

DENNIS CORPORATION

**REPORT ON
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009**

DENNIS CORPORATION

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INDEPENDENT ACCOUNTANTS REVIEW REPORT

Dennis Corporation
Columbia, South Carolina

We have reviewed the accompanying balance sheet of Dennis Corporation (the Company) as of December 31, 2010, and the related statements of income, stockholders' equity and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, with the exception of the matters described in the following paragraphs, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 14 to the financial statements, accounting principles generally accepted in the United States of America require consolidation of variable interest entities. Accordingly, the financial statements for the Company and a related entity (Dennis Corporation Development, LLC) should be consolidated in order to conform with these accounting standards. Had the activities of the related entity been recorded in these financial statements, net income would have decreased by \$5,764 and stockholder's equity would have decreased by \$28,945.

As discussed in Note 10, the Company had a long-term lease that was treated as an operating lease rather than a capital lease as required by accounting principles generally accepted in the United States of America. If this lease had been treated as a capital lease, property and equipment and capital lease obligations on the balance sheet would have increased by \$1,637,856 and \$1,664,910 as of December 31, 2010.

As discussed in Note 13 to the financial statements, the Company had a significant contract end. The Company is currently pursuing collection of the remaining outstanding contract receivables relating to the contract. If the Company is unable to collect these contract receivables in a timely manner as anticipated, it could have a material adverse effect on the Company's financial position and operating cash flows.

The financial statements for the year ended December 31, 2009 were audited by us, and our opinion, which was dated February 12, 2010, was qualified because of the departures from generally accepted accounting principles described in the above paragraphs. As stated in our audit report, had the activities of Dennis Corporation Development, LLC been recorded in the 2009 financial statements, net income would have decreased by \$14,140 and stockholders' equity would have decreased by \$53,364. In addition, if the Company's long-term lease referenced above had been treated as a capital lease, property and equipment and capital lease obligations on the balance sheet would have increased by \$1,701,687 as of December 31, 2009.

Elliott Davis, LLC

Columbia, South Carolina
March 30, 2011

DENNIS CORPORATION
BALANCE SHEETS

	December 31,	
	2010	2009
	(Reviewed)	(Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 145,357	\$ 36,389
Accounts receivable, net	2,090,965	2,105,359
Unbilled work-in-process	39,884	-
Prepaid expenses	25,463	-
Total current assets	2,301,669	2,141,748
PROPERTY AND EQUIPMENT, net	796,135	1,539,814
PROPERTY AND EQUIPMENT HELD FOR SALE, net	25,752	-
DUE FROM RELATED COMPANY	-	20,070
	<u>\$ 3,123,556</u>	<u>\$ 3,701,632</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Lines of credit	\$ 613,000	\$ 604,544
Current portion of long-term debt	187,563	371,144
Current portion of capital lease obligations	52,212	27,266
Accounts payable	321,940	454,620
Accrued compensation	118,397	-
Deferred income taxes	289,383	142,545
Total current liabilities	1,582,495	1,600,119
LONG-TERM DEBT	323,799	948,290
CAPITAL LEASE OBLIGATIONS	141,198	54,458
DUE TO RELATED COMPANY	74,019	-
DEFERRED INCOME TAXES	1,866	199,714
STOCKHOLDERS' EQUITY		
Class A Common stock, \$1.50 stated value, 100,000 shares authorized, 87,666 shares issued at December 31, 2010 and 2009	131,500	131,500
Class B Common stock, \$1.50 stated value, 100,000 shares authorized, 2,000 shares issued at December 31, 2010	3,000	-
Additional paid-in capital	34,400	-
Retained earnings	831,279	767,551
Total stockholders' equity	1,000,179	899,051
	<u>\$ 3,123,556</u>	<u>\$ 3,701,632</u>

See accountants' review report and notes to financial statements.

