

SERVIDYNE, INC.  
Form 10-Q/A  
June 02, 2011

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q/A  
QUARTERLY REPORT  
Amendment No. 1**

**Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934  
For the quarter ended October 31, 2010  
Commission file number 0-10146  
SERVIDYNE, INC.**

(Exact name of registrant as specified in its charter)

Georgia

58-0522129

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

1945 The Exchange, Suite 300, Atlanta, GA 30339-2029

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (770) 953-0304

Former name, former address, former fiscal year, if changed since last report: N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated  
filer

Accelerated Filer

Non-accelerated filer

Smaller Reporting  
Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of \$1.00 par value Common Stock of the Registrant outstanding as of November 30, 2010, was 3,675,982.

**TABLE OF CONTENTS**

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 4. CONTROLS AND PROCEDURES

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

SIGNATURES

EX-31.1

EX-31.2

EX-32.1

EX-32.2

---

**Table of Contents**

***Explanatory Note***

Servidyne, Inc. is filing this Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2010, originally filed with the Securities and Exchange Commission (the "SEC") on December 15, 2010 (the "Original Quarterly Report"), to restate and recast the Condensed Consolidated Balance Sheets as of October 31, 2010, and April 30, 2010, the Condensed Consolidated Statements of Operations for the three and six month periods ended October 31, 2010 and 2009, the Condensed Consolidated Statements of Cash Flows for the six month periods ended October 31, 2010 and 2009, and certain footnote disclosures thereto.

The need to restate the financial statements resulted from an error in the application of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Accounting for Income Taxes*, related to the recoverability of deferred tax assets, which was discovered in March 2011 in connection with the performance of the third quarter 2011 review. During the third quarter of fiscal 2011, the Company moved from a consolidated net deferred tax liability position into a consolidated net deferred tax asset position, which highlighted a potential recoverability issue related to its deferred tax assets. Accordingly, the Company performed an analysis of recoverability by weighing all positive evidence of recovery against all negative evidence of recovery. Because the Company was in a three-year cumulative book loss position, it was determined that the future earnings projections of the Company over the relatively long net operating loss carryforward period did not represent objectively verifiable positive evidence of recovery, and that the recent historical results were objectively verifiable negative evidence. The Company determined that it had no exposure to non-recoverability at the federal jurisdiction level due to adequate future taxable income offsetting federal net operating losses through the form of deferred tax liabilities. The exposure to non-recoverability was determined to exist at the state jurisdiction level. As a result of this analysis, the Company recorded a full valuation allowance in the amount of \$857,000 on its state deferred tax assets during the quarter ended January 31, 2011, as filed in the Company's Form 10-Q for the period.

Upon further analysis during April 2011, the Company determined that it had actually entered into the three-year cumulative book loss position in the fourth quarter of fiscal year 2009. As a result, the Company should not have used future earnings projections to analyze recoverability since the fourth quarter of fiscal 2009. The result of this error is that the Company understated its deferred tax asset valuation allowance by approximately \$799,000 and \$600,000 as of October 31, 2010, and April 30, 2010, respectively. Additionally, the Company understated its net loss by approximately \$36,000 and \$199,000 for the three and six month periods ended October 31, 2010, respectively, and \$96,000 and \$167,000 for the three and six month periods ended October 31, 2009, respectively.

In addition, the financial statements have been recast as a result of two items which occurred since the original filing: sales of income-producing properties and a change in segment reporting. To reflect the sales of income-producing properties since the original filing, the assets, liabilities and operating results of the disposed properties have been reclassified in the financial statements as discontinued operations. In addition, the change in segment reporting relates to the discontinuance of the Company's Real Estate Segment as a result of the sale of the last income-producing property other than the corporate headquarters facility during the fiscal quarter ended January 31, 2011. As a result, the book value of the corporate headquarters facility has been reclassified from "Income-Producing Properties, net to Property and Equipment, net" on the balance sheets.

See Notes 6, 10, and 15 to the condensed consolidated financial statements for more information regarding the recasting and restatement.

The following sections have been amended from the Original Quarterly Report as a result of the recasting and restatement described above:

Part I Item 1 Financial Statements

Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I Item 4 Controls and Procedures

Pursuant to the rules of the SEC, Item 6 of Part II has also been amended to include the currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906. The certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached as Exhibits 31 and

32.

Except as set forth herein, the original filing of the quarterly report has not been amended. The original filing should be read in conjunction with this Amendment No. 1. To the extent not addressed herein or in the original filing, events occurring subsequent to the period ended October 31, 2010, have been or will be addressed in the Company's filings with the SEC for subsequent periods.

**Table of Contents**

**SERVIDYNE, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

	<b>October 31, 2010 (Restated)</b>	April 30, 2010 (Restated)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,408,230	\$ 1,923,641
Receivables (Note 5):		
Trade accounts and notes, net of allowance for doubtful accounts of \$85,397 and \$58,989, respectively	821,323	953,075
Contracts, net of allowance for doubtful accounts of \$52,847 and \$22,530, respectively, including retained amounts of \$521,623 and \$675,281, respectively (Note 12)	3,132,729	3,337,177
Costs and earnings in excess of billings (Note 12)	1,253,030	715,129
Assets of discontinued operations (Note 10)	166,206	188,827
Deferred income taxes (Note 15)	308,579	360,097
Other current assets	1,705,867	1,247,844
Total current assets	<b>9,795,964</b>	8,725,790
PROPERTY AND EQUIPMENT, net (Note 2)	4,657,460	4,805,542
ASSETS OF DISCONTINUED OPERATIONS (Note 10)	4,231,122	13,767,227
DEFERRED INCOME TAXES (Note 15)	543,608	1,160,371
<b>OTHER ASSETS:</b>		
Real estate held for future development or sale	853,109	853,109
Intangible assets, net (Note 8)	2,257,503	2,395,874
Goodwill (Note 8)	6,354,002	6,354,002
Other assets (Note 9)	2,789,325	2,890,357
Total assets	<b>\$ 31,482,093</b>	\$ 40,952,272
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade and subcontractors payables	\$ 3,135,961	\$ 2,465,112
Accrued expenses	1,398,274	1,378,538
Deferred revenue	357,937	507,383
Billings in excess of costs and earnings	89,402	53,100
Liabilities of discontinued operations (Note 10)	144,651	520,308
Short-term debt and current maturities of long-term debt	275,343	270,592
Total current liabilities	<b>5,401,568</b>	5,195,033
LIABILITIES OF DISCONTINUED OPERATIONS (Note 10)	<b>5,436,826</b>	13,587,832

Edgar Filing: SERVIDYNE, INC. - Form 10-Q/A

OTHER LIABILITIES	<b>1,061,264</b>	1,039,633
MORTGAGE NOTES PAYABLE, less current maturities	<b>4,044,083</b>	4,107,996
OTHER LONG-TERM DEBT, less current maturities (Note 12)	<b>1,938,069</b>	1,832,000
Total liabilities	<b>17,881,810</b>	25,762,494
COMMITMENTS AND CONTINGENCIES (Note 14)		
SHAREHOLDERS EQUITY:		
Common stock, \$1 par value; 10,000,000 shares authorized; 3,919,373 issued and 3,675,982 outstanding at October 31, 2010; 3,919,773 issued and 3,676,383 outstanding at April 30, 2010	<b>3,919,373</b>	3,919,773
Additional paid-in capital	<b>6,292,295</b>	6,206,521
Retained earnings	<b>4,394,763</b>	6,069,629
Treasury stock (common shares) of 243,391 and 243,390, respectively	<b>(1,006,148)</b>	(1,006,145)
Total shareholders equity	<b>13,600,283</b>	15,189,778
Total liabilities and shareholders equity	<b>\$ 31,482,093</b>	\$ 40,952,272

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents

**SERVIDYNE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	<b>SECOND QUARTER</b>		<b>SIX MONTHS ENDED</b>	
	<b>ENDED</b>		<b>OCTOBER 31,</b>	
	<b>OCTOBER 31,</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
<b>REVENUES:</b>				
Building Performance Efficiency ( BPE ) (Note 12)	<b>\$ 7,519,147</b>	\$ 3,922,541	<b>\$ 12,360,874</b>	\$ 7,795,644
Other	<b>110,807</b>	106,017	<b>214,675</b>	207,051
	<b>7,629,954</b>	4,028,558	<b>12,575,549</b>	8,002,700
<b>COST OF REVENUES:</b>				
BPE	<b>5,403,096</b>	2,670,904	<b>8,968,113</b>	5,295,511
Other	<b>161,346</b>	167,771	<b>335,652</b>	352,271
	<b>5,564,442</b>	2,838,675	<b>9,303,765</b>	5,647,782
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>2,550,217</b>	2,292,123	<b>5,044,765</b>	4,676,031
<b>OTHER (INCOME) AND EXPENSES:</b>				
Other income	<b>(67,366)</b>	(52,400)	<b>(44,375)</b>	(65,300)
Interest income	<b>(22)</b>	(2,326)	<b>(39)</b>	(7,611)
Interest expense	<b>111,800</b>	99,284	<b>220,790</b>	199,341
	<b>44,412</b>	44,558	<b>176,376</b>	126,421
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>(529,117)</b>	(1,146,798)	<b>(1,949,357)</b>	(2,447,541)
<b>INCOME TAX BENEFIT (Note 15)</b>	<b>(173,560)</b>	(330,107)	<b>(605,764)</b>	(775,091)
<b>LOSS FROM CONTINUING OPERATIONS</b>	<b>(355,557)</b>	(816,691)	<b>(1,343,593)</b>	(1,672,451)
<b>DISCONTINUED OPERATIONS (Note 10):</b>				
(Loss) earnings from discontinued operations, adjusted for applicable income tax benefit expense of (\$210,821), \$22,048, (\$219,436) and \$49,201 respectively	<b>(382,397)</b>	12,952	<b>(358,028)</b>	91,821
Gain on disposition of income-producing properties, adjusted for applicable income tax expense of \$27,146, \$0, \$91,144 and \$0, respectively	<b>49,633</b>		<b>100,573</b>	



NET (LOSS) EARNINGS FROM DISCONTINUED OPERATIONS	(332,764)	12,952	(257,455)	91,82
NET LOSS	\$ (688,321)	\$ (803,739)	\$ (1,601,048)	\$ (1,580,63
NET (LOSS) EARNINGS PER SHARE (Note 7):				
From continuing operations basic and diluted	\$ (0.10)	\$ (0.22)	\$ (0.37)	\$ (0.4
From discontinued operations basic and diluted	(.09)		(.07)	.0
NET LOSS PER SHARE BASIC AND DILUTED	\$ (0.19)	\$ (0.22)	\$ (0.44)	\$ (0.4
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	3,676,010	3,690,288	3,676,188	3,690,79

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents**

**SERVIDYNE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>SIX MONTHS ENDED</b>	
	<b>OCTOBER 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Restated)</b>	<b>(Restated)</b>
Cash flows from operating activities:		
Net loss	<b>\$ (1,601,048)</b>	\$ (1,580,630)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss (earnings) from discontinued operations, net of tax	<b>257,455</b>	(91,825)
(Gain) loss on disposal of assets	<b>(1,385)</b>	1,378
Depreciation and amortization	<b>509,652</b>	481,692
Deferred tax benefit (Note 15)	<b>(598,368)</b>	(801,172)
Stock compensation expense	<b>85,374</b>	93,034
Adjustment to cash surrender value of life insurance	<b>(34,771)</b>	(69,217)
Straight-line rent	<b>1,068</b>	(6,933)
Provision for doubtful accounts, net	<b>56,725</b>	(59,413)
Changes in assets and liabilities:		
Receivables	<b>279,475</b>	(498,452)
Costs and earnings in excess of billings	<b>(537,901)</b>	374,801
Other current and long-term assets	<b>(402,794)</b>	(204,038)
Trade and subcontractors payable	<b>670,849</b>	(267,137)
Accrued expenses and deferred revenue	<b>(111,644)</b>	249,506
Billings in excess of costs and earnings	<b>36,302</b>	933,989
Net cash used in operating activities	<b>(1,391,011)</b>	(1,444,417)
Cash flows from investing activities:		
Premiums paid on officers' life insurance policies	<b>(5,464)</b>	(27,464)
Purchase of money market account investment	<b>(500,000)</b>	
Proceeds from termination of split-dollar life insurance agreement	<b>194,601</b>	
Additions to property and equipment	<b>(38,510)</b>	(189,162)
Additions to intangible assets	<b>(188,757)</b>	(312,674)
Proceeds from sale of property and equipment	<b>5,454</b>	2,000
Net cash used in investing activities	<b>(532,676)</b>	(527,300)
Cash flows from financing activities:		
Mortgage repayments	<b>(59,162)</b>	(54,764)
Debt repayments		(100,000)
Repurchase of common stock		(4,625)
Proceeds from other long-term debt	<b>500,000</b>	
Cash dividends paid to shareholders	<b>(73,818)</b>	(111,683)
Net cash provided by (used in) financing activities	<b>367,020</b>	(271,072)

## DISCONTINUED OPERATIONS:

Operating activities	<b>100,906</b>	400,092
Investing activities	<b>1,981,275</b>	48,246
Financing activities	<b>(40,925)</b>	(123,254)
Net cash provided by discontinued operations	<b>2,041,256</b>	325,084
Net increase (decrease) in cash and cash equivalents	<b>484,589</b>	(1,917,705)
Cash at beginning of period	<b>1,923,641</b>	4,821,126
Cash at end of period	<b>\$ 2,408,230</b>	\$ 2,903,421
Supplemental disclosure of non-cash investing and financing activities:		
Reduction in cash surrender value of life insurance policies	<b>\$ 412,000</b>	\$
Reduction in loans against interest in cash surrender value of life insurance policies	<b>\$ (412,000)</b>	\$
Change in fair market value of deferred executive compensation plan assets and liabilities	<b>\$ 13,242</b>	\$

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents**

**SERVIDYNE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**NOTE 1. ORGANIZATION AND BUSINESS**

Servidyne, Inc. (together with its subsidiaries, the Company) was organized under Delaware law in 1960. In 1984, the Company changed its state of incorporation from Delaware to Georgia. The Company's Building Performance Efficiency (BPE) Segment provides comprehensive energy efficiency and demand response solutions, sustainability programs, and other building performance-enhancing products and services to owners and operators of existing buildings, energy services companies, and public and investor-owned utilities.

During the fiscal quarter ended January 31, 2011, the Company sold its last owned income-producing property, other than its corporate headquarters facility. As a result, the Company's Real Estate Segment is no longer considered a reportable segment. Accordingly, the Company has removed all references to the Real Estate Segment from this quarterly report, and will not report results of the Real Estate Segment in future periodic reports. See Note 6 Segment Reporting for more information.

