MORO CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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Years Ended December 31, 2017 and 2016

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Stockholders of

Moro Corporation

We have audited the accompanying consolidated financial statements of Moro Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to 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.

Auditors' 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 our audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entities' 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 entities' 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 Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Plymouth Meeting, Pennsylvania
May 18, 2018

MORO CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	$ 2,010,274	$ 2,668,754
Accounts receivable, net	3,502,421	4,412,357
Contract receivables, net	9,288,651	8,499,168
Inventories	3,575,716	3,490,560
Costs and estimated earnings in excess of billings on uncompleted contracts	1,494,856	1,743,496
Prepaid expenses and taxes	1,158,482	612,615
Assets of discontinued operations	206,402	206,402
TOTAL CURRENT ASSETS	21,236,802	21,633,352
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	1,135,031	1,423,507
OTHER ASSETS		
Other assets	2,725	43,523
Deferred income taxes, net	223,041	48,163
Goodwill	1,447,805	1,441,805
Assets of discontinued operations	-	76,293
TOTAL OTHER ASSETS	1,673,571	1,609,784
TOTAL ASSETS	$ 24,045,404	$ 24,666,643
LIABILITIES		
CURRENT LIABILITIES		
Note payable - lines of credit	$ 6,540,802	$ 8,281,356
Current portion of long-term debt, net of unamortized deferred financing fees	97,882	146,942
Accounts payable	2,793,663	3,511,249
Accrued expenses and other current liabilities	1,734,101	1,465,315
Income tax payable	822,883	270,556
Billings in excess of costs and estimated earnings on uncompleted contracts	747,138	652,432
Liabilities of discontinued operations	306,197	115,301
TOTAL CURRENT LIABILITIES	13,042,666	14,443,151
LONG-TERM LIABILITIES		
Long-term debt, less current portion above and net of unamortized deferred financing fees	130,491	212,196
Subordinated debentures	2,425,000	2,475,000
TOTAL LONG-TERM LIABILITIES	2,555,491	2,687,196
TOTAL LIABILITIES	15,598,157	17,130,347
STOCKHOLDERS' EQUITY		
Preferred stock, $.001 par value; 5,000,000 shares authorized; -0- shares issued and outstanding	-	-
Common stock, $.001 par value; 25,000,000 shares authorized; 6,369,337 shares issued; 6,119,337 shares outstanding	6,370	6,370
Additional paid-in capital	963,205	963,205
Retained earnings	7,577,672	6,666,721
	8,547,247	7,636,296
Treasury stock, at cost, 250,000 shares	(100,000)	(100,000)
TOTAL STOCKHOLDERS' EQUITY	8,447,247	7,536,296
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 24,045,404	$ 24,666,643

See Notes to Financial Statements

MORO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2017 and 2016

	2017	% of Earned Revenues	2016	% of Earned Revenues
EARNED REVENUES				
Construction material sales	$ 16,393,677	27.9	$ 19,709,699	32.9
Construction contract revenues earned	42,294,939	72.1	40,174,572	67.1
TOTAL EARNED REVENUES	58,688,616	100.0	59,884,271	100.0
COST OF EARNED REVENUES				
Cost of goods sold	11,116,265	18.9	13,427,616	22.4
Cost of construction contracts	30,151,335	51.4	28,609,791	47.8
TOTAL COST OF EARNED REVENUES	41,267,600	70.3	42,037,407	70.2
GROSS PROFIT	17,421,016	29.7	17,846,864	29.8
GENERAL AND ADMINISTRATIVE EXPENSES	15,048,067	25.6	15,782,328	26.4
INCOME FROM OPERATIONS	2,372,949	4.1	2,064,536	3.4
OTHER INCOME (EXPENSES)				
Interest expense, including $30,864 of amortization of deferred financing fees for each of the years ended December 31, 2017 and 2016	(541,768)	(0.9)	(601,714)	(1.0)
Interest income	946	-	551	-
Gain on disposal of property and equipment	7,241	-	75,318	0.1
Other income (expense), net	776	(0.1)	(17,454)	-
NET OTHER INCOME (EXPENSES)	(532,805)	(1.0)	(543,299)	(0.9)
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAX EXPENSE	1,840,144	3.1	1,521,237	2.5
PROVISION FOR INCOME TAX EXPENSE	459,766	0.8	621,045	1.0
INCOME FROM CONTINUING OPERATIONS	1,380,378	2.3	900,192	1.5
DISCONTINUED OPERATIONS				
Loss from operations of discontinued division, net of tax benefit of $226,641 and $39,602 for the years ended December 31, 2017 and 2016, respectively.	(469,427)	(0.8)	(92,095)	(0.2)
NET INCOME	$ 910,951	1.5	$ 808,097	1.3