DENNIS CORPORATION
STATEMENTS OF INCOME

	For the years ended December 31,	
	2010 (Reviewed)	2009 (Audited)
OPERATING REVENUES	\$ 10,178,083	\$ 7,901,484
OPERATING EXPENSES	9,987,555	7,065,010
Net operating revenues over expenses	190,528	836,474
OTHER INCOME (EXPENSE)		
Rental income	-	5,000
Interest income	-	2,228
Other income	25,443	11,209
Gain (loss) on disposal of property and equipment	64,493	(2,947)
Loss on impairment of property and equipment	(6,042)	-
Contributions	(124,723)	(31,959)
Interest expense	(136,981)	(124,812)
Total other income (expense)	(177,810)	(141,281)
Net income before income taxes	12,718	695,193
PROVISION (CREDIT) FOR INCOME TAXES	(51,010)	227,831
Net income	<u>\$ 63,728</u>	<u>\$ 467,362</u>

See accountants' review report and notes to financial statements.

DENNIS CORPORATION
STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock - Class A		Common Stock - Class B		Additional	Retained	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	
Balance, January 1, 2009	87,666	\$ 131,500	-	\$ -	\$ -	\$ 300,189	\$ 431,689
Net income	-	-	-	-	-	467,362	467,362
Balance, December 31, 2009 (audited)	87,666	131,500	-	-	-	767,551	899,051
Stock issued	-	-	2,000	3,000	34,400	-	37,400
Net income	-	-	-	-	-	63,728	63,728
Balance, December 31, 2010 (reviewed)	87,666	\$ 131,500	2,000	\$ 3,000	\$ 34,400	\$ 831,279	\$ 1,000,179

See accountants' review report and notes to financial statements.

DENNIS CORPORATION
STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2010 (Reviewed)	2009 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 63,728	\$ 467,362
Adjustments to reconcile net income to net cash provided by operating activities		
Increase in allowance for doubtful accounts	14,131	-
Depreciation	441,443	360,614
(Gain) loss on disposal of property and equipment	(64,493)	2,947
Loss on impairment of property and equipment	6,042	-
Deferred income taxes	(51,010)	227,831
Changes in deferred and accrued amounts		
Accounts receivable	263	(1,103,334)
Unbilled work in process	(39,884)	-
Prepaid expenses	(25,463)	-
Accounts payable and accrued expenses	(14,283)	199,269
Net cash provided by operating activities	<u>330,474</u>	<u>154,689</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(490,696)</u>	<u>(98,419)</u>
Net cash used for investing activities	<u>(490,696)</u>	<u>(98,419)</u>
FINANCING ACTIVITIES		
Payments on stockholder loan	-	(13,904)
Advances from (to) related company	94,089	(20,070)
Proceeds from advances on lines of credit, net	8,456	198,843
Principal payments on notes payable and capital leases	(445,893)	(293,143)
Proceeds from new notes payable	575,138	-
Proceeds from issuance of common stock	<u>37,400</u>	<u>-</u>
Net cash provided by (used for) financing activities	<u>269,190</u>	<u>(128,274)</u>
Net change in cash and cash equivalents	108,968	(72,004)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>36,389</u>	<u>108,393</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 145,357</u></u>	<u><u>\$ 36,389</u></u>
CASH PAID DURING THE YEAR FOR		
Interest	<u><u>\$ 136,107</u></u>	<u><u>\$ 124,812</u></u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired through capital leases and other financing	<u><u>\$ 163,210</u></u>	<u><u>\$ 1,715,027</u></u>
Equipment and notes payable transferred to related entity	<u><u>\$ 988,841</u></u>	<u><u>\$ -</u></u>

See accountants' review report and notes to financial statements.

DENNIS CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business

Dennis Corporation (the Company) is a Southeastern licensed engineering, surveying and construction management firm specializing in a wide range of projects. Dennis Corporation's divisions include accounting, business development, civil infrastructure, construction management, construction services, expert witness services, information technology, intelligent transportation systems (ITS), marketing, roadway design, special projects, special inspections, structural engineering, building construction management, environmental inspections, steel inspections, surveying and traffic engineering.

The Company's significant accounting policies are summarized as follows:

Cash and cash equivalents

For reporting of cash flows, the Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts receivable

Trade receivables are carried at their estimated collectible amounts. They are periodically evaluated for collectability based on management's review of outstanding receivables, historical collection information and existing economic conditions. An allowance for doubtful accounts is established as losses are estimated to have occurred through recognition of bad debt expense. Specific receivables that are determined to be uncollectible, based on particular circumstances of the customer, are written off as bad debts once all reasonable means to collect the receivable have been exhausted.

