

ABRAMS INDUSTRIES INC

Form 10-Q

March 16, 2004

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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**FORM 10-Q**  
QUARTERLY REPORT

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Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the quarter ended January 31, 2004

Commission file number 0-10146

**ABRAMS INDUSTRIES, INC.**

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(Exact name of registrant as specified in its charter)

Georgia

58-0522129

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(State or other jurisdiction of  
incorporation or organization)

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

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

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(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 is an accelerated filer (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 February 29, 2004, was 3,057,793.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**ABRAMS INDUSTRIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

	<u>January 31, 2004</u>	<u>April 30, 2003</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,048,172	\$ 5,157,639
Short-term investments	200,000	
Receivables (Note 4)	7,667,127	12,902,281
Less: Allowance for doubtful accounts	(477,377)	(492,045)
Assets of discontinued operations (Note 5)		102,146
Costs and earnings in excess of billings	289,597	503,113
Income tax receivable	171,907	171,907
Deferred income taxes	607,845	610,980
Other	877,182	554,396
	<hr/>	<hr/>
Total current assets	13,384,453	19,510,417
INCOME-PRODUCING PROPERTIES, net	42,891,231	43,179,037
PROPERTY AND EQUIPMENT, net	686,326	471,813
<b>OTHER ASSETS:</b>		
Real estate held for future development or sale	3,952,812	3,952,812
Intangible assets, net (Note 8)	2,594,930	2,335,827
Goodwill (Note 8)	4,611,257	1,741,831
Other	2,777,622	2,605,361
	<hr/>	<hr/>
	<b>\$70,898,631</b>	<b>\$73,797,098</b>
	<hr/>	<hr/>
<b><u>LIABILITIES AND SHAREHOLDERS EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Trade and subcontractors payables	\$ 3,924,541	\$ 6,163,796
Accrued expenses	1,884,082	1,831,990
Liabilities of discontinued operations (Note 5)		563,584
Billings in excess of costs and earnings	426,553	682,674
Bank loans payable	3,000,000	
Current maturities of long-term debt	2,792,837	2,630,282
	<hr/>	<hr/>

Total current liabilities	<b>12,028,013</b>	11,872,326
DEFERRED INCOME TAXES	<b>1,839,792</b>	2,772,132
OTHER LIABILITIES	<b>6,530,455</b>	4,371,374
MORTGAGE NOTES PAYABLE, less current maturities	<b>22,442,198</b>	23,216,407
OTHER LONG-TERM DEBT, less current maturities	<b>9,511,738</b>	10,306,907
	<u>                    </u>	<u>                    </u>
Total liabilities	<b>52,352,196</b>	52,539,146
	<u>                    </u>	<u>                    </u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS' EQUITY:		
Common stock, \$1 par value; 5,000,000 shares authorized; 3,204,081 issued and 3,057,793 outstanding in January 2004, 3,060,239 issued and 2,914,351 outstanding in April 2003	<b>3,204,081</b>	3,060,239
Additional paid-in capital	<b>2,562,639</b>	2,153,505
Deferred stock compensation	<b>(41,414)</b>	(16,598)
Retained earnings	<b>13,496,776</b>	16,734,753
Treasury stock, common shares, 146,288 in January 2004 and 145,888 in April 2003	<b>(675,647)</b>	(673,947)
	<u>                    </u>	<u>                    </u>
Total shareholders' equity	<b>18,546,435</b>	21,257,952
	<u>                    </u>	<u>                    </u>
	<b>\$70,898,631</b>	\$73,797,098
	<u>                    </u>	<u>                    </u>

*See accompanying notes to consolidated financial statements.*

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**ABRAMS INDUSTRIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	<b>THIRD QUARTER ENDED</b>		<b>FIRST</b>	
	<b>JANUARY 31,</b>		<b>NINE MONTHS ENDED</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>REVENUES:</b>				
Energy management	\$ 756,981	\$ 723,490	\$ 2,132,265	\$ 2,122,032
Facility services (Note 10)	546,744		546,744	
Construction	2,378,540	11,824,634	23,787,165	46,353,243
Rental income	2,589,705	2,818,376	7,964,982	8,005,919
Real estate sales		434,561		434,561
	<u>6,271,970</u>	15,801,061	<u>34,431,156</u>	56,915,755
Interest	322	13,484	10,274	48,869
Other	23,328	10,737	85,198	53,105
	<u>6,295,620</u>	15,825,282	<u>34,526,628</u>	57,017,729
<b>COSTS AND EXPENSES:</b>				
Energy management	383,263	432,551	1,205,870	1,165,153
Facility services (Note 10)	369,192		369,192	
Construction	2,581,359	11,460,006	23,198,804	45,482,225
Rental property operating expenses, excluding interest	1,597,335	1,824,637	4,894,705	5,050,997
Cost of real estate sold		196,087		196,087
	<u>4,931,149</u>	13,913,281	<u>29,668,571</u>	51,894,462
<b>Selling, general and administrative</b>				
Energy management	487,378	442,380	1,689,134	1,286,024
Facility services (Note 10)	244,388		244,388	
Construction	607,077	734,505	2,904,568	1,649,312
Real estate	217,900	263,381	588,672	716,451
Parent	393,445	631,347	1,549,549	1,816,502
	<u>1,950,188</u>	2,071,613	<u>6,976,311</u>	5,468,289

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Interest costs incurred	<u>730,464</u>	<u>818,074</u>	<u>2,198,029</u>	<u>2,271,177</u>
	<u>7,611,801</u>	<u>16,802,968</u>	<u>38,842,911</u>	<u>59,633,928</u>
LOSS BEFORE INCOME TAXES FROM CONTINUING OPERATIONS	<u>(1,316,181)</u>	<u>(977,686)</u>	<u>(4,316,283)</u>	<u>(2,616,199)</u>
INCOME TAX BENEFIT	<u>(433,000)</u>	<u>(375,000)</u>	<u>(1,428,000)</u>	<u>(1,012,000)</u>
LOSS FROM CONTINUING OPERATIONS	<u>(883,181)</u>	<u>(602,686)</u>	<u>(2,888,283)</u>	<u>(1,604,199)</u>
DISCONTINUED OPERATIONS (Note 5):				
Earnings (loss) from discontinued operations, adjusted for applicable income tax expense of \$0, \$0, \$0, and \$3,413, respectively		(479)		4,283
Gain on sale of assets of discontinued operations, adjusted for applicable income tax expense of \$0, \$0, \$0 and \$372,228, respectively				<u>617,987</u>
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS		<u>(479)</u>		<u>622,270</u>
NET LOSS	<u>\$ (883,181)</u>	<u>\$ (603,165)</u>	<u>\$ (2,888,283)</u>	<u>\$ (981,929)</u>
NET EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED (Note 9):				
From continuing operations	<u>\$ (.30)</u>	<u>\$ (.21)</u>	<u>\$ (.98)</u>	<u>\$ (.55)</u>
From discontinued operations				<u>.21</u>
NET EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED	<u>\$ (.30)</u>	<u>\$ (.21)</u>	<u>\$ (.98)</u>	<u>\$ (.34)</u>
DIVIDENDS PER SHARE	<u>\$ .04</u>	<u>\$ .04</u>	<u>\$ .12</u>	<u>\$ .12</u>

