

Moro Corporation and Subsidiaries

Consolidated Financial Report
December 31, 2010

Moro Corporation and Subsidiaries

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Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheets of Moro Corporation and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Moro Corporation and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Blue Bell, Pennsylvania
April 11, 2011

Moro Corporation and Subsidiaries

Consolidated Balance Sheets
December 31, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash	\$ 2,450,269	\$ 4,968,461
Trade receivables less allowance for doubtful accounts of \$477,500 and \$497,350 at 2010 and 2009, respectively	4,794,600	5,164,268
Accounts receivable on contracts (including retentions)	11,290,710	7,790,333
Inventories	3,733,682	2,980,254
Costs and estimated earnings in excess of billings on uncompleted contracts	2,433,780	651,168
Prepaid income taxes	108,805	-
Prepaid and other current assets	281,629	103,883
Total current assets	25,093,475	21,658,367
Property and Equipment, net	3,511,246	2,411,527
Deferred Financing Fees, net of accumulated amortization of \$7,558 and \$4,313 in 2010 and 2009, respectively	31,071	34,316
Other Assets	7,237	8,134
Covenant Not to Compete, net of accumulated amortization of \$10,000 in 2010	110,000	-
Goodwill	1,819,646	1,819,646
	\$ 30,572,675	\$ 25,931,990
Liabilities and Stockholders' Equity		
Current Liabilities		
Lines of credit	\$ 7,162,505	\$ 4,967,999
Current portion of long-term debt	717,659	547,870
Trade accounts payable	4,363,565	4,445,267
Accrued expenses	1,917,591	1,348,705
Due to former owners	528,803	-
Income taxes payable	-	317,400
Billings in excess of costs and estimated earnings on uncompleted contracts	1,304,118	772,525
Total current liabilities	15,994,241	12,399,766
Long-Term Liabilities		
Long-term debt	1,553,453	1,502,557
Subordinated debentures	2,600,000	2,250,000
Deferred income taxes	329,978	146,702
	4,483,431	3,899,259
Commitments and Contingencies (Notes 10 and 12)		
Stockholders' Equity		
Preferred stock, \$.001 par value, authorized 5,000,000 shares; none issued or outstanding	-	-
Common stock, \$.001 par value, authorized 25,000,000 shares; issued and outstanding 6,369,643 shares at December 31, 2010 and 2009	6,370	6,370
Additional paid-in capital	963,205	963,205
Retained earnings	9,125,428	8,663,390
Total stockholders' equity	10,095,003	9,632,965
	\$ 30,572,675	\$ 25,931,990

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2010 and 2009

	2010	2009
Revenues		
Construction material sales, net	\$ 19,655,241	\$ 22,214,514
Mechanical contracts revenue earned	<u>38,271,540</u>	<u>40,908,123</u>
	<u>57,926,781</u>	<u>63,122,637</u>
Cost of revenues		
Cost of goods sold	17,022,611	17,348,972
Cost of mechanical contracts revenue earned	<u>29,482,731</u>	<u>33,233,998</u>
	<u>46,505,342</u>	<u>50,582,970</u>
Gross profit	11,421,439	12,539,667
Selling, general and administrative expenses	<u>10,796,772</u>	<u>10,516,288</u>
Income from operations	<u>624,667</u>	<u>2,023,379</u>
Other income (expense)		
Interest income	19,503	35,259
Interest expense	(442,698)	(389,663)
Acquisition transaction costs	(111,560)	-
Equity in earnings (losses) of joint ventures	-	(6,379)
Gain on bargain purchases (net of deferred taxes)	276,798	-
Other	<u>112,086</u>	<u>375,347</u>
	<u>(145,871)</u>	<u>14,564</u>
Income before income taxes	478,796	2,037,943
Provision for income taxes	<u>16,758</u>	<u>913,026</u>
Net income	<u>\$ 462,038</u>	<u>\$ 1,124,917</u>

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2010 and 2009

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, January 1, 2009	\$ 6,370	\$ 1,013,205	\$ 7,538,473	\$ 8,558,048
Net income	-	-	1,124,917	1,124,917
Redemption of minority interest	-	(50,000)	-	(50,000)
Balance, December 31, 2009	6,370	963,205	8,663,390	9,632,965
Net income	-	-	462,038	462,038
Balance, December 31, 2010	<u>\$ 6,370</u>	<u>\$ 963,205</u>	<u>\$ 9,125,428</u>	<u>\$ 10,095,003</u>

