for goods or services that are not distinct from existing contracts due to the significant integration provided in the context of the contract and are accounted for as if they were part of the original contract. The effect of a contract modification on the transaction price and the measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis. The Company accounts for contract modifications as separate contracts when the modification results in the promise to deliver additional goods or services that are distinct and the increase in price of the contract is for the same amount as the stand-alone selling price of the additional goods or services included in the modification.

Contract Assets and Liabilities

Billing practices are governed by the contract terms of each project based upon costs incurred, achievement of milestones or predetermined schedules. Billings do not necessarily correlate with revenue recognized over time using the cost-to-cost input method. Contract assets include costs and estimated earnings in excess of billings on uncompleted contracts which typically result from revenue under long-term contracts when the cost-to-cost input method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer.

Retainage, included in contract assets, represent the amounts withheld from billings to customers pursuant to provisions in the contracts and may not be paid until the completion of specific tasks or the completion of the project and, in some instances, for even longer periods. Retainage may also be subject to restrictive conditions such as performance guarantees. As of March 31, 2022, the Company expects to collect all of its outstanding retainage within one year.

The Company anticipates that substantially all incurred costs associated with contract assets as of March 31, 2022 will be billed and collected within one year.

Contract liabilities consist of advance payments and billings in excess of costs and estimated earnings on uncompleted contracts. The Company anticipates that substantially all such amounts will be earned within one year.

Refer to notes (3) and (4) for opening and closing balances of contract receivables, contract assets and contract liabilities.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Warranties

The Company provides limited warranties to customers for work performed under its contracts that typically extend for a limited duration following substantial completion of work on a project. Such warranties are not sold separately and do not provide customers with a service in addition to assurance of compliance with agreed-upon specifications. Accordingly, these types of warranties are not considered to be separate performance obligations. Historically, the Company's warranty claims have not resulted in material costs incurred.

Practical Expedients

If the Company has a right to consideration from a customer in an amount that corresponds directly with the value of the Company's performance completed to date, the Company recognizes revenue in the amount to which it has a right to invoice for services performed. The Company has determined their time and materials contracts generally meet this practical expedient and as such, revenue is recognized on these contracts as the associated costs are incurred and the Company has the right to invoice for such services even if not billed.

The Company does not adjust the contract price for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a service to a customer and when the customer pays for that service will be one year or less.

The Company does not typically incur incremental costs in obtaining its contracts; however, the majority of the Company's contracts are for periods of one year or less and as a result, the Company has elected to expense such costs, if and when incurred, as the amortization period of the asset, if recognized, would be for a period of one year or less.

The Company has disclosed the aggregate amount of the transaction price allocated to its remaining performance obligations of its contracts within Note (14); which the Company estimates will be recognized over the next 12 months.

Service Contracts

Appolo's operations include the separate sale of service and maintenance agreements, primarily to residential customers, for existing systems to be repaired and maintained, as opposed to constructed. The Company's performance obligation is to maintain the customer's mechanical system for a specific period of time, generally for periods of one year or less. The Company recognizes revenue associated with such agreements over time; however, for service maintenance agreements in which the full cost to provide services are typically not known, the Company generally recognizes revenue over time using an input method based on time elapsed, which is based on the amount of time the Company has provided their services out of the total time the Company has been contracted to perform those services. The Company has elected to apply the practical expedient to analyze revenue recognition associated with its service contracts under the portfolio approach, whereby the Company has applied the guidance within Topic 606 to its portfolio of service contracts, versus at the individual contract level, as the Company reasonably expects that the effects on the accompanying consolidated financial statements would not differ materially.

The Company generally receives payments for its service contracts up front. During the period ended March 31, 2022, the Company recognized approximately \$410,000 in revenues associated with its service contracts, which are included in construction contracts revenue earned in the accompanying consolidated statement of operations. As of March 31, 2022, the Company had a contract liability of approximately \$775,000, which was included as a component of contract liabilities in the accompanying consolidated balance sheet, which the Company expects to recognize as revenue in the next twelve months.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Product and Materials Sales

The Company also earns revenues from product and materials sales. Revenue is recognized when the Company satisfies its performance obligation(s) under the contract (either implicit or explicit) by transferring the promised product or material to its customer when the customer obtains control of the product or material. A performance obligation is a promise in a contract to transfer a distinct product or material to a customer. A contract's transaction price is allocated to each distinct performance obligation. Substantially all of the Company's contracts have a single performance obligation, as the promise to transfer products or materials is not separately identifiable from other promises in the contract and, therefore, not distinct.