	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	<b>2,980,878</b>	2,910,051	<b>2,936,438</b>	2,909,771

*See accompanying notes to consolidated financial statements.*



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**ABRAMS INDUSTRIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>NINE MONTHS ENDED JANUARY 31,</b>	
	<b>2004</b>	<b>2003</b>
Cash flows from operating activities:		
Net loss	<b>\$(2,888,283)</b>	\$ (981,929)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income from discontinued operations, net of tax		(622,270)
Depreciation and amortization	<b>1,809,232</b>	1,910,170
Gain on sale of real estate		(238,474)
Deferred tax benefit	<b>(1,485,598)</b>	
Recovery of doubtful accounts, net	<b>(14,668)</b>	(516,936)
Changes in assets and liabilities:		
Receivables	<b>5,737,170</b>	388,796
Costs and earnings in excess of billings	<b>309,756</b>	(707,828)
Other current assets	<b>(255,268)</b>	(27,904)
Other assets	<b>(172,261)</b>	244,023
Trade and subcontractors payable	<b>(2,778,923)</b>	(2,266,944)
Accrued expenses	<b>(26,699)</b>	(167,269)
Billings in excess of costs and earnings	<b>(511,841)</b>	422,883
Other liabilities	<b>212,451</b>	(71,815)
	<b>(64,932)</b>	(2,635,497)
Net cash used in operating activities		
Cash flows from investing activities:		
Proceeds from sale of real estate, net		422,048
Additions to income-producing properties, net	<b>(899,456)</b>	(36,185)
Additions to property and equipment, net	<b>(46,922)</b>	(68,597)
Additions to intangible assets	<b>(65,339)</b>	(202,168)
Acquisition, net of cash acquired	<b>(1,059,210)</b>	
Purchase of short-term investments	<b>(200,000)</b>	
Repayments received on notes receivable	<b>66,147</b>	7,543
	<b>(2,204,780)</b>	122,641
Net cash (used in) provided by investing activities		
Cash flows from financing activities:		
Debt proceeds		4,900,000
Proceeds from line of credit	<b>3,000,000</b>	
Debt repayments	<b>(1,583,304)</b>	(6,015,320)
Deferred loan costs paid		(107,788)

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Repurchase of common stock	<b>(1,700)</b>	(470)
Cash dividends	<b>(349,706)</b>	(349,177)
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	<b>1,065,290</b>	(1,572,755)
	<hr/>	<hr/>
Cash flows from discontinued operations:		
Operating activities	<b>94,955</b>	(138,787)
Mortgage payoff		(12,206,700)
Proceeds from sale of property, net of costs of sale		13,489,901
	<hr/>	<hr/>
Net cash provided by discontinued operations	<b>94,955</b>	1,144,414
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	<b>(1,109,467)</b>	(2,941,197)
Cash and cash equivalents at beginning of period	<b>5,157,639</b>	7,911,205
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>\$ 4,048,172</b>	\$ 4,970,008
	<hr/>	<hr/>
Supplemental disclosure of noncash financing activities:		
Issuance of common stock under Stock Award Plan	<b>\$ 41,700</b>	\$ 5,500
	<hr/>	<hr/>

*See accompanying notes to consolidated financial statements.*

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**ABRAMS INDUSTRIES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JANUARY 31, 2004, AND APRIL 30, 2003  
(UNAUDITED)

**NOTE 1. ORGANIZATION AND BUSINESS**

Abrams Industries, 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 (i) provides energy management and maintenance management services; (ii) provides facility services including energy efficient lighting system installation services; (iii) provides commercial construction services; and (iv) engages in real estate investment and development.

**NOTE 2. UNAUDITED STATEMENTS**

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted 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, that 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 for the year ended April 30, 2003. Results of operations for interim periods are not necessarily indicative of annual results.

**NOTE 3. SIGNIFICANT ACCOUNTING POLICIES**

As of January 31, 2003, the Company adopted the fair value disclosure provisions of Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Under SFAS No. 148, the Company is required to disclose the effects on reported net (loss) earnings with respect to stock-based compensation.

For purposes of the required pro forma disclosures, the Company has computed the value of all stock option awards granted for the third quarter and nine months ended January 31, 2004, and January 31, 2003, using the Black-Scholes option pricing model.

Options to purchase 690,592 shares were outstanding at January 31, 2004, of which 303,592 options were vested. The Company granted 186,000 stock options and 10,000 shares of stock in the third quarter and in the nine months ended January 31, 2004. No options or shares of stock were granted in the third quarter ended January 31, 2003, and 609,000 options and 1,100 shares of stock were granted in the nine months ended January 31, 2003. The number of options forfeited in the third quarter of fiscal 2004 and fiscal 2003 was 23,294 and 12,683, respectively. The number of options forfeited in the nine months of fiscal 2004 and fiscal 2003 was 237,294 and 17,183, respectively. If the Company had accounted for its stock-based compensation awards in accordance with SFAS No. 123, pro forma results would have been as follows:

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	<b>Quarter Ended January 31,</b>		<b>Nine Months Ended January 31,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Net loss, as reported	\$(883,181)	\$(603,165)	\$(2,888,283)	\$ (981,929)
Deduct: Total stock-based compensation expense as determined under fair value based method for all awards, net of related tax effects	(62,920)	(51,098)	(136,042)	(114,974)
Add: Forfeitures, net of related tax effects	10,631	1,630	119,778	1,947
Pro forma net loss	<u>\$(935,470)</u>	<u>\$(652,633)</u>	<u>\$(2,904,547)</u>	<u>\$(1,094,956)</u>
Net loss per share:				
Basic and diluted - as reported	<u>\$ (0.30)</u>	<u>\$ (0.21)</u>	<u>\$ (0.98)</u>	<u>\$ (0.34)</u>
Basic and diluted - pro forma	<u>\$ (0.31)</u>	<u>\$ (0.22)</u>	<u>\$ (0.99)</u>	<u>\$ (0.38)</u>

NOTE 4. RECEIVABLES

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

NOTE 5. DISCONTINUED OPERATIONS

The Company is in the business of creating long-term value by periodically realizing gains through the sale of existing real estate assets, and then redeploying its capital by reinvesting the proceeds from such sales. Effective May 1, 2002, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires, among other things, that the operating results of certain income-producing assets, sold subsequent to April 30, 2002, be included in discontinued operations in the statements of operations for all periods presented. The Company classifies an asset as held for sale when the asset is under a binding sales contract with minimal contingencies and the buyer is materially at risk if the buyer fails to complete the transaction. However, each potential transaction is evaluated based on its separate facts and circumstances. Pursuant to this standard, as of January 31, 2004, the Company had no assets that were classified as held for disposition or sale. In February 2004, however, the Company entered into a contract to sell its shopping center located in North Fort Myers, Florida, which sale closed in March 2004. See Note 11 to the consolidated financial statements.