**NOTE 2. UNAUDITED STATEMENTS**

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles (GAAP) in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations, although management believes that the accompanying disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals, which are necessary for a fair statement of the results for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K/A for the year ended April 30, 2010. Results of operations for interim periods are not necessarily indicative of annual results.

The Company has made reclassifications related to certain income-producing properties that have been sold in accordance with the guidance now codified as Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360-35, *Property, Plant and Equipment* (ASC 360-35). As a result of these sales, the Company's financial statements have been prepared with the results of operations and cash flows of these disposed properties shown as discontinued operations, and the related assets and liabilities presented in the prior periods are currently reflected in discontinued operations on the balance sheets. In addition, balances previously presented in Income-Producing Properties, net which do not relate to discontinued operations are now presented in Property and Equipment, net in the balance sheets.

**Table of Contents**

**NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2009, the FASB reached a consensus on two new pronouncements: Accounting Standards Update ( ASU ) No. 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements*, and ASU No. 2009-14, *Software (Topic 985) Certain Revenue Arrangements That Include Software Elements*. ASU No. 2009-13 eliminates the requirement that all undelivered elements must have either (i) vendor specific objective evidence ( VSOE ) or (ii) third-party evidence ( TPE ) of stand-alone selling price before an entity can recognize the portion of the consideration that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the stand-alone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. Overall arrangement consideration will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. The residual method of allocating arrangement consideration has been eliminated. ASU No. 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. These new pronouncements are effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of these pronouncements will have on the determination or reporting of the Company's financial results.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820)*

*Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. ASU 2010-06 amends Codification Subtopic 820-10 to now require (1) an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; (2) in the reconciliation for fair value measurements using significant Level 3 unobservable inputs, an entity should present separately information about purchases, sales, issuances, and settlements; and (3) an entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This new pronouncement was effective for interim and annual reporting periods beginning after December 15, 2009. The Company has determined that adoption did not have a significant impact on the determination or reporting of the Company's financial results.

**NOTE 4. EQUITY-BASED COMPENSATION**

The Company has three (3) outstanding types of equity-based incentive compensation instruments in effect with employees, non-employee directors and certain outside service providers: stock options, stock appreciation rights, and restricted stock. Most of these equity-based instruments were granted under the terms of the Company's 2000 Stock Award Plan (the 2000 Award Plan ). The Company typically uses authorized, unissued shares to provide shares for these equity-based instruments. As of May 1, 2010, no additional awards of equity-based incentive compensation instruments can be granted under the 2000 Award Plan, as the Plan has expired.

**Table of Contents**

For the second quarter and the six (6) months ended October 31, 2010, total equity-based compensation expenses were \$40,307 and \$85,374, respectively, and the related income tax benefits were \$15,317 and \$32,443, respectively. Comparatively, for the second quarter and the six (6) months ended October 31, 2009, total equity-based compensation expenses were \$43,073 and \$93,035, respectively, and the related income tax benefits were \$16,240 and \$35,225, respectively. All of these expenses are included in selling, general and administrative expenses in the condensed consolidated statements of operations. At October 31, 2010, there were total unrecognized equity-based compensation expenses of \$254,259 that are expected to be recognized over a weighted average period of approximately 1.7 years.

**Stock Options**

A summary of stock options activity for the six (6) months ended October 31, 2010, is as follows:

	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding at April 30, 2010	482,486	\$ 4.46
Granted		
Forfeited		
Expired		
Exercised		
Outstanding at October 31, 2010	482,486	\$ 4.46
Vested at October 31, 2010	482,486	\$ 4.46
Non-vested at October 31, 2010, that are expected to vest		\$

Stock options typically vest over a period of two (2) years. The maximum contractual term of the stock options is ten (10) years. As of October 31, 2010, none of the outstanding stock options, vested or non-vested, were in the money. A summary of information about all stock options outstanding as of October 31, 2010, is as follows:

Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Term (Years)
\$4.42	415,629	2.03
\$4.59	55,440	4.40
\$5.19	917	3.63
\$5.24	10,500	2.62

The Company estimates the fair value of each stock option award on the date of grant using the Black-Scholes option-pricing model. The risk-free interest rate utilized in the Black-Scholes calculation is the interest rate of the U.S. Treasury Bill having the same maturity period as the expected life of the stock option award. The expected life of the stock option granted is based on the estimated holding period of the awarded stock option. The expected volatility of the stock option granted is based on the historical

**Table of Contents**

volatility of the Company's stock over the preceding five-year period using the month-end closing stock price. Compensation expenses related to the vesting of stock options for the second quarter and the six (6) months ended October 31, 2010, were \$0 and \$242, respectively, and the related income tax benefits were \$0 and \$92, respectively. Comparatively, related compensation expenses for the second quarter and the six (6) months ended October 31, 2009, were \$242 and \$2,417, respectively, and the related income tax benefits were \$92 and \$919, respectively.

**Stock Appreciation Rights (SARs)**

A summary of SARs activity for the six (6) months ended October 31, 2010, is as follows:

	SARs	Weighted Average Exercise Price
Outstanding at April 30, 2010	927,425	\$ 3.85
Granted		
Exercised		
Forfeited	(52,500)	4.76
Outstanding at October 31, 2010	874,925	\$ 3.79
Vested at October 31, 2010	155,579	\$ 4.06
Non-vested at October 31, 2010, that are expected to vest	521,687	\$ 3.80

All SARs have a five-year vesting period. Typically, thirty percent (30%) of the SARs will vest on the third (3<sup>rd</sup>) year anniversary of the date of grant, thirty percent (30%) will vest on the fourth (4<sup>th</sup>) year anniversary of the date of grant, and forty percent (40%) will vest on the fifth (5<sup>th</sup>) year anniversary of the date of grant. All SARs have early vesting provisions by which one hundred percent (100%) of the SARs would vest immediately (a) on the date of a change in control of the Company; or (b) if the Company's stock price were to close at or above a certain price for ten (10) consecutive trading days. For SARs granted prior to the stock dividend that occurred in the first quarter of fiscal 2009, the triggering price for early vesting is \$19.05 per share. For SARs granted subsequent to the stock dividend that occurred in the first quarter of fiscal 2009, the triggering price for early vesting for SARs issued under the 2000 Award Plan is \$20.00 per share, and the triggering price for early vesting for SARs not issued under the 2000 Award Plan is \$19.05 per share. The maximum contractual term of all SARs is ten (10) years. As of October 31, 2010, 181,500 of the non-vested outstanding SARs, with a weighted average exercise price of \$2.13, were in the money, whereas none of the vested outstanding SARs were in the money.

**Table of Contents**

A summary of information about all SARs outstanding as of October 31, 2010, is as follows:

Exercise Price	Outstanding SARs	Vested SARs	Weighted Average Remaining Contractual Term (Years)
\$3.94	180,495	108,959	5.66
\$3.79	109,830	33,390	6.10
\$4.19	10,500	3,150	6.62
\$6.19	33,600	10,080	6.92
\$5.00	52,500	0	7.48
\$4.76	84,000	0	7.62
\$4.00	22,500	0	7.88
\$2.30	30,000	0	8.61
\$4.00	200,000	0	9.04
\$2.12	20,000	0	9.11
\$2.09	131,500	0	9.40

The Company estimates the fair value of each award of SARs on the date of grant using the Black-Scholes option-pricing model. The risk-free interest rate utilized in the Black-Scholes calculation is the interest rate of the U.S. Treasury Bill having the same maturity as the expected life of the SARs award. The expected life of the SARs granted is based on the estimated holding period of the award. The expected volatility of the SARs granted is based on the historical volatility of the Company's stock over the preceding five-year period using the month-end closing stock price.

Compensation expenses related to the vesting of SARs for the second quarter and the six (6) months ended October 31, 2010, were \$39,762 and \$83,204, respectively, and the related income tax benefits were \$15,110 and \$31,618, respectively. Comparatively, related compensation expenses for the second quarter and the six (6) months ended October 31, 2009, were \$41,215 and \$85,719, respectively, and the related income tax benefits were \$15,534 and \$32,444, respectively.

**Shares of Restricted Stock**

Prior to the expiration of the 2000 Award Plan, the Company periodically awarded shares of restricted stock to employees, non-employee directors and certain outside service providers. The awards were recorded at fair market value on the date of grant and typically vested over a period of one (1) year. As of October 31, 2010, there were unrecognized compensation expenses totaling \$647 related to grants of shares of restricted stock, which the Company expects to be recognized over the ensuing year.

Compensation expenses related to the vesting of shares of restricted stock for the second quarter and the six (6) months ended October 31, 2010, were \$545 and \$1,928, respectively, and the related income tax benefits were \$207 and \$733, respectively. Comparatively, the related compensation expenses for the second quarter and the six (6) months ended October 31, 2009, were \$1,616 and \$4,899, respectively, and the related income tax benefits were \$614 and \$1,862, respectively.



**Table of Contents**

The following table summarizes restricted stock activity for the six (6) months ended October 31, 2010:

	Number of Shares of Restricted Stock	Weighted Average Fair Value per Share on Grant Date
Non-vested restricted stock at April 30, 2010	3,150	\$ 2.99
Granted		
Forfeited	(400)	2.11
Vested	(1,050)	4.76
Non-vested restricted stock at October 31, 2010	1,700	\$ 2.11

**NOTE 5. RECEIVABLES**

All net contract and trade receivables are expected to be collected within one (1) year.

**NOTE 6. SEGMENT REPORTING**

In recent years the Company disposed of the vast majority of its real estate holdings, selling its last owned income-producing property, other than its corporate headquarters facility, in December 2010 (see Note 10

Discontinued Operations for more information). As a result, during the third quarter of fiscal 2011, following authoritative guidance in ASC 280, *Segment Reporting*, the Company performed a reassessment of the applicable quantitative and qualitative thresholds for segment reporting and determined that the BPE Segment is the Company's only reportable segment. The Company identified this reportable segment based on internal management reporting and management decision-making responsibilities.

The table below shows selected financial data on an operating segment basis, including intersegment revenues, costs and expenses. Information previously reported as Real Estate and Parent is now combined in Corporate.

**Table of Contents****For the Second Quarter**

<b>Ended October 31, 2010</b>	<b>BPE</b>	<b>Corporate (1)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers				
BPE Segment services and products:				
Energy savings projects	\$ 5,803,363			\$ 5,803,363
Lighting products	531,177			531,177
Energy management services	426,496			426,496
Fifth fuel management services	33,967			33,967
Productivity software	724,144			724,144
Total revenues from unaffiliated customers	\$ 7,519,147	\$ 110,807	\$	\$ 7,629,954
Intersegment revenue		4,507	(4,507)	
Total revenues from continuing operations	\$ 7,519,147	\$ 115,314	\$ (4,507)	\$ 7,629,954
Earnings (loss) from continuing operations before income taxes	\$ 383,153	\$ (976,560)	\$ 64,290	\$ (529,117)

**For the Six Months**

<b>Ended October 31, 2010</b>	<b>BPE</b>	<b>Corporate (1)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers				
BPE Segment services and products:				
Energy savings projects	\$ 8,821,955			\$ 8,821,955
Lighting products	1,215,912			1,215,912
Energy management services	766,586			766,586
Fifth fuel management services	91,026			91,026
Productivity software	1,465,395			1,465,395
Total revenues from unaffiliated customers	\$ 12,360,874	\$ 214,675	\$	\$ 12,575,549
Intersegment revenue		72,811	(72,811)	
Total revenues from continuing operations	\$ 12,360,874	\$ 287,486	\$ (72,811)	\$ 12,575,549
(Loss) earnings from continuing operations before income taxes	\$ (218,223)	\$ (1,794,778)	\$ 63,644	\$ (1,949,357)

**For the Second Quarter**

<b>Ended October 31, 2009</b>	<b>BPE</b>	<b>Corporate (1)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers				
BPE Segment services and products:				

Edgar Filing: SERVIDYNE, INC. - Form 10-Q/A

Energy savings projects	\$ 2,048,382			\$ 2,048,382
Lighting products	484,287			484,287
Energy management services	457,714			457,714
Fifth fuel management services				
Productivity software	932,158			932,158
Total revenues from unaffiliated customers	\$ 3,922,541	\$ 106,017	\$	\$ 4,028,558
Intersegment revenue		63,494	(63,494)	
Total revenues from continuing operations	\$ 3,922,541	\$ 169,511	\$ (63,494)	\$ 4,028,558
(Loss) earnings from continuing operations before income taxes	\$ (352,474)	\$ (800,308)	\$ 5,984	\$ (1,146,798)

**For the Six Months**

<b>Ended October 31, 2009</b>	<b>BPE</b>	<b>Corporate (1)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers				
BPE Segment services and products:				
Energy savings projects	\$ 4,061,226			\$ 4,061,226
Lighting products	940,738			940,738
Energy management services	1,021,514			1,021,514
Fifth fuel management services				
Productivity software	1,772,171			1,772,171
Total revenues from unaffiliated customers	\$ 7,795,649	\$ 207,052	\$	\$ 8,002,701
Intersegment revenue	141,545	133,362	(274,907)	
Total revenues from continuing operations	\$ 7,937,194	\$ 340,414	\$ (274,907)	\$ 8,002,701
Loss from continuing operations before income taxes	\$ (742,959)	\$ (1,695,133)	\$ (9,456)	\$ (2,447,548)

**Table of Contents**

- (1) The Corporate net loss in each period was derived from corporate headquarters activities, which consist primarily of the following: rental revenues from tenants in the Company's corporate headquarters building and related rental and operating costs, salaries and benefits of Corporate Headquarters executive officers and staff, equity-based compensation expenses, depreciation and amortization expenses, and costs related to the Company's status as a publicly-held company, which include, among other items, legal fees, non-employee directors' fees, consulting expenses, investor relations expenses, corporate audit and tax fees, Nasdaq listing fees, and other Securities & Exchange Commission (SEC) and Sarbanes-Oxley compliance and financial reporting costs. All relevant costs related to the business operations of the Company's BPE Segment are either paid directly by BPE or are allocated to BPE by the Corporate Headquarters. The allocation method is dependent on the nature of each expense item. Allocated expenses include, among other items, accounting services, information technology services, insurance costs, and audit and tax preparation fees.

