

ABRAMS INDUSTRIES INC

Form 10-Q

March 17, 2005

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q
QUARTERLY REPORT

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

For the quarter ended January 31, 2005

Commission file number 0-10146

ABRAMS INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Georgia 58-0522129
(State or other jurisdiction of (I.R.S. Employer identification No.)
incorporation or organization)
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 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 28, 2005, was 3,207,613.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ABRAMS INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | <u>January 31, 2005</u> | <u>April 30, 2004</u> |
|---|-------------------------|-----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,507,233 | \$ 6,379,679 |
| Short-term investment | | 200,000 |
| Receivables (Note 4) | 1,751,869 | 1,785,411 |
| Less: Allowance for doubtful accounts | (112,772) | (48,512) |
| Assets of discontinued operations (Note 5) | 161,835 | 4,296,642 |
| Real estate held for sale | 2,595,493 | |
| Costs and earnings in excess of billings | 341,446 | 481,480 |
| Deferred income taxes | 613,916 | 623,001 |
| Other | 851,197 | 634,700 |
| | <hr/> | <hr/> |
| Total current assets | 9,710,217 | 14,352,401 |
| INCOME-PRODUCING PROPERTIES, net | 26,666,580 | 27,078,380 |
| PROPERTY AND EQUIPMENT, net | 850,074 | 605,967 |
| OTHER ASSETS: | | |
| Real estate held for future development or sale | 3,692,731 | 6,593,317 |
| Intangible assets, net (Note 8) | 3,326,090 | 3,479,744 |
| Goodwill (Note 8) | 5,458,717 | 4,998,242 |
| Investment held to maturity | 2,000,000 | 2,000,000 |
| Other | 3,159,645 | 2,767,968 |
| | <hr/> | <hr/> |
| | \$ 54,864,054 | \$ 61,876,019 |
| | <hr/> | <hr/> |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| CURRENT LIABILITIES: | | |
| Trade and subcontractors payables | \$ 977,454 | \$ 965,610 |
| Accrued expenses | 2,145,848 | 1,928,423 |
| Liabilities of discontinued operations (Note 5) | 214,084 | 2,859,927 |
| Billings in excess of costs and earnings | 287,116 | 98,439 |
| Current maturities of long-term debt | 1,235,790 | 1,292,669 |

| | | |
|--|---------------------|--------------|
| Total current liabilities | 4,860,292 | 7,145,068 |
| DEFERRED INCOME TAXES | 2,054,188 | 2,677,141 |
| OTHER LIABILITIES | 1,572,119 | 4,644,630 |
| MORTGAGE NOTES PAYABLE, less current maturities (Note 9) | 26,060,687 | 25,509,868 |
| OTHER LONG-TERM DEBT, less current maturities | 1,914,501 | 1,901,785 |
| | <hr/> | <hr/> |
| Total liabilities | 36,461,787 | 41,878,492 |
| | <hr/> | <hr/> |
| COMMITMENTS AND CONTINGENCIES (Note 10) | | |
| SHAREHOLDERS EQUITY: | | |
| Common stock, \$1 par value; 5,000,000 shares authorized; 3,355,901 issued and 3,207,913 outstanding in January 2005, 3,327,628 issued and 3,180,340 outstanding in April 2004 | 3,355,901 | 3,327,628 |
| Additional paid-in capital | 3,061,080 | 2,963,874 |
| Deferred stock compensation | (14,548) | (26,855) |
| Retained earnings | 12,682,536 | 14,412,663 |
| Treasury stock, common shares, 147,988 in January 2005 and 147,288 in April 2004 | (682,702) | (679,783) |
| | <hr/> | <hr/> |
| Total shareholders equity | 18,402,267 | 19,997,527 |
| | <hr/> | <hr/> |
| | \$54,864,054 | \$61,876,019 |
| | <hr/> | <hr/> |

See accompanying notes to consolidated financial statements.