Product and material sale revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or materials. The nature of the Company's contracts gives rise to several types of variable consideration. As such, revenue is recorded net of estimated discounts, allowances, etc. These estimates are based on historical experience, anticipated performance and the Company's best judgment at the time. Because of the Company's certainty in estimating these amounts, they are included in the transaction price of its contracts.

Substantially all of the Company's revenue is from products and materials transferred to customers at a point in time. The Company recognizes revenue at the point in time in which the customer obtains control of the product or material, which is generally when title passes to the customer when the customer has received the product or material at its physical location.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis.

The Company does not have significant contract assets or liabilities as of March 31, 2022 related to its product and material revenue. The Company has elected to expense all contract costs as incurred.

The costs of shipping and handling are recognized at the time the products are shipped or delivered to the customer and are included in cost of earned revenues in the consolidated statements of operations. Sales-based taxes are excluded from revenue.

Disaggregation of Revenue

The Company has not identified any economic factors that would impact the nature, amount, timing or uncertainty of revenue and cash flows, outside of those previously disclosed above with respect to the Company's revenues from construction contracts, service contracts or product and material sales. The Company's revenues from construction contracts and product and material sales are disaggregated in the accompanying consolidated statement of operations. The Company has disclosed revenue recognized during the period ended March 31, 2022 from its service contracts above. The Company has similar concentrations of customers, types of contracts and geographical location of sales within each of these revenue streams and as such, no further disaggregation of revenue was considered necessary.

Cash - The Company considers cash on hand and bank checking, savings, and money market accounts to be cash.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Concentration of credit risk - At times throughout the year, the Company may maintain certain bank accounts in excess of the FDIC insured limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in these accounts.

Contract and accounts receivable - Contract and accounts receivable are carried at cost, less an allowance for losses. The Company does not accrue finance or interest charges. The Company determines the collectability of contracts and accounts and the need for an allowance for losses based on the Company's historical experience, the existing economic conditions and the financial stability of its customers. A receivable is written off when it is determined that all collection efforts have been exhausted. All nonpublic funded projects are collateralized by normal contractor lien rights against the property.

Inventories - Inventories are stated at the lower of cost or net realizable value using the first-in, first-out method. Cost is determined by using average cost. Market is based upon realizable value, less allowance for selling and distribution expenses and normal gross profit. An allowance is made for obsolete, slow moving or damaged items when appropriate. As of March 31, 2022, the Company determined an allowance of approximately \$62,000 was necessary. Maintenance, operating, and other supplies are expensed as incurred. As of March 31, 2022, all inventories consisted of raw materials, equipment, and parts which were available-for-sale.

Contract Assets - Contract assets include amounts due under contractual retainage provisions as well as costs and estimated earnings in excess of billings on uncompleted contracts. Costs and estimated earnings in excess of billings on uncompleted contracts also represent amounts earned and reimbursable under contracts, including affirmative claim recovery estimates, but have a conditional right for billing and payment such as achievement of milestones or completion of the contract. Retainage represents amounts billed to customers where payments have been partially withheld pending completion of certain milestones, satisfaction of other contractual conditions, or completion of the project. Retainage agreements vary from project to project and balances can remain outstanding for several months or years depending on a number of circumstances, such as contract-specific terms, project performance or other variables that may arise as the project moves towards completion. Customer affirmative claims will be settled based on the claims resolution process, which could extend beyond one year. As of March 31, 2022, the retainage amounts estimated by management to be collected beyond one-year were minimal.