**NOTE 7. EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average shares outstanding during the reporting period. Diluted earnings (loss) per share is computed giving effect to dilutive stock equivalents resulting from outstanding stock options, restricted stock and stock appreciation rights. The potential dilutive effect on the number of common shares for the first six (6) months of fiscal 2011 and fiscal 2010 was 22,170 shares and 0 shares, respectively. Because the Company had a loss from continuing operations for the quarter and the six (6) months ended October 31, 2010, as well as for the quarter and the six (6) months ended October 31, 2009, all stock equivalents were anti-dilutive during these periods and, therefore, are excluded when determining the diluted weighted average number of shares outstanding.

**Table of Contents****NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS**

The gross carrying amounts and accumulated amortization for the Company's intangible assets as of October 31, 2010, and April 30, 2010, are as follows:

	October 31, 2010	
	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets, subject to amortization:</b>		
Proprietary BPE technology solutions	\$ 4,261,926	\$ 3,095,503
Acquired computer software	706,032	519,376
Real estate lease costs	49,170	24,206
Customer relationships	404,632	308,207
Deferred loan costs	122,686	101,216
Non-compete agreements	63,323	63,323
Tradename	61,299	9,874
Other	44,882	43,449
	<b>\$ 5,713,950</b>	<b>\$ 4,165,154</b>
 <b>Intangible assets and goodwill, not subject to amortization:</b>		
Trademark	<b>\$ 708,707</b>	
Goodwill	<b>\$ 6,354,002</b>	
	April 30, 2010	
	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets, subject to amortization:</b>		
Proprietary BPE technology solutions	\$ 4,096,802	\$ 2,827,071
Acquired computer software	676,837	493,885
Real estate lease costs	49,170	19,459
Customer relationships	404,632	286,433
Deferred loan costs	122,686	95,082
Non-compete agreements	63,323	60,684
Tradename	61,299	7,834
Other	44,882	42,016
	<b>\$ 5,519,631</b>	<b>\$ 3,832,464</b>
 <b>Intangible assets and goodwill, not subject to amortization:</b>		
Trademark	<b>\$ 708,707</b>	
Goodwill	<b>\$ 6,354,002</b>	

**Aggregate amortization expense for all amortizable intangible assets:**

For the six months ended October 31, 2010	\$ 351,120
For the six months ended October 31, 2009	295,835
For the quarter ended October 31, 2010	177,059
For the quarter ended October 31, 2009	151,193

**Estimated future amortization expenses for all amortized intangible assets for the fiscal years ended:**

Remainder of 2011	\$ 268,594
2012	496,115
2013	348,047
2014	247,264
2015	126,150
2016	33,680
Thereafter	28,946
	\$ 1,548,796

**Table of Contents**

The Company performed the annual impairment analysis of goodwill and indefinite-lived intangible assets in the fiscal quarter ended January 31, 2010. The annual analysis resulted in a determination of no impairment. Management considers both positive and negative indicators of impairment on an interim basis. The Company has concluded it was not necessary to perform an interim test of impairment as of October 31, 2010. All of the Company's goodwill and indefinite-lived intangible assets are assigned to the BPE Segment, which has also been determined to be the reporting unit.

**NOTE 9. OTHER ASSETS****Money Market Account Investment**

On October 15, 2010, the Company purchased a money market account investment in the amount of \$500,000. This investment is classified as a non-current Other Asset, as it serves as security for a performance bond as required by a significant long-term BPE energy savings project contract.

**Termination of Split Dollar Life Insurance Agreement**

Historically, the Company has been a party to split dollar life insurance agreements pursuant to which, among other things, the Company has agreed to pay premiums on life insurance policies for certain executives of the Company. The cash surrender values of these insurance policies are recorded as long-term other assets in the Company's condensed consolidated balance sheet. As of July 31, 2010, the Company was a party to three (3) split dollar agreements regarding policies insuring the lives of current and former executive officers of the Company, and had long-term loans of approximately \$982,000 against its interest in the cash surrender value of these policies.

On October 21, 2010, the split dollar life insurance agreement (the Agreement) related to the policy jointly insuring the lives of Edward M. Abrams (deceased), the Company's former Chairman of the Board and Chief Executive Officer, and his widow, Ann U. Abrams (the parents of Alan R. Abrams, the Company's Chairman of the Board and Chief Executive Officer, and J. Andrew Abrams, the Company's Executive Vice President) was terminated prior to the death of the remaining insured. Prior to the termination, the Company had a long-term loan of approximately \$412,000 against its interest in the cash surrender value of this policy, which loan amount approximately equaled the cumulative policy premiums paid by the Company through the date the loan was originated, and represented a substantial majority of the policy's cash surrender value prior to the loan. Under the terms of the Agreement, in the event of an early termination prior to the death of the insured, the Company was entitled to receive the remaining cash surrender value of the policy, if any, on the date of termination. However, in consideration of the consent to the early termination of the Agreement by the trust that owns the policy, the Company agreed to reduce the net cash surrender value otherwise payable to the Company by \$42,000. As a result of the early termination of the Agreement: (1) the long-term loan against the Company's interest in the cash surrender value of the policy of approximately \$412,000, and the related accrued interest of approximately \$13,000, was repaid in full; (2) the Company received approximately \$195,000 in cash proceeds; (3) the Company's ongoing obligation to pay premiums on the policy and its entitlement to any portion of the policy's death benefit were terminated; and (4) the Company reduced its long-term other assets by approximately \$662,000, representing the Company's interest in the cash surrender value of the policy prior to termination.

**Table of Contents**

**NOTE 10. DISCONTINUED OPERATIONS**

On December 15, 2010, the Company sold its owned shopping center in Smyrna, Tennessee, for a sales price of approximately \$4.3 million. The sale generated net cash proceeds of approximately \$250,000, after deducting approximately \$125,000 for closing costs and prorations, and net of the approximately \$3.9 million mortgage note, which was assumed by the buyer. The Company recognized a pre-tax loss on the sale of approximately \$6,000. Prior to the sale, the Company recorded an impairment loss of approximately \$590,000 in the second quarter of fiscal 2011. On June 9, 2010, the Company sold its owned shopping center in Jacksonville, Florida, for a sales price of approximately \$9.9 million. The sale generated net cash proceeds of approximately \$2 million, after deducting approximately \$0.5 million for funding of repair escrows and approximately \$0.6 million for closing costs and prorations, and net of the approximately \$6.9 million mortgage note, which was assumed by the buyer. The Company recognized a pre-tax gain on the sale of approximately \$190,000, including approximately \$75,000 in additional pre-tax gain recognized in the second and third quarters of fiscal 2011 as the result of the successful completion of contractual conditions and other cost-basis adjustments.

On January 29, 2010, the Company transferred its approximately \$2.0 million interest in an owned office building in Newnan, Georgia, and related assets to the note holder, which satisfied in full the Company's liability for the approximately \$3.2 million remaining balance on the property's non-recourse mortgage loan. Correspondingly, the Company recognized a pre-tax gain of approximately \$1.2 million in the third quarter of fiscal 2010 as a result of the elimination of the balance of the indebtedness on the property.



**Table of Contents**

As a result of these real estate transactions, the Company's financial statements have been prepared with the results of operations and cash flows of these three (3) disposed properties shown as discontinued operations. All historical statements have been recast in accordance with GAAP. Summarized financial information for discontinued operations for the second quarter and the six (6) months ended October 31, 2010, and October 31, 2009, is as follows:

	Second Quarter Ended		Six Months Ended	
	October 31,		October 31,	
	2010	2009	2010	2009
Rental revenues	\$ 131,907	\$ 579,345	\$ 428,066	\$ 1,234,405
Rental property operating expenses, including depreciation	135,566	544,345	415,971	1,093,379
Loss on impairment of income-producing property	589,559		589,559	
Operating (loss) earnings from discontinued operations	(593,218)	35,000	(577,464)	141,026
Income tax benefit (expense)	210,821	(22,048)	219,436	(49,201)
Operating (loss) earnings from discontinued operations, net of tax	(382,397)	12,952	(358,028)	91,825
Gain on disposition of income-producing properties	76,779		191,717	
Income tax expense	(27,146)		(91,144)	
Gain on disposition of income-producing properties, net of tax	49,633		100,573	
(Loss) earnings from discontinued operations, net of tax	\$ (332,764)	\$ 12,952	\$ (257,455)	\$ 91,825

The following tables reflect the effects of the adjustments on the Company's condensed consolidated financial statements when compared to the original filing of this Form 10-Q as a result of recasting the discontinued operations and the discontinuance of the former Real Estate Segment. The effects of the dispositions of the Company's owned office building in Newnan, Georgia, and its owned shopping center in Jacksonville, Florida, are included in the As Originally Reported amounts as of October 31, 2010, and April 30, 2010, and for the three and six month periods ended October 31, 2010 and 2009. The recasted amounts in the following tables are carried forward to Note 15

Restatement of Condensed Consolidated Financial Statements, which presents the effects of the correction of the error associated with the valuation allowance on deferred income taxes.

**Table of Contents**

		<b>As of October 31, 2010</b>		
		<b>Adjustments</b>	<b>Reclassification</b>	<b>As Recast for</b>
	<b>As Originally</b>	<b>for</b>	<b>Related to</b>	<b>Discontinued</b>
	<b>Reported</b>	<b>Discontinued</b>	<b>Discontinuance</b>	<b>Operations</b>
		<b>Operations</b>	<b>of Real Estate</b>	<b>and</b>
			<b>Segment</b>	<b>Segment</b>
			<b>Reporting</b>	<b>Change</b>
				<b>(Note 15)</b>
<b>Consolidated balance sheet</b>				
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 2,408,230	\$	\$	\$ 2,408,230
Receivables:				
Trade accounts and notes, net of allowance for doubtful accounts	875,164	(53,841)		821,323
Contracts, net of allowance for doubtful accounts	3,132,729			3,132,729
Costs and earnings in excess of billings	1,253,030			1,253,030
Assets of discontinued operations	68,684	97,522		166,206
Deferred income taxes	359,878	(15,333)		344,545
Other current assets	1,734,215	(28,348)		1,705,867
Total current assets	9,831,930			9,831,930
<b>INCOME-PRODUCING PROPERTIES, net</b>	7,992,605	(3,942,904)	(4,049,701)	
<b>PROPERTY AND EQUIPMENT, net</b>	607,759		4,049,701	4,657,460
<b>ASSETS OF DISCONTINUED OPERATIONS</b>		4,231,122		4,231,122
<b>DEFERRED INCOME TAXES</b>		1,306,820		1,306,820
<b>OTHER ASSETS:</b>				
Real estate held for future development or sale	853,109			853,109
Intangible assets, net	2,527,974	(270,471)		2,257,503
Goodwill	6,354,002			6,354,002
Other assets	2,807,072	(17,747)		2,789,325
Total assets	\$30,974,451	\$ 1,306,820	\$	\$32,281,271
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Trade and subcontractors payables	\$ 3,135,961	\$	\$	\$ 3,135,961
Accrued expenses	1,469,691	(71,417)		1,398,274
Deferred revenue	357,937			357,937
Billings in excess of costs and earnings	89,402			89,402
Liabilities of discontinued operations	21,390	123,261		144,651
	327,187	(51,844)		275,343

## Short-term debt and current maturities of long-term debt

Total current liabilities	5,401,568			5,401,568
DEFERRED INCOME TAXES	222,803	(222,803)		
LIABILITIES OF DISCONTINUED OPERATIONS		5,436,826		5,436,826
OTHER LIABILITIES	1,061,264			1,061,264
MORTGAGE NOTES PAYABLE, less current maturities	7,951,286	(3,907,203)		4,044,083
OTHER LONG-TERM DEBT, less current maturities	1,938,069			1,938,069
Total liabilities	16,574,990	1,306,820		17,881,810
COMMITMENTS AND CONTINGENCIES SHAREHOLDERS EQUITY:				
Common stock	3,919,373			3,919,373
Additional paid-in capital	6,292,295			6,292,295
Retained earnings	5,193,941			5,193,941
Treasury stock (common shares)	(1,006,148)			(1,006,148)
Total shareholders equity	14,399,461			14,399,461
Total liabilities and shareholders equity	\$30,974,451	\$ 1,306,820	\$	\$32,281,271

**Table of Contents**

		<b>As of April 30, 2010</b>		
		<b>Adjustments</b>	<b>Reclassification</b>	<b>As Recast for</b>
	<b>As Originally</b>	<b>for</b>	<b>Related to</b>	<b>Discontinued</b>
	<b>Reported</b>	<b>Discontinued</b>	<b>Discontinuance</b>	<b>Operations</b>
		<b>Operations</b>	<b>of Real Estate</b>	<b>and</b>
			<b>Segment</b>	<b>Segment</b>
			<b>Reporting</b>	<b>Change</b>
				<b>(Note 15)</b>
<b>Consolidated balance sheet</b>				
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 1,923,641	\$	\$	\$ 1,923,641
Receivables:				
Trade accounts and notes, net of allowance for doubtful accounts	973,442	(20,367)		953,075
Contracts, net of allowance for doubtful accounts	3,337,177			3,337,177
Costs and earnings in excess of billings	715,129			715,129
Assets of discontinued operations	150,970	37,857		188,827
Deferred income taxes	401,223	(8)		401,215
Other current assets	1,265,326	(17,482)		1,247,844
Total current assets	8,766,908			8,766,908
<b>INCOME-PRODUCING PROPERTIES, net</b>	8,701,893	(4,578,796)	(4,123,097)	
<b>PROPERTY AND EQUIPMENT, net</b>	682,445		4,123,097	4,805,542
<b>ASSETS OF DISCONTINUED OPERATIONS</b>	8,881,447	4,885,780		13,767,227
<b>DEFERRED INCOME TAXES</b>	6,666	1,712,288		1,718,954
<b>OTHER ASSETS:</b>				
Real estate held for future development or sale	853,109			853,109
Intangible assets, net	2,684,057	(288,183)		2,395,874
Goodwill	6,354,002			6,354,002
Other assets	2,909,158	(18,801)		2,890,357
Total assets	\$ 39,839,685	\$ 1,718,288	\$	\$ 41,551,973
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Trade and subcontractors payables	\$ 2,465,112	\$	\$	\$ 2,465,112
Accrued expenses	1,429,321	(50,783)		1,378,538
Deferred revenue	507,383			507,383
Billings in excess of costs and earnings	53,100			53,100
Liabilities of discontinued operations	417,681	102,627		520,308
	322,436	(51,844)		270,592