See Notes to Financial Statements

MORO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2017 and 2016

	Common Stock		Additional	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Equity
Balances, December 31, 2015	6,369,337	$ 6,370	$ 963,205	$ 5,858,624	-	$ -	$ 6,828,199
Purchase of treasury stock	-	-	-	-	250,000	(100,000)	(100,000)
Net income	-	-	-	808,097	-	-	808,097
Balances, December 31, 2016	6,369,337	6,370	963,205	6,666,721	250,000	(100,000)	7,536,296
Net income	-	-	-	910,951	-	-	910,951
Balances, December 31, 2017	6,369,337	$ 6,370	$ 963,205	$ 7,577,672	250,000	$ (100,000)	$ 8,447,247

See Notes to Financial Statements

MORO CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 910,951	$ 808,097
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation and amortization	542,429	529,745
Amortization of deferred finance fees	30,864	30,864
Bad debt expense	210,051	1,017,201
Withdrawal liability expense	434,677	-
Deferred income taxes	(174,878)	261,453
Gain on disposal of property and equipment	(7,241)	(75,318)
Loss on abandonment of assets from discontinued operations	76,293	-
Decrease (increase) in operating assets		
Accounts receivable, net	869,496	162,645
Contract receivables, net	(959,094)	484,326
Inventories	(85,156)	(25,088)
Costs and estimated earnings in excess of billings on uncompleted contracts	248,640	566,052
Prepaid expenses and taxes	(545,867)	(174,296)
Increase (decrease) in operating liabilities		
Accounts payable	(717,586)	(1,243,909)
Accrued expenses and other current liabilities	268,786	231,271
Income taxes payable	552,327	270,556
Liabilities from discontinued operations	46,004	-
Billings in excess of costs and estimated earnings on uncompleted contracts	94,706	199,597
Total adjustments	884,451	2,235,099
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,795,402	3,043,196
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(251,984)	(269,567)
Proceeds from disposal of property and equipment	44,297	93,306
Decrease in other assets	40,798	36,193
Increase in goodwill	(6,000)	(7,500)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(172,889)	(147,568)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments under note payable - lines of credit	(1,740,554)	(1,338,900)
Repayment of withdrawal liability included in liabilities from discontinued operations	(289,785)	-
Repayments of long-term debt	(200,654)	(194,590)
Proceeds from issuance of subordinated debentures	-	100,000
Repayments of subordinated debentures	(50,000)	(400,000)
Purchase of treasury stock	-	(100,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(2,280,993)	(1,933,490)
NET INCREASE (DECREASE) IN CASH	(658,480)	962,138
CASH, BEGINNING OF YEAR	2,668,754	1,706,616
CASH, END OF YEAR	$ 2,010,274	$ 2,668,754

See Notes to Financial Statements

(1) Summary of significant accounting policies

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.

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"), and J.M. Ahle Co., Inc. ("Ahle") and its unincorporated division, Whaling City Iron ("Whaling"), and Rado Enterprises, Inc. ("Rado"). 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 and Northern Westchester County sections of New York State.

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.

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

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 distribution of reinforcing, structural, and miscellaneous steel in the greater Boston, MA and Providence, RI areas.

During 2013, the Company classified the operations of Rado as discontinued operations and as of December 31, 2017, the liquidation of Rado is nearly complete. See Note 15.

The Company extends credit to its customers, the majority of which are located in Central/Northern New York State, and do 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 December 31, 2017 and 2016.