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

| | THIRD QUARTER ENDED JANUARY 31, | | FIRST NINE MONTHS ENDED JANUARY 31, | |
|---|--|-------------|--|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| REVENUES: | | | | |
| Energy and facilities solutions | \$ 839,864 | \$ 756,981 | \$ 2,670,159 | \$ 2,132,265 |
| Energy services | 2,478,420 | 546,744 | 6,434,818 | 546,744 |
| Rental income | 1,783,994 | 1,697,211 | 7,780,719 | 5,320,330 |
| Real estate sales | 515,000 | | 515,000 | |
| | 5,617,278 | 3,000,936 | 17,400,696 | 7,999,339 |
| Interest | 20,706 | (496) | 59,608 | 6,512 |
| Other | 6,635 | 23,328 | 42,699 | 85,198 |
| | 5,644,619 | 3,023,768 | 17,503,003 | 8,091,049 |
| COSTS AND EXPENSES: | | | | |
| Energy and facilities solutions | 466,942 | 383,263 | 1,500,700 | 1,205,870 |
| Energy services | 1,668,661 | 369,192 | 4,528,388 | 369,192 |
| Rental property operating expenses, excluding interest | 1,243,659 | 1,103,703 | 3,955,443 | 3,418,036 |
| Cost of real estate sold | 323,874 | | 323,874 | |
| | 3,703,136 | 1,856,158 | 10,308,405 | 4,993,098 |
| Selling, general and administrative | | | | |
| Energy and facilities solutions | 621,510 | 487,378 | 1,720,473 | 1,689,134 |
| Energy services | 494,414 | 244,388 | 1,616,105 | 244,388 |
| Real estate | 188,731 | 217,900 | 1,178,138 | 582,404 |
| Parent | 626,969 | 393,445 | 2,227,691 | 1,549,549 |
| | 1,931,624 | 1,343,111 | 6,742,407 | 4,065,475 |
| Extinguishment of debt (Note 9) | | | 218,071 | |

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| | | | | |
|--|---------------------|---------------------|---------------------|-----------------------|
| Interest costs incurred | <u>545,070</u> | <u>610,113</u> | <u>1,731,578</u> | <u>1,824,288</u> |
| | <u>6,179,830</u> | <u>3,809,382</u> | <u>19,000,461</u> | <u>10,882,861</u> |
| LOSS BEFORE INCOME TAXES FROM CONTINUING OPERATIONS | <u>(535,211)</u> | <u>(785,614)</u> | <u>(1,497,458)</u> | <u>(2,791,812)</u> |
| INCOME TAX BENEFIT | <u>(253,343)</u> | <u>(266,000)</u> | <u>(598,528)</u> | <u>(943,000)</u> |
| LOSS FROM CONTINUING OPERATIONS | <u>(281,868)</u> | <u>(519,614)</u> | <u>(898,930)</u> | <u>(1,848,812)</u> |
| DISCONTINUED OPERATIONS (Note 5): | | | | |
| Earnings (loss) from discontinued operations, net of income tax expense (benefit) of \$27,293, (\$167,000), \$55,114 and (\$485,000), respectively | <u>33,628</u> | <u>(363,567)</u> | <u>66,576</u> | <u>(1,039,471)</u> |
| EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS | <u>33,628</u> | <u>(363,567)</u> | <u>66,576</u> | <u>(1,039,471)</u> |
| NET LOSS | <u>\$ (248,240)</u> | <u>\$ (883,181)</u> | <u>\$ (832,354)</u> | <u>\$ (2,888,283)</u> |
| NET EARNINGS (LOSS) PER SHARE BASIC AND DILUTED (Note 7): | | | | |
| From continuing operations | <u>\$ (.09)</u> | <u>\$ (.18)</u> | <u>\$ (.28)</u> | <u>\$ (.63)</u> |
| From discontinued operations | <u>\$.01</u> | <u>\$ (.12)</u> | <u>\$.02</u> | <u>\$ (.35)</u> |
| NET EARNINGS (LOSS) PER SHARE BASIC AND DILUTED | <u>\$ (.08)</u> | <u>\$ (.30)</u> | <u>\$ (.26)</u> | <u>\$ (.98)</u> |
| DIVIDENDS PER SHARE | <u>\$ 0.04</u> | <u>\$ 0.04</u> | <u>\$ 0.28</u> | <u>\$ 0.12</u> |
| WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED | <u>3,207,913</u> | <u>2,980,878</u> | <u>3,204,061</u> | <u>2,936,438</u> |

See accompanying notes to consolidated financial statements.