Short-term debt and current maturities of  
long-term debt

Total current liabilities	5,195,033			5,195,033
LIABILITIES OF DISCONTINUED OPERATIONS	7,943,165	5,644,667		13,587,832
OTHER LIABILITIES	1,039,633			1,039,633
MORTGAGE NOTES PAYABLE, less current maturities	8,040,375	(3,932,379)		4,107,996
OTHER LONG-TERM DEBT, less current maturities	1,832,000			1,832,000
Total liabilities	24,050,206	1,712,288		25,762,494
COMMITMENTS AND CONTINGENCIES SHAREHOLDERS EQUITY:				
Common stock	3,919,773			3,919,773
Additional paid-in capital	6,206,521			6,206,521
Retained earnings	6,669,330			6,669,330
Treasury stock (common shares)	(1,006,145)			1,006,145
Total shareholders equity	15,789,479			15,789,479
Total liabilities and shareholders equity	\$39,839,685	\$ 1,712,288	\$	\$41,551,973

**Table of Contents**

	<b>For the Second Quarter Ended October 31, 2010</b>		
	<b>As Recast for Adjustments for Discontinued As Originally Discontinued Operations Reported Operations (Note 15)</b>		
<b>Consolidated statement of operations</b>			
<b>REVENUES:</b>			
Building Performance Efficiency ( BPE )	\$ 7,519,147	\$	\$7,519,147
Other (formerly Real Estate )	252,587	(141,780)	110,807
	7,771,734	(141,780)	7,629,954
<b>COST OF REVENUES:</b>			
BPE	5,403,096		5,403,096
Other (formerly Real Estate )	241,475	(80,129)	161,345
	5,644,571	(80,129)	5,564,442
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>2,552,113</b>	<b>(1,896)</b>	<b>2,550,217</b>
<b>OTHER (INCOME) AND EXPENSES:</b>			
Other income	(72,457)	(5,091)	(67,366)
Interest income	(22)		(22)
Interest expense	175,273	(63,473)	111,800
Loss on impairment of income-producing property	589,559	(589,559)	
	692,353	(647,941)	44,412
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>(1,117,303)</b>	<b>588,186</b>	<b>(529,117)</b>
<b>INCOME TAX BENEFIT</b>	<b>(418,962)</b>	<b>208,909</b>	<b>(210,053)</b>
<b>LOSS FROM CONTINUING OPERATIONS</b>	<b>(698,341)</b>	<b>379,277</b>	<b>(319,064)</b>
<b>DISCONTINUED OPERATIONS:</b>			
Loss from discontinued operations, adjusted for applicable income tax benefit	(3,120)	(379,277)	(382,397)
Gain on disposition of income-producing properties, adjusted for applicable income tax expense	49,633		49,633
<b>EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS</b>	<b>46,513</b>	<b>(379,277)</b>	<b>(332,764)</b>
<b>NET LOSS</b>	<b>\$ (651,828)</b>	<b>\$</b>	<b>\$ (651,828)</b>

Edgar Filing: SERVIDYNE, INC. - Form 10-Q/A

NET (LOSS) EARNINGS PER SHARE:

From continuing operations	basic and diluted	\$	(0.19)	\$	0.10	\$	(0.09)
From discontinuing operations	basic and diluted		0.01		(0.10)		(0.09)

NET LOSS PER SHARE	BASIC AND DILUTED	\$	(0.18)	\$		\$	(0.18)
--------------------	-------------------	----	--------	----	--	----	--------

**Table of Contents**

	<b>For the Six Months Ended October 31, 2010</b>		
		<b>Adjustments</b>	<b>As Recast for</b>
	<b>As Originally</b>	<b>for</b>	<b>Discontinued</b>
	<b>Reported</b>	<b>Discontinued</b>	<b>Operations</b>
		<b>Operations</b>	<b>(Note 15)</b>
<b>Consolidated statement of operations</b>			
<b>REVENUES:</b>			
Building Performance Efficiency ( BPE )	\$ 12,360,874	\$	\$ 12,360,874
Other (formerly Real Estate )	502,054	(287,379)	214,675
	12,862,928	(287,379)	12,575,549
<b>COST OF REVENUES:</b>			
BPE	8,968,113		8,968,113
Other (formerly Real Estate )	492,471	(156,819)	335,652
	9,460,584	(156,819)	9,303,765
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	5,048,557	(3,792)	5,044,765
<b>OTHER (INCOME) AND EXPENSES:</b>			
Other income	(45,825)	1,450	(44,375)
Interest income	(39)		(39)
Interest expense	347,241	(126,451)	220,790
Loss on impairment of income-producing property	589,559	(589,559)	
	890,936	(714,560)	176,376
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	(2,537,149)	587,792	(1,949,357)
<b>INCOME TAX BENEFIT</b>	(1,028,602)	223,361	(805,241)
<b>LOSS FROM CONTINUING OPERATIONS</b>	(1,508,547)	364,431	(1,144,116)
<b>DISCONTINUED OPERATIONS:</b>			
Earnings (Loss) from discontinued operations, adjusted for applicable income tax (expense) benefit	6,403	(364,431)	(358,028)
Gain on disposition of income-producing properties, adjusted for applicable income tax expense	100,573		100,573
<b>EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS</b>	106,976	(364,431)	(257,455)
<b>NET LOSS</b>	\$ (1,401,571)	\$	\$ (1,401,571)



NET (LOSS) EARNINGS PER SHARE:

From continuing operations	basic and diluted	\$	(0.41)	\$	0.10	\$	(0.31)
From discontinuing operations	basic and diluted		0.03		(0.10)		(0.07)

NET LOSS PER SHARE	BASIC AND DILUTED	\$	(0.38)	\$		\$	(0.38)
--------------------	-------------------	----	--------	----	--	----	--------

**Table of Contents**

	<b>For the Second Quarter Ended October 31, 2009</b>		
	<b>As</b>	<b>Adjustments for</b>	<b>As Recast for Discontinued Operations</b>
	<b>Originally Reported</b>	<b>Discontinued Operations</b>	<b>Operations (Note 15)</b>
<b>Consolidated statement of operations</b>			
<b>REVENUES:</b>			
BPE	\$ 3,922,541	\$	\$ 3,922,541
Other (formerly Real Estate )	240,875	(134,858)	106,017
	4,163,416	(134,858)	4,028,558
<b>COST OF REVENUES:</b>			
BPE	2,670,904		2,670,904
Other (formerly Real Estate )	253,909	(86,138)	167,771
	2,924,813	(86,138)	2,838,675
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>2,293,974</b>	<b>(1,851)</b>	<b>2,292,123</b>
<b>OTHER (INCOME) AND EXPENSES:</b>			
Other income	(56,988)	4,588	(52,400)
Interest income	(2,326)		(2,326)
Interest expense	163,551	(64,267)	99,284
	104,237	(59,679)	44,558
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>(1,159,608)</b>	<b>12,810</b>	<b>(1,146,798)</b>
<b>INCOME TAX BENEFIT</b>	<b>(418,583)</b>	<b>(7,241)</b>	<b>(425,824)</b>
<b>LOSS FROM CONTINUING OPERATIONS</b>	<b>(741,025)</b>	<b>20,051</b>	<b>(720,974)</b>
<b>DISCONTINUED OPERATIONS:</b>			
Earnings from discontinued operations, adjusted for applicable income tax (expense) benefit	33,003	(20,051)	12,952
<b>EARNINGS FROM DISCONTINUED OPERATIONS</b>	<b>33,003</b>	<b>(20,051)</b>	<b>12,952</b>
<b>NET LOSS</b>	<b>\$ (708,022)</b>	<b>\$</b>	<b>\$ (708,022)</b>
<b>NET LOSS PER SHARE:</b>			
From continuing operations basic and diluted	\$ (0.19)	\$	\$ (0.19)
From discontinuing operations basic and diluted			

NET LOSS PER SHARE	BASIC AND DILUTED	\$	(0.19)	\$	(0.19)
--------------------	-------------------	----	--------	----	--------

**Table of Contents**

	<b>For the Six Months Ended October 31, 2009</b>		
		<b>Adjustments</b>	<b>As Recast for</b>
	<b>As Originally</b>	<b>for</b>	<b>Discontinued</b>
	<b>Reported</b>	<b>Discontinued</b>	<b>Operations</b>
		<b>Operations</b>	<b>(Note 15)</b>
<b>Consolidated statement of operations</b>			
<b>REVENUES:</b>			
BPE	\$ 7,795,649	\$	\$ 7,795,649
Other (formerly Real Estate )	483,182	(276,130)	207,052
	8,278,831	(276,130)	8,002,701
<b>COST OF REVENUES:</b>			
BPE	5,295,513		5,295,513
Other (formerly Real Estate )	524,394	(172,119)	352,275
	5,819,907	(172,119)	5,647,788
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	4,679,734	(3,702)	4,676,032
<b>OTHER (INCOME) AND EXPENSES:</b>			
Other income	(67,252)	1,950	(65,302)
Interest income	(7,610)		(7,610)
Interest expense	327,361	(128,020)	199,341
	252,499	(126,070)	126,429
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	(2,473,309)	25,761	(2,447,548)
<b>INCOME TAX BENEFIT</b>	(951,904)	9,789	(942,115)
<b>LOSS FROM CONTINUING OPERATIONS</b>	(1,521,405)	15,972	(1,505,433)
<b>DISCONTINUED OPERATIONS:</b>			
Earnings from discontinued operations, adjusted for applicable income tax expense	107,797	(15,972)	91,825
<b>EARNINGS FROM DISCONTINUED OPERATIONS</b>	107,797	(15,972)	91,825
<b>NET LOSS</b>	\$(1,413,608)	\$	\$(1,413,608)
<b>NET (LOSS) EARNINGS PER SHARE:</b>			
From continuing operations basic and diluted	\$ (0.41)	\$	\$ (0.41)
From discontinuing operations basic and diluted	0.03	(0.01)	0.02

NET LOSS PER SHARE	BASIC AND DILUTED	\$	(0.38)	\$	(0.01)	\$	(0.39)
--------------------	-------------------	----	--------	----	--------	----	--------

**Table of Contents****For the Six Months Ended October 31, 2010**

		<b>Reclassification Related to Discontinuance</b>		<b>As Recast for Discontinued Operations and Segment Change (Note 15)</b>
	<b>As Originally Reported</b>	<b>Adjustments for Discontinued Operations</b>	<b>of Real Estate Segment Reporting</b>	
<b>Consolidated statement of cash flows</b>				
Cash flows from operating activities:				
Net loss	\$(1,401,571)	\$	\$	\$ (1,401,571)
Adjustments to reconcile net loss to net cash used in operating activities:				
(Earnings) loss from discontinued operations, net of tax	(106,976)	364,431		257,455
Loss on impairment of income-producing property	589,559	(589,559)		
Gain on disposal of assets	(1,385)			(1,385)
Depreciation and amortization	586,257	(76,605)		509,652
Deferred tax benefit	(1,021,206)	223,361		(797,845)
Stock compensation expense	85,374			85,374
Adjustment to cash surrender value of life insurance	(34,771)			(34,771)
Straight-line rent	2,122	(1,054)		1,068
Provision for doubtful accounts, net	56,725			56,725
Changes in assets and liabilities:				
Receivables	246,001	33,474		279,475
Costs and earnings in excess of billings	(537,901)			(537,901)
Other current and long-term assets	(413,660)	10,866		(402,794)
Trade and subcontractors payable	670,849			670,849
Accrued expenses and deferred revenue	(91,010)	(20,634)		(111,644)
Billings in excess of costs and earnings	36,302			36,302
Net cash used in operating activities	(1,335,291)	(55,720)		(1,391,011)
Cash flows from investing activities:				
Premiums paid on officers' life insurance policies	(5,464)			(5,464)
Purchase of money market account investment	(500,000)			(500,000)
Proceeds from termination of split-dollar life insurance agreement	194,601			194,601
Additions to income-producing properties	(6,280)	6,280		
Additions to property and equipment	(38,510)			(38,510)
Additions to intangible assets	(195,039)	6,282		(188,757)
Proceeds from sale of property and equipment	5,454			5,454

Edgar Filing: SERVIDYNE, INC. - Form 10-Q/A

Net cash used in investing activities	(545,238)	12,562	(532,676)
Cash flows from financing activities:			
Mortgage repayments	(84,338)	25,176	(59,162)
Proceeds from other long-term debt	500,000		500,000
Cash dividends paid to shareholders	(73,818)		(73,818)
Net cash provided by financing activities	341,844	25,176	367,020
DISCONTINUED OPERATIONS:			
Operating activities	51,467	49,439	100,906
Investing activities	1,987,556	(6,281)	1,981,275
Financing activities	(15,749)	(25,176)	(40,925)
Net cash provided by discontinued operations	2,023,274	17,982	2,041,256
Net increase in cash and cash equivalents	484,589		484,589
Cash at beginning of period	1,923,641		1,923,641
Cash at end of period	\$ 2,408,230	\$	\$ 2,408,230

**Table of Contents****For the Six Months Ended October 31, 2009**

			<b>Reclassification</b>	
		<b>Adjustments</b>	<b>Related to</b>	<b>As Recast for</b>
	<b>As Originally</b>	<b>for</b>	<b>Discontinuance</b>	<b>Discontinued</b>
	<b>Reported</b>	<b>Discontinued</b>	<b>of Real</b>	<b>Operations</b>
		<b>Operations</b>	<b>Estate</b>	<b>and</b>
			<b>Segment</b>	<b>Segment</b>
			<b>Reporting</b>	<b>Change</b>
				<b>(Note 15)</b>
<b>Consolidated statement of cash flows</b>				
Cash flows from operating activities:				
Net loss	\$(1,413,608)	\$	\$	\$ (1,413,608)
Adjustments to reconcile net loss to net cash used in operating activities:				
Earnings from discontinued operations, net of tax	(107,797)	(15,972)		(91,825)
Loss on disposal of assets	1,378			1,378
Depreciation and amortization	553,045	(71,353)		481,692
Deferred tax benefit	(977,983)	9,789		(968,194)
Stock compensation expense	93,034			93,034
Adjustment to cash surrender value of life insurance	(69,217)			(69,217)
Straight-line rent	(8,917)	1,984		(6,933)
Provision for doubtful accounts, net	(59,413)			(59,413)
Changes in assets and liabilities:				
Receivables	(513,873)	15,421		(498,452)
Costs and earnings in excess of billings	374,801			374,801
Other current and long-term assets	(211,680)	7,642		(204,038)
Trade and subcontractors payable	(267,870)	733		(267,137)
Accrued expenses and deferred revenue	271,255	(21,748)		249,507
Billings in excess of costs and earnings	933,988			933,988
Net cash used in operating activities	(1,402,857)	(41,560)		(1,444,417)
Cash flows from investing activities:				
Premiums paid on officers' life insurance policies	(27,464)			(27,464)
Additions to income-producing properties	(128,925)	(205)	129,130	
Additions to property and equipment	(60,028)	(4)	(129,130)	(189,162)
Additions to intangible assets	(314,192)	1,518		(312,674)
Proceeds from sale of property and equipment	2,000			2,000
Net cash used in investing activities	(528,609)	1,309		(527,300)
Cash flows from financing activities:				
Mortgage repayments	(78,370)	23,606		(54,764)



Edgar Filing: SERVIDYNE, INC. - Form 10-Q/A

Debt repayments	(100,000)		(100,000)
Repurchase of common stock	(4,625)		(4,625)
Cash dividends paid to shareholders	(111,683)		(111,683)
Net cash used in financing activities	(294,678)	23,606	(271,072)
DISCONTINUED OPERATIONS:			
Operating activities	358,323	41,769	400,092
Investing activities	49,764	(1,518)	48,246
Financing activities	(99,648)	(23,606)	(123,254)
Net cash provided by discontinued operations	308,439	16,645	325,084
Net decrease in cash and cash equivalents	(1,917,705)		(1,917,705)
Cash at beginning of period	4,821,126		4,821,126
Cash at end of period	\$ 2,903,421	\$	\$ 2,903,421

**Table of Contents**

**NOTE 11. FAIR VALUE MEASUREMENTS**

Fair value is estimated based on a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels whereby the highest priority is given to Level 1 inputs, and the lowest priority is given to Level 3 inputs. The three broad categories are:

*Level 1* Quoted prices in active markets for identical assets or liabilities.