On June 28, 2002, the Company sold its shopping center located in Englewood, Florida, and recognized a pretax gain of \$990,215. As a result of the sale, the Company's financial statements have been prepared with the property's assets and liabilities, results of operations, cash flows, and the gain from the sale shown as discontinued operations. Summarized financial information for discontinued operations for the third quarter and nine months ended January 31 is as follows:



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<b>Results of operations</b>	<b>Quarter ended January 31,</b>	
	<b>2004</b>	<b>2003</b>
Revenues	\$	\$
Operating expenses, including amortization and interest	—	479
	\$	\$(479)
	<b>—</b>	<b>—</b>

  

<b>Results of operations</b>	<b>Nine months ended January 31,</b>	
	<b>2004</b>	<b>2003</b>
Revenues	\$	\$289,173
Operating expenses, including amortization and interest	—	281,477
	\$	\$ 7,696
	<b>—</b>	<b>—</b>

  

<b>Assets of discontinued operations</b>	<b>Balances at</b>	
	<b>January 31, 2004</b>	<b>April 30, 2003</b>
Receivables	\$	\$ 57,020
Other	—	45,126
	\$	\$102,146
	<b>—</b>	<b>—</b>

  

<b>Liabilities of discontinued operations</b>	<b>Balances at</b>	
	<b>January 31, 2004</b>	<b>April 30, 2003</b>
Income taxes	\$	\$476,635
Accrued expenses	—	86,949
	\$	\$563,584
	<b>—</b>	<b>—</b>

NOTE 6. OPERATING SEGMENTS

The table below exhibits selected financial data on a segment basis. Earnings (loss) from continuing operations before income taxes are total revenues of continuing operations less operating expenses of continuing operations, including depreciation and interest. Parent company expenses have not been allocated to the subsidiaries.

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For the Quarter Ended January 31, 2004	Facility			Real Estate	Parent	Eliminations	Consolidated
	Energy Management	Services (Note 10)	Construction				
Revenues from unaffiliated customers	\$ 756,981	\$546,744	\$ 2,378,540	\$2,589,705	\$	\$	\$ 6,271,970
Interest and other income			12,820	10,656	174		23,650
Intersegment revenue			702,977	117,041		(820,018)	
Total revenues from continuing operations	\$ 756,981	\$546,744	\$ 3,094,337	\$2,717,402	\$ 174	\$ (820,018)	\$ 6,295,620
Earnings (loss) before income taxes from continuing operations	\$ (114,025)	\$ (70,559)	\$ (849,530)	\$ 188,056	\$ (450,150)	\$ (19,973)	\$ (1,316,181)
For the Quarter Ended January 31, 2003	Facility			Real Estate	Parent	Eliminations	Consolidated
	Energy Management	Services (Note 10)	Construction				
Revenues from unaffiliated customers	\$ 723,490	\$	\$11,824,634	\$3,252,937	\$	\$	\$15,801,061
Interest and other income			1,256	20,160	2,805		24,221
Intersegment revenue				113,493		(113,493)	
Total revenues from continuing operations	\$ 723,490	\$	\$11,825,890	\$3,386,590	\$ 2,805	\$ (113,493)	\$15,825,282
Earnings (loss) before income taxes from continuing operations	\$ (151,717)	\$	\$ (436,126)	\$ 280,670	\$ (766,563)	\$ 96,050	\$ (977,686)
For the Nine Months Ended January 31, 2004	Facility			Real Estate	Parent	Eliminations	Consolidated
	Energy Management	Services (Note 10)	Construction				
Revenues from unaffiliated customers	\$2,132,265	\$546,744	\$23,787,165	\$7,964,982	\$	\$	\$34,431,156



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Interest and other income			14,110	79,823	1,539		95,472
Intersegment revenue			801,399	344,973		(1,146,372)	
Total revenues from continuing operations	\$ 2,132,265	\$ 546,744	\$ 24,602,674	\$ 8,389,778	\$ 1,539	\$ (1,146,372)	\$ 34,526,628
Earnings (loss) before income taxes from continuing operations	\$ (763,879)	\$ (70,559)	\$ (2,485,373)	\$ 717,815	\$ (1,705,045)	\$ (9,242)	\$ (4,316,283)
		<b>Facility</b>					
<b>For the Nine Months Ended January 31, 2003</b>	<b>Energy Management</b>	<b>Services (Note 10)</b>	<b>Construction</b>	<b>Real Estate</b>	<b>Parent</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers	\$ 2,122,032	\$	\$ 46,353,243	\$ 8,440,480	\$	\$	\$ 56,915,755
Interest and other income			9,372	76,945	21,991	(6,334)	101,974
Intersegment revenue				336,056		(336,056)	
Total revenues from continuing operations	\$ 2,122,032	\$	\$ 46,362,615	\$ 8,853,481	\$ 21,991	\$ (342,390)	\$ 57,017,729
Earnings (loss) before income taxes from continuing operations	\$ (336,400)	\$	\$ (968,368)	\$ 611,996	\$ (2,033,802)	\$ 110,375	\$ (2,616,199)

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Basic earnings per share are computed by dividing net earnings (loss) by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed giving effect to dilutive stock equivalents resulting from outstanding stock options. The dilutive effect on the number of common shares for the third quarter and the first nine months of fiscal 2004 was 264 and 0, respectively and was 0 and 12,602 for the third quarter and the first nine months of fiscal 2003, respectively. Since the Company had losses from continuing operations for all periods presented, all stock equivalents were antidilutive during these periods, and therefore are excluded when determining the diluted weighted average shares outstanding.

**NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS**

The gross carrying amounts and accumulated amortization for all of the Company's intangible assets as of January 31, 2004, are as follows:

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b><u>Amortized intangible assets</u></b>			
Proprietary customer software solutions	\$ 969,384	\$ 534,656	\$ 434,728
Computer software	394,777	309,018	85,759
Real estate lease costs	1,643,256	819,906	823,350
Deferred loan costs	946,954	527,813	419,141
Customer relationships	218,000	5,087	212,913
Other	31,660	7,882	23,778
	<u>\$4,204,031</u>	<u>\$2,204,362</u>	<u>\$1,999,669</u>
<b><u>Unamortized intangible assets</u></b>			
Trademark			\$ 595,261
Goodwill			4,611,257
			<u>\$5,206,518</u>

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

As previously disclosed on Form 10-K for the year ended April 30, 2003, the Company announced on July 7, 2003, that an internal investigation, which was conducted by the Company's legal counsel at the request of senior management, revealed information suggesting that activities in violation of Federal antitrust laws may have taken place in a certain job bidding process for one customer of the Company's subsidiary, Abrams Construction, Inc. The results of this investigation were reported to the Board of Directors of the Company on June 9, 2003. The Company also voluntarily communicated the results of its investigation to the United States Department of Justice ( DOJ ) and continues to fully cooperate in the inquiry that resulted. The DOJ, on July 1, 2003, issued a conditional letter of amnesty to the Company and its subsidiaries for their cooperation in recognizing and then immediately reporting the irregularities. The Company believes, based on its internal investigation, that the specific improprieties were confined to a bidding process for The Home Depot, Inc. ( Home Depot ), its largest customer. At this time, the Company has no reason to believe that any other customers were affected by such inappropriate activity. The Company also communicated its concerns about the job bidding process to Home Depot. The Company has conducted extensive additional training of all employees and has implemented additional

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procedures to prevent a recurrence of this behavior. Costs associated with this matter, including the Company's internal investigation and its ongoing cooperation with the DOJ, are currently estimated to approximate \$1.45 million in the current fiscal year ending April 30, 2004. Such cost estimates, however, are particularly difficult to make with any precision, and as a result the actual costs may be lower or higher than this amount. To date, no third party has made, or threatened to make, any claim in connection with this matter. It is possible, however, that claims could be made as a result of this situation.

On September 20, 2002, the Company's subsidiary, Abrams Properties, Inc. ( API ), filed a claim in the Superior Court of Cobb County, Georgia, against API's former real estate asset manager. The defendant subsequently made a demand against API for arbitration and filed a counterclaim. In January 2003, the Cobb County Superior Court denied the defendant's demand for arbitration, but in July 2003 this decision was reversed by the Georgia Court of Appeals. The Company sought certiorari from the state of Georgia Supreme Court, which was denied in November 2003. The case will now be arbitrated. The dispute arises out of the defendant's former provision of real estate asset management services to API. The Company believes API's claims against its former asset manager and its defenses to the manager's claims are meritorious and intends to continue to vigorously pursue its claims and assert its defenses.

Other than the costs of the Company's internal investigation and ongoing cooperation associated with the DOJ, the Company believes the ultimate disposition of the above noted legal proceedings and claims or potential claims, and those previously disclosed on Form 10-K for the year ended April 30, 2003, will not have a material adverse affect on the financial condition, cash flows, or results of operations of the Company; however, the Company cannot predict the ultimate disposition of the above noted claims, potential claims and proceedings, and therefore, the Company cannot be certain that the above noted legal proceedings and claims or potential claims will not have a material adverse affect on the financial condition, cash flows, or results of operations of the Company.

The Company is subject to various other legal proceedings and claims that arise 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 these matters will not have a material adverse effect on the Company's financial position or results of operations.

**NOTE 10. ACQUISITION**

On December 19, 2003, WEGI Acquisition, LLC ( Purchaser ), an indirect wholly-owned subsidiary of the Company, acquired substantially all of the assets and assumed certain liabilities of The Wheatstone Energy Group, Inc. ( Seller ). The Seller was engaged in the business of providing energy efficient lighting system installation services, including electrical and other related energy conservation services, and the Company intends to continue to offer these services. The acquisition was made pursuant to an Agreement and Plan of Reorganization dated December 19, 2003, between the Company, the Purchaser, the Seller and the shareholders of the Seller (the Agreement ). The consideration consisted of 23,842 newly-issued shares of the Company's common stock, par value \$1.00 per share, the payment by the Purchaser of approximately \$1.3 million to certain trade creditors of the Seller from the available cash of the Purchaser, and the assumption by the Purchaser of approximately \$2.9 million of the Seller's liabilities. Also in connection with the transaction, the Company issued 110,000 shares of the Company's common stock with a fair value of \$424,380, and a warrant to purchase an additional 40,000 shares of the Company's common stock at an exercise price of \$5.10 per share, with a fair value of \$36,800 determined using the Black-Scholes option pricing model, to a lender of the Seller. The amount and type of consideration was determined by negotiation among the parties.

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Pursuant to the Agreement, the Purchaser acquired substantially all of the assets of the Seller, including accounts, inventory, personal property and equipment, proprietary information, intellectual property and the Seller's right, title and interest to assigned contracts. As described in the Agreement, the Purchaser assumed only specified liabilities of the Seller, including executory obligations under disclosed assigned contracts, current balance sheet liabilities of the Seller and certain debt for borrowed funds from two lenders of the Seller. Pursuant to the Agreement, after the closing of the acquisition, the Purchaser changed its name to The Wheatstone Energy Group, LLC, ( Wheatstone ) and the Seller adopted a dissimilar name. Debt assumed in the amount of \$1 million from one of the lenders of the Seller is collateralized by all general assets of Wheatstone.

The acquisition is being accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations ( SFAS 141 ), whereby the total cost of the acquisition has been allocated to tangible and intangible assets acquired and liabilities assumed based upon their fair values at the effective date of the acquisition. The Company allocated the purchase price to the fair value of identifiable long-lived assets and intangibles based on an independent third party appraisal. The allocation of the purchase price is subject to refinement due to a working capital adjustment provision in the Agreement. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	<b>Operations Acquired from Wheatstone</b>	<b>Estimated Life</b>
Current assets	\$ 933,982	
Property, furniture and equipment, net	346,118	Various (3-5)
Customer relationships	218,000	5 years
Trademark	280,000	Indefinite
Non-competes	3,000	2 years
Website/Software	32,437	3 years
Goodwill	2,869,426	Indefinite
	<hr/>	
Total assets acquired	\$4,682,963	
Current liabilities	995,604	
Long term liabilities	1,878,000	
	<hr/>	
Net assets acquired	\$1,809,359	
	<hr/>	

The trademarks and goodwill are not subject to amortization and none of the amount assigned to goodwill is deductible for tax purposes. The goodwill amount has been assigned to the facility services segment.

The following table summarizes the results of the Company on a pro forma basis for the three and nine months ended January 31, 2004, and January 31, 2003, as if the acquisition of Wheatstone had occurred at the beginning of each period. These results do not purport to represent what the results of operations for the Company would have actually been or to be indicative of the future results of operations of the Company (in thousands, except per share amounts).