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Net income	\$ 462,038	\$ 1,124,917
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	903,254	847,762
Amortization	13,245	3,245
Equity in earnings in joint ventures	-	6,379
Provision for bad debts	91,253	247,350
Loss on sale of property and equipment	22,603	56,997
Deferred income taxes (benefit)	(2,744)	(184)
Minority interest in consolidated subsidiary	-	(26,428)
Gain on bargain purchases (net of deferred taxes)	(276,796)	-
(Increase) decrease in:		
Trade receivables	278,415	798,615
Accounts receivable on contracts	266,168	2,263,480
Inventories	(439,126)	316,276
Costs and estimated earnings in excess of billings on uncompleted contracts	(486,260)	1,140,778
Prepaid income taxes	(108,805)	230,495
Other current assets	44,637	65,326
Other assets	897	8,897
Increase (decrease) in:		
Trade accounts payable	(1,613,724)	(773,162)
Due to former owners	528,803	(62,957)
Accrued expenses	(149,713)	(656,943)
Income taxes payable	(317,400)	317,400
Billings in excess of costs and estimated earnings on uncompleted contracts	67,411	(1,444,855)
Net cash provided by (used in) operating activities	(715,844)	4,463,388
Cash Flows from Investing Activities		
Acquisition of businesses, net of cash acquired	(3,579,463)	-
Purchase of property and equipment	(1,014,718)	(361,571)
Proceeds from disposal of property and equipment	26,644	16,626
Distributions from joint venture	-	231,546
Net cash used in investing activities	(4,567,537)	(113,399)

(Continued)

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
 Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Financing Activities		
Proceeds from subordinated debentures	\$ 350,000	\$ 500,000
Principal payments on subordinated debentures	-	(50,000)
Redemption of minority interest	-	(50,000)
Proceeds from lines of credit	3,247,453	500,000
Repayments of lines of credit	(1,052,947)	(2,580,000)
Proceeds of long-term debt	818,732	-
Principal payments of long-term debt	(598,049)	(553,543)
Net cash provided by (used in) financing activities	2,765,189	(2,233,543)
Net increase (decrease) in cash	(2,518,192)	2,116,446
Cash, beginning	4,968,461	2,852,015
Cash, ending	<u>\$ 2,450,269</u>	<u>\$ 4,968,461</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 535,916</u>	<u>\$ 600,877</u>
Cash paid for taxes	<u>\$ 430,423</u>	<u>\$ 258,500</u>

See Notes to Consolidated Financial Statements.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

The Company is exposed to credit loss in the event of nonperformance by its subcontractors. At December 31, 2010, 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, 2010 and 2009, all inventories consist of raw materials, equipment and parts, which are available for resale.

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

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

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

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

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

Goodwill: Goodwill reflects the cost in excess of the fair value of the net assets acquired in purchase transactions. Goodwill is subject to periodic testing for impairment. The Company tests goodwill for impairment using a two-step process. The first step tests for potential impairment, while the second step measures the amount of impairment, if any. The Company performs the required annual impairment test at December 31 of each year. As of December 31, 2010 and 2009, the Company's reporting units' fair value exceeded its carrying amount and therefore there was no indication that goodwill was impaired. The fair value was established based upon the present value of expected future cash flows.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Covenant Not to Compete: The Company entered into a covenant not to compete in connection with the acquisition of Titchener during August 2010. The covenant is amortized over the life of the agreement. Amortization expense was \$10,000 for the year ended December 31, 2010. Future amortization will be \$24,000 annually for the next 4 years and will be \$14,000 for the year ended December 31, 2015.

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

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

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs: Advertising costs are charged to expense as incurred. Total advertising costs were \$179,147 and \$122,306 for the years ended December 31, 2010 and 2009, 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.

Subsequent Events: The Company has evaluated subsequent events through April 11, 2011, the date the financial statements were available to be issued.