*Level 2* Inputs other than quoted prices which are observable for an asset or liability, either directly or indirectly.

*Level 3* Unobservable inputs for an asset or liability when little or no market data is available.

In determining fair values, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Considerable judgment is necessary to interpret Level 2 and Level 3 inputs in determining fair value. Accordingly, there can be no assurance that the fair values of financial instruments presented in this footnote are indicative of amounts that may ultimately be realized upon sale or disposition of these financial instruments.

Financial instruments in the Company's condensed consolidated financial statements that are measured and recorded at fair value on a recurring basis are (1) executive deferred compensation plan and directors' deferred compensation plan assets, which are included in Other Assets in the condensed consolidated balance sheet; and (2) the corresponding liability owed to the plans' participants that is equal in value to the plans' assets, which is included in Other Liabilities in the condensed consolidated balance sheet. Given that the plans' assets are invested in mutual funds and money market funds for which quoted market prices are readily available, the quoted prices are considered Level 1 inputs. Based on the quoted prices of the related investments, the fair value of the executive deferred compensation plan and directors' deferred compensation plan assets and the corresponding liability were \$972,664 and \$947,023 as of October 31, 2010, and April 30, 2010, respectively.

In addition to the financial instruments listed above that are required to be carried at fair value, the Company has determined that the carrying amounts of its cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to their short-term maturities.

The Company had a certificate of deposit ( CD ) in the amount of \$450,000 as of October 31, 2010, which is included in Other Assets in the Company's condensed consolidated balance sheet. This CD secures a letter of credit, which is required by the terms of the mortgage on the Company's owned corporate headquarters building. Based on the rates currently available on certificates of deposit with similar terms, the CD's carrying amount approximates its fair value as of October 31, 2010.

The Company had a money market account ( MMA ) investment in the amount of \$500,000 as of October 31, 2010, which is included in Other Assets in the Company's condensed consolidated balance sheet (see Note 9 Other Assets for more information). Based on the rates currently available on money market accounts with similar terms, this MMA investment's carrying amount approximates its fair value as of October 31, 2010.

Based on the borrowing rates currently available for mortgage notes with similar terms and average maturities, the carrying value of the mortgage notes payable is a reasonable estimate of fair value. The fair value of mortgage notes payable was \$4,278,816 and \$4,368,245 as of October 31, 2010, and April

**Table of Contents**

30, 2010, respectively. Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the carrying value of the other debt is considered a reasonable estimate of fair value. The fair value of other debt was \$2,074,941 and \$1,950,109 as of October 31, 2010, and April 30, 2010, respectively.

*Non-Recurring Measurements*

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such review takes place on a quarterly basis.

During the second quarter ended October 31, 2010, the Company recorded a loss on impairment of approximately \$590,000 of the Company's owned shopping center in Smyrna, Tennessee, to present the carrying amount of this long-lived asset at its fair value of approximately \$4,220,000 as of October 31, 2010. The fair value was determined based upon an executed sales contract, a Level 2 input, received in December 2010, which was indicative of the fair value as of October 31, 2010. (See Note 13 Subsequent Events for more information.)

**NOTE 12. RELATED PARTY TRANSACTIONS**

On October 14, 2010, the Company borrowed an aggregate of \$500,000 from related parties by issuing a total of four (4) promissory notes to Samuel E. Allen, a Director of the Company; Herschel Kahn, a Director of the Company; Alan R. Abrams, a Director, Chairman of the Board and Chief Executive Officer of the Company; and J. Andrew Abrams, Executive Vice President of the Company, respectively. The largest of the four (4) notes, amounting to \$400,000, was issued to Mr. Allen. Each of the notes bears interest at twelve percent (12%) per annum and matures on May 14, 2012, subject to acceleration under certain specified circumstances. The notes are collectively secured by a security deed on real property granted by a subsidiary of the Company. The notes are included in Other Long-Term Debt in the Company's condensed consolidated balance sheet. The cash proceeds from the borrowings were used to fund working capital and for other operating purposes.

On October 21, 2010, the Company terminated a split dollar life insurance agreement related to a policy jointly insuring the lives of the Company's former Chairman of the Board and Chief Executive Officer, who is deceased, and his widow, as described above in Note 9 Other Assets.

The Company recognized approximately \$2,235,000 and \$3,775,000 in revenue for the second quarter and the six (6) months ended October 31, 2010, respectively, from an affiliate of a member of the Board of Directors associated with a contract for energy savings projects. The related accounts receivable and costs and earnings in excess of billings as of October 31, 2010, were approximately \$1,001,000 and \$1,007,000, respectively.

**NOTE 13. SUBSEQUENT EVENTS**

On December 15, 2010, the Company sold its owned shopping center in Smyrna, Tennessee, for a sales price of approximately \$4.33 million. The sale generated net cash proceeds of approximately \$250,000, after deducting:

**Table of Contents**

approximately \$3.95 million for assumption of the mortgage note; and

approximately \$125,000 for closing costs and prorations.

Given this event, the Company recorded an impairment loss of approximately \$590,000 in the Company's condensed consolidated statement of operations for the quarter ended October 31, 2010.

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

The Company is subject to legal proceedings and other claims that arise from time to time in the ordinary course of business. While the resolution of these matters cannot be predicted with certainty, the Company believes that the final outcome of any such matters would not have a material adverse effect on the Company's financial position or results of operations.

**NOTE 15. RESTATEMENT OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The need to restate the financial statements resulted from an error in the application of ASC 740, *Accounting for Income Taxes*, related to the recoverability of deferred tax assets, which was discovered in March 2011 in connection with the performance of the third quarter 2011 review. During the third quarter of fiscal 2011, the Company moved from a consolidated net deferred tax liability position into a consolidated net deferred tax asset position, which highlighted a potential recoverability issue related to its deferred tax assets. Accordingly, the Company performed an analysis of recoverability by weighing all positive evidence of recovery against all negative evidence of recovery. Because the Company was in a three-year cumulative book loss position, it was determined that the future earnings projections of the Company over the relatively long net operating loss carryforward period did not represent objectively verifiable positive evidence of recovery, and that the recent historical results were objectively verifiable negative evidence.

The Company determined that it had no exposure to non-recoverability at the federal jurisdiction level due to adequate future taxable income offsetting federal net operating losses through the form of deferred tax liabilities. The exposure to non-recoverability was determined to exist at the state jurisdiction level. As a result of this analysis, the Company recorded a full valuation allowance in the amount of \$857,000 on its state deferred tax assets during the quarter ended January 31, 2011, as filed in the Company's Form 10-Q for the period.

Upon further analysis during April 2011, the Company determined that it had actually entered into the three-year cumulative book loss position in the fourth quarter of fiscal year 2009. As a result, the Company should not have used future earnings projections to analyze recoverability since the fourth quarter of fiscal 2009. The result of this error is that the Company understated its deferred tax asset valuation allowance by approximately \$799,000 and \$600,000 as of October 31, 2010, and April 30, 2010, respectively. Additionally, the Company understated its net loss by approximately \$36,000 and \$199,000 for the three and six month periods ended October 31, 2010, respectively, and \$96,000 and \$167,000 for the three and six month periods ended October 31, 2009, respectively.

**Table of Contents**

The results of the above are summarized in the tables below.

	<b>As of October 31, 2010</b>		
	<b>As Recast for Discontinued Operations and Segment Change (Note 10)</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated balance sheet accounts impacted by restatement:</b>			
Deferred income taxes (current)	\$ 344,545	\$ (35,966)	\$ 308,579
Total current assets	9,831,930	(35,966)	9,795,964
Deferred income taxes (non-current)	1,306,820	(763,212)	543,608
Total assets	32,281,271	(799,178)	31,482,093
Retained earnings	5,193,941	(799,178)	4,394,763
Total shareholders equity	14,399,461	(799,178)	13,600,283
Total liabilities and shareholders equity	32,281,271	(799,178)	31,482,093

	<b>As of April 30, 2010</b>		
	<b>As Recast for Discontinued Operations and Segment Change (Note 10)</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated balance sheet accounts impacted by restatement:</b>			
Deferred income taxes (current)	\$ 401,215	\$ (41,118)	\$ 360,097
Total current assets	8,766,908	(41,118)	8,725,790
Deferred income taxes (non-current)	1,718,954	(558,583)	1,160,371
Total assets	41,551,973	(599,701)	40,952,272
Retained earnings	6,669,330	(599,701)	6,069,629
Total shareholders equity	15,789,479	(599,701)	15,189,778
Total liabilities and shareholders equity	41,551,973	(599,701)	40,952,272

**Table of Contents**

	<b>For the Second Quarter Ended October 31, 2010</b>		
	<b>As Recast for Discontinued Operations (Note 10)</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated statement of operations accounts impacted by restatement:</b>			
Income tax benefit	\$ (210,053)	\$ 36,493	\$ (173,560)
Loss from continuing operations	(319,064)	(36,493)	(355,557)
Net loss	(651,828)	(36,493)	(688,321)
Net loss per share from continuing operations	\$ (0.09)	\$ (0.01)	\$ (0.10)
Net loss per share from discontinued operations	(0.09)		(0.09)
Net loss per share basic and diluted	(0.18)	(0.01)	(0.19)
	<b>For the Six Months Ended October 31, 2010</b>		
	<b>As Recast for Discontinued Operations (Note 10)</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated statement of operations accounts impacted by restatement:</b>			
Income tax benefit	\$ (805,241)	\$ 199,477	\$ (605,764)
Loss from continuing operations	(1,144,116)	(199,477)	(1,343,593)
Net loss	(1,401,571)	(199,477)	(1,601,048)
Net loss per share from continuing operations	\$ (0.31)	\$ (0.06)	\$ (0.37)
Net loss per share from discontinued operations	(0.07)		(0.07)
Net loss per share basic and diluted	(0.38)	(0.06)	(0.44)
<b>Consolidated statement of cash flows accounts impacted by restatement:</b>			
Net loss	\$ (1,401,571)	\$ (199,477)	\$ (1,601,048)
Deferred tax benefit	(797,845)	199,477	(598,368)

**Table of Contents**

	<b>For the Second Quarter Ended October 31, 2009</b>		
	<b>As Recast for Discontinued Operations (Note 10)</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated statement of operations accounts impacted by restatement:</b>			
Income tax benefit	\$ (425,824)	\$ 95,717	\$ (330,107)
Loss from continuing operations	(720,974)	(95,717)	(816,691)
Net loss	(708,022)	(95,717)	(803,739)
Net loss per share from continuing operations	\$ (0.19)	\$ (0.03)	\$ (0.22)
Net earnings per share from discontinued operations			
Net loss per share basic and diluted	(0.19)	(0.03)	(0.22)

	<b>For the Six Months Ended October 31, 2009</b>		
	<b>As Recast for Discontinued Operations (Note 10)</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated statement of operations accounts impacted by restatement:</b>			
Income tax benefit	\$ (942,115)	\$ 167,022	\$ (775,093)
Loss from continuing operations	(1,505,433)	(167,022)	(1,672,455)
Net loss	(1,413,608)	(167,022)	(1,580,630)
Net loss per share from continuing operations	\$ (0.41)	\$ (0.04)	\$ (0.45)
Net earnings per share from discontinued operations	0.02		0.02
Net loss per share basic and diluted	(0.39)	(0.04)	(0.43)

**Consolidated statement of cash flows accounts impacted by  
restatement:**

Net loss	\$ (1,413,608)	\$ (167,022)	\$ (1,580,630)
Deferred tax benefit	(968,194)	167,022	(801,172)

Additionally, subsequent to the filing of the Form 10-Q for the quarter ended October 31, 2010, the Company has included a disclosure associated with a BPE contract with a related party. See Note 12 Related Party Transactions for more information.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the condensed consolidated financial statements, including the notes to those statements, which are presented elsewhere in this report. The Company also recommends that this discussion and analysis be read in conjunction with management's discussion and analysis section and the consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the year ended April 30, 2010.

The following discussion has been updated to reflect the reclassifications discussed in Note 2 "Unaudited Statements" to the condensed consolidated financial statements.

The Company's financial condition as of October 31, 2010, and April 30, 2010, the results of operations for the three and six month periods ended October 31, 2010 and 2009, and the cash flows for the six month periods ended October 31, 2010 and 2009, have been recast and restated. All information and disclosures in this management's discussion and analysis have been updated to reflect the effects of such recasting and restatement. For a more detailed description of the recasting and restatement, see Notes 6, 10, and 15 of the Notes to the accompanying condensed consolidated financial statements in this Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2010.

The Company's fiscal year 2011 will end on April 30, 2011.

**OVERVIEW**

The Company entered fiscal year 2011 with significant momentum at its BPE Segment as the result of an order backlog of \$15.4 million, which at that time represented the highest backlog achieved by the BPE Segment in the Company's history. As a result, BPE generated \$12.4 million in revenues in the first six (6) months of fiscal 2011, including \$7.5 million of revenues and \$383,000 of pre-tax earnings (including intersegment revenues, costs and expenses) in the second quarter. The second quarter revenues were the highest revenues generated in a fiscal quarter by the BPE Segment in the Company's history, and represented an increase of 92% compared to the same period in fiscal 2010, including a 183% year-over-year increase in Energy Savings Projects revenues. The revenues in the first six (6) months of fiscal 2011 represented an increase of 59% compared to the same period in fiscal 2010, including a 117% year-over-year increase in Energy Savings Projects revenues. Correspondingly, BPE's new order activity also strengthened materially in the second quarter, as new customer orders exceeded BPE revenues by \$2.1 million. As a result, the Company achieved a record level of order backlog for the BPE Segment of \$16.3 million as of October 31, 2010, which was 21% higher than the backlog at July 31, 2010, and was 132% higher than the backlog at October 31, 2009. The new order activity in the second quarter included the award of a \$5.8 million design-build retro-commissioning project for the Georgia Department of Corrections under a contract with the Georgia Environmental Finance Authority, which the Company commenced during the quarter and expects to substantially complete by the end of calendar year 2011.