Property and equipment

Property and equipment is stated at cost. Maintenance and repairs which do not improve or extend the useful lives of the assets are charged to expense as incurred. For financial statement purposes, depreciation is computed using accelerated and straight-line methods over the estimated useful lives of the respective assets, which range from five to ten years. The gain or loss on the disposal of property and equipment is recognized in the year of disposition. For income tax purposes, depreciation is calculated principally using accelerated methods.

Property and equipment are reviewed on an ongoing basis for impairment based on comparison of carrying value against fair value. If an impairment is identified, the assets' carrying amounts are adjusted to fair value in the year identified.

Revenue recognition

Revenue on fixed fee and cost-plus contracts is recognized primarily as work progresses and as labor hours and expenses are incurred on engineering, construction management, and consulting engagements. This method is used because management considers this to be the best measure of progress on these contracts.

Changes in contract performance, contract conditions, and profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to revenue and costs, and are recognized in the year in which such revisions are determined. Provisions for estimated losses on work-in-progress, if any, are recognized in the year when such losses are determined.

The asset "unbilled work-in-progress" represents revenue recognized in excess of amounts billed.

For income tax purposes, the Company reports revenue and costs using the cash method, whereby revenue is recognized when collected and costs are recognized when paid.

(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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. Estimates made by management relate primarily to the recognition of revenue under long-term contracts. Under the method of accounting for contracts discussed above, amounts reported in the financial statements relating to contracts are based on estimates of the total contract amount and of the total costs to be incurred to complete the contract. Due to the nature of contracts, it is reasonably possible that the estimates included in the financial statements may change in the near term.

Advertising

The Company expenses advertising costs as they are incurred. The Company's marketing and advertising costs were \$48,334 and \$51,233 for the years ended December 31, 2010 and 2009, respectively.

Income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently payable plus the change during the period in deferred tax assets and liabilities. 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 period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Deferred taxes may also be recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Management has reviewed potential tax uncertainties in accordance with applicable financial standards and management believes that there are no uncertainties that would have a material impact on the Company's results of operations or financial condition as of and for the years ended December 31, 2010 and 2009. With few exceptions, the Company is no longer subject to income tax examinations by the United States federal, state, or local tax authorities for years ended prior to December 31, 2007.

Reclassifications

Certain amounts in the accompanying 2009 financial statements have been reclassified to conform to the 2010 presentation.

Subsequent events

These financial statements have not been updated for events occurring after March 30, 2011 which is the date these financial statements were available to be issued.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Company places temporary cash investments with banks located in South Carolina. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insured limits.

(Continued)

NOTE 2 - CONCENTRATIONS OF CREDIT RISK, Continued

The Company sells its products to customers throughout the Southeast and extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure to credit losses and writes off uncollectible accounts as needed.

The Company derives a substantial portion of its gross revenues from services to certain major customers. Following is a summary of the operating revenues and accounts receivable with these customers at and for the years ended December 31, 2010 and 2009:

	Operating revenues for the year ended December 31, 2010		December 31, 2010	Operating revenues for the year ended December 31, 2009		December 31, 2009
	Amount	Percent of revenues		Amount	Percent of revenues	
Customer 1	\$ 3,524,476	35%	\$ 891,712	\$ 2,463,700	31%	\$ 476,092
Customer 2	1,962,221	19%	443,580	1,045,578	13%	400,942

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ 2,206,696	\$ 2,173,240
Accounts receivable-stockholder	564	3,683
Accounts receivable-related entity	-	30,600
Allowance for doubtful accounts	(116,295)	(102,164)
	<u>\$ 2,090,965</u>	<u>\$ 2,105,359</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
Software, telephone, and office equipment	\$ 476,987	\$ 377,146
Equipment	335,043	287,386
Furniture	276,624	138,620
Vehicle fleet	93,660	1,570,109
Leasehold improvements	94,089	-
	1,276,403	2,373,261
Less accumulated depreciation	<u>480,268</u>	<u>833,447</u>
	<u>\$ 796,135</u>	<u>\$ 1,539,814</u>

At December 31, 2010, Company management had identified three vehicles that were not in service and was in process of selling the vehicles. During 2010, the vehicles were written down to fair value of \$25,752. Subsequent to December 31, 2010, the Company sold these vehicles for \$25,752.