Property and equipment - Property and equipment are stated at cost and are depreciated over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets. Depreciation and amortization are computed on the straight-line method for financial reporting purposes over the useful lives of the assets. The Company evaluates property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company does not believe that impairment indicators were present as of March 31, 2022. Accordingly, no such losses have been included in the accompanying consolidated statement of operations for the period ended March 31, 2022.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals that materially improve capacities or extend useful lives are capitalized. When property and equipment are sold or otherwise disposed of, the asset accounts and related accumulated depreciation or amortization accounts are relieved, and any gain or loss is included in operations.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Property and equipment (continued) –

The estimated useful lives of property and equipment are:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Machinery and equipment	7 Years
Vehicles	5 Years
Office equipment	5 Years

Goodwill - Goodwill represents the excess of cost over fair value of net assets acquired through the Company's acquisition of its subsidiaries. The Company accounts for goodwill in accordance with FASB ASC Topic 350, "Goodwill and Other Intangible Assets." Under ASC Topic 350, goodwill is not amortized but is reviewed at least annually for impairment or more frequently when circumstances indicate impairment may be present. The Company has the option to first perform a qualitative analysis to determine if it is more likely than not that goodwill is impaired. If it is determined that it is more likely than not that goodwill is not impaired, no further analysis is required. If it is determined that it is more likely than not that goodwill is impaired, the Company performs a quantitative analysis to compare the estimated fair value of a reporting unit with its carrying amount. If the estimated fair value is less than the reporting unit's carrying amount, an impairment loss is recognized as the difference between the reporting units' fair value and carrying amount, not to exceed the carrying amount. During the period ended March 31, 2022, based on the qualitative analysis performed, the Company concluded that no impairment of goodwill exists.

Contract Liabilities – Contract liabilities consist of billings in excess of costs and estimated earnings on uncompleted contracts, advance payments received on service agreements, and retainage payable. Billings in excess of costs and estimated earnings on uncompleted contracts are billings to customers on contracts in advance of the work performed, including advance payments negotiated as a contract condition. Generally, unearned project-related costs will be earned over the next twelve months. Retainage represents amounts payable to vendors where payments have been partially withheld pending completion of certain milestones, satisfaction of other contractual conditions, or the completion of the project. Retainage agreements vary from project to project and balances can remain outstanding for several months or years depending on a number of circumstances, such as contract-specific terms, project performance or other variables that may arise as the project moves towards completion. As of March 31, 2022, the retainage amounts estimated by management to be remitted beyond one-year were minimal.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Income taxes - The Company accounts for income taxes using the asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the year and the change during the year in deferred tax assets and liabilities.

The Company accounts for the effect of any uncertain tax positions using FASB ASC Topic 740-10, "Income Taxes," based on a "more likely than not" threshold applied to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense. The Company has determined that it has no tax positions resulting in an uncertainty requiring recognition.

It is the Company's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of March 31, 2022, the Company had no accrual for interest and penalties.

The Company is subject to taxation in the United States and various state jurisdictions. As of March 31, 2022, tax years for 2018, 2019, 2020 and 2021 are subject to examination by the tax authorities. With few exceptions, as of March 31, 2022, the Company is no longer subject to U.S. federal, state, or local examinations by tax authorities for years before 2018.

Advertising expense - The Company expenses advertising costs as they are incurred. Advertising expense for the period ended March 31, 2022 was approximately \$45,000.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Recently Issued Accounting Pronouncements

ASU No. 2016-13—Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and Other ASUs Issued Amending Topic 326

During June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During November 2018, April 2019, May 2019, November 2019 and March 2020, respectively, the FASB also issued ASU No. 2018-19, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses”; ASU No. 2019-04, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses”; ASU No. 2019-05 “Targeted Transition Relief”; ASU No. 2019-11, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses”; and ASU No. 2020-03 “Codification Improvements to Financial Instruments.” ASU No. 2018-19 clarifies (1) the effective date for nonpublic entities, and (2) that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASU Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, and ASU Nos. 2019-11 and 2020-03 amend ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently assessing the effect that ASU No. 2016-13 (as amended) may have on its results of operations, financial position and cash flows.