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	Three Months Ended January 31,		Nine Months Ended January 31,	
	2004	2003	2004	2003
Revenues	\$ 6,991	\$ 16,345	\$ 37,583	\$ 62,370
Net loss	(1,333)	(1,772)	(4,055)	(1,907)
Net loss per share - basic and diluted	\$ (0.45)	\$ (0.61)	\$ (1.38)	\$ (0.66)

**NOTE 11. SUBSEQUENT EVENT**

On March 12, 2004, the Company closed on the sale of its shopping center located in North Fort Myers, Florida, for a sales price of \$21.8 million, resulting in a pre-tax gain of approximately \$4.1 million. After repayment of the loan secured by the shopping center and other expenses, the sale generated net cash proceeds of approximately \$10.6 million. The sale did not include any of the Company's real estate held for future development or sale. In addition to repaying its lines of credit, the Company intends to use the proceeds from this sale as a source of cash for strategic acquisitions and for additional investments in income-producing properties, and is considering a number of other alternative uses, including possibly distributing a portion as a special dividend, funding working capital needs, or other corporate purposes.

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

The following discussion should be read in conjunction with the 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 and consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 30, 2003.

The Company's fiscal year 2004 ends April 30, 2004.

**Changes in CONSOLIDATED BALANCE SHEETS between April 30, 2003, and January 31, 2004**

Net accounts receivable decreased by \$5,220,486, primarily due to the timing of the submission and payment of invoices for construction work performed and a decrease in construction revenues.

Goodwill increased by \$2,869,426, due to the acquisition of the assets and the assumption of certain liabilities of The Wheatstone Energy Group, Inc. See Note 10 to the consolidated financial statements.

Trade and subcontractors payable decreased by \$2,239,255, primarily due to the payment of invoices to subcontractors for construction work performed.

Bank loans payable increased by \$3,000,000, due to the draws on the Company's available lines of credit. In March 2004, these lines of credit were re-paid in full.

Other liabilities increased by \$2,159,081, primarily due to the debt assumed in conjunction with The Wheatstone Energy Group, Inc. transaction. See Note 10 to the consolidated financial statements.

**Results of operations of the third quarter and first nine months of fiscal 2004 compared to the third quarter and first nine months of fiscal 2003**

**REVENUES From Continuing Operations**

For the third quarter of fiscal 2004, consolidated revenues from continuing operations, including interest income and other income, and net of intersegment eliminations, were \$6,295,620, compared to \$15,825,282 for the third quarter of fiscal 2003, a decrease of 60%. For the first nine months of fiscal 2004, consolidated revenues from continuing operations were \$34,526,628, compared to \$57,017,729 for the first nine months of fiscal 2003, a decrease of 39%.

The figures in Chart A are segment revenues from continuing operations, net of intersegment eliminations, and do not include interest income or other income.

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**CHART A**  
**REVENUES FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT**  
(Dollars in Thousands)

	Third Quarter Ended January 31,		Amount Increase (Decrease)	Percent Increase (Decrease)	Nine Months Ended January 31,		Amount Increase (Decrease)	Percent Increase (Decrease)
	2004	2003			2004	2003		
Energy Management	\$ 757	\$ 723	\$ 34	5	\$ 2,132	\$ 2,122	\$ 10	
Facility Services (1)	547		547		547		547	
Construction (2)	2,378	11,825	(9,447)	(80)	23,787	46,353	(22,566)	(49)
Real Estate (3)	2,590	3,253	(663)	(20)	7,965	8,441	(476)	(6)
	<u>\$6,272</u>	<u>\$15,801</u>	<u>\$(9,529)</u>	<u>(60)</u>	<u>\$34,431</u>	<u>\$56,916</u>	<u>\$(22,485)</u>	<u>(40)</u>

**NOTES TO CHART A**

- (1) The facility services segment was formed in December 2003. See Note 10 to the consolidated financial statements.
- (2) Revenues decreased for the third quarter and the first nine months of fiscal 2004 from the comparable periods in fiscal 2003, primarily due to the Company's ongoing election to reduce revenue volume rather than contract at prices that offer the Company unacceptable levels of potential profitability. As a result, the Company has materially decreased the size of its construction segment operations and currently expects to substantially deemphasize its role as a general contractor. Instead, the Company currently intends to focus on providing construction services in conjunction with the Company's energy management and facility services offerings. These services are expected to generate lower revenues, but at higher margins, than the historical construction operations.
- (3) Revenues for third quarter and nine months of fiscal 2004 decreased from the comparable periods in fiscal 2003 primarily due to: (a) no sale of land in fiscal 2004, whereas there was a sale in fiscal 2003 of an outparcel and an anchor store pad located in Davenport, Iowa, for approximately \$434,000; (b) the decrease in common area maintenance income of approximately \$183,000 in the third quarter of fiscal 2004 (this income varies with the level of common area maintenance expenses, which were lower - see Note 2 to Chart B); and (c) the decrease of leaseback rental income of approximately \$64,000 in the third quarter of fiscal 2004 due to the assignment of the Fort Smith, Arkansas, Kmart leaseback to the fee owner in October 2003.

The following table indicates the backlog of contracts and rental income for the next twelve months, by industry segment.

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	<b>January 31,</b>	
	<b>2004</b>	<b>2003</b>
Energy Management (1)	\$ 495,000	\$ 683,000
Facility Services (2)	1,394,000	
Construction (3)	1,051,000	12,554,000
Real Estate-rental income (4)	9,174,000	9,353,000
Real Estate-sales (5)		425,000
Less: Intersegment eliminations	(488,000)	(467,000)
	<hr/>	<hr/>
Total Backlog	\$ 11,626,000	\$ 22,548,000
	<hr/>	<hr/>

- (1) The decrease in energy management backlog is primarily due to normal fluctuations and the timing of orders, and does not represent a trend. No energy management contracts that can be cancelled with less than one year's notice are included in backlog. As of January 31, 2004, and 2003, such contracts totaled \$1.2 million and \$1.1 million, respectively, in potential revenue over the next twelve months, assuming cancellation provisions are not invoked.
- (2) The facility services segment was formed in December 2003. See Note 10 to the consolidated financial statements.
- (3) See Note 1 to Chart A above. The intersegment eliminations reported include intercompany revenues of approximately \$46,000 related to construction work to be performed for the real estate segment at one of its shopping centers.
- (4) Included in Real Estate-rental income at January 31, 2003, is approximately \$255,000 related to a Kmart leaseback that was assigned to the fee owner by the Company in October 2003. This amount is partially offset by new leases and several lease renewals in fiscal 2004. As of January 31, 2004, included in Real Estate-rental income is approximately \$2.19 million related to the Company's shopping center located in North Fort Myers, Florida, which was sold in March 2004. See Note 11 to the consolidated financial statements.
- (5) A binding contract to sell an outparcel in Jackson, Michigan, was included in Real Estate-sales backlog at January 31, 2003. The Jackson outparcel was sold at a gain in April 2003.

The intersegment eliminations reported include intercompany rent of approximately \$442,000 and \$467,000, as of January 31, 2004, and 2003, respectively.

Backlog at January 31, 2004, does not include a fully executed, non-binding contract, to sell the Company's undeveloped land in Louisville, Kentucky, at a gain in fiscal 2005. Backlog at January 31, 2004, also does not include the contract, executed in February 2004, to sell the Company's shopping center located in North Fort Myers, Florida, for \$21.8 million, which sale closed in March 2004. See Note 11 to the consolidated financial statements.