Use of estimates - The preparation of consolidated 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, 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.

(1) Summary of significant accounting policies (continued)

Operating cycle - Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the accompanying consolidated balance sheets as they will be liquidated in the normal course of contract completion, although this may require more than one year.

Revenues and cost recognition - Revenues from fixed-price construction contracts are recognized on the percentage-of-completion method, measured by percentage of costs incurred to date to estimated total costs for each contract. This method is used because management considers expended costs to be the best available measure of progress on these contracts.

Contract costs include all direct labor, material, subcontract costs, and other direct costs, and allocated indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in estimated job profitability, resulting from job performance, job conditions, contract penalty provisions, claims, change orders, and settlements are accounted for as changes in estimates in the current period. Claims are included in revenues when realization is probable and can be reliably estimated.

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.

Revenues from time and material contracts and construction material sales are recognized using the accrual method of accounting and when it is realized or realizable and earned. This occurs when there is persuasive evidence of an arrangement, delivery has occurred, sales price is fixed and determinable, and collection is reasonably assured.

Revenues on service contracts are deferred and credited to contract revenues on the straight-line basis over the life of the contracts. The contracts are generally a one-year duration.

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.

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.

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

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.

During the years ended December 31, 2017 and 2016, approximately 10% and 15%, respectively, of total construction contract revenues earned were from one customer. As of December 31, 2016, approximately 20% of the Company’s contract receivables were with two customers.

(1) Summary of significant accounting policies (continued)

Concentration of credit risk (continued) - During the year ended December 31, 2016, approximately 10% of total construction material sales were from one customer. As of December 31, 2017 and 2016, approximately 16% and 11%, respectively, of the Company's accounts receivable were with one customer.

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. On a periodic basis, the Company evaluates its contract and accounts receivable and establishes an allowance for losses, based on the history of past write-offs and collections and current credit conditions. 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. As of December 31, 2017 and 2016, the allowance for losses totaled $192,775 and $285,328, respectively.

Inventories - Inventories are stated at the lower of cost or market 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. Maintenance, operating, and other supplies are expensed as incurred. As of December 31, 2017 and 2016, all inventories consist of raw materials, equipment, and parts which are available-for-sale.

Property and equipment - The cost of property and equipment is 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.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals 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.

The estimated useful lives of property and equipment are:

Assets	Estimated Useful Lives
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 Moro's acquisition of its subsidiaries. The Company accounts for goodwill in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 350, "Goodwill and Other Intangible Assets." Under ASC Topic 350, goodwill is not amortized but is reviewed at least annually for impairment based upon the fair value of the underlying cash flows. As of December 31, 2017 and 2016, the Company completed its annual impairment testing and no impairment adjustment was required in these consolidated financial statements.

Recent accounting pronouncements - In April 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, "*Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*," which resulted in the reclassification of debt issuance costs from "Intangible assets" to inclusion as a reduction of "Long-term debt, less current portion above" balance on the accompanying consolidated balance sheets.

(1) <u>Summary of significant accounting policies</u> (continued)

Recent accounting pronouncements (continued) - In addition, in December 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted. The TCJA includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. federal corporate income tax rate from a maximum of 35 percent to a flat 21 percent for tax years effective January 1, 2018.

The Company has elected to recognize the income tax effects of the TCJA in the consolidated financial statements in accordance with Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance for the application of ASC Topic 740, "Income Taxes," in the reporting period in which the TCJA was signed into law. Under SAB 118, when the Company does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA, it will recognize provisional amounts if a reasonable estimate can be made. If a reasonable estimate cannot be made, then no impact is recognized for the effect of the TCJA. SAB 118 permits an up-to-one-year measurement period to finalize the measurement of the impact of the TCJA. The impact of the TCJA is reflected in Note 11.

Income taxes - The Company accounts for income taxes using the liability method. Under the liability 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.

Advertising expense - The Company expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2017 and 2016, was approximately $532,000 and $415,000, respectively.

Reclassifications - Certain items were reclassified from the 2016 consolidated financial statements in order for them to conform to the 2017 presentation.