Depreciation expense totaling \$441,443 and \$360,614 was charged to operations for the years ended December 31, 2010 and 2009, respectively.

NOTE 5 - LINE OF CREDIT

The Company had a \$500,000 line of credit with a local financial institution at December 31, 2009. Borrowings on the line accrued interest at prime interest rate or 6%, whichever was greater. The line was secured by a blanket first lien on all accounts receivable and guaranteed by the Company's majority stockholder and by Dennis Corporation Development, LLC. On January 11, 2010, the Company increased the line of credit to \$800,000. The maturity date for this line of credit was also extended to January 11, 2011 and contains various covenants including tangible net worth and a debt service coverage ratio. As of December 31, 2010 and 2009, the balances due on these lines of credit were \$450,000 and \$423,519, respectively.

The Company has a \$200,000 working line of credit with the City of Columbia. Borrowings on the line accrue interest at 4.25% and 5.25% at December 31, 2010 and 2009, respectively, which must be paid monthly with minimum monthly principal payments of \$1,500. The line is secured by a blanket second lien on all accounts receivable of the Company and guaranteed by the Company's stockholder. This line of credit has a maturity date of June 15, 2011. As of December 31, 2010 and 2009, the balance due on this line of credit was \$163,000 and \$181,025, respectively.

NOTE 6 - NOTES PAYABLE

Notes payable consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Various notes payable, secured by vehicles, interest at rates of 0% to 9.79%, due in monthly installments ranging from \$402 to \$2,328, maturing at various dates through December 2014. During 2010, a majority of these notes were transferred to Dennis Corporation Development, LLC. The remaining notes are due in November 2014.	\$ 98,943	\$ 1,079,198
Note payable, secured by survey equipment, interest at 6%, due in monthly installments of \$1,581, maturing June 2013.	42,839	59,044
Note payable to the Business Development Corporation, secured by a blanket third lien on certain real estate owned by the Company's stockholder, and a second lien on other real estate owned by the Company's stockholder, guaranteed by the stockholder and by Dennis Corporation Development, LLC, interest at prime rate (3.25% at December 31, 2010) plus 2.25%, due in monthly installments of \$5,010 and maturing on May 23, 2013.	131,185	181,192

(Continued)

NOTE 6 - NOTE PAYABLE, Continued

	<u>2010</u>	<u>2009</u>
Note payable to a bank with an initial principal balance of \$300,000, secured by accounts receivable and guaranteed by the Company's stockholder and by Dennis Corporation Development, LLC. Interest shall accrue at a fixed rate of 6.5% until April 15, 2013, due in monthly payments of \$9,208.	<u>238,395</u>	<u>-</u>
	511,362	1,319,434
Less current maturities	<u>187,563</u>	<u>371,144</u>
Long-term portion	<u>\$ 323,799</u>	<u>\$ 948,290</u>

Maturities of notes payable for the years following December 31, 2010 are as follows:

2011	\$ 187,563
2012	200,318
2013	96,485
2014	<u>26,996</u>
	<u>\$ 511,362</u>

The Company is also a guarantor of four separate notes payable for Dennis Corporation Development, LLC. The balance of the notes payable totaled \$3,256,495 and \$1,771,580 at December 31, 2010 and 2009, respectively. These notes payable mature at various dates through August 2030.

NOTE 7 - CAPITAL LEASES

The Company leases certain equipment under capital leases expiring at various times through 2015. The leased assets are recorded at the net present value of future minimum lease payments based on interest rates ranging from 8.16% to 17.87%. The equipment had an original cost of \$277,726 and a current net book value of \$215,819.

Future minimum lease payments for years following December 31, 2010, are as follows:

2011	\$ 76,554
2012	64,171
2013	56,267
2014	41,378
2015	<u>9,878</u>
Total minimum lease payments	248,248
Less amounts representing interest	<u>54,838</u>
Present value of minimum lease payments	193,410
Less current portion	<u>52,212</u>
Long-term portion	<u>\$ 141,198</u>

NOTE 8 - RETIREMENT PLANS

The Company has a 401(k) plan covering substantially all employees with no waiting period. The Company may make discretionary matching or profit sharing contributions to the plan subject to certain limitations. The Company did not make any discretionary contributions to the plan for the years ended December 31, 2010 and 2009.