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**COSTS AND EXPENSES APPLICABLE TO REVENUES**  
From Continuing Operations

As a percentage of total segment revenues from continuing operations (See Chart A) the total applicable costs and expenses (See Chart B) were 79% and 88% for the third quarter of fiscal 2004 and 2003, respectively, and 86% and 91% for the first nine months of fiscal 2004 and 2003, respectively. In reviewing Chart B, the reader should recognize that the volume of revenues generally will affect the amounts and percentages.

The figures in Chart B are net of intersegment eliminations.

**CHART B**  
**COSTS AND EXPENSES APPLICABLE TO REVENUES**  
**FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT**  
(Dollars in Thousands)

	<b>Third Quarter Ended January 31,</b>		<b>Percent of Segment Revenues for Third Quarter Ended January 31,</b>		<b>Nine Months Ended January 31,</b>		<b>Percent of Segment Revenues for Nine Months Ended January 31,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Energy Management (1)	\$ 383	\$ 432	51	60	\$ 1,206	\$ 1,165	57	55
Facility Services (2)	369		67		369		67	
Construction (3)	2,582	11,460	109	97	23,199	45,482	98	98
Real Estate (4)	1,597	2,021	62	62	4,895	5,247	61	62
	<u>\$4,931</u>	<u>\$13,913</u>	<u>79</u>	<u>88</u>	<u>\$29,669</u>	<u>\$51,894</u>	<u>86</u>	<u>91</u>

**NOTES TO CHART B**

- (1) The change in the dollar amount and percentage of costs and expenses applicable to revenues from continuing operations for the third quarter and first nine months of fiscal 2004, compared to the same periods in 2003, is primarily a result of the change in the mix of services and products.
- (2) The facility services segment was formed in December 2003. See Note 10 to the consolidated financial statements.
- (3) The increase in the percentage of costs and expenses applicable to revenues for the third quarter of fiscal 2004 compared to the same period in 2003 is primarily attributable to losses taken on two jobs of approximately \$265,000 and the decrease in revenues (see Note 2 to Chart A).

- (4) The decrease in the dollar amount of costs and expenses applicable to revenues from continuing operations for the third quarter of fiscal 2004 compared to the same period in 2003 is primarily attributable to: (a) no cost of sale of real estate in fiscal 2004, whereas there was the cost of sale of an outparcel and anchor pad located in Davenport, Iowa, of approximately \$196,000, in fiscal 2003; and (b) the decrease in common area and maintenance expenses of approximately \$153,000. The decrease in the dollar amount of costs and expense from continuing operations for the first nine months of fiscal 2004 compared to the same period in 2003 is primarily attributable to: (a) no cost of sale of real estate in fiscal 2004, whereas there was the cost of sale of an outparcel and anchor pad located in Davenport, Iowa, of approximately \$196,000 in fiscal 2003; (b) recoveries of bad debt expense of approximately \$61,000 in fiscal 2003, which reduced costs and expenses for that period;

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and (c) the Company no longer outsourcing asset management responsibilities, resulting in a decrease in fiscal 2004 asset management fees of approximately \$110,000.

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

For the third quarters of fiscal 2004 and 2003, selling, general and administrative expenses from continuing operations, net of intersegment eliminations, were \$1,950,188 and \$2,071,613, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 31% and 13%, respectively. For the first nine months of 2004 and 2003, selling, general and administrative expenses from continuing operations, net of intersegment eliminations, were \$6,976,311 and \$5,468,289, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 20% and 10%, respectively. In reviewing Chart C, the reader should recognize that the volume of revenues generally will affect the amounts and percentages. The percentages in Chart C are based upon expenses as they relate to segment revenues from continuing operations (Chart A), except that parent and total expenses relate to consolidated revenues from continuing operations.

**CHART C****SELLING, GENERAL AND ADMINISTRATIVE EXPENSES****FROM CONTINUING OPERATIONS BY SEGMENT**

(Dollars in Thousands)

	<b>Third Quarter Ended January 31,</b>		<b>Percent of Segment Revenues for Third Quarter Ended January 31,</b>		<b>Nine Months Ended January 31,</b>		<b>Percent of Segment Revenues for Nine Months Ended January 31,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Energy Management (1)	\$ 487	\$ 443	64	61	\$1,689	\$1,286	79	61
Facility Services (2)	244		45		244		45	
Construction (3)	607	735	26	6	2,905	1,649	12	4
Real Estate (4)	218	263	8	8	589	716	7	8
Parent (5)	394	631	6	4	1,549	1,817	4	3
	<u>          </u>	<u>          </u>			<u>          </u>	<u>          </u>		
	\$1,950	\$2,072	31	13	\$6,976	\$5,468	20	10
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**NOTES TO CHART C**

(1) On a dollar and percentage basis, selling, general and administrative expenses were higher for the third quarter and first nine months of fiscal 2004 compared to the same periods in 2003, primarily due to an increase in the number of personnel and other personnel costs. Such personnel-related costs are primarily a result of higher sales and marketing expenses for the third quarter and for the first nine months of fiscal 2004, as well as severance

costs for the first nine months of fiscal 2004.

- (2) The facility services segment was formed in December 2003. See Note 10 to the consolidated financial statements.
- (3) On a dollar and percentage basis, selling, general and administrative expenses were higher for the for the first nine months of fiscal 2004 and on a percentage basis, selling, general and administrative expenses were higher for the third quarter of fiscal 2004 when compared to the same periods in 2003 primarily due to: (a) an increase in legal and professional fees in the third quarter and the first nine months of fiscal 2004 of approximately \$178,000 and \$1,080,000, respectively, primarily due to the Company's internal investigation and ongoing cooperation with the U.S.

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Department of Justice, as discussed in Note 9 to the consolidated financial statements; (b) the one-time reduction of \$450,000 in the first nine months of fiscal 2003, resulting from the decrease in an allowance for doubtful accounts reserve for a receivable from Montgomery Ward & Company; offset by (c) a reduction in selling, general and administrative salary costs of approximately \$99,000 and \$188,000, offset by hiring and severance costs of \$28,000 and \$127,000 in the third quarter and first nine months of fiscal 2004, respectively; and (d) lower revenues during the 2004 periods.

