Moro Corporation and Subsidiaries

Consolidated Financial Report
December 31, 2014

Contents

McGladrey

Independent Auditor's Report

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

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Moro Corporation and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, 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 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 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, 2014 and 2013, 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 a Matter Regarding Going Concern
The accompanying consolidated 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, 2014 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 disclosed in Note 5. The debt associated with this agreement has been classified as a current liability in the Company's consolidated balance sheet as of December 31, 2014. The consolidated financial statements do not include any other 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
August 24, 2015

Moro Corporation and Subsidiaries

Consolidated Balance Sheets
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash	$ 1,405,548	$ 3,219,973
Trade receivables, net	5,021,625	4,228,725
Accounts receivable on contracts (including retentions)	10,124,649	13,223,095
Inventories	3,568,410	3,870,607
Costs and estimated earnings in excess of billings on uncompleted contracts	3,292,051	2,658,526
Prepaid income taxes	106,817	31,636
Prepaid and other current assets	255,319	241,619
Assets of discontinued operations	237,513	1,835,032
Total current assets	24,011,932	29,309,213
Property and Equipment, Net	1,974,903	2,242,204
Deferred Financing Fees, Net of Accumulated Amortization of $7,716 and $0 in 2014 and 2013, respectively	146,601	-
Other Assets	245,110	59,088
Deferred Income Taxes	540,062	332,665
Goodwill	1,434,305	1,434,305
Assets of Discontinued Operations	95,954	323,065
Total assets	$ 28,448,867	$ 33,700,540
Liabilities and Stockholders' Equity		
Current Liabilities		
Lines of credit	$ 9,737,549	$ 10,775,213
Current portion of long-term debt	596,298	426,776
Trade accounts payable	6,196,525	6,111,536
Accrued expenses	864,506	1,840,827
Due to former owners	129,430	129,430
Billings in excess of costs and estimated earnings on uncompleted contracts	687,074	841,662
Liabilities of discontinued operations	136,017	2,546,174
Total current liabilities	18,347,399	22,671,618
Long-Term Liabilities		
Long-term debt	268,522	503,742
Subordinated debentures	2,775,000	2,800,000
	3,043,522	3,303,742
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, 2014 and 2013	6,370	6,370
Additional paid-in capital	963,205	963,205
Retained earnings	6,088,371	6,755,605
Total stockholders' equity	7,057,946	7,725,180
Total liabilities and stockholders' equity	$ 28,448,867	$ 33,700,540

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Operations
Years Ended December 31, 2014 and 2013

	2014	2013
Revenues		
Construction material sales, net	$ 24,309,195	$ 27,077,468
Construction contracts revenue earned	47,037,373	47,281,432
	71,346,568	74,358,900
Cost of Revenues		
Cost of goods sold	17,953,847	20,935,906
Cost of construction contracts revenue earned	38,120,094	35,679,661
	56,073,941	56,615,567
Gross profit	15,272,627	17,743,333
Operating Expenses	15,744,045	16,055,208
Income (loss) from operations	(471,418)	1,688,125
Other Income (Expense)		
Interest income	1,951	2,146
Interest expense	(594,881)	(560,718)
Other	62,256	38,105
	(530,674)	(520,467)
Income (loss) from continuing operations before income taxes	(1,002,092)	1,167,658
Provision for (Benefit from) Income Taxes	(399,617)	510,641
Income (loss) from continuing operations	(602,475)	657,017
Discontinued Operations		
Income (loss) from operations of discontinued division, net of tax expense of $199,095 in 2014 and $74,555 in 2013	(64,759)	54,832
Loss on disposal of division, net of tax benefit of $807,187 in 2013	-	(2,183,278)
Net loss	$ (667,234)	$ (1,471,429)

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2014 and 2013

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, January 1, 2013	$ 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
Net loss	-	-	(667,234)	(667,234)
Balance, December 31, 2014	**$ 6,370**	**$ 963,205**	**$ 6,088,371**	**$ 7,057,946**