(3) Contract receivables, net

Contract receivables, net, consisted of the following as of March 31, 2022:

Opening balance contract receivables, net as of 01/01/2021	\$ 7,317,677
Total contract receivables as of 12/31/2021	
Completed contracts and time and materials jobs	\$ 3,012,732
Contracts in progress	4,146,190
	<u>7,158,922</u>
Less allowance for losses	68,343
Contract receivables, net as of 12/31/2021	<u>\$ 7,090,579</u>

(4) Contract assets and contract liabilities

As of March 31, 2022, contract assets consisted of the following:

Opening balance contract assets as of 01/01/2021	\$ 4,438,078
Contract Assets:	
Costs and estimated earnings in excess of billings	
on uncompleted contracts	\$ 3,231,592
Retainage receivables	1,265,976
Ending balance contract assets as of 12/31/2021	<u>\$ 4,497,568</u>

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Contract assets and contract liabilities (continued)

As of March 31, 2022, contract liabilities consisted of the following:

Opening balance contract liabilities as of 01/01/2022	\$ 1,006,081
Contract liabilities:	
Billings in excess of costs and estimated earnings on uncompleted contracts	\$ 652,874
Advance payments received on uncompleted service contracts	774,536
Accrued losses on uncompleted contracts	30,569
Retainage payable	522
Ending balance contract liabilities as of 03/31/2022	\$ 1,458,501

During the period ended March 31, 2022, the Company did not have any significant changes in either the contract asset or contract liability balances, and the Company recognized revenue of approximately \$299,000 related to contract liabilities outstanding as of January 1, 2022.

Costs and estimated earnings in excess of billings on uncompleted contracts and billings in excess of costs and estimated earnings on uncompleted contracts, as presented above, are calculated as follows:

Costs incurred on uncompleted contracts	\$ 20,256,926
Estimated earnings	5,386,055
	25,642,981
Less: billed to date	23,064,263
	\$ 2,578,718

Included in the accompanying consolidated balance sheet under the captions of contract assets, and contract liabilities respectively:

Costs and estimated earnings in excess of billings on uncompleted contracts, included in contract assets	3,231,592
Billings in excess of costs and estimated earnings on uncompleted contracts, included in contract liabilities	(652,874)
	\$ 2,578,718

5) Property and equipment

The following is a summary of property and equipment, at cost, less accumulated depreciation and amortization as of March 31, 2022:

Cost	
Machinery and equipment	\$ 4,028,303
Vehicles	1,380,664
Office equipment	1,440,928
Leasehold improvements	446,765
Total cost	7,296,660
Accumulated depreciation	(6,308,730)
Net property and equipment	\$ 987,930

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5) Property and equipment (continued)

Depreciation and amortization expense on property and equipment for the period ended March 31, 2022, was \$74,626.

(6) Goodwill

The following is a summary of goodwill as of March 31, 2022:

Goodwill	1,502,805
Accumulated Impairment loss	(240,007)
Total goodwill, net of impairment losses	<u>\$ 1,262,798</u>

As of March 31, 2022, the Company did not have any reporting units with zero or negative carrying amounts of net assets with allocated goodwill.

(7) Revolving credit facility

The Company established a two-year revolving credit facility with Firsttrust Bank on September 14, 2021. The revolving credit facility provides for borrowings of up to \$7,000,000, is secured by substantially all of the assets of the Company and its subsidiaries, and extends through September 14, 2023. The line of credit bears interest at the Secured Overnight Financing Rate (SOFR) 30-day average rate plus 2.5% per annum, with a minimum interest rate of 3.25% per annum (effective rate was 3.25% as of March 31, 2022). In the fourth quarter of 2021, the Company borrowed \$1,966,780 from the line of credit to redeem all of its outstanding unsecured, subordinated debt; the funds borrowed for the redemption bear interest at SOFR plus 4.0% per annum (effective rate was 4.1868% as of March 31, 2022).

As of March 31, 2022, the Company had \$2,980,893 of outstanding borrowings on its line of credit which was comprised of \$1,014,113 of borrowings used to fund working capital needs plus the funds used to redeem the Company's subordinated debentures.

The Company may prepay amounts under the credit facility without penalty or premium, but must pay any interest accrued to the date of such prepayment. With respect to the repayment of the borrowings outstanding that were used to repay the subordinated debentures, the Company is required to make principal payments of \$500,000 beginning June 14, 2022 and continuing every 6 months thereafter until the advance has been repaid in full. The Company incurred interest expense of \$28,233 associated with the net funds borrowed on the line of credit during the period ended March 31, 2022.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Leases

The Company leases certain facilities, vehicles and equipment under non-cancelable operating leases. Leases with an initial term of 12 months or less are not recorded on the accompanying consolidated balance sheet. The Company accounts for lease components separately from the non-lease components. The Company has some short-term leases on equipment and facilities. Short-term lease expense was not material to the consolidated financial statements and totaled approximately \$7,000 during the period ended March 31, 2022. Lease right-of-use assets and liabilities are recognized at the respective lease commencement dates based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company generally use their incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments.