- (4) On a dollar basis, selling, general and administrative expenses were lower for the third quarter and the first nine months of fiscal 2004 compared to the same periods in 2003 primarily due to: (a) the decrease in legal and professional fees of approximately \$38,000 and \$103,000 in the third quarter and first nine months of fiscal 2004, respectively; and (b) the decrease in asset management fees paid to a third party of approximately \$45,000 and \$132,000 in the third quarter and the first nine months of fiscal 2004, respectively; and (c) the decrease in residual land expense of approximately \$50,000 and \$31,000 in the third quarter and first nine months of fiscal 2004, respectively; offset by (d) the increase in salaries, temporary staffing and consulting fees of approximately \$77,000 and \$155,000 in the third quarter and first nine months of fiscal 2004, respectively.
- (5) Although, selling, general and administrative expenses were lower on a dollar basis, on a percentage basis, selling, general and administrative expenses were higher for the third quarter and the first nine months of fiscal 2004 compared to the same periods in 2003 primarily due to the reduction of consolidated revenues.

**Liquidity and capital resources**

Between April 30, 2003, and January 31, 2004, working capital decreased by \$6,281,651, primarily due to: (1) losses from continuing operations; (2) cash utilized in the acquisition of assets and the assumption of certain liabilities of The Wheatstone Energy Group, Inc.; and (3) the cash investment required to further develop the Company's shopping center in Jackson, Michigan. Operating activities used cash of \$64,932, primarily due to losses incurred during the first nine months of fiscal 2004, a decrease in trade and subcontractors payable, offset by a decrease in accounts receivable. Investing activities used cash of \$2,204,780 primarily due to the acquisition of assets and the assumption of certain liabilities of The Wheatstone Energy Group, Inc. (see Note 10 to the consolidated financial statements) and additions to income-producing properties for the completion of approximately 21,000 square feet of leasable space in the Company's shopping center in Jackson, Michigan. Financing activities provided cash of \$1,065,290, primarily due to drawing on the Company's available lines of credit offset by scheduled principal payments of mortgage notes and other long-term debt. Discontinued operations provided cash of \$94,955 due to the collection of receivables.

In October 2003, the maturity date of the loan related to the Company's shopping center in North Fort Myers, Florida, was extended to February 2005. On March 12, 2004, the Company closed on the sale of that shopping center for a sales price of \$21.8 million, resulting in a pre-tax gain of approximately \$4.1 million. After repayment of the loan secured by the shopping center and other expenses, the sale generated net cash proceeds of approximately \$10.6 million. The sale did not include any of the Company's real estate held for future development or sale. In addition to repaying its lines of credit, the Company intends to use the proceeds from this sale as a source of cash for strategic acquisitions and for additional investments in income-producing properties, and is considering a number of other alternative uses, including possibly distributing a portion as a special dividend, funding working capital needs, or other corporate purposes. See Note 11 to the consolidated financial statements.

In conjunction with the origination of the mortgage loan on the shopping center in Jackson, Michigan, the Company obtained an irrevocable, standby letter of credit in the amount of \$500,000. The

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letter of credit was originally issued in July 1997, and has been extended to mature on June 30, 2004. The mortgage lender is allowed to draw on the letter in order to reduce the related mortgage loan if certain leasing requirements are not met by March 31, 2004. The lender has indicated that they will allow an extension of the leasing requirements, however, there can be no assurance that the extension will be granted. The letter of credit is secured by a bank line of credit, as discussed below.

Except for certain real estate construction loans and occasional short-term operating loans, the Company generally has been able to finance its working capital needs through funds generated internally. If adequate funds are not generated through normal operations or from the sale of real estate, the Company has available bank lines of credit. In October 2003, the lines of credit were renewed and currently provide commitments from a bank for unsecured lines of credit totaling \$7 million, of which a total of \$650,000 is restricted as it secures letters of credit. These lines of credit bear interest at the prime rate or LIBOR plus 2%, and have a commitment fee of 0.375% on any unused portion. The bank lines of credit expire on October 30, 2004. At January 31, 2004, \$3,000,000 was outstanding under these lines of credit. In March 2004, these lines were paid off in full. See Note 11 to the consolidated financial statements.

The Company is under a binding contract to purchase a professional office building located in Douglasville, Georgia, as its Section 1033 qualified replacement property previously discussed in the Company's Annual Report on Form 10-K for the year ended April 30, 2003. The Company intends to acquire such property primarily through the use of debt financing and approximately \$1.4 million from the Company's available cash on hand.

The Company currently estimates the costs associated with the U.S. Department of Justice investigation described under ITEM 3. LEGAL PROCEEDINGS, including the Company's internal investigation and its ongoing cooperation with the Justice Department, will approximate \$1.45 million in the current fiscal year ending April 30, 2004. Such cost estimates, however, are particularly difficult to make with any precision, and as a result the actual costs may be lower or higher than this amount.

In December 2003, the Company purchased a one year certificate of deposit in the amount of \$200,000 that is used as collateral for an irrevocable letter of credit.

The Company anticipates that its equity, lines of credit, potential proceeds from sales of real estate, potential cash flow provided by financing or refinancing of debt, and cash flow generated from operations will, for the foreseeable future, provide adequate liquidity and financial flexibility to meet the Company's needs to fund working capital, capital expenditures, and investment activities.

**Cautionary statement regarding forward-looking statements**

Certain statements contained or incorporated by reference in this Quarterly Report on Form 10-Q, including without limitation, statements containing the words believes, anticipates, estimates, expects, plans, and words of similar import, are forward-looking statements within the meaning of the federal securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other matters which may cause the actual 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 relating to general global, national, regional, and local economic conditions, including international political stability, national security, employment levels, wage and salary levels, consumer confidence, availability of credit, taxation policies, interest rates, capital spending, deflation, and inflation could negatively impact the Company and its customers, suppliers, and sources of capital. Any significant



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negative impact from these factors could result in material adverse effects on the Company's results of operations and financial condition.

The Company is at risk for many other matters beyond its control, including, but not limited to: the possible impact, if any, on revenues due to the possible construction job bidding improprieties described in Note 9 to the consolidated financial statements; the ultimate disposition of legal proceedings in which the Company is involved, including the U.S. Department of Justice's inquiry into the aforementioned construction job bidding matter; the potential loss of significant customers; co-tenancy provisions in anchor tenant leases; the Company's ability to sell or refinance its real estate; the Company's ability to acquire a qualified replacement property for tax deferral purposes; the possibility of not achieving projected backlog revenues or not realizing earnings from such revenues; the cost and availability of insurance; the ability of the Company to attract and retain key personnel; weather conditions; changes in laws and regulations, including changes in accounting standards, generally accepted accounting principles, and regulatory requirements of the SEC and NASDAQ; overall vacancy rates in markets where the Company leases retail and office space; overall capital spending trends in the economy; the timing and amount of earnings recognition related to the possible sale of real estate properties held for sale; delays in or cancellations of customers' orders; the ultimate collectibility of the Company's receivable from the Montgomery Ward & Company bankruptcy; the level and volatility of interest rates; the failure of a subcontractor to perform; and the deterioration in the financial stability of an anchor tenant, significant subcontractor or other significant customer.