(2) Contract receivables, net

Contract receivables, net consist of the following as of December 31, 2017 and 2016:

	2017	2016
Billed		
Completed contracts and time and materials jobs	$ 3,984,163	$ 4,009,098
Contracts in progress	3,781,453	3,011,156
Retainage	1,540,810	1,480,370
	9,306,426	8,500,624
Less allowance for losses	17,775	1,456
	$ 9,288,651	$ 8,499,168

(3) Costs and estimated earnings on uncompleted contracts

Costs and estimated earnings on uncompleted contracts consist of the following as of December 31, 2017 and 2016:

	2017	2016
Costs incurred on uncompleted contracts	$ 13,020,147	$ 34,081,353
Estimated earnings	2,472,470	5,095,748
	15,492,617	39,177,101
Less billed to date	14,744,899	38,086,037
	$ 747,718	$ 1,091,064

Included in the accompanying consolidated balance sheets under the following captions:

	2017	2016
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 1,494,856	$ 1,743,496
Billings in excess of costs and estimated earnings on uncompleted contracts	(747,138)	(652,432)
	$ 747,718	$ 1,091,064

(4) Property and equipment

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

	2017	2016
Cost		
Machinery and equipment	$ 3,607,937	$ 3,810,388
Vehicles	2,277,298	2,211,057
Office equipment	990,301	1,002,937
Leasehold improvements	242,161	372,776
Total cost	7,117,697	7,397,158
Accumulated depreciation and amortization	(5,982,666)	(5,973,651)
Net property and equipment	$ 1,135,031	$ 1,423,507

(4) Property and equipment (continued)

Depreciation and amortization expenses for the years ended December 31, 2017 and 2016, were $542,429 and $529,745, respectively.

(5) Note payable - lines of credit

The Company, through its subsidiaries, maintains equipment and working capital line of credit facilities with a financial institution. As of December 31, 2017, the Company's maximum availability under these line of credit facilities was $9,566,000, plus certain fees and expenses. These facilities are collateralized by substantially all of the Company's assets as well as a guarantee of a stockholder/officer of the Company. The credit facilities also require the Company to maintain certain financial covenants. In December 2017, the bank issued a waiver on the facilities as a result of the Company making repayments of the subordinated debentures during the years ended December 31, 2017 and 2016, which are not permitted under the terms of the facilities. These lines of credit are subject to renewal on September 30, 2018.

As of December 31, 2017 and 2016, borrowings under these line of credit facilities were $6,540,802 and $8,281,356, respectively. These borrowings bear interest at the prime rate or LIBOR plus two-hundred twenty-five (225) basis points (effective rate of 3.94% as of December 31, 2017). 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.

(6) Long-term debt, net of unamortized deferred financing fees

Long-term debt, net of unamortized deferred financing fees, consists of the following as of December 31, 2017 and 2016:

	2017	2016
Notes payable to various banks, due in monthly installments totaling approximately $14,200, expiring at various dates through April 2022, including interest at various rates up to 12.31%, secured by vehicles and equipment.	$ 214,555	$ 331,521
Notes payable to various finance companies, due in monthly installments totaling approximately $5,200, expiring at various dates through November 2021, including interest at various rates up to 6.10%, secured by vehicles and equipment.	67,827	112,490
Total long-term debt	282,382	444,011
Unamortized deferred financing fees, amortization of $2,552 per month through September 2019.	(54,009)	(84,873)
	228,373	359,138
Less current portion, net	97,882	146,942
Long-term portion, net	$ 130,491	$ 212,196

(6) Long-term debt, net of unamortized deferred financing fees (continued)

Annual maturities of long-term debt and annual amortization of deferred financing fees are as follows:

Years Ending December 31,	Annual Maturities	Amortization of Financing Fees
2018	$ 128,746	$ 30,864
2019	95,590	23,145
2020	35,273	-
2021	19,767	-
2022	3,006	-
	$ 282,382	$ 54,009

(7) Union pension withdrawal liabilities

In February 2017, the Company was notified that Rado was assessed a withdrawal liability totaling approximately $980,000 from a multi-employer pension plan for a local union to which it had contributed on behalf of certain union employees. The assessment calls for thirteen quarterly installment payments of $72,446 from April 2017 through March 2020, with a final payment of $41,889 due in June 2020. The Company has commenced an arbitration proceeding against the local fund in this matter, based on its rights under the Multiemployer Pension Plan Amendments Act of 1980 (“MPPAA”), and began making these installment payments in order to be in compliance with the MPPAA. The date of the arbitration hearing is expected to be set in July 2018.