The Company recognizes lease expense, including escalating lease payments and lease incentives, on a straight-line basis over the lease term. Lease expense on the Company's operating leases for the period ended March 31, 2022 was approximately \$182,000, which is included as a component of cost of earned revenues or general and administrative expenses, as deemed appropriate, in the accompanying consolidated statement of operations. During the period ended March 31, 2022, the Company incurred finance lease cost of approximately \$99,000, which includes approximately \$91,000 of amortization of its right of use assets, which is included as a component of cost of earned revenues or general and administrative expenses, as deemed appropriate, in the accompanying consolidated statement of operations, and \$8,000 of interest expense on its lease liabilities.

The lease terms generally range from two to seven years. Some leases include one or more options to renew, which may be exercised to extend the lease term. The Company includes the exercise of lease renewal options in the lease term when it is reasonably certain that the Company will exercise the option and such exercise is at the Company's sole discretion.

The Company has a lease arrangement with a related party under common ownership (Note 11). Rent paid to this related party for the period ended March 31, 2022 was \$14,000.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The maturities of lease liabilities as of March 31, 2022 were as follows:

Maturity Analysis	Operating Leases	Finance Leases	Combined
2022	\$ 446,973	\$ 228,491	\$ 675,464
2023	331,850	294,583	626,433
2024	241,128	248,403	489,531
2025	187,486	98,070	285,556
2026	140,800	24,575	165,375
Thereafter	199,467	22,078	221,545
Total	\$ 1,547,704	\$ 916,200	\$ 2,463,904
Less: Present value discount	(131,614)	(53,888)	(185,502)
Lease liability	\$ 1,416,090	\$ 862,312	\$ 2,278,402

MORO CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Leases (continued)

Amounts Recognized in the Consolidated Financial Statements and other Lease Metrics

Finance lease expense

Amortization of ROU assets	\$ 90,578
Interest on lease liabilities	8,309
Total finance lease expense	\$ 98,887

Operating lease expense	182,487
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Short-term lease expense	7,478
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Total	\$ 288,852
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Cash paid for amounts included in the measurement of lease liabilities for finance leases

Finance - Financing cash flows	68,673
Finance - Operating cash flows	8,309
Operating - Operating cash flows	182,487

ROU assets obtained in the exchange for lease liabilities

Finance leases	\$ 6,054
Operating leases	-

Weighted-average remaining lease terms (in years)

Finance leases	3.28
Operating leases	4.26

Weighted-average discount rate

Finance leases	3.79%
Operating leases	4.32%

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Long-term debt

Long-term debt consisted of the following as of March 31, 2022:

Notes payable to various finance companies, due in monthly installments totaling approximately \$3,400, including interest at various rates up to 3.99%, expiring at various dates through March 2027 and secured by vehicles and equipment.	\$ 163,165
Total long-term debt	163,165
Less current portion, net	34,971
Long-term portion, net	<u>\$ 128,194</u>

Annual maturities of long-term debt are as follows:

(10) Stock option plan

The Company's Stock Option Plan and Agreement (the "Plan") permits the granting of stock options to its employees for the purpose of advancing the interests of the Company by providing an incentive to the employee through the encouragement of stock ownership in the Company by the employee.

As March 31, 2022, 137,500 options were outstanding; each option was exercisable at \$1.10 per share. If unexercised, the 137,500 vested options will expire on January 1, 2023.

No options were granted during the period ended March 31, 2022.

(11) Related-party transactions

Variable interest entities - FASB ASC Topic 810-10, "Consolidations," provides a framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, noncontrolling interests, and results of activities of a VIE in its financial statements. In general, a VIE is a corporation, partnership, limited liability company, trust, or any other legal structure used to conduct activities or hold assets that: (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that lack the ability to direct the activities of the entity that most significantly impact its economic performance through voting or similar rights, or (3) has a group of equity owners that lack the obligation to absorb losses of the entity or the right to receive returns of the entity.