Note 2. Acquisitions

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

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

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

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Acquisitions (Continued)

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

The aggregate purchase price was \$2,352,430. The Company funded the acquisition through (1) available cash resources of \$1,000,000, (2) the proceeds of a bank line of credit of \$628,000, (3) the proceeds of a bank term loan of \$195,000, payable in seventy two (72) equal monthly installments plus interest, (4) the proceeds of a sellers note of \$250,000 payable in 5 equal annual installments and (5) a working capital adjustment payable to the seller of \$279,430. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

Account receivable on contracts	\$ 3,078,637
Inventory	235,302
Costs and estimated earnings in excess of billings on uncompleted contracts	979,698
Property and equipment	677,650
Other current assets	<u>192,383</u>
Total fair value of assets acquired	5,163,670
Accounts payable and accrued expenses	1,972,360
Billings in excess of costs and estimated earnings on uncompleted contracts	416,814
Deferred tax liability	169,720
Total liabilities assumed	2,558,894
Net fair value of assets acquired	2,604,776
Purchase price	<u>2,352,430</u>
Gain on bargain purchase	<u>\$ 252,346</u>

Note 3. Contract Receivables

Contract receivables consist of the following as of December 31, 2010 and 2009:

	2010	2009
Completed contract and time and material jobs	\$ 3,326,854	\$ 1,488,806
Contracts in progress	6,763,434	4,534,799
Retainage (due upon completion of contracts)	1,200,422	1,766,728
	<u>\$ 11,290,710</u>	<u>\$ 7,790,333</u>

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Property and Equipment

The following summarizes the principal components of property and equipment as of December 31, 2010 and 2009:

	2010	2009
Machinery and equipment	\$ 4,020,093	\$ 3,331,363
Vehicles	2,514,902	1,597,469
Office equipment	830,019	555,190
Leasehold improvements	411,659	404,069
	<u>7,776,673</u>	<u>5,888,091</u>
Less: accumulated depreciation	4,265,427	3,476,564
	<u>\$ 3,511,246</u>	<u>\$ 2,411,527</u>

Note 5. Investment in Joint Venture

During 2006, the Company obtained a 50% interest in a general partnership joint venture. During 2007, the Company obtained a 33% interest in each of two additional joint ventures. All three joint ventures were completed and had final distributions during 2009. Summary information as of December 31, 2010 and 2009 and for the years then ended is as follows:

	2010	2009
Current assets	\$ -	\$ -
Less liabilities, primarily trade accounts payable	-	-
Net assets	<u>\$ -</u>	<u>\$ -</u>
Revenue	<u>\$ -</u>	<u>\$ 43,184,414</u>
Net income	<u>\$ -</u>	<u>\$ 2,311,416</u>
Company's share of net income (cumulative)	\$ -	\$ 945,251
Advances to joint ventures	-	145,025
Distributions from joint venture	-	(1,090,276)
Total advances and equity	<u>\$ -</u>	<u>\$ -</u>

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Costs and Estimated Earnings on Uncompleted Contracts

Information regarding uncompleted contracts as of December 31, 2010 and 2009 is as follows:

	2010	2009
Total amount of contracts in process	\$ 99,386,041	\$ 64,079,902
Costs incurred on uncompleted contracts	\$ 59,494,090	\$ 49,313,606
Estimated earnings	9,594,225	6,504,024
	69,088,315	55,817,630
Less: billings to date	67,958,653	55,938,987
	\$ 1,129,662	\$ (121,357)

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

	2010	2009
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 2,433,780	\$ 651,168
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,304,118)	(772,525)
	\$ 1,129,662	\$ (121,357)

Note 7. Demand Notes Payable, Bank

The Company, through its subsidiaries, maintains equipment and working capital line of credit facilities. The facilities are collateralized by substantially all of the Company's assets. The credit facilities also require the Company to maintain certain financial covenants.

