Moro Corporation and Subsidiaries

Consolidated Financial Report
December 31, 2013

Moro Corporation and Subsidiaries

Contents

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Moro Corporation and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Moro Corporation and its subsidiaries as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 5 to the consolidated financial statements, the Company was not in compliance with a certain financial covenant specified in its senior debt agreement as of December 31, 2013 and is in default of this agreement as of the opinion date of these consolidated financial statements. Management's plans in regard to this matter are also described in Note 5. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

McGladrey LLP

Blue Bell, Pennsylvania
June 11, 2014

Moro Corporation and Subsidiaries

Consolidated Balance Sheets
December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash	**$ 3,219,973**	$ 3,075,341
Trade receivables less allowance for doubtful accounts of $89,288 and $68,500 at 2013 and 2012, respectively	**4,228,725**	6,435,858
Accounts receivable on contracts (including retentions)	**13,223,095**	10,747,041
Inventories	**3,870,607**	3,282,196
Costs and estimated earnings in excess of billings on uncompleted contracts	**2,658,526**	1,802,409
Prepaid income taxes	**31,636**	592,059
Prepaid and other current assets	**241,619**	319,195
Assets of discontinued operations	**1,835,032**	9,228,670
Total current assets	**29,309,213**	35,482,769
Property and Equipment, net	**2,242,204**	2,095,188
Other Assets	**59,088**	94,363
Deferred Income Taxes	**332,665**	-
Goodwill	**1,434,305**	1,434,305
Assets of Discontinued Operations	**323,065**	852,710
	$ 33,700,540	$ 39,959,335
Liabilities and Stockholders' Equity		
Current Liabilities		
Lines of credit	**$ 10,775,213**	$ 13,965,758
Current portion of long-term debt	**426,776**	613,475
Trade accounts payable	**6,111,536**	6,070,512
Accrued expenses	**1,840,827**	1,272,577
Due to former owners	**129,430**	129,430
Billings in excess of costs and estimated earnings on uncompleted contracts	**841,662**	664,319
Liabilities of discontinued operations	**2,546,174**	4,597,657
Total current liabilities	**22,671,618**	27,313,728
Long-Term Liabilities		
Long-term debt	**503,742**	556,276
Subordinated debentures	**2,800,000**	2,825,000
Deferred income taxes	**-**	67,722
	3,303,742	3,448,998
Commitments and Contingencies (Notes 8 and 10)		
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 6,369,337 shares at December 31, 2013 and 2012	**6,370**	6,370
Additional paid-in capital	**963,205**	963,205
Retained earnings	**6,755,605**	8,227,034
Total stockholders' equity	**7,725,180**	9,196,609
	$ 33,700,540	$ 39,959,335

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Operations
Years Ended December 31, 2013 and 2012

	2013	2012
Revenues		
Construction material sales, net	**$ 27,077,468**	$ 26,431,919
Mechanical contracts revenue earned	**47,281,432**	43,006,392
	74,358,900	69,438,311
Cost of revenues		
Cost of goods sold	**20,935,906**	20,579,263
Cost of mechanical contracts revenue earned	**35,679,661**	35,205,021
	56,615,567	55,784,284
Gross profit	**17,743,333**	13,654,027
Operating expenses		
Selling, general and administrative	**16,055,208**	11,727,952
Litigation costs as plaintiff	**-**	351,318
Gain on insurance recoveries	**-**	(84,393)
Income from operations	**1,688,125**	1,659,150
Other income (expense)		
Interest income	**2,146**	82,314
Interest expense	**(560,718)**	(550,742)
Other	**38,105**	207,250
	(520,467)	(261,178)
Income from continuing operations before income taxes	**1,167,658**	1,397,972
Provision for income taxes	**510,641**	623,004
Income from continuing operations	**657,017**	774,968
Discontinued operations		
Income (loss) from operations of discontinued division, net of tax benefit (expense) of ($74,555) in 2013 and $794,849 in 2012	**54,832**	(1,042,344)
Loss on disposal of division, net of tax benefit of $804,187	**(2,183,278)**	-
Net loss	**$ (1,471,429)**	$ (267,376)