NOTE 9- RELATED PARTY TRANSACTIONS

Accounts receivable at December 31, 2010 and 2009, included \$564 and \$3,683 due from a stockholder, respectively. In addition, accounts receivable at December 31, 2009 also included \$30,600 due from Dennis Corporation Development, LLC. Dennis Corporation Development, LLC is owned by the majority stockholder of the Company. The Company recognized revenues of \$64,992 relating to services provided to this stockholder and related entity for the year ended December 31, 2009.

The Company had amounts due to and due from Dennis Corporation Development, LLC of \$74,019 and \$20,070 as of December 31, 2010 and 2009, respectively. These advances are due on demand, however, management does not anticipate the advances will be repaid prior to December 31, 2011 and, accordingly, has classified the advances as a long-term liability and asset in the accompanying balance sheet.

The Company leases office space in Ridgeland, South Carolina from Dennis Corporation Development, LLC, on a month-to-month contract. Lease payments are \$4,284 per month.

The Company also leases office space from Dennis Corporation Development, LLC. Details regarding the method used to account for this lease and a summary of future minimum lease payments relating to the lease are presented in Note 10.

During 2010, the Company transferred vehicles with a net book value of \$925,172 and related notes payable totaling \$988,841 to Dennis Corporation Development, LLC. The Company recognized a gain of \$63,668 on this transfer of vehicles. Subsequent to transferring the vehicles, the Company entered into a month-to-month lease agreement with Dennis Corporation Development, LLC for use of the transferred vehicles. Lease payments paid to Dennis Corporation Development, LLC in connection with this agreement totaled \$132,150 during the year ended December 31, 2010.

NOTE 10 - LEASES

The Company has entered into various operating leases for office space and equipment, including some with related parties (see Note 9.) These leases expire at various times through October 2014.

Future minimum lease commitments under non-cancelable operating leases for equipment, with remaining terms greater than one year at December 31, 2010 are as follows:

2011	\$ 54,148
2012	30,511
2013	31,375
2014	<u>32,238</u>
	<u>\$ 148,272</u>

(Continued)

NOTE 10 - LEASES, Continued

The Company also has a long-term lease with a related company for office space. In accordance with accounting principles generally accepted in the United States of America, a portion of this lease should be treated as a capital lease. However, the Company has elected to treat the entire lease as an operating lease rather than as a capital lease. If a portion of this lease had been treated as a capital lease, property and equipment and capital lease obligations on the balance sheet would have increased by \$1,637,856 and \$1,664,910, respectively, as of December 31, 2010. The future minimum lease commitments for this entire lease at December 31, 2010 are as follows:

2011	\$ 288,000
2012	288,000
2013	288,000
2014	288,000
2015	288,000
2016 and thereafter	<u>4,032,000</u>
	<u>\$ 5,472,000</u>

NOTE 11 - INCOME TAXES

The provision (credit) for income taxes consists of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Current income tax expense	\$ -	\$ -
Benefit due to federal empowerment zone credits	(9,000)	(10,512)
Benefit due to South Carolina new jobs credits, net	(69,300)	(49,500)
Deferred income tax expense	<u>27,290</u>	<u>287,843</u>
	<u>\$ (51,010)</u>	<u>\$ 227,831</u>

The Company files tax returns on the cash basis of accounting. The tax effects of temporary differences that give rise to significant portions of the deferred tax accounts are as follows at December 31:

	<u>2010</u>	<u>2009</u>
Deferred tax (assets) liabilities applicable to:		
Depreciation	\$ 344,356	\$ 325,559
Net operating loss and contribution carryforwards	(317,189)	(426,518)
Accrued items	<u>468,227</u>	<u>569,063</u>
Deferred tax liability before credits	495,394	468,104
Federal empowerment zone credits	(47,725)	(38,725)
South Carolina new jobs credit, net	<u>(156,420)</u>	<u>(87,120)</u>
Deferred tax liability	<u>\$ 291,249</u>	<u>\$ 342,259</u>