On October 31, 2008, the Company obtained a \$12,000,000 working capital credit facility with a bank that was set to expire on October 31, 2010. On July 31, 2010, this facility was amended to extend the term through June 30, 2012. At December 31, 2010 and 2009, borrowings were \$7,162,505 and \$4,967,999, respectively, and unused available borrowings were \$2,784,275 and \$2,249,042, respectively. Amounts borrowed under this facility bear interest payable in arrears at a rate of prime plus one quarter percent or LIBOR plus two hundred (200) basis points during each LIBOR interest period providing leverage is 2.00 to 1.0 or less (as defined in the agreement). If leverage exceeds 2.00 to 1.0, the interest rate is LIBOR plus 225 basis points or prime plus 50 basis points. The choice of prime or LIBOR is up to the Company. At December 31, 2010, the interest rate charged by the bank was 2.26% (LIBOR plus 2.00%). The Company can prepay amounts under this credit facility without penalty or premium but with accrued interest to date of such prepayment or the amount prepaid.

The equipment line of credit facilities, which mature on June 30, 2012, entitle the Company to borrow an amount, which, in the aggregate, shall not exceed \$1,500,000. At December 31, 2010 and 2009, there were no amounts borrowed under these credit facilities.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt

Long-term debt consists of the following as of December 31, 2010 and 2009:

	2010	2009
Term loans, bank, due October 2013, payable in equal monthly payments of \$42,055 including principal and interest at LIBOR plus 225 basis points (2.5% at December 31, 2010)	\$ 1,279,111	\$ 1,766,133
Auto loans, due August 2012, payable in 48 monthly payments of \$3,287, which includes interest at 5.9%	62,340	96,950
Term loan, bank, due May 2013, payable in equal monthly principal payments of \$3,274 plus interest at 7.5%	94,226	153,512
Term loan, bank, due February 2015, payable in equal monthly payments of \$637 plus interest at 6%	28,059	33,832
Term loan, bank, due July 2015, payable in equal monthly payments of \$4,255 including principal and interest at LIBOR plus 225 basis points (2.5% at December 31, 2010)	224,055	-
Term loan, bank, due December 2016, payable in equal monthly payments of \$2,923 including principal and interest at LIBOR plus 225 basis points (2.5% at December 31, 2010)	181,605	-
Term loans, bank, due October 2016, payable in equal monthly payments of \$2,366 including principal and interest at LIBOR plus 225 basis points (2.5% at December 31, 2010)	151,716	-
Term loan, former owner, due September 2015, payable in equal annual payments of \$50,000	250,000	-
	2,271,112	2,050,427
Less: current portion	717,659	547,870
	<u>\$ 1,553,453</u>	<u>\$ 1,502,557</u>

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

Maturities of long-term debt are as follows:

Years Ending December 31,	
2011	\$ 717,659
2012	717,622
2013	489,055
2014	166,975
2015	145,904
Thereafter	33,897
	<u>\$ 2,271,112</u>

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt (Continued)

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

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

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

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

Note 9. Stock Option Plan

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

A summary of the activity under the Plan as of December 31, 2009, and changes during the year then ended is presented below:

Options	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding and Exercisable at December 31, 2008	150,000	\$ 2.20	3.6 Years	\$ 22,500
Granted	-	-		
Exercised	-	-		
Cancelled	(150,000)	(2.20)		
Outstanding and Exercisable at December 31, 2009	-	\$ -	-	\$ -

Note 10. Commitments and Contingencies

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

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Commitments and Contingencies (Continued)

The Company, as a condition for entering into construction contracts, had outstanding surety bonds of \$1,680,746 and \$19,250,740 as of December 31, 2010 and 2009, respectively. The President of the Company personally guaranteed a maximum of \$3,000,000 of the outstanding surety bonds as of December 31, 2010.

Note 11. 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, 2010.

Note 12. Leases

Two subsidiaries of the Company lease office, warehouse and shop facilities from a real estate entity owned by the President of the Company, who is the Company's principal shareholder. The three leases, requiring annual payments of \$132,000, \$51,000, and \$24,000, end in May 2013, April 2014, and January 2013, respectively, and provide for renewal options for a total of an additional fifteen years. One subsidiary of the Company leases a warehouse, office and shop facility from a real estate entity owned by the Vice President of the Company who is also a shareholder and Director of the Company. The lease, requiring annual payments of \$40,000, ends in July 2020, and provides for renewal options for a total of an additional fifteen years. One subsidiary of the Company leases office space partially owned by the President of this subsidiary.