The Company believes that the substantial increase in BPE order activity and revenues over the last year is a direct result of three (3) distinct factors: the success of the Company's enhanced sales and marketing efforts, which were initiated in fiscal 2009; an overall improvement in the capital spending environment for many of the BPE Segment's customers; and the infusion of U.S. government expenditures for energy efficiency upgrades of government facilities. The Company believes that these factors will continue to be favorable for the BPE Segment during the remainder of fiscal year 2011 and beyond. The BPE Segment



**Table of Contents**

generated positive EBITDA<sup>1</sup> in the second quarter of \$562,000 (pre-tax earnings, including intersegment revenues, costs and expenses, of \$383,000, plus interest, depreciation and amortization of \$179,000), and management currently expects that the BPE Segment will generate positive EBITDA for the full current fiscal year, with revenues remaining strong; however, EBITDA on a quarterly basis is more sensitive to fluctuations in the timing of revenues and may not be positive in an individual quarter. Moreover, management believes that a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company's consolidated operations.

To support ongoing revenue growth, the Company anticipates continued strong BPE order growth from customers in the government sector and the private sector. The BPE Segment offers the government sector many of the same offerings it provides to its private sector customers, including energy savings projects and other energy efficiency-focused products and services, through direct government contracts and by acting as a subcontractor to large energy services company ( ESCOs ). The BPE Segment has a long history of providing energy efficiency services to a wide range of government facilities, including U.S. military bases, federal and state prisons, and large public educational facilities, school districts, and a variety of other federal, state and municipal buildings and facilities. The Company has business relationships with a number of government entities and with several of the large ESCOs selected by the U.S. Department of Energy in December 2008 to perform federally-funded projects to improve the energy efficiency of government buildings. The Company also expects to build on its recent successes in the private sector by continuing to broaden its customer base of Fortune 500 companies and large asset and property managers that own or manage numerous facilities across the country. As a result of many funded and proposed government mandates to improve the efficiency of federal, state and local government facilities, as well as a growing awareness in corporate America of the benefits of sustainability and energy efficiency, the Company believes that it is well positioned for significant ongoing revenue growth in both the government and private sectors.

The Company also anticipates that new order activity will be generated by the BPE Segment's recently introduced Fifth Fuel Management service offering over the next several quarters. BPE is offering this technology-enabled demand response and energy efficiency system to a network of utilities and independent system operators in the U.S., as well as to owners and operators of large commercial office buildings, retail stores, hotels, light industrial facilities and institutional buildings. Demand response is emerging as a critical tactic to help address the growing imbalance in the supply and demand of generated electric power in the United States. In February 2010, the Company received its initial multi-year orders for this new offering, and Fifth Fuel Management order bookings totaled approximately \$800,000 in fiscal 2010. The Company expects Fifth Fuel Management will provide additional opportunities for sales of BPE Segment's other energy efficiency services and products as well, which can enable BPE to leverage its established customer base of building owners and operators to help utilities gain better utilization of their existing energy generating facilities and infrastructures. The Company believes the BPE Segment is now better positioned to participate in the growing utility market sector; however, the Company's ability to develop the new Fifth Fuel Management offering to its full potential will require the investment of additional capital.

While the potential market demand for the BPE Segment's offerings appears to be quite promising, there can be no assurance that this will result in sustained revenue growth, particularly if recent macro-economic conditions were to continue, or worsen, for an extended period of time.

1 The Company believes EBITDA is a useful non-GAAP measurement of the BPE Segment's performance, because it provides information that can be used to further evaluate the operational effectiveness of the business. One should not consider EBITDA an alternative to, or a more meaningful indicator of the segment's operating performance than, earnings before taxes as determined in accordance with GAAP.

**Table of Contents**

**Discontinued Operations**

In recent years, the Company has generated substantial liquidity from sales of its real estate assets, and the proceeds from such sales largely have been redeployed to fund the establishment and growth of the BPE Segment. In June 2010, the Company successfully closed on the sale of its owned shopping center in Jacksonville, Florida, generating net cash proceeds of approximately \$2 million, and in December 2010, successfully closed on the sale of its owned shopping center in Smyrna, Tennessee, generating net cash proceeds of approximately \$250,000. (See Note 10 Discontinued Operations to the condensed consolidated financial statements for more information).

As a cumulative result of the real estate asset sales in recent years, the Company's real estate assets now consist of only its corporate headquarters building in metropolitan Atlanta, Georgia; a commercially-zoned land parcel in North Ft. Myers, Florida; and commercially-zoned land parcels in Oakwood, Georgia. Further, as a result of the disposition in December 2010, the Company's Real Estate Segment is no longer considered a reportable segment (see Note 6 Segment Reporting to the condensed consolidated financial statements for more information).

**Liquidity**

The Company's cash increased by 34% during the second quarter of fiscal 2011, as operating activities provided cash of \$603,000 during the quarter. Despite this increase in cash and the recent successes and achievements of the BPE Segment described above, the Company's loss from continuing operations in the first quarter of fiscal 2011 resulted in significant usage of the Company's cash, continuing the trend of substantial cash usage to fund operating losses in several consecutive preceding fiscal quarters. Although the BPE Segment generated positive EBITDA and net earnings from operations in the fourth quarter of fiscal 2010 and in the second quarter of fiscal 2011, and is expected to generate positive EBITDA and net earnings for the full fiscal year 2011, a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company's consolidated operations. The Company believes that it has, or can obtain, sufficient capital resources to operate its business in the ordinary course until the BPE Segment begins to generate sufficient sustained cash flow to fund the Company's consolidated operations, which it may seek to obtain using any of the methods described below in Liquidity and Capital Resources; however, there can be no assurance that the Company will be successful in these efforts.

Historically, earnings before taxes have been indicative of the BPE Segment's cash flows, before taking into account the timing of receivables and payables. Despite the revenue growth, positive EBITDA and earnings that the Company expects the BPE Segment to achieve for the full fiscal year 2011 and beyond, the timing of when BPE will generate consistent and sustainable cash flow from operations will be dependent on a number of factors, including the timing of collections on customer receivables and payments to vendors and suppliers. In addition, there can be no guarantee that the expected revenue growth, positive EBITDA and earnings at the BPE Segment will actually occur, particularly if recent macro-economic conditions continue, or worsen, for an extended period of time. See Liquidity and Capital Resources later in this discussion and analysis section for more information.

**RESULTS OF OPERATIONS**

In the following charts, changes in revenues, cost of revenues, selling, general and administrative expenses, and loss from continuing operations before income taxes from period to period are analyzed on a segment basis, prior to intercompany revenues, costs and expenses. For other information on a consolidated basis, refer to the Company's condensed consolidated financial statements. For net earnings presented by segment including intercompany revenues, costs and expenses, refer to Note 6 Segment Reporting to the condensed consolidated financial statements.

**Table of Contents****REVENUES****From Continuing Operations**

For the second quarter of fiscal 2011, consolidated revenues from continuing operations, prior to intercompany revenues, were \$7,629,954 compared to \$4,028,558 for the second quarter of fiscal 2010, an increase of approximately 89%. For the first six (6) months of fiscal 2011, consolidated revenues from continuing operations, prior to intercompany revenues, were \$12,575,549, compared to \$8,002,701 for the first six (6) months of fiscal 2010, an increase of approximately 57%.

**CHART A****REVENUES FROM CONTINUING OPERATIONS**

(Dollars in Thousands)

	Second Quarter Ended		Amount Change	Percentage Change	Six Months Ended		Amount Change	Percentage Change
	October 31, 2010	October 31, 2009			October 31, 2010	October 31, 2009		
BPE (1)	\$ 7,519	\$ 3,923	\$ 3,596	92	\$ 12,361	\$ 7,796	\$ 4,565	59
Other	111	106	5	5	215	207	8	4
	\$ 7,630	\$ 4,029	\$ 3,601	89	\$ 12,576	\$ 8,003	\$ 4,573	57

**NOTES TO CHART A**

(1) The following table indicates the BPE Segment revenues by service and product type:

**BPE SEGMENT REVENUES SUMMARY BY SERVICE & PRODUCT TYPE**

(Dollars in Thousands)

	Second Quarter Ended		Amount Change	Percentage Change	Six Months Ended		Amount Change	Percentage Change
	October 31, 2010	October 31, 2009			October 31, 2010	October 31, 2009		
Energy Savings Projects	\$ 5,803	\$ 2,048	\$ 3,755	183	\$ 8,822	\$ 4,061	\$ 4,761	117
Lighting Products	531	485	46	9	1,216	941	275	29
Energy Management Services	427	458	(31)	(7)	767	1,022	(255)	(25)
Fifth Fuel Management Services	34		34		91		91	
Productivity Software	724	932	(208)	(22)	1,465	1,772	(307)	(17)
	\$ 7,519	\$ 3,923	\$ 3,596	92	\$ 12,361	\$ 7,796	\$ 4,565	59

BPE Segment revenues increased by approximately \$3,596,000, or 92%, in the second quarter of fiscal 2011 compared to the same period in fiscal 2010, primarily due to:

- (a) an increase in energy savings (lighting and mechanical) project revenues of approximately \$3,755,000; partially offset by:



**Table of Contents**

(b) a decrease in productivity software revenues of approximately \$208,000. BPE Segment revenues increased by approximately \$4,565,000, or 59%, in the first six (6) months of fiscal 2011 compared to the same period in fiscal 2010, primarily due to:

(a) an increase in energy savings (lighting and mechanical) project revenues of approximately \$4,761,000;

(b) an increase in lighting product revenues of approximately \$275,000; and

(c) approximately \$91,000 in revenues from the Company's new Fifth Fuel Management service offering; partially offset by:

(d) a decrease in energy management service revenues of approximately \$255,000; and

(e) a decrease in productivity software revenues of approximately \$307,000.

The following table indicates the backlog of contracts.

	October 31,		Increase (Decrease)	
	2010	2009	Amount	Percentage
BPE (1)	\$ 16,299,000	\$ 7,027,000	\$ 9,272,000	132
Other (2)	405,000	395,000	10,000	3
Total Backlog	\$ 16,704,000	\$ 7,422,000	\$ 9,282,000	125

(1) BPE backlog at October 31, 2010, increased by approximately \$9,272,000, or 132%, compared to the year-earlier period, primarily due to:

(a) an increase of approximately \$8,262,000 in energy savings (lighting and mechanical) projects;

(b) approximately \$622,000 in backlog from BPE's new Fifth Fuel Management™ service offering; and

(c) an increase of approximately \$349,000 in energy management consulting services.

BPE backlog includes some contracts that can be cancelled by customers with less than one (1) year's notice, and assumes that such cancellation provisions will not be invoked. The value of such contracts included in the prior year's backlog that were subsequently cancelled was approximately \$168,000, or 2.4%.

(2) Other backlog represents rental income under lease agreements at the Company's corporate headquarters building and other leasehold interests.

**Table of Contents**

The Company estimates that a substantial majority of the backlog at October 31, 2010, will be recognized prior to October 31, 2011. No assurance can be given as to future backlog levels or whether the Company will actually realize earnings from revenues that result from the backlog at October 31, 2010.

**COST OF REVENUES****From Continuing Operations**

As a percentage of total segment revenues from continuing operations (see Chart A), the total applicable costs of revenues (see Chart B), prior to intercompany costs, were 73% and 70% for the second quarters of fiscal 2011 and 2010, respectively, and were 74% and 71% for the first six (6) months of fiscal 2011 and 2010, respectively. In reviewing Chart B, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented.

The figures in Chart B are prior to intercompany costs.

**CHART B****COST OF REVENUES****FROM CONTINUING OPERATIONS**

(Dollars in Thousands)

	Second Quarter Ended		Percentage of Revenues for the Second Quarter Ended		Six Months Ended		Percentage of Revenues for the Six Months Ended	
	October 31, 2010	2009	2010	2009	October 31, 2010	2009	2010	2009
BPE (1)	\$ 5,403	\$ 2,671	72	68	\$ 8,968	\$ 5,296	73	68
Other	161	168	146	158	336	352	156	170
	\$ 5,564	\$ 2,839	73	70	\$ 9,304	\$ 5,648	74	71

**NOTES TO CHART B**

- (1) BPE Segment cost of revenues increased by approximately \$2,732,000, or 102%, and by approximately \$3,672,000, or 69%, in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to a corresponding increase in revenues (See Chart A).

On a percentage-of-revenues basis, BPE Segment cost of revenues increased by approximately 4% and by approximately 5% in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to changes in the mix of services and products and an increasingly competitive market pricing environment for energy savings projects.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES****From Continuing Operations**

As a percentage of total segment revenues from continuing operations (see Chart A), the total applicable selling, general and administrative expenses ( SG&A ) (see Chart C), prior to intercompany expenses, were 33% and 57%, for the second quarters of fiscal 2011 and 2010, respectively, and were 40% and 58% for the first six (6) months of fiscal 2011 and 2010, respectively. In reviewing Chart C, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented. The percentages in Chart C are based upon expenses as they relate to segment revenues from continuing operations (see Chart A), with the exception that Corporate and total expenses relate to total consolidated revenues from continuing operations.

**Table of Contents**

The figures in Chart C are prior to intercompany expenses.

**CHART C**  
**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**  
**FROM CONTINUING OPERATIONS**  
(Dollars in Thousands)

	Second Quarter Ended		Percentage of Revenues for the Second Quarter Ended		Six Months Ended		Percentage of Revenues for the Six Months Ended	
	October 31, 2010	2009	2010	2009	2010	2009	2010	2009
BPE (1)	\$ 1,428	\$ 1,362	19	35	\$ 3,005	\$ 2,722	24	35
Corporate (2)	1,122	930	15	23	2,040	1,954	16	24
	\$ 2,550	\$ 2,292	33	57	\$ 5,045	\$ 4,676	40	58

**NOTES TO CHART C**

- (1) BPE Segment SG&A expenses increased by approximately \$283,000, or 10%, in the first six (6) months of fiscal 2011 compared to the same period in fiscal 2010, primarily due to higher personnel-related costs, product development expenses, and sales and marketing expenses.