An entity with a variable interest in a VIE should consolidate the VIE if that entity has the power to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the VIE. The entity that consolidates the VIE is called the primary beneficiary. The primary beneficiary can be an entity without voting control of the VIE.

The Company's division, Whaling, leased office space and land from a related party, affiliated through common ownership during the period ended March 31, 2022. The Company has concluded that it does not have a variable interest in the related party.

Rent expense - The Company leased office space and land from an entity related through common ownership. See Note 8.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Income taxes

The provision for income tax expense (benefit), for the period ended March 31, 2022 consists of the following:

Current portion	
Federal	\$ (153,394)
State	(65,740)
	<u>(219,134)</u>
Deferred portion	
Federal	-
State	-
	<u>-</u>
Total income tax expense/(benefit)	<u>\$ (219,134)</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. As of March 31, 2022, the significant components of the Company's deferred tax assets and liabilities were as follows:

Deferred tax assets:	
Allowance for losses	\$ 41,108
Inventories - Section 263A	19,254
Service contracts	162,653
State - NOL	206,517
State - bonus depreciation	22,835
Accrued Expenses	86,660
Other	10,500
	<u>\$ 549,527</u>
Deferred tax liabilities:	
Depreciation - property	(109,427)
Amortization - goodwill, ROU assets	(247,803)
ASC-842 ROU assets and liabilities	(45,090)
Prepaid expenses	(35,686)
Other	(961)
	<u>(438,967)</u>
Deferred income taxes, net	<u>\$ 110,560</u>

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Income taxes (continued)

The effective income tax rate differs from the expected statutory tax rate due to certain permanent differences. The reason for the difference between the effective tax rate and the federal statutory rate is as follows.

Federal statutory tax rate of:	21.00%
Income taxes at the federal statutory rate	(155,324)
Increases/(decreases) resulting from:	
Net state tax income items	(63,810)
Provision for income taxes	<u>\$ (219,134)</u>

As of March 31, 2022, the Company has available state net operating loss carryforwards totaling approximately \$12,300,000 that will expire in years 2031 through 2040.

(13) Commitments and contingencies

The Company may be involved in various legal actions from time to time arising in the normal course of business. There are no matters outstanding that would, in management's view, have a material adverse effect on the financial position or results of operations of the Company.

(14) Backlog

The following schedule shows a reconciliation of backlog representing signed contracts in existence as of March 31, 2022 which correlate to unsatisfied performance obligations which are expected to be recognized over the next 12 months:

Balance on December 31, 2021	\$ 14,591,746
New contracts and contract adjustments, year-to-date 2022	6,332,232
	<u>20,923,978</u>
Less contract revenue earned, year-to-date 2022	7,147,886
Balance - March 31, 2022	<u>\$ 13,776,092</u>

(15) Collective Bargaining Agreements

The Company is subject to the terms of various union agreements. These union agreements mandate wage rates, working hours, working conditions and other related policies and procedures for covered employees. The agreements will expire in 2024

The Company contributed to medical and supplemental unemployment benefit plans as part of the terms of the collective bargaining agreements, which totaled approximately \$29,000 during the period ended March 31, 2022.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Multiemployer Pension Plans

The Company contributes to a number of multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover its union-represented employees. The financial risks of participating in multiemployer defined benefit pension plans are different from single-employer pension plans in the following respects:

1. Assets contributed to a plan by one employer may be used to provide benefits to employees of other participating employers,
2. If a participating employer discontinues contributions to a plan, other participating employers may have to cover any unfunded liability that may exist, and
3. If a participating employer chooses to discontinue participation in a plan, a withdrawal liability may be created based on the underfunded status of the plan.

Under the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Multiemployer Pension Plan Amendments Act of 1980 (the Act), a contributor to a multiemployer defined benefit plan is liable, upon termination of the plan for its share of the plan's unfunded vested liabilities. Any withdrawal liability would be recorded when it is probable that a liability exists and can be reasonably estimated. See Note 20 with respect to the Company's intentions regarding the multiemployer defined benefit pension plans in which it participates. Certain exemptions do exist in the building and construction industry that management believes limit the Company's exposure.