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

The minimum commitments under noncancelable leases are:

Years Ending December 31,	Third Party Amount	Related Party Amount	Total
2011	\$ 357,978	\$ 329,356	\$ 687,334
2012	290,094	329,356	619,450
2013	275,620	148,000	423,620
2014	273,000	54,875	327,875
2015	251,000	40,000	291,000
Thereafter	44,500	200,000	244,500
	<u>\$ 1,492,192</u>	<u>\$ 1,101,587</u>	<u>\$ 2,593,779</u>

Total rent expense was \$768,942 and \$710,646 for the years ended December 31, 2010 and 2009, respectively, including related party expense of \$309,356 and \$271,356 for the years ended December 31, 2010 and 2009, respectively.

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. 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 \$229,500 and \$235,347 for the years ended December 31, 2010 and 2009, respectively.

Note 14. Income Tax Provision

The income tax provision consisted of the following:

	2010	2009
Current:		
Federal	\$ -	\$ 661,358
State	18,190	251,854
	<u>18,190</u>	<u>913,212</u>
Deferred:		
Federal	90,267	14,026
State	(91,701)	(14,212)
	<u>(1,434)</u>	<u>(186)</u>
	<u>\$ 16,756</u>	<u>\$ 913,026</u>

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

	2010	2009
Deferred tax asset		
Allowance for doubtful accounts	\$ 195,529	\$ 222,740
Inventories - 263 A	18,794	17,489
Federal - NOL	174,271	-
State - NOL	94,961	112,446
State - bonus depreciation	50,256	20,380
Acquisition Costs	41,975	-
Other	151,684	135,550
	<u>727,470</u>	<u>508,605</u>
Deferred tax liabilities		
Depreciation - property	(727,620)	(417,629)
Amortization - goodwill	(236,385)	(229,684)
Other	(93,443)	(7,994)
	<u>(1,057,448)</u>	<u>(655,307)</u>
	<u>\$ (329,978)</u>	<u>\$ (146,702)</u>

Moro Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 14. Income Tax Provision (Continued)

A reconciliation of income taxes computed at the United States federal statutory income tax rate of 34% to the provision for income taxes reflected in the Consolidated Statements of Income for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
U.S. federal income tax at federal statutory rate	\$ 168,524	\$ 692,898
Deferred tax asset from bargain purchases	(186,020)	-
State and local income taxes, net of federal income tax expense	49,566	203,794
Other	(15,314)	16,334
	<u>\$ 16,756</u>	<u>\$ 913,026</u>

The Company files income tax returns in the United States federal jurisdiction and various state jurisdictions. The United States federal income tax returns prior to 2007 are closed. State jurisdictions have statutes of limitations that generally range from three to five years.

Note 15. Major Customer and Vendors

Major Customers: Two mechanical contracts with mechanical contract revenue of approximately \$16,145,544 comprise 40% of total mechanical contracts revenue earned during the year ended December 31, 2009.

Major Vendors: For the years ended December 31, 2010 and 2009, the Company had two major vendors who accounted for approximately 60% and 62% of total construction materials purchases, respectively. Accounts payable related to these vendors at December 31, 2010 and 2009, amounted to 17% and 18% of total accounts payable, respectively.

Note 16. Related Party Transactions

As described in Note 12 of the consolidated financial statements, the Company has entered into lease agreements with a real estate entity owned by the President of the Company who is the Company's principal shareholder, the President of one of the subsidiaries, and with a real estate entity owned by the Vice President of the Company.

The Company has an informal management agreement with an entity in which the majority shareholder has a material interest. Management fees were \$60,000 and \$40,000 for the years ended December 31, 2010 and 2009, respectively. There were no amounts owed to this entity as of December 31, 2010 and 2009.

Note 17. Recently Issued Pronouncements

Receivables: In July 2010, the FASB issued an accounting standards update relating to the disclosures about the credit quality of financing receivables and the allowance for credit losses. The update requires more robust and disaggregated disclosures about the credit quality of financing receivables and allowances for credit losses, including disclosure about credit quality indicators, past due information and modifications of finance receivables. The update is effective for the Company for annual reporting periods ending after December 15, 2011.

The adoption of this guidance will significantly expand the existing disclosure requirements but will not have an impact on the Company's financial position, results of operation and cash flows.