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Net loss	**$ (667,234)**	$ (1,471,429)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	**754,899**	897,584
Amortization	**31,716**	41,245
Write off of accounts payable	**(442,309)**	-
Provision for bad debts	**349,704**	700,233
Loss on disposal of division	**-**	1,673,278
Gain on sale of property and equipment	**(413,606)**	(27,124)
Deferred income taxes	**(207,397)**	913,799
(Increase) decrease in:		
Trade receivables	**(1,102,883)**	1,735,718
Accounts receivable on contracts	**4,145,307**	(1,547,765)
Inventories	**605,553**	(590,843)
Costs and estimated earnings in excess of billings on uncompleted contracts	**(457,212)**	(197,255)
Prepaid income taxes	**(75,181)**	560,423
Prepaid and other current assets	**17,567**	(254,006)
Other assets	**(206,799)**	(2,725)
Increase (decrease) in:		
Trade accounts payable	**(1,323,227)**	(1,453,755)
Accrued expenses	**(1,072,777)**	560,054
Billings in excess of costs and estimated earnings on uncompleted contracts	**(618,010)**	(371,177)
Net cash provided by (used in) operating activities	**(681,889)**	1,166,255
Cash Flows From Investing Activities		
Purchase of property and equipment	**(459,849)**	(912,058)
Proceeds from litigation settlement	**-**	3,309,558
Proceeds from disposal of property and equipment	**609,993**	35,643
Net cash provided by investing activities	**150,144**	2,433,143

(Continued)

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Financing Activities		
Payment of financing fees	$ (154,317)	$ -
Redemption of subordinated debentures	(25,000)	(25,000)
Net repayments on lines of credit	(1,037,665)	(3,190,545)
Proceeds of long-term debt	405,422	377,896
Principal payments of long-term debt	(471,120)	(617,117)
Net cash used in financing activities	(1,282,680)	(3,454,766)
Net increase (decrease) in cash	(1,814,425)	144,632
Cash, Beginning	3,219,973	3,075,341
Cash, Ending	$ 1,405,548	$ 3,219,973
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 669,471	$ 674,816
Cash paid for taxes	$ 139,074	$ 249,573

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, 2014, 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, 2014 and 2013, 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 impairment assessment for the years ended December 31, 2014 and 2013 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 construction 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. This 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 $283,755 and $196,821 for the years ended December 31, 2014 and 2013, 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 in 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.

Subsequent events: The Company has evaluated subsequent events through August 24, 2015, 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, 2014 and 2013:

	2014	2013
Completed contract and time and material jobs	$ 4,170,739	$ 5,709,109
Contracts in progress	4,597,748	5,682,232
Retainage (due upon completion of milestones and/or contracts)	1,356,162	1,831,754
	$ 10,124,649	$ 13,223,095

Contract receivables are net of an allowance for doubtful accounts of $59,163 and $89,288 as of December 31, 2014 and 2013, respectively.

Note 3. Property and Equipment

Property and equipment consist of the following as of December 31, 2014 and 2013:

	2014	2013
Machinery and equipment	$ 3,821,407	$ 3,777,044
Vehicles	2,371,495	2,547,901
Office equipment	1,007,796	818,212
Leasehold improvements	348,952	344,747
	7,549,650	7,487,904
Less accumulated depreciation	5,574,747	5,245,700
	$ 1,974,903	$ 2,242,204

Note 4. Costs and Estimated Earnings on Uncompleted Contracts

Information regarding uncompleted contracts as of December 31, 2014 and 2013 is as follows:

	2014	2013
Total amount of contracts in process	$ 56,553,536	$ 63,238,509
Costs incurred on uncompleted contracts	$ 33,770,855	$ 20,239,078
Estimated earnings	3,136,667	5,030,856
	36,907,522	25,269,934
Less billings to date	34,302,545	23,453,070
	$ 2,604,977	$ 1,816,864