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2013 and 2012

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, January 1, 2012	$ 6,370	$ 963,205	$ 8,494,410	$ 9,463,985
Net loss	-	-	(267,376)	(267,376)
Balance, December 31, 2012	6,370	963,205	8,227,034	9,196,609
Net loss	-	-	(1,471,429)	(1,471,429)
Balance, December 31, 2013	$ 6,370	$ 963,205	$ 6,755,605	$ 7,725,180

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Net loss	**$ (1,471,429)**	$ (267,376)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	**897,584**	957,361
Amortization	**41,245**	13,245
Provision for bad debts	**700,233**	118,453
Loss on disposal of division	**1,673,278**	-
Gain on sale of property and equipment	**(27,124)**	(1,205)
Deferred income taxes	**913,799**	258,348
(Increase) decrease in:		
Trade receivables	**1,735,718**	(1,288,161)
Accounts receivable on contracts	**(1,547,765)**	848,248
Inventories	**(590,843)**	(193,484)
Costs and estimated earnings in excess of billings on uncompleted contracts	**(197,255)**	355,042
Prepaid income taxes	**560,423**	(504,770)
Other current assets	**(254,006)**	112,534
Other assets	**(2,725)**	6,340
Increase (decrease) in:		
Trade accounts payable	**(1,453,755)**	985,521
Due to former owners	**-**	(3,505)
Accrued expenses	**560,054**	(201,826)
Billings in excess of costs and estimated earnings on uncompleted contracts	**(371,177)**	461,143
Net cash provided by operating activities	**1,166,255**	1,655,908
Cash Flows from Investing Activities		
Purchase of property and equipment	**(912,058)**	(404,889)
Proceeds from litigation settlement	**3,309,558**	-
Proceeds from disposal of property and equipment	**35,643**	5,675
Net cash provided by (used in) investing activities	**2,433,143**	(399,214)

(Continued)

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Financing Activities		
Proceeds from subordinated debentures	**$ -**	$ 275,000
Redemption of subordinated debentures	**(25,000)**	(50,000)
Loan from (repayment to) officer	**-**	(204,000)
Proceeds from lines of credit	**-**	943,843
Repayments of lines of credit	**(3,190,545)**	(239,458)
Proceeds of long-term debt	**377,896**	126,634
Principal payments of long-term debt	**(617,117)**	(780,271)
Net cash provided by (used in) financing activities	**(3,454,766)**	71,748
Net increase in cash	**144,632**	1,328,442
Cash, beginning	**3,075,341**	1,746,899
Cash, ending	**$ 3,219,973**	$ 3,075,341
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	**$ 674,816**	$ 655,181
Cash paid for taxes	**$ 249,573**	$ 79,687

See Notes to Consolidated Financial Statements.

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

Nature of Business and Operating Cycle: 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.

During December 2013, the Company classified its primary mechanical contracting business trading under the name Rado Enterprises, Inc. ("Rado") as discontinued operations (see Note 15).

Effective 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 Westchester 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 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 County 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.

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, 2013, 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, 2013 and 2012, 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:

	Years
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. Goodwill associated with the Rado reporting unit was fully written off during 2013 in connection with the subsidiary's discontinued operations (see Note 15). The impairment charge was $385,341 and is included in loss on disposal of division in the accompanying consolidated statements of operations in the year ended December 31, 2013. For its remaining reporting units, the Company performed the qualitative assessment for the years ended December 31, 2013 and 2012 and determined that there was no impairment.

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

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 of 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.

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 $196,821 and $159,506 for the years ended December 31, 2013 and 2012, 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.

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

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.

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.

Reclassification: Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

Subsequent Events: The Company has evaluated subsequent events through June 11, 2014, the date the consolidated financial statements were available to be issued.

Note 2. Contract Receivables

Contract receivables consist of the following as of December 31, 2013 and 2012:

	2013	2012
Completed contract and time and material jobs	$ 5,709,109	$ 4,343,088
Contracts in progress	5,682,232	4,799,126
Retainage (due upon completion of milestones and/or contracts)	1,831,754	1,604,827
	$ 13,223,095	$ 10,747,041

Note 3. Property and Equipment

Property and equipment consist of the following as of December 31, 2013 and 2012:

	2013	2012
Machinery and equipment	$ 3,777,044	$ 3,339,657
Vehicles	2,547,901	2,222,615
Office equipment	818,212	690,937
Leasehold improvements	344,747	350,747
	7,487,904	6,603,956
Less: accumulated depreciation	5,245,700	4,508,768
	$ 2,242,204	$ 2,095,188