The deferred tax amounts presented above have been classified on the accompanying balance sheets as of December 31 as follows:

	<u>2010</u>	<u>2009</u>
Current liability	\$ 289,383	\$ 142,545
Long-term liability	<u>1,866</u>	<u>199,714</u>
	<u>\$ 291,249</u>	<u>\$ 342,259</u>

(Continued)

NOTE 11 - INCOME TAXES, Continued

The Company has federal and state net operating loss carryforwards totaling \$715,373 and \$498,187 at December 31, 2010, respectively. These net operating loss carryforwards expire on various dates through 2030. The Company also has federal and state tax credits at December 31, 2010 totaling \$47,725 and \$156,420, respectively. The federal credits will expire in 2030 and the state credits will expire in 2025.

NOTE 12 - EMPLOYEE STOCK OWNERSHIP PLAN

On July 1, 2010, the Company adopted a nonqualified stock ownership plan which allows certain key employees, as approved by the Company's Board of Directors, an opportunity to purchase Class B Common Stock. During the year ended December 31, 2010, the Company granted certain employees options to purchase up to a total of 10,000 shares of Class B Common Stock. Options to purchase 2,500 shares of common stock were exercised during 2010. The purchase price for each share of common stock is determined pursuant to a formula based on the Company's financial results for the three immediate preceding fiscal years. The value of the shares was \$18.70 per share for 2010, and management of the Company feels this value approximates fair value. The options to purchase the remaining 7,500 shares of the Class B Common Stock will expire during March 2011. If an employee terminates their employment with the Company, the Company will be required to repurchase the employee's stock in accordance with the provisions outlined in the stock ownership plan.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

On November 15, 2010, a significant contract ended with the Company. During the years ended December 31, 2010 and 2009, the Company recognized contract revenues of approximately \$3,524,000 and \$2,464,000 on this contract. At December 31, 2010, the Company had uncollected contract receivables of \$891,712 relating to this contract. Subsequent to December 31, 2010, in connection with the end of the contract, Company management identified additional costs associated with demobilization and exiting the job site, and submitted an invoice for these costs totaling \$69,830. On January 20, 2011, the Company received a payment of \$503,327. The Company is currently vigorously pursuing collection of the remaining outstanding contract receivables. If the Company is unable to collect these contract receivables in a timely manner as anticipated, it could have a material adverse effect on the financial position and operating cash flows of the Company.

The Company is also involved in other various claims and legal actions arising in the ordinary course of business. In the opinion of management, the final disposition or settlement of such matters will not have a material adverse effect on the Company's financial position or results of operations.

NOTE 14 - GAAP DEPARTURE OF CONSOLIDATION OF VARIABLE INTEREST ENTITIES

A Company stockholder owns one-hundred percent of Dennis Corporation Development, LLC, which is considered to be a variable interest entity, which leases real property and vehicles to the Company as described in Notes 9 and 10. In addition, the Company serves as a guarantor and certain of its assets are pledged as collateral for bank debt owed by the entity, as described in Note 6. The variable interests in this entity relates to the stockholder's investment and Company guarantees associated with notes payable of the entity.

(Continued)

NOTE 14 - GAAP DEPARTURE OF CONSOLIDATION OF VARIABLE INTEREST ENTITIES, Continued

The Company has not consolidated the entity in the accompanying financial statements as required by accounting principles generally accepted in the United States of America. Had the activities of the related entity been recorded in these financial statements, net income for the years December 31, 2010 and 2009 would have decreased by \$5,764 and \$14,140 and stockholders' equity as of December 31, 2010 and 2009 would have decreased by \$28,945 and \$53,364, respectively. Summary information of Dennis Corporation Development, LLC at December 31, 2010 and 2009, and for the years then ended is presented below:

	<u>2010</u>	<u>2009</u>
Assets	\$ 4,348,872	\$ 2,808,998
Liabilities	<u>4,287,095</u>	<u>2,862,362</u>
Member's equity (deficit)	<u>\$ 61,777</u>	<u>\$ (53,364)</u>
Net income (loss)	<u>\$ 84,958</u>	<u>\$ (14,140)</u>