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

	2014	2013
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 3,292,051	$ 2,658,526
Billings in excess of costs and estimated earnings on uncompleted contracts	(687,074)	(841,662)
	$ 2,604,977	$ 1,816,864

Note 5. Lines of Credit

The Company, through its subsidiaries, maintains equipment and working capital line of credit facilities. On September 29, 2014, the Company refinanced its then existing credit facilities with a new bank. The new facilities include a $12,000,000 maximum revolving working capital line and a $1,500,000 maximum equipment line. The facilities are collateralized by substantially all of the Company's assets. The credit facilities also require the Company to maintain certain financial covenants. The Company determined that it was not in compliance with the required minimum fixed charge coverage ratio as of September 30, 2014 and March 31, 2015, but has received a waiver from the lender. As of December 31, 2014, the Company determined that it was not in compliance with the required minimum fixed charge coverage ratio. Management of the Company has initiated correspondence with the lender in an effort to cure the event of default and expects to receive a waiver. Management expects to meet its obligations through improvement in operations.

At December 31, 2014 and 2013, borrowings were $9,737,549 and $10,775,213, respectively, and unused available borrowings were $421,741 at December 31, 2014. Amounts borrowed under the new facilities bear interest at the prime rate or LIBOR plus two hundred twenty-five (225) basis points. At December 31, 2014, the interest rate charged by the bank was 2.375%. The Company can prepay amounts under this credit facility without penalty or premium but must pay any interest accrued to the date of such prepayment.

Note 6. Long-Term Debt

Long-term debt consists of the following as of December 31, 2014 and 2013:

	2014	2013
Term loans, bank, due dates ranging from July 2015 through October 2016, payable in monthly installments of principal and interest at LIBOR plus 225 basis points. Obligations were refinanced in September 2014	$ -	$ 246,388
Term loans, bank, due October 2019, payable in monthly installments of principal and interest at 4.1%	167,138	-
Term loans, banks, due dates ranging from February 2015 through September 2018, payable in monthly installments including interest at rates ranging from 1.44% to 6%	35,002	51,336
Equipment loans, banks, due dates ranging from January 2017 through June 2018, payable in monthly installments including interest at rates ranging from 4% to 4.5%	156,495	202,747
Auto loans, due dates ranging from January 2015 through July 2017, payable in monthly installments including interest at rates ranging from 0.92% - 6%	175,786	230,047
Capital lease obligations, due dates ranging from September 2015 through October 2017, payable in monthly installments	130,399	-
Term loan, former owner, due September 2015	200,000	200,000
	864,820	930,518
Less current portion	596,298	426,776
	$ 268,522	$ 503,742

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

Maturities of long-term debt are as follows:

Years Ending December 31,	
2015	$ 596,298
2016	157,185
2017	93,859
2018	17,478
	$ 864,820

Note 6. Long-Term Debt (Continued)

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, 2014, the Company has yet to repay $50,000 of these redeemed debentures. In addition, during 2014, a certain holder elected to redeem a $25,000 debenture in exchange for cash.

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 2014 and 2013. 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, 2014, 375,000 options are exercisable and the unrecognized compensation costs approximate $200,000 (pre-tax). No options were granted during the year ended December 31, 2014.

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 $10,740,607 and $13,252,145 as of December 31, 2014 and 2013, respectively. The President of the Company personally guaranteed a maximum of $3,000,000 of the outstanding surety bonds as of December 31, 2014.

Note 8. Commitments and Contingencies (Continued)

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 preferences, 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, 2014.

Note 10. Leases

One subsidiary of the Company leases a facility from a real estate entity owned by the President of the Company, who is the Company's principal stockholder. The lease, requiring annual payments of $57,000, expires in April 2020, and provides for a renewal option for an additional five years.