Note 4. Costs and Estimated Earnings on Uncompleted Contracts

Information regarding uncompleted contracts as of December 31, 2013 and 2012 is as follows:

	2013	2012
Total amount of contracts in process	$ 63,238,509	$ 52,308,667
Costs incurred on uncompleted contracts	$ 20,239,078	$ 19,779,476
Estimated earnings	5,030,856	4,190,411
	25,269,934	23,969,887
Less: billings to date	23,453,070	22,831,797
	$ 1,816,864	$ 1,138,090

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

	2013	2012
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,658,526	$ 1,802,409
Billings in excess of costs and estimated earnings on uncompleted contracts	(841,662)	(664,319)
	$ 1,816,864	$ 1,138,090

Note 5. Lines of Credit and Going Concern

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, 2013, the Company determined that it was not in compliance with the debt service coverage ratio requirement and has not received a waiver from the lender because the parties could not agree on the amount, if any, of default fees that the lender has requested be paid by the Company.

In May of 2014, the lender decreased the Maximum Revolving Credit Amount to $11,000,000. The Revolving Credit Maturity Date remains as of April 30, 2014. The lender has not extended the Revolving Credit Maturity Date beyond April 30, 2014.

At December 31, 2013 and 2012, borrowings were $10,775,213 and $13,965,758, respectively, and unused available borrowings were $3,369,132 and $980,389, 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 to 1 or less (as defined in the agreement). If leverage exceeds 2 to 1, 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, 2013, the interest rate charged by the bank was 3.42%. 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.

During May 2014, the Company signed a non-legally binding letter of intent to refinance its lending arrangement with a new lending institution providing for a (1) Revolving Working Capital Line of Credit of $12,000,000 with an interest rate of thirty-day LIBOR plus 225 basis points or Prime and (2) $1,500,000 Equipment Credit Line with interest at 250 basis points over the Lender's corresponding cost of funds. The letter of intent is subject to various conditions including due diligence, collateral audits, equipment appraisals and the preparation of legal documentation.

Note 6. Long-Term Debt

Long-term debt consists of the following as of December 31, 2013 and 2012:

	2013	2012
Term loans, bank, due October 2013, payable in equal monthly payments of $42,055 including principal and interest at LIBOR plus 225 basis points	$ -	$ 346,471
Term loan, bank, due February 2015, payable in equal monthly payments of $637 plus interest at 6%	8,571	15,497
Term loan, bank, due July 2015, payable in equal monthly payments of $4,255 including principal and interest at LIBOR plus 225 basis points (2.42% at December 31, 2013)	82,476	131,031
Term loan, bank, due August 2016, payable in equal monthly payments of $2,923 including principal and interest at LIBOR plus 225 basis points (2.42% at December 31, 2013)	86,630	119,135
Term loans, bank, due October 2016, payable in equal monthly payments of $2,366 including principal and interest at LIBOR plus 225 basis points (2.42% at December 31, 2013)	77,282	103,543
Term loans, bank, due various dates in 2015, payable in equal monthly payments of $6,983, which includes interest at 4.75%	76,911	154,973
Auto loans, due January 2017, payable in 60 monthly payments of $529, which includes interest at 4.25%	18,258	28,676
Auto loan, due May 2017, payable in 60 monthly payments of $730, which includes interest at 3.89%	27,964	35,471
Auto loan, due July 2017, payable in 60 monthly payments of $649, which includes interest at .915%	27,452	34,954
Term loan, bank, due March 2018, payable in 60 monthly payments of $2,306, which includes interest at 4%	107,599	-
Auto loans, due various dates in 2016, payable in equal monthly payments of $2,489, which includes interest at 4%	69,355	-
Term loan, bank, due September 2018, payable in equal monthly payments of $790, which includes interest at 1.44%	42,765	-
Term loans, banks, due June 2017 and June 2018, payable in equal monthly installments of $2,441, which includes interest at 5.9% and 4.5%	105,255	-
Term loan, former owner, due September 2015, payable in equal annual payments of $50,000	200,000	200,000
	930,518	1,169,751
Less: current portion	426,776	613,475
	$ 503,742	$ 556,276

The bank term loans are secured by machinery and equipment. The auto loans are secured by the vehicles financed.