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ABRAMS INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(UNAUDITED)

| | <u>Common Stock</u> | | <u>Additional Paid-In Capital</u> | <u>Deferred Stock Compensation</u> | <u>Retained Earnings</u> | <u>Treasury Stock</u> | <u>Total</u> |
|---|---------------------|--------------------|---|--|------------------------------|---------------------------|---------------------|
| | <u>Shares</u> | <u>Amount</u> | | | | | |
| BALANCES at April 30, 2002 | 3,054,439 | \$3,054,439 | \$2,135,005 | \$(12,744) | \$18,273,853 | \$(671,677) | \$22,778,876 |
| Net loss | | | | | (1,073,524) | | (1,073,524) |
| Common stock acquired | | | | | | (2,270) | (2,270) |
| Common stock issued | 5,800 | 5,800 | 18,500 | (24,300) | | | |
| Stock compensation expense | | | | 20,446 | | | 20,446 |
| Cash dividends declared - \$.16 per share | | | | | (465,576) | | (465,576) |
| BALANCES at April 30, 2003 | 3,060,239 | 3,060,239 | 2,153,505 | (16,598) | 16,734,753 | (673,947) | 21,257,952 |
| Net loss | | | | | (1,850,126) | | (1,850,126) |
| Common stock acquired | | | | | | (5,836) | (5,836) |
| Common stock issued | 267,389 | 267,389 | 810,369 | (41,700) | | | 1,036,058 |
| Stock compensation expense | | | | 31,443 | | | 31,443 |
| Cash dividends declared - \$.16 per share | | | | | (471,964) | | (471,964) |
| BALANCES at April 30, 2004 | 3,327,628 | 3,327,628 | 2,963,874 | (26,855) | 14,412,663 | (679,783) | 19,997,527 |
| Net loss | | | | | (832,354) | | (832,354) |
| Common stock acquired | | | | | | (2,919) | (2,919) |
| Common stock issued | 28,273 | 28,273 | 97,206 | (30,573) | | | 94,906 |
| Stock compensation expense | | | | 42,880 | | | 42,880 |
| Cash dividends declared - \$.28 per share | | | | | (897,773) | | (897,773) |
| BALANCES at January 31, 2005 | 3,355,901 | \$3,355,901 | \$3,061,080 | \$(14,548) | \$12,682,536 | \$(682,702) | \$18,402,267 |

See accompanying notes to consolidated financial statements.

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

| | NINE MONTHS ENDED JANUARY 31, | |
|---|--------------------------------------|--------------------|
| | 2005 | 2004 |
| Cash flows from operating activities: | | |
| Net loss | \$ (832,354) | \$(2,888,283) |
| (Income) loss from discontinued operations, net of tax | (66,576) | 1,039,471 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Gain on sale of real estate, net of tax | (118,499) | |
| Depreciation and amortization | 1,520,807 | 780,063 |
| Deferred tax benefit | (613,868) | (1,030,922) |
| Provision for (recovery of) doubtful accounts, net | 52,298 | (9,955) |
| Extinguishment of debt | 218,071 | |
| Changes in assets and liabilities, net of effect of acquisition: | | |
| Receivables, net | 33,592 | 402,882 |
| Costs and earnings in excess of billings | 140,034 | |
| Other current assets | (216,497) | (202,382) |
| Other assets | (391,677) | (121,346) |
| Trade and subcontractors payable | 282,921 | (324,050) |
| Accrued expenses | (251,166) | 132,399 |
| Billings in excess of costs and earnings | 188,677 | |
| Other liabilities | 13,336 | 48,865 |
| | (40,901) | (2,173,258) |
| Net cash used in operating activities | | |
| Cash flows from investing activities: | | |
| Proceeds from sale of real estate held for future development or sale | 515,000 | |
| Proceeds from maturity of short-term investment | 200,000 | |
| Additions to income-producing properties, net | (416,615) | (154,296) |
| Additions to property and equipment, net | (450,482) | (22,658) |
| Additions to intangible assets, net | (380,683) | (57,975) |
| Acquisition, net of cash acquired | (183,224) | |
| Repayments received on notes receivable | | 66,147 |
| | (716,004) | (168,782) |
| Net cash used in investing activities | | |
| Cash flows from financing activities: | | |
| Debt repayments | (867,284) | (520,230) |
| Mortgage repayment | (1,974,042) | |