One subsidiary of the Company leases office space partially owned by the President of this subsidiary. The lease, requiring annual payments of $69,853, 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 these related parties. 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
2015	$ 268,215	$ 166,853	$ 435,068
2016	36,500	166,853	203,353
2017	-	155,211	155,211
2018	-	97,000	97,000
2019	-	97,000	97,000
Thereafter	-	44,708	44,708
	$ 304,715	$ 727,625	$ 1,032,340

Total rent expense was $544,612 and $673,393 for the years ended December 31, 2014 and 2013, respectively, including related party expense of $161,496 and $294,672 for the years ended December 31, 2014 and 2013, 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 $158,680 and $210,469 for the years ended December 31, 2014 and 2013, respectively.

Note 12. Income Taxes

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

	2014	2013
Current		
Federal	$ -	$ -
State	6,875	161,552
	6,875	161,552
Deferred		
Federal	(82,357)	(601,857)
State	(125,040)	218,314
	(207,397)	(383,543)
	$ (200,522)	$ (221,991)

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:

	2014	2013
Deferred tax asset		
Allowance for doubtful accounts	$ 118,465	$ 35,715
Inventories - 263 A	14,022	12,438
Federal - NOL	690,040	687,356
State - NOL	923,043	806,482
State - bonus depreciation	14,742	31,262
Acquisition costs	22,785	29,022
Other	85,931	185,810
	1,869,028	1,788,085
Less valuation allowance	(485,000)	(510,000)
	1,384,028	1,278,085
Deferred tax liabilities		
Depreciation - property	(451,386)	(626,040)
Amortization - goodwill	(311,875)	(246,452)
Other	(80,705)	(72,928)
	(843,966)	(945,420)
	$ 540,062	$ 332,665

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

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 2011 are closed. State jurisdictions have statutes of limitations that generally range from three to five years. As of December 31, 2014, the Company has Federal and state net operating loss carryforwards totaling approximately $2,030,000 and $10,314,000, respectively. As of December 31, 2014, the Company recorded a valuation allowance of $485,000 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 and Customers

Major vendors: For the year ended December 31, 2014, the Company had three major vendors who accounted for approximately 69% of total construction materials purchases and one major vendor who accounted for approximately 11% of total costs of construction contracts. 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 construction contracts. Accounts payable related to these vendors at December 31, 2014 and 2013, amounted to 46% and 14% of total accounts payable, respectively.

Major customers: For the year ended December 31, 2014, the Company had two major customers who accounted for approximately 25% of total construction contracts revenue earned. Accounts receivable related to these customers at December 31, 2014 amounted to approximately 12% of total accounts receivable on contracts.

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 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

In 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, 2014 and 2013, Rado was in the process of winding down its business and liquidating its assets.

The operations of Rado for the years ended December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Mechanical contracts revenue earned	$ 995,306	$ 9,259,953
Costs of mechanical contracts revenue earned	976,591	8,141,886
Gross profit	18,715	1,118,067
Operating expenses	653,439	943,074
Income (loss) from operations	(634,724)	174,993
Other (income) expense	(769,060)	45,606
Income from operations before income taxes	134,336	129,387
Provision for income taxes	199,095	74,555
Net income (loss)	$ (64,759)	$ 54,832

Note 15. Discontinued Operations (Continued)

Summarized balance sheet data for discontinued operations of Rado as of December 31, 2014 and 2013 are as follows:

	2014	2013
Assets		
Accounts receivable on contracts (including retentions)	$ 237,513	$ 1,324,096
Inventories	-	303,356
Costs and estimated earnings in excess of billings on uncompleted contracts	-	176,313
Property and equipment, net	95,954	320,091
Other	-	34,241
	$ 333,467	$ 2,158,097
Liabilities		
Accounts payable and accrued expenses	$ 136,017	$ 2,082,752
Billings in excess of costs and estimated earnings on uncompleted contracts	-	463,422
	$ 136,017	$ 2,546,174

Note 16. Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services, The new guidance is effective for annual reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting this new standard on its consolidated financial statements.