During the year ended December 31, 2017, the Company made installment payments totaling $289,784 and as of December 31, 2017, the Company accrued an additional liability of $144,892, which represents the installments payments due in 2018 through the date that the arbitration hearing is expected to be set. These amounts are included in discontinued operations as of and for the year ended December 31, 2017.

In addition, the Company was notified in April 2018 that a national multiemployer pension plan had assessed Rado an additional withdrawal liability totaling approximately $350,000, which the Company intends to contest. Management is in the process of preparing a response to this assessment and, as of the date these consolidated financial statements were available to be issued, cannot determine the impact of this assessment to these consolidated financial statements.

(8) Subordinated debentures

The Company's outstanding subordinated debentures consist of the following as of December 31, 2017 and 2016:

	2017	2016
8% nonconvertible, maturing June 30, 2015	$ 275,000	$ 275,000
10% nonconvertible, maturing at various dates in 2016	925,000	925,000
8% convertible, maturing September 30, 2017	425,000	425,000
8% nonconvertible, maturing December 31, 2016	700,000	750,000
8% nonconvertible, maturing December 31, 2018	100,000	100,000
	$ 2,425,000	$ 2,475,000

Interest on these subordinated debentures is paid semi-annually. The Company anticipates that the debentures that were scheduled to mature in 2015 and 2016 or that are scheduled to mature in 2017 will be extended.

The conversion price on the convertible debentures is $1.50 per common share. If all convertible debentures were converted, a total of 141,666 common shares would be issued, which the Company has reserved.

(9) 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. During 2011, the Company granted 500,000 stock options to an employee. The options vest over four (4) years and 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 Option Pricing model and deemed the compensation expense amount to be insignificant. As of December 31, 2017 and 2016, 375,000 options are available to be exercised and the unrecognized compensation costs approximate $200,000 (pre-tax). No options were granted during the years ended December 31, 2017 and 2016.

(10) 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.

(10) Related-party transactions (continued)

Variable interest entities (continued) - 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. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities, and noncontrolling interests under the guidance on business combinations.

The Company has VIE relationships with several other entities. Management has determined that the Company is not the primary beneficiaries of these entities. The Company is not subject to any risk of loss related to these entities.

Rent expense - The Company leases office space and land from entities related through common ownership. See Note 12.

(11) Income taxes

The provision for income tax expense, including the provision for income tax expense (benefit) from discontinued operations, for the year ended December 31, 2017 and 2016, consists of the following:

	2017	2016
Current portion		
Federal	$ -	$ 20,000
State	58,247	76,105
	58,247	96,105
Deferred		
Federal	237,434	477,087
State	(62,556)	8,251
	174,878	485,338
Total income tax expense	$ 233,125	$ 581,443

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 December 31, 2017 and 2016, the significant components of the Company's deferred tax assets and liabilities are as follows:

	2017	2016
Deferred tax asset:		
Allowance for losses	$ 37,333	$ 80,188
Inventories - 263A	9,443	48,115
Service contracts	159,215	223,885
Federal - NOL	-	16,047
State - NOL	326,971	759,243
State - bonus depreciation	4,413	1,697
Other	67,538	113,330
	604,913	1,242,505
Less valuation allowance	-	(367,000)
	604,913	875,505

(11) Income taxes (continued)

	2017	2016
Deferred tax liabilities:		
Depreciation - property	(92,016)	(304,460)
Amortization - goodwill	(221,222)	(369,381)
Other	(68,634)	(153,501)
	(381,872)	(827,342)
Deferred income taxes, net	$ 223,041	$ 48,163

The effective income tax rate differs from the expected statutory tax rate due to certain permanent differences.