On a percentage-of-revenue basis, BPE Segment SG&A expenses decreased by approximately 16% and 11% in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to the increases in revenues (see Chart A) without corresponding proportional increases in expenses.

- (2) Corporate SG&A expenses increased by approximately \$192,000, or 21%, and by approximately \$86,000, or 4%, in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to increases in consulting, legal, and non-employee directors' fees and investor relations expenses, partially offset by reductions in audit and tax fees.

On a percentage-of-revenue basis, Corporate SG&A expenses decreased by 8% in both the second quarter and first six (6) months of fiscal 2011, compared to the same respective periods in fiscal 2010, primarily due to the increase in revenues (see Chart A) without corresponding proportional increases in expenses.

**EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES**

Consolidated loss from continuing operations before income taxes was \$529,117 in the second quarter of fiscal 2011, compared to \$1,146,798 in the same period of fiscal 2010, a decrease of \$617,681, or 54%. For the first six (6) months of fiscal 2011, the consolidated loss from continuing operations before income taxes was \$1,949,357, compared to \$2,447,548 in the same period of fiscal 2010, a decrease of \$498,191, or 20%.

**Table of Contents**

The figures in Chart D are prior to intersegment revenues, costs and expenses.

**CHART D**  
**EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES**  
(Dollars in Thousands)

	Second Quarter		(Increase) Decrease Amount	Six Months Ended		(Increase) Decrease Amount
	Ended October 31, 2010	2009		October 31, 2010	2009	
BPE (1)	\$ 697	\$ (75)	\$ 772	\$ 383	\$ (199)	\$ 582
Corporate (2)	(1,226)	(1,072)	(154)	(2,332)	(2,249)	(83)
Total	\$ (529)	\$ (1,147)	\$ 618	\$ (1,949)	\$ (2,448)	\$ 499

**NOTES TO CHART D**

(1) BPE Segment earnings before income taxes of approximately \$697,000 in the second quarter of fiscal 2011 represents growth in earnings of approximately \$772,000 compared to the same period in fiscal 2010, primarily due to an increase in revenues of approximately \$3,596,000 (see Chart A) and an increase in gross margin of approximately \$864,000, partially offset by an increase in SG&A expenses of approximately \$66,000 (see Chart C).

BPE Segment earnings before income taxes of approximately \$383,000 in the first six (6) months of fiscal 2011 represents growth in earnings of approximately \$582,000 compared to the same period in fiscal 2010, primarily due to an increase in revenues of approximately \$4,565,000 (see Chart A) and an increase in gross margin of approximately \$893,000, partially offset by an increase in SG&A expenses of approximately \$283,000 (see Chart C).

(2) Corporate loss before income taxes increased by approximately \$154,000, or 14%, and by approximately \$83,000, or 4%, in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to increases in SG&A expenses of approximately \$192,000 and \$86,000 respectively (see Chart C).

**INCOME TAX BENEFIT**

The Company's effective rate for income taxes, based upon estimated annual income tax rates, approximated 31.1% of the loss from continuing operations before income taxes in the first six (6) months of fiscal 2011 and 31.7% in the comparable period in fiscal year 2010. The effective rates in both periods reflect the valuation allowances recorded against the Company's state deferred tax assets as described in Note 15 to the condensed consolidated financial statements.



**Table of Contents**

**DISCONTINUED OPERATIONS**

On December 15, 2010, the Company sold its owned shopping center in Smyrna, Tennessee, for a sales price of approximately \$4.3 million. The sale generated net cash proceeds of approximately \$250,000, after deducting approximately \$125,000 for closing costs and prorations, and net of the approximately \$3.9 million mortgage note, which was assumed by the buyer. The Company recognized a pre-tax loss on the sale of approximately \$6,000. Prior to the sale, the Company recorded an impairment loss of approximately \$590,000 in the condensed consolidated statement of operations in the second quarter of fiscal 2011 (see Note 10 *Discontinued Operations* to the condensed consolidated financial statements for more information). The Company recognized federal and state tax benefits of approximately \$198,000 on the disposition. These tax benefits primarily resulted from the operating losses of the property during the current fiscal year, which included the impairment loss of approximately \$590,000 mentioned above.

On June 9, 2010, the Company sold its owned shopping center in Jacksonville, Florida, for a sales price of approximately \$9.9 million. The sale generated net cash proceeds of approximately \$2 million, after deducting approximately \$0.5 million for funding of repair escrows and approximately \$0.6 million for closing costs and prorations, and net of the approximately \$6.9 million mortgage note, which was assumed by the buyer. The Company recognized a pre-tax gain on the sale of approximately \$190,000, including approximately \$75,000 in additional pre-tax gain recognized in the second and third quarters of fiscal 2011 as the result of the successful completion of contractual conditions and other cost-basis adjustments (see Note 10 *Discontinued Operations* to the condensed consolidated financial statements for more information). The Company's federal and state tax liabilities on the disposition were approximately \$94,000. These tax liabilities primarily resulted from the pre-tax gain on the disposition and the operating earnings of the property during the current fiscal year. These tax liabilities were offset by the Company's net operating loss carry-forwards for tax purposes.

On January 29, 2010, the Company disposed of its interest in its owned office building in Newnan, Georgia. In this transaction, the Company transferred its approximately \$2.0 million interest in the property and related assets to the note holder, which satisfied in full the Company's liability for the approximately \$3.2 million remaining balance on the property's non-recourse mortgage loan. Correspondingly, the Company recognized a non-cash pre-tax gain of approximately \$1.2 million in the third quarter of fiscal 2010 as a result of the elimination of the balance of the indebtedness on the property. The Company's federal and state tax liabilities on the disposition were approximately \$0.4 million. These tax liabilities primarily resulted from the pre-tax gain on the disposition, partially offset by operating losses of the property during fiscal 2010. These tax liabilities were offset by the Company's net operating loss carry-forwards for tax purposes.

In accordance with GAAP, the Company's financial statements have been prepared with the results of operations and cash flows of these disposed properties shown as discontinued operations. All historical statements have been recast in accordance with GAAP.

**LIQUIDITY AND CAPITAL RESOURCES**

Between April 30, 2010, and October 31, 2010, the Company's cash increased by a total of approximately \$484,589, or 25%. The Company's working capital increased by approximately \$864,000, or 24%, between April 30, 2010, and October 31, 2010.

The following describes the changes in the Company's cash from April 30, 2010, to October 31, 2010:

**Table of Contents**

Operating activities used cash of approximately \$1,391,000, primarily as a result of:

- (a) current year losses from continuing operations before depreciation, amortization, and income taxes of approximately \$1,439,000;
- (b) an increase in costs and earnings in excess of billings of approximately \$538,000; and
- (c) an increase in other current and long-term assets of approximately \$403,000; partially offset by:
- (d) an increase in trade accounts payable, accrued expenses, and other liabilities of approximately \$559,000; and
- (e) a decrease in net accounts receivable of approximately \$336,000.

Investing activities used cash of approximately \$533,000, primarily as a result of:

- (a) \$500,000 used for the purchase of a held-to-maturity investment; and
- (b) approximately \$189,000 used for additions to intangible assets, primarily related to enhancements to the BPE Segment's proprietary building productivity software solutions; partially offset by:
- (c) proceeds of approximately \$195,000 from the termination of a split-dollar life insurance agreement.

Financing activities provided cash of approximately \$367,000, primarily as a result of:

- (a) proceeds from other long-term debt of \$500,000; partially offset by:
- (b) scheduled principal payments on the mortgage note on the corporate headquarters building of approximately \$59,000; and
- (c) payment of the regular quarterly cash dividends to shareholders of approximately \$74,000.

Discontinued operations provided cash of approximately \$2,041,000, primarily as a result of the sale of an income-producing property.

During the second quarter of fiscal 2011, operating activities provided approximately \$603,000 of cash, primarily due to the increase in accounts payable, partially offset by the operating loss in the quarter, whereas during the first quarter of fiscal 2011, operating activities used approximately \$1,994,000 of cash, primarily due to the operating loss in the quarter and the reduction in accounts payable, partially offset by a reduction in accounts receivable. The significantly higher BPE Segment revenues in the second quarter, in combination with BPE's increased order activity and higher backlog at October 31, 2010, as discussed above, are expected to result in substantially higher full-year revenues in fiscal 2011. As a result, management believes that the BPE Segment will be able to generate cash flow from operations for the year. However, management believes that a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company's consolidated operations. Recent growth in BPE's business has strained the Company's capital resources. However, the Company believes that it has sufficient capital resources on hand to operate its business in the ordinary course for the next twelve (12) months. The Company also currently believes that it has, or can obtain, sufficient capital resources to continue to operate its business in the ordinary course until the BPE Segment begins to generate sufficient sustained cash flow to fully fund the Company's consolidated operations, although there can be no guarantee that this will be the case, particularly if the macro-economic conditions experienced in recent fiscal years continue for an extended period of time, or worsen.

**Table of Contents**

Achieving sufficient sustained cash flow from the operations of the BPE Segment to fully fund the Company's consolidated operations will depend on the occurrence of a number of assumed factors, including the timing, margins and volume of additional revenues generated by new material contracts, which historically have been difficult to predict, and the timing of collections of customer receivables and payments to vendors and suppliers. Consequently, there can be no assurance that the Company will achieve sufficient sustained cash flow through BPE Segment operations to fully fund the Company's consolidated operations in the near term, or at all.

The Company historically has generated substantial liquidity from the periodic sales of real estate assets, and the proceeds from such sales largely have been redeployed to fund the establishment and growth of the BPE Segment. In June 2010, the Company successfully closed on the sale of its owned shopping center in Jacksonville, Florida, generating net cash proceeds of approximately \$2 million. Most recently, in December 2010 the Company successfully closed on the sale of its owned shopping center in Smyrna, Tennessee, generating net cash proceeds of approximately \$250,000. As a cumulative result of real estate asset sales in recent years, the Company's real estate assets now consist of only the corporate headquarters building in metropolitan Atlanta, Georgia; a commercially-zoned land parcel in North Ft. Myers, Florida; and commercially-zoned land parcels in Oakwood, Georgia. Given the declines in commercial real estate markets and asset valuations in the United States in recent years, the Company may be unable to sell any of its remaining real estate assets at acceptable prices, or at all, in the near future.

The Company in recent years has not utilized bank lines of credit for operating purposes and does not currently have in place any such line of credit. In the current fiscal quarter, the Company borrowed \$500,000 from related parties through the issuance of promissory notes (see the *Sales of Promissory Notes to Related Parties* section below for more information). Additionally, as of October 31, 2010, the Company has drawn \$570,000 in loans against its interest in the cash surrender value of certain life insurance policies. In the current fiscal quarter, the Company repaid a loan of approximately \$412,000, which had been drawn against the cash surrender value of another of these life insurance policies (see the *Termination of Split Dollar Life Insurance Agreement* section below for more information). There is currently minimal additional borrowing capacity left under such policies.

In the event that currently available cash, cash generated from operations, and cash generated from real estate sales were not sufficient to meet future operating cash requirements, the Company would need to sell additional real estate or other assets at potentially otherwise unacceptable prices, seek external debt financing or refinancing of existing debt, seek to raise funds through the issuance of equity securities, or limit growth or curtail operations to levels consistent with the constraints imposed by the available cash and cash flow, or any combination of these options. Depending on the form of such additional capital, the equity interests of the Company's existing shareholders could be diluted as a result. In addition, the development of the BPE Segment's Fifth Fuel Management® service offering to its full potential will require the investment of additional capital, which the Company may seek to raise through outside sources or the sale of assets.

**Table of Contents**

The Company's ability to secure debt or equity financing or to sell real estate or other assets, whether for normal working capital and capital expenditure purposes or for development of the Fifth Fuel Management® service offering, could be limited by economic and financial conditions at any time, but likely would be severely limited by credit, equity and real estate market conditions similar to those that have existed in recent years. Management cannot provide assurance that any reductions in planned expenditures or curtailment of operations would be sufficient to cover potential shortfalls in available cash, or that debt or equity financing or real estate or other asset sales would be available on terms acceptable to management, if at all, in which event the Company could deplete its capital resources before achieving sufficient sustained cash flow to fully fund consolidated operations, and as a result might be obliged to explore strategic alternatives for its business.

**Sales of Promissory Notes to Related Parties**

On October 14, 2010, the Company borrowed an aggregate of \$500,000 from related parties by issuing a total of four (4) promissory notes to Samuel E. Allen, a Director of the Company; Herschel Kahn, a Director of the Company; Alan R. Abrams, a Director, Chairman of the Board and Chief Executive Officer of the Company; and J. Andrew Abrams, Executive Vice President of the Company, respectively. The largest of the four (4) notes, amounting to \$400,000, was issued to Mr. Allen. Each of the notes bears interest at twelve percent (12%) per annum and matures on May 14, 2012, subject to acceleration under certain specified circumstances. The notes are collectively secured by a security deed on real property granted by a subsidiary of the Company. The notes are included in Other Long-Term Debt in the Company's condensed consolidated balance sheet. The cash proceeds from the borrowings were used to fund working capital and for other operating purposes.

**Termination of Split Dollar Life Insurance Agreement**

Historically, the Company has been a party to split dollar life insurance agreements pursuant to which, among other things, the Company has agreed to pay premiums on life insurance policies for certain executives of the Company. The cash surrender values of these insurance policies are recorded as long-term other assets in the Company's condensed consolidated balance sheet. As of July 31, 2010, the Company was a party to three (3) split dollar agreements regarding policies insuring the lives of current and former executive officers of the Company, and had long-term loans of approximately \$982,000 against its interest in the cash surrender value of these policies. On October 21, 2010, the split dollar life insurance agreement (the Agreement) related to the policy jointly insuring the lives of Edward M. Abrams (deceased), the Company's former Chairman of the Board and Chief Executive Officer, and his widow, Ann U. Abrams (the parents of Alan R. Abrams, the Company's Chairman of the Board and Chief Executive Officer, and J. Andrew Abrams, the Company's Executive Vice President) was terminated prior to the death of the remaining insured. Prior to the termination, the Company had a long-term loan of approximately \$412,000 against its interest in the cash surrender value of this policy, which loan amount approximately equaled the cumulative policy premiums paid by the Company through the date the loan was originated, and represented a substantial majority of the policy's cash surrender value prior to the loan. Under the terms of the Agreement, in the event of an early termination prior to the death of the insured, the Company was entitled to receive the remaining cash surrender value of the policy, if any, on the date of termination. However, in consideration of the consent to the early termination of the Agreement by the trust that owns the policy, the Company agreed to reduce the net cash surrender value otherwise payable to the Company by \$42,000. As a result of the early termination of the Agreement: (1) the long-term loan against the Company's interest in the cash surrender value of the policy of approximately \$412,000, and the related accrued interest of approximately \$13,000, was repaid in full; (2) the Company received approximately \$195,000 in cash proceeds; (3) the Company's ongoing obligation to pay premiums on the policy and its entitlement to any portion of the policy's death benefit were terminated; and (4) the Company reduced its long-term other assets by approximately \$662,000, representing the Company's interest in the cash surrender value of the policy prior to termination.