## Critical Accounting Policies

A critical accounting policy is one that is both important to the portrayal of a 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 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*

Construction and facility services 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 cumulative effects of changes in estimated total contract costs and revenues (change orders) in the amounts that are reasonably estimated based on the Company's historical experience. The 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.

The Company leases space in its income-producing properties to tenants, and recognizes minimum base rentals as revenue on a straight-line basis over the lease terms. Tenants may also be required to pay additional rental amounts based on property operating expenses. In addition, certain tenants are required to pay incremental rental amounts, which are contingent on their store sales. These percentage rents are recognized only as earned.



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Revenue from the sale of real estate is recognized when all of the following has occurred: (a) the property is transferred to the buyer; (b) the buyer's initial and continuing investment is adequate to demonstrate a commitment to pay for the property; and (c) the buyer has assumed all future ownership risks of the property. Costs of sales related to real estate are based on the specific property sold. When a portion or unit of a development property is sold, a proportionate share of the total cost of the development is charged to cost of sales.

Energy management revenues primarily consist of services and product sales. Revenues are recognized as services are rendered, and depending upon the product type and customer agreement, product sales are recognized when products are shipped or delivered.

*Income-producing properties and property and equipment*

Income-producing properties are stated at cost, and are depreciated for financial reporting purposes using the straight-line method over the estimated useful lives of the assets.

Property and equipment are stated at cost, and are depreciated for financial reporting purposes using the straight-line method over the estimated useful lives of the assets. Significant additions that extend asset lives are capitalized. Normal maintenance and repair costs are expensed as incurred.

Interest and other carrying costs related to real estate assets under construction are capitalized. Costs of development and construction of real estate assets are also capitalized. Capitalization of interest and other carrying costs are discontinued when a development project is substantially completed or if active development ceases.

*Impairment of long-lived assets and assets to be disposed of*

Long-lived assets and certain intangible assets, are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to estimated future net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the asset's fair value. Assets to be disposed of are reported at the lower of their carrying amount or fair value less cost to sell.

*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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply 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 of such change.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See ITEM 2. Liquidity and capital resources for discussion regarding the debt on the Company's shopping centers in Jackson, Michigan, and North Ft. Myers, Florida, and the renewal of the Company's lines of credit. There have been no other material changes since April 30, 2003. Refer to the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2003, for detailed disclosures about quantitative and qualitative disclosures about market risk.

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**ITEM 4. CONTROLS AND PROCEDURES**

Management has evaluated the Company's disclosure and 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. Based on this evaluation, these officers have concluded that the Company's disclosure controls and procedures were effective as of such date.

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 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

As previously disclosed on Form 10-K for the year ended April 30, 2003, the Company announced on July 7, 2003, that an internal investigation, which was conducted by the Company's legal counsel at the request of senior management, revealed information suggesting that activities in violation of Federal antitrust laws may have taken place in a certain job bidding process for one customer of the Company's subsidiary, Abrams Construction, Inc. The results of this investigation were reported to the Board of Directors of the Company on June 9, 2003. The Company also voluntarily communicated the results of its investigation to the United States Department of Justice (DOJ) and continues to fully cooperate in the inquiry that resulted. The DOJ, on July 1, 2003, issued a conditional letter of amnesty to the Company and its subsidiaries for their cooperation in recognizing and then immediately reporting the irregularities. The Company believes, based on its internal investigation, that the specific improprieties were confined to a bidding process for The Home Depot, Inc. (Home Depot), its largest customer. At this time, the Company has no reason to believe that any other customers were affected by such inappropriate activity. The Company also communicated its concerns about the job bidding process to Home Depot. The Company has conducted extensive additional training of all employees and has implemented additional procedures to prevent a recurrence of this behavior. Costs associated with this matter, including the Company's internal investigation and its ongoing cooperation with the DOJ, are currently estimated to approximate \$1.45 million in the current fiscal year ending April 30, 2004. Such cost estimates, however, are particularly difficult to make with any precision, and as a result the actual costs may be lower or higher than this amount. To date, no third party has made, or threatened to make, any claim in connection with this matter. It is possible, however, that claims could be made as a result of this situation.

On September 20, 2002, the Company's subsidiary, Abrams Properties, Inc. (API), filed a claim in the Superior Court of Cobb County, Georgia, against API's former real estate asset manager. The defendant subsequently made a demand against API for arbitration and filed a counterclaim. In January 2003, the Cobb County Superior Court denied the defendant's demand for arbitration, but in July 2003 this decision was reversed by the Georgia Court of Appeals. The Company sought certiorari from the state of Georgia Supreme Court, which was denied during the second quarter of fiscal 2004. The case will now be arbitrated. The dispute arises out of the defendant's former provision of real estate asset management services to API. The Company believes API's claims against its former asset manager and its defenses to the manager's claims are meritorious and intends to continue to vigorously pursue its claims and assert its defenses.

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Other than the costs of the Company's internal investigation and ongoing cooperation associated with the DOJ, the Company believes the ultimate disposition of the above noted legal proceedings and claims or potential claims, and those previously disclosed on Form 10-K for the year ended April 30, 2003, will not have a material adverse effect on the financial condition, cash flows, or results of operations of the Company; however, the Company cannot predict the ultimate disposition of the above noted claims, potential claims and proceedings, and therefore, the Company cannot be certain that the above noted legal proceedings and claims or potential claims will not have a material adverse effect on the financial condition, cash flows, or results of operations of the Company.

The Company is subject to other various legal proceedings and claims that arise 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 these matters will not have a material adverse effect on the Company's financial position or results of operations.

**ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES**

On December 19, 2003, an indirect wholly-owned subsidiary of the Company acquired substantially all of the assets and assumed certain liabilities of The Wheatstone Energy Group, Inc. The consideration included 23,842 newly-issued shares of the Company's common stock, par value \$1.00 per share. Also in connection with the transaction, the Company issued 110,000 shares of the Company's common stock and a warrant to purchase an additional 40,000 shares of the Company's common stock at an exercise price of \$5.10 per share to a lender of the acquired company. See Note 10, Acquisition, to the consolidated financial statements for more information. The issuance of the stock and warrant were exempt from registration as private placements pursuant to the Securities Act of 1933 and the rules promulgated there under.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

- 31(a) Certification of Chief Executive Officer, pursuant Rules 13a-14(a)/15d-14(a)
- 31(b) Certification of Chief Financial Officer, pursuant Rules 13a-14(a)/15d-14(a)
- 32(a) 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(b) 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

(b) Reports on Form 8-K during the quarter ended January 31, 2004

See Current Report on Form 8-K, pursuant to Item 2 thereof, filed January 5, 2004, reporting an acquisition of assets.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ABRAMS INDUSTRIES, INC.

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(Registrant)

Date: March 16, 2004

/s/ Alan R. Abrams

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Alan R. Abrams  
Chief Executive Officer

Date: March 16, 2004

/s/ Mark J. Thomas

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Mark J. Thomas  
Chief Financial Officer