The Company's participation in significant defined benefit pension plans for the period ended March 31, 2022 is outlined in the following table. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number. The zone status is based on the latest information on the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent, but at least 65 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The "Surcharge Imposed" column includes plans in a red zone status that require a payment of a surcharge in excess of regular contributions. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject. Other than the plans listed, the Company was not a significant employer with respect to any other union plans.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act (PPA) Certified Zone Status	FIP/RP Status Pending/Implementation	Contributions	Surcharge Imposed	Expiration Date of Collective Bargaining Agreements
		2021		2021		
Iron Workers District Council of Western New York and Vicinity Pension Plan	51-6077088 / 001	Green	N/A	\$ 68,769	N/A	05/31/2024
Other Plans				23,924		
Total contributions				<u>\$ 92,693</u>		

The most recent PPA zone status available in 2022 is for the plan's year ending June 30, 2021.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) Employee benefit plans

Each subsidiary of the Company sponsors a 401(k) profit-sharing plan for its employees who are not subject to collective bargaining agreements and who meet specified age and service requirements. The plans provide for participants to make contributions which may be matched by each subsidiary of the Company at its discretion. Additionally, each subsidiary of the Company can make profit sharing contributions at its discretion, not to exceed the maximum allowable by the Internal Revenue Code. Company profit sharing contributions were approximately \$41,000 for the period ended March 31, 2022.

(18) Cash flow disclosures

The following is a summary of supplemental cash flow information for the period ended March 31, 2022:

Interest paid	<u>\$ 54,233</u>
Income taxes paid	<u>\$ 59,928</u>

(19) Impact of COVID-19 Pandemic

Commencing late in the first quarter of 2020, and continuing through the filing of these financial statements, the Company has faced significant risks and uncertainties as a result of the COVID-19 pandemic and tangential problems caused or exacerbated by COVID-19. The ultimate impact of these factors on the Company's business, operations and financial results continues to depend on many factors including the duration, severity and any recurrence of the COVID-19 pandemic from new variant strains of the underlying virus; the continuing effectiveness, availability and acceptance by the public of existing vaccines; the effect of the pandemic on the economy in the Company's markets; and the duration and scope of mitigation measures, such as operating, travel and other restrictions imposed or that may be imposed by governmental authorities, the Company's business partners, or other businesses in response to the pandemic and the impact of increases in inflation. While there has been a general improvement in pandemic-related conditions and a reduction of adverse effects from the pandemic, these factors may cause significant weakness, reductions or volatility in demand for our services and products which could result from, among other things, COVID-19 related downturns in the construction or housing markets. These factors may also cause volatility in the price of materials, disrupt our supply chain, increase our labor costs or cause labor shortages, or increase our transportation costs. Certain of the pandemic-related factors that affected the Company's business and operations in the past—such as price increases, delays or lack of availability of material and equipment, availability of labor, vaccine reluctance in labor pool, etc.—are likely to continue to have an adverse impact on the Company's financial position, results of operations, including its operating margins, and cash flows in the future.

MORO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(20) Closing of Titchener

The Company's wholly-owned subsidiary, Titchener, is a New York corporation whose business is to fabricate and install custom stairs and steel and aluminum railings. In late February 2022, management determined that the Company would close Titchener's operations, subject to the approval of the Board of Directors of the Company. In making this determination, management considered, among other things, the historically poor performance of Titchener subsequent to its acquisition by the Company in 2010 and the weak economic conditions in Titchener's markets. Management also initiated discussions with the two unions covering part of Titchener's workforce regarding certain critical matters pertaining to the union work force which would have to be resolved in order to close down Titchener. By the end of February 2022, management and the two unions had reached an informal agreement regarding such matters. Titchener completed its fabrication work by April 30, 2022 and is scheduled to complete its installation work during the second half of May 2022. Titchener's lease for the facilities in which its headquarters is located and from which it conducts its fabrication activities and stores inventory is scheduled to expire on July 31, 2022. Including liquidation-related expenses, management anticipates that Titchener will have a loss in 2022. At its meeting held on March 10, 2022, the Board of Directors of the Company approved the closing down of Titchener.

(21) Subsequent Events

Management has evaluated the accompanying consolidated financial statements for subsequent events through May 13, 2022, the date the accompanying consolidated financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the Company's consolidated financial statements.