**Table of Contents**

**Capital Expenditures**

The Company has no material commitments for capital expenditures. However, the Company does expect that total capital spending in fiscal year 2011 will approximate \$540,000, including BPE Segment expenditures of approximately \$300,000 for proprietary BPE technology solutions and approximately \$190,000 for property and equipment, and Corporate expenditures of approximately \$40,000. Of these forecasted amounts, approximately \$200,000, or 41%, of the BPE Segment expenditures were already expended during the first six (6) months of the fiscal year. No significant amounts of the forecasted Corporate expenditures were expended during the first six (6) months of the fiscal year.

**Significant Uses of Cash**

Significant uses of cash in the future are anticipated to be regular scheduled principal payments of the corporate headquarters building mortgage note and other long-term debt, capital expenditures for property and equipment, capital expenditures for enhancing BPE's proprietary technology solutions, funding collateral for performance bonds when required by energy savings projects contracts, and the regular cash operating requirements of corporate headquarters. The Company's uses of cash are not expected to change materially in the near future.

**Mortgage Notes and Other Long-Term Debt**

The Company currently has one (1) mortgage note on long-term real estate assets in the approximate amount of \$4.2 million and two (2) other long-term debt obligations in the approximate aggregate amount of \$1.0 million. The mortgage loan contains a provision that requires a corporate subsidiary to maintain a net worth of at least \$2 million. The subsidiary referred to in this mortgage loan provision had a net worth of approximately \$16.4 million as of October 31, 2010. None of the Company's other long-term debt obligations have any financial or non-financial covenants. The mortgage note matures on August 1, 2012.

The cash principal payment obligations during the next twelve (12) months related to the Company's long-term debt are expected to be approximately \$275,000.

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained or incorporated by reference in this Quarterly Report on Form 10-Q/A, including without limitation, statements containing the words believes, anticipates, estimates, expects, plans, projects, forecasts, words of similar import, are forward-looking statements within the meaning of the federal securities laws.

Forward-looking statements in this report include, without limitation: the Company's expected continuing strengthening of orders and achievement of positive EBITDA for its BPE Segment; trends in the BPE Segment's government business and private sector business; the Company's expectations of generating additional recurring revenues as a result of the BPE Segment's new Fifth Fuel Management offering; the expected timing of the recognition as revenue of current backlog; and the Company's expectations concerning the adequacy of its capital resources for future operations. Such forward-looking statements involve known and unknown risks, uncertainties, and other matters which may cause the actual past results, performance, or achievements of the Company to be materially different from any future results, performance, or uncertainties expressed or implied by such forward-looking statements. Factors affecting forward-looking statements include, without limitation, the length and severity of the current ongoing uncertain macro-economic conditions and disruptions in the capital markets; the ability and timing of the BPE Segment achieving increased sales, positive cash flows, and profits; the health of the commercial real estate market; the Company's ability to attract, retain, and motivate key personnel; the Company's ability to secure additional capital; and the other factors identified under the caption Risk Factors in the Company's Annual Report on Form 10-K/A for the year ended April 30, 2010, as updated from time to time in the Company's Quarterly Reports on Form 10-Q.

**CRITICAL ACCOUNTING POLICIES**

A critical accounting policy is one which is both important to the portrayal of the Company's financial position and results of operations, and requires the Company to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying condensed consolidated financial statements and related notes. In preparing these financial statements, the Company has made its best estimates and used its best judgments regarding certain amounts included in the financial statements, giving due consideration to materiality. The application of these accounting policies involves the exercise of judgment and the use of assumptions regarding future uncertainties, and as a result, actual results could differ from those estimates. Management believes that the Company's most critical accounting policies include:

**Revenue Recognition**

Revenues derived from implementation, training, support, and base service license fees from customers accessing the Company's proprietary building productivity software on an application service provider (ASP) basis are recognized when all of the following conditions are met: there is persuasive evidence of an arrangement; service has been provided to the customer; the collection of fees is probable; and the amount of fees to be paid by the customer is fixed and determinable. The Company's license arrangements do not include general rights of return. Revenues are recognized ratably over the contract period, which is typically no longer than twelve (12) months, beginning on the commencement date of each contract. Amounts that have been invoiced are recorded in accounts receivable and in revenue or deferred revenue, depending on the timing of when the revenue recognition criteria have been met. Additionally, the Company defers such direct costs and amortizes them over the same time period as the revenue is recognized.

Energy management services are accounted for separately and are recognized as the services are rendered. Revenues derived from sales of proprietary building productivity software solutions (other than ASP solutions) and hardware products are recognized when the software solutions and products are sold.

**Table of Contents**

Energy savings project revenues are reported on the percentage-of-completion method, using costs incurred to date in relation to estimated total costs of the contracts to measure the stage of completion. Original contract prices are adjusted for change orders in the amounts that are reasonably estimated. The nature of the change orders usually involves a change in the scope of the project, for example, a change in the number or type of units being installed. The price of change orders is based on the specific materials, labor, and other project costs affected. Contract revenue and costs are adjusted to reflect change orders when they are approved by both the Company and its customer for both scope and price. For a change order that is unpriced; that is, the scope of the work to be performed is defined, but the adjustment to the contract price is to be negotiated later, the Company evaluates the particular circumstances of that specific instance in determining whether to adjust the contract revenue and/or costs related to the change order. For unpriced change orders, the Company will record revenue in excess of costs related to a change order on a contract only when the Company deems that the adjustment to the contract price is probable based on its historical experience with that customer. The cumulative effects of changes in estimated total contract costs and revenues (change orders) are recorded in the period in which the facts requiring such revisions become known, and are accounted for using the percentage-of-completion method. At the time it is determined that a contract is expected to result in a loss, the entire estimated loss is recorded. Energy efficient lighting product revenues are recognized when the products are shipped.

**Long-Lived Assets: Property & Equipment and Capitalized Software**

The Company's corporate headquarters building and related assets are stated at historical cost or, if the Company determines that impairment has occurred, at fair market value, and are depreciated for financial reporting purposes using the straight-line method over the respective estimated useful lives. Significant additions that extend asset lives are capitalized and are depreciated over their respective estimated useful lives. Normal maintenance and repair costs are expensed as incurred.

Other property and equipment are recorded at historical cost and are depreciated for financial reporting purposes using the straight-line method over the estimated useful lives of the respective assets.

The Company's most significant tangible long-lived assets are the corporate headquarters building and related assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company examines long-lived assets for such indications of impairment on a quarterly basis. The types of events and circumstances that might indicate impairment include, but are not limited to, the following:

A significant decrease in the market price of a long-lived asset;

A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset;

**Table of Contents**

The Company has received purchase offers at prices below carrying value;

A real estate asset that has a significant vacancy rate or significant rollover exposure from one or more tenants;

A major tenant experiencing financial difficulties that may jeopardize the tenant's ability to meet its lease obligations; and

Depressed market conditions.

When there are indicators of impairment, the recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset against the future net undiscounted cash flows expected to be generated by the asset. The Company estimates future undiscounted cash flows using assumptions regarding occupancy, counter-party creditworthiness, costs of leasing including tenant improvements and leasing commissions, rental rates and expenses of the property, as well as the expected holding period and cash to be received from disposition. The Company has considered all of these factors in its undiscounted cash flows.

The BPE Segment has long-lived assets that consist primarily of capitalized software costs, classified as intangible assets, net on the balance sheet, as well as a portion of the property and equipment on the balance sheet. Software development costs are accounted as required for software in a Web hosting arrangement. Software development costs that are incurred in a preliminary project stage are expensed as incurred. Costs that are incurred during the application development stage are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalization ceases when the computer software development project, including testing of the computer software, is substantially complete and the software product is ready for its intended use. Capitalized costs are amortized on a straight-line basis over the estimated economic life of the product.

Events or circumstances which would trigger an impairment analysis of these long-lived assets include:

A change in the estimated remaining useful life of the asset;

A change in the manner in which the asset is used in the income generating business of the Company; or

A current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset.

Long-lived assets in the BPE Segment are grouped together for purposes of impairment analysis, as assets and liabilities of the BPE Segment are not independent of one another. Annually at the end of the fiscal third quarter, unless events or circumstances occur in the interim as discussed above, the Company reviews its BPE Segment's long-lived assets for impairment. Future undiscounted cash flows of the segment, as measured in its goodwill impairment analysis, are used to determine whether impairment of long-lived assets exists in the BPE Segment.



**Table of Contents**

**Valuation of Goodwill and Other Indefinite-Lived Intangible Assets**

Goodwill and intangible assets with indefinite lives are reviewed for impairment annually at the end of the fiscal third quarter, or whenever events or changes in circumstances indicate that the carrying basis of an asset may not be recoverable. All of the Company's goodwill and indefinite-lived intangible assets are assigned to the BPE Segment, which has also been determined to be the reporting unit.

The Company performed the annual impairment analysis of goodwill and indefinite-lived intangible assets for the BPE Segment in the quarter ended January 31, 2010. The annual analysis resulted in a determination of no impairment. Management considers both positive and negative indicators of impairment on an interim basis. The Company has concluded it was not necessary to perform an interim test of goodwill impairment as of October 31, 2010.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and to tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company periodically reviews its deferred tax assets (DTA) to assess whether it is more likely than not that a tax asset will not be realized. The realization of a DTA ultimately depends on the existence of sufficient taxable income. A valuation allowance is established against a DTA if there is not sufficient evidence that it will be realized. The Company weighs all available evidence in order to determine whether it is more-likely-than-not that a DTA will be realized in a future period. The Company considers general economic conditions, market and industry conditions, as well as internal Company specific conditions, trends, management plans, and other data in making this determination. Evidence considered is weighted according to the degree that it can be objectively verified. Reversals of temporary differences are weighted with more significance than projections of future earnings of the Company.

Positive evidence considered includes, among others, the following: deferred tax liabilities in excess of DTA, future reversals of temporary differences, Company historical evidence of not having DTAs expire prior to utilization, and long carryforward period remaining for net operating loss (NOL) carryforwards.

Negative evidence considered includes, among others, lack of cumulative taxable income in recent years, and the fact that the current real estate market conditions and lack of readily available credit could make it difficult for the Company to trigger gains on sales of real estate.

The valuation allowance currently recorded against the DTA for state NOL carryforwards was recorded because of a lack of sufficient positive evidence to support its realization due to the recent dispositions of real estate assets and recurring losses.

The Company will have to generate \$6.4 million of taxable income in future years to realize the federal NOL carryforwards and an additional \$26.0 million of taxable income in future years to realize the state NOL carryforwards. These amounts of taxable income would allow for the reversal of the \$3.2 million DTA related to NOL carryforwards. There is a long carryforward period remaining for the NOL carryforwards. The oldest federal NOL carryforwards will expire in the April 30, 2024, tax-year, and the most recent federal NOL carryforwards will expire in the April 30, 2031, tax-year. The significant state NOL carryforwards will also expire between the April 30, 2024, and April 30, 2031, tax years. The Company has no material permanent book/tax differences.

**Table of Contents**

The Company has no material uncertain tax position obligations. The Company's policy is to record interest and penalties as a component of income tax expense (benefit) in the consolidated statement of operations.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Management has evaluated the Company's disclosure controls and procedures as defined by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. This evaluation was carried out with the participation of the Company's Chief Executive Officer and Chief Financial Officer. No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that the system of controls has operated effectively in all cases. The Company's disclosure controls and procedures, however, are designed to provide reasonable assurance that the objectives of disclosure controls and procedures are met. Based on management's evaluation, the Chief Executive Officer and Chief Financial Officer initially concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that the objectives of disclosure controls and procedures were met. However, as a result of the identification of the issue that caused the restatement described in Note 15 to the condensed consolidated financial statements and management's determination that there is a material weakness in the Company's internal control over financial reporting in the area of accounting for income taxes, as described below, the Chief Executive Officer and Chief Financial Officer have subsequently concluded that the Company's disclosure controls and procedures were not effective as of October 31, 2010.

**Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the period covered by this quarterly report on Form 10-Q/A that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. However, management is currently in the process of implementing changes to the Company's internal control over financial reporting to remediate the material weakness related to the Company's accounting for income taxes described below, which resulted in the restatement described in Note 15 to the condensed consolidated financial statements.

A material weakness in internal control over financial reporting is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of a company's financial statement will not be prevented or detected on a timely basis by the company's internal controls. The restatement of the Company's financial statements resulted from an error in the timing of recording a valuation allowance for its state deferred tax assets in accordance with ASC 740, *Accounting for Income Taxes*, related to the recoverability of the deferred tax assets, as more fully described in Note 15 to the condensed consolidated financial statements included in this Amendment 1. Management believes that this error constitutes a material weakness in the design of the Company's internal control over financial reporting in the area of accounting for income taxes and has begun to take the following steps to remediate the deficiency:

- develop and implement additional procedures to increase the level of review, evaluation and validation of the Company's valuation of deferred tax assets; and

- increase the level of knowledge among Company employees in the area of accounting for income taxes.

In doing both of the above, the Company expects that it will be in a position to place less reliance on third-party tax professionals.

The management of the Company is committed to a strong internal control environment, and believes that, when fully implemented, these remediation actions will represent significant improvements. The remediation actions are not expected to result in material costs to the Company. Management anticipates completing this remediation effort before the 2011 Annual Report is filed in July 2011.

**Table of Contents**

PART II. OTHER INFORMATION

**ITEM 6. EXHIBITS**

- 31.1 Certification of Chief Executive Officer, pursuant to Rules 13a-14(a)/15d-14(a)
- 31.2 Certification of Chief Financial Officer, pursuant to Rules 13a-14(a)/15d-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act 2002

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to its quarterly report to be signed on its behalf by the undersigned thereunto duly authorized.

SERVIDYNE, INC.

(Registrant)

Date: June 2, 2011

/s/ Alan R. Abrams  
Alan R. Abrams  
Chief Executive Officer

Date: June 2, 2011

/s/ Rick A. Paternostro  
Rick A. Paternostro  
Chief Financial Officer  
50