Note 6. Long-Term Debt (Continued)

Maturities of long-term debt are as follows:

Years Ending December 31,	
2014	$ 426,776
2015	279,196
2016	139,774
2017	67,059
2018	17,713
	$ 930,518

Debentures: During 2006, the Company issued 10% convertible subordinated debentures totaling $1,275,000. The debentures were due at various dates in 2013 and interest was payable semi-annually. The debentures were convertible any time prior to maturity into the Company's common stock, $.001 par value, at a conversion price of $4 per common share. During 2013, the maturity dates of debentures totaling $1,200,000 were extended an additional three years at the election of the holders. The remaining holders, with debentures totaling $75,000, elected to be repaid in cash upon maturity. As of December 31, 2013, the Company has yet to repay $50,000 of these redeemed debentures.

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 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 2012, the Company issued 8% non-convertible subordinated debentures totaling $275,000. The debentures mature on June 30, 2015. Interest is payable semi-annually.

During 2012, the maturity of the 10% convertible subordinated debentures originally issued in 2002 and totaling $425,000 was extended to September 30, 2017. The conversion price on these debentures was $1.50 per common share. The interest rate on these debentures was amended to 8%. Interest is payable semi-annually. If all the debentures were converted, a total of 141,666 common shares would be issued, which the Company has reserved.

Note 7. 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.

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 2013 and 2012. 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, 2013, 250,000 options are exercisable and the unrecognized compensation costs approximate $200,000 (pre-tax). No options were granted during the year ended December 31, 2013.

Note 8. 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 consolidated financial statements for these matters.

The Company, as a condition for entering into construction contracts, had outstanding surety bonds of $13,252,145 and $25,670,344 as of December 31, 2013 and 2012, respectively. The President of the Company personally guaranteed a maximum of $3,000,000 of the outstanding surety bonds as of December 31, 2013.

The Company is party to various claims arising in the ordinary course of business. Although the ultimate outcome of the claims is presently not determinable, management does not believe the outcome of these claims will have a material adverse effect on the Company's financial position or results of operations.

Note 9. 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, 2013.

Note 10. 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 stockholder. The three leases, requiring annual payments of $132,000, $57,000, and $24,000, end in May 2013, April 2014, and December 2016, respectively, and provide for renewal options for a total of an additional fifteen years. The Company did not renew its office lease at the Rado location as the operations of this subsidiary are being discontinued (see Note 15).

One subsidiary of the Company leases office space partially owned by the President of this subsidiary. The lease, requiring annual payments of $68,672, expires in October 2017. 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 stockholder of the Company. The Company is committed to various other noncancelable operating leases that expire at various dates through 2020.

The minimum commitments under noncancelable leases are:

Years Ending December 31,	Third Party Amount	Related Party Amount	Total
2014	$ 297,431	$ 149,297	$ 446,728
2015	232,665	132,672	365,337
2016	36,500	132,672	169,172
2017	-	97,227	97,227
2018	-	40,000	40,000
Thereafter	-	63,333	63,333
	$ 566,596	$ 615,201	$ 1,181,797

Note 10. Leases (Continued)

Total rent expense was $673,393 and $641,185 for the years ended December 31, 2013 and 2012, respectively, including related party expense of $294,672 and $365,812 for the years ended December 31, 2013 and 2012, respectively.

Note 11. 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 $210,469 and $227,359 for the years ended December 31, 2013 and 2012, respectively.

Note 12. Income Taxes

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

	2013	2012
Current:		
Federal	$ -	$ -
State	161,552	86,503
	161,552	86,503
Deferred:		
Federal	(598,857)	(366,752)
State	218,314	108,404
	(380,543)	(258,348)
	$ (218,991)	$ (171,845)

Note 12. Income Taxes (Continued)

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:

	2013	2012
Deferred tax asset		
Allowance for doubtful accounts	$ 35,715	$ 27,280
Inventories - 263 A	12,438	11,466
Federal - NOL	806,482	104,440
State - NOL	687,356	522,802
State - bonus depreciation	31,262	23,256
Acquisition costs	29,022	29,022
Other	185,810	161,228
	1,788,085	879,494
Less: valuation allowance	(510,000)	-
	1,278,085	879,494
Deferred tax liabilities		
Depreciation - property	(626,040)	(527,888)
Amortization - goodwill	(246,452)	(326,156)
Other	(72,928)	(93,172)
	(945,420)	(947,216)
	$ 332,665	$ (67,722)