As of December 31, 2017, the Company has available Federal and State net operating loss carryforwards of approximately $-0- and $4,400,000, respectively, which expire at various dates through December 31, 2029.

(12) Commitments and contingencies

The Company leases facilities from entities owned by the principal stockholder of the Company under monthly leases and lease commitments extending past 2018. These lease commitments require annual payments of approximately $20,000 and expire at various dates through July 2020.

The Company also leases a facility partially owned by the president of J&J that expired in 2017 and is current on a month-to-month basis with lease payments approximating $6,000 per month.

In addition, the Company leases facilities, vehicles, and equipment from unrelated parties under various operating lease agreements. These leases require annual payments totaling approximately $46,000 and expire at various dates through December 2021.

The minimum commitments under noncancellable leases are:

Years Ending December 31,	Related Parties	Unrelated Third Parties	Total
2018	$ 83,000	$ 428,000	$ 511,000
2019	72,000	416,000	488,000
2020	34,000	362,000	396,000
2021	-	185,000	185,000
	$ 189,000	$ 1,391,000	$ 1,580,000

Rent expense totaled approximately $710,000 and $670,000 for the years ended December 31, 2017 and 2016, respectively.

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

(13) Backlog

The following schedule shows a reconciliation of backlog representing signed contracts in existence as of December 31, 2017:

Balance - December 31, 2016	$	15,403,610
New contracts and contract adjustments, 2017		37,865,849
		53,269,459
Less contract revenue earned, 2017		42,294,939
Balance - December 31, 2017	$	10,974,520

(14) 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. Total contributions made to these plans were approximately $171,000 and $164,000 for the years ended December 31, 2017 and 2016, respectively.

(15) Discontinued operations

In December 2013, the Company classified Rado as discontinued operations. As of December 31, 2017, Rado was in the process of winding down its business and liquidating its assets.

The operations of Rado for the year ended December 31, 2017 and 2016, are summarized as follows:

	2017	2016
Earned revenues	$ -	$ -
Cost of earned revenues	-	-
Gross loss	-	-
Operating expenses	158,084	131,697
Loss from operations	(158,084)	(131,697)
Other expense	498,969	-
Loss from operations before income taxes	(657,053)	(131,697)
Provision for income tax expense (benefit)	(187,626)	(39,602)
Net loss	$ (469,427)	$ (92,095)

(15) <u>Discontinued operations</u> (continued)

Summarized balance sheet data for the discontinued operations of Rado as of December 31, 2017 and 2016, is as follows:

	2017	2016
Assets:		
Contracts receivable (including retention), net	$ 206,402	$ 206,402
Property and equipment, net	-	76,293
	$ 206,402	$ 282,695
Liabilities:		
Accounts payable and accrued expenses	$ 161,305	$ 115,301
Withdrawal liability payable	144,892	-
	$ 306,197	$ 115,301

(16) <u>Cash flow disclosures</u>

The following is a summary of supplemental cash flow information for the years ended December 31, 2017 and 2016:

Cash paid during the year for:	2017	2016
Interest	$ 615,994	$ 589,010
Income taxes	$ 390,000	$ 17,688

The following is a summary of noncash investing and financing activities:

During the year ended December 31, 2017, the Company disposed of equipment costing $570,470 with accumulated depreciation of $533,414. During the year ended December 31, 2017, the Company acquired property and equipment costing $39,325 by incurring long-term debt in the same amount.

During the year ended December 31, 2017, Rado abandoned leasehold improvements with a net book value of $76,293 that were classified as long-term assets from discontinued operations.

During the year ended December 31, 2016, the Company disposed of equipment costing $525,428 with accumulated depreciation of $522,929. During the year ended December 31, 2016, the Company acquired property and equipment costing $92,513 by incurring long-term debt in the same amount.

(17) <u>Subsequent events</u>

The Company has evaluated subsequent events through May 18, 2018, which is the date the consolidated financial statements were available to be issued. Also, see Note 7.