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, 2013 and 2012 is as follows:

	2013	2012
U.S. federal income tax at federal statutory rate	$ (574,743)	$ (149,335)
State and local income taxes, net of federal income tax expense	(169,042)	(28,989)
Valuation allowance	510,000	-
Other	14,794	6,479
	$ (218,991)	$ (171,845)

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 2010 are closed. State jurisdictions have statutes of limitations that generally range from three to five years. As of December 31, 2013, the Company has Federal and state net operating loss carryforwards totaling approximately $1,438,395 and $8,694,956, respectively. As of December 31, 2013, the Company recorded a valuation allowance of $510,000 for state net operating loss carryforwards to reduce deferred tax assets to net amounts that were more likely than not to be realized.

Note 13. Major Vendors

For the year ended December 31, 2013, the Company had four major vendors who accounted for approximately 81% of total construction materials purchases and one major vendor who accounted for approximately 11% of total costs of mechanical contracts. For the year ended December 31, 2012, the Company had three major vendors who accounted for approximately 62% of total construction materials purchases. Accounts payable related to these vendors at December 31, 2013 and 2012, amounted to 14% and 23% of total accounts payable, respectively.

Note 14. Related Party Transactions

As described in Note 10 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 stockholder and the President of one of the subsidiaries.

The Company has an informal management agreement with an entity in which the majority stockholder has a material interest. Management fees were $0 and $50,000 for the years ended December 31, 2013 and 2012, respectively. There were no amounts owed to this entity as of December 31, 2013 and 2012.

An officer loaned the Company $204,000 during the year ended December 31, 2011 which was non-interest bearing and had no stated repayment terms. The Company repaid the balance of the loan during the year ended December 31, 2012.

The Company loaned an officer $21,000 during the year ended December 31, 2012. The advance is non-interest bearing and there are no stated repayment terms.

Note 15. Discontinued Operations

During December 2013, the Company classified its primary mechanical contracting division (fabrication of sheet metal HVAC ductwork and process piping and HVAC, piping and plumbing contracting services to customers located in the central and northeastern section of Pennsylvania) trading under the name Rado Enterprises, Inc. ("Rado") as discontinued operations. At December 31, 2013, Rado was in the process of winding down its business and liquidating its assets.

The loss on disposal of Rado (less applicable income tax benefit of $1,314,186) for the year ended December 31, 2013 was $1,673,279.

The operations of Rado for the years ended December 31, 2013 and 2012 are summarized as follows:

	2013	2012
Mechanical contracts revenue earned	$ 9,259,953	$ 17,166,979
Costs of mechanical contracts revenue earned	8,141,886	17,802,147
Gross profit (deficit)	1,118,067	(635,168)
Operating expenses	943,074	1,124,456
Income (loss) from operations	174,993	(1,759,624)
Other expense	45,606	77,569
Income (loss) from operations before income taxes	129,387	(1,837,193)
Provision for income taxes	74,555	(794,849)
Net income (loss)	$ 54,832	$ (1,042,344)

Note 15. Discontinued Operations (Continued)

Summarized balance sheet data for discontinued operations of Rado as of December 31, 2013 and 2012 are as follows:

	2013	2012
Assets		
Accounts receivable on contracts (including retentions)	$ 1,324,096	$ 5,996,534
Inventories	303,356	300,924
Costs and estimated earnings in excess of billings on uncompleted contracts	176,313	2,914,015
Property and equipment, net	320,091	461,150
Goodwill	-	385,341
Other	34,241	23,416
	$ 2,158,097	$ 10,081,380
Liabilities		
Accounts payable and accrued expenses	$ 2,082,752	$ 3,585,715
Billings in excess of costs and estimated earnings on uncompleted contracts	463,422	1,011,942
	$ 2,546,174	$ 4,597,657

Note 16. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) issued substantially converged final standards on revenue recognition. The FASB's Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, provides a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all exiting revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The ASU is effective in annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of adopting ASU 2014-09 to determine the impact, if any; it may have on its current practices.

In August 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force).* Per this ASU, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The ASU is effective for fiscal years beginning after December 15, 2014. The adoption of this guidance is not expected to have a material effect on the Company’s consolidated financial statements.