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| | | |
|---|---------------------|--------------|
| Deferred loan costs paid | (50,000) | |
| Cash dividends | (897,773) | (233,144) |
| | <hr/> | <hr/> |
| Net cash used in financing activities | (3,789,099) | (753,374) |
| | <hr/> | <hr/> |
| Cash flows from discontinued operations: | | |
| Operating activities | 1,673,558 | 1,629,204 |
| Mortgage repayments | | (525,663) |
| | <hr/> | <hr/> |
| Net cash provided by discontinued operations | 1,673,558 | 1,103,541 |
| | <hr/> | <hr/> |
| Net decrease in cash and cash equivalents | (2,872,446) | (1,991,873) |
| Cash and cash equivalents at beginning of period | 6,379,679 | 5,157,639 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of period | \$ 3,507,233 | \$ 3,165,766 |
| | <hr/> | <hr/> |
| Supplemental disclosure of non-cash financing activities: | | |
| Issuance of common stock under Stock Award Plan | \$ 7,500 | \$ 41,700 |
| | <hr/> | <hr/> |

See accompanying notes to consolidated financial statements.

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ABRAMS INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 2005, AND APRIL 30, 2004
(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 engineering services and develops, implements and supports maintenance and service request solutions for facilities; (ii) implements energy saving lighting programs and provides other energy services, including facility-related improvements that reduce energy and operating costs; and (iii) engages in real estate investment and development. The Company also formerly provided commercial construction services as a general contractor.

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. 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, 2004. Results of operations for interim periods are not necessarily indicative of annual results.

Certain reclassifications have been made to the fiscal 2004 consolidated financial statements to conform to classification adopted in the fiscal 2005.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

As of October 31, 2004, the Company elected to early adopt EITF 03-13 issued by Emerging Issues Task Force, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations*. During its fiscal year ended April 30, 2004, the Company made the decision to discontinue its operations as a general contractor, and pursuant to this decision, all general contracting operating activities have ceased. The Construction Segment has been classified as a discontinued operation, and the historical assets, liabilities, operating results and cash flows of the Segment have been reclassified to discontinued operations pursuant to SFAS No. 144.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 123(R) which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supercedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) applies to all transactions involving the issuance, by the Company, of its own equity securities (stock, stock options, or other equity instruments) in exchange for goods or services, including employee services. It requires that all stock option awards to employees be

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expensed by the Company over any related vesting period. The Company will apply this standard on a modified prospective method. Under this method, the Company records compensation expense for all awards it grants after the date it adopts the standard. In addition, the Company is required to record compensation expense for the unvested portion of the previously granted awards that remain outstanding at the date of adoption. SFAS No. 123(R) is effective for the Company as of the beginning of the first interim period that begins after June 15, 2005. The adoption of this statement is not expected to have a material effect on the Company's financial position or results of operations.

As of January 31, 2003, the Company adopted the fair value disclosure provisions of 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 earnings (loss) 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 for the nine months ended January 31, 2005, and January 31, 2004, using the Black-Scholes option pricing model.

Options to purchase 720,492 shares were outstanding at January 31, 2005, of which 560,028 options were vested. No stock options or shares of restricted stock were granted in the third quarter ended January 31, 2005, and 84,900 stock options and 7,500 shares of restricted stock were granted in the nine months ended January 31, 2005. The Company granted 186,000 stock options and 10,000 shares of restricted stock in the third quarter and in the nine months ended January 31, 2004. The number of options forfeited in the third quarter and nine months ended January 31, 2005, was 2,000 and 62,000, respectively, and 26,294 and 237,294 for the third quarter and nine months ended January 31, 2004, respectively. There were 6,592 stock options outstanding that were in-the-money as of January 31, 2005.

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:

| | Quarter Ended January 31, | | Nine Months Ended January 31, | |
|--|------------------------------|--------------------|----------------------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net loss, as reported | \$(248,240) | \$(883,181) | \$(832,354) | \$(2,888,283) |
| Deduct: Total stock-based compensation expense as determined under fair value based method for all awards, net of related tax effects | (18,898) | (36,319) | (91,886) | (109,441) |
| Add: Forfeitures, net of related tax effects | 1,128 | 11,172 | 33,558 | 121,988 |
| Pro forma net loss | <u>\$(266,010)</u> | <u>\$(908,328)</u> | <u>\$(890,682)</u> | <u>\$(2,875,736)</u> |
| Net loss per share: | | | | |
| Basic and diluted as reported | \$ (0.08) | \$ (0.30) | \$ (0.26) | \$ (0.98) |

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| | | | | |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Basic and diluted pro forma | \$ (0.08) | \$ (0.30) | \$ (0.28) | \$ (0.98) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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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 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 prospective 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 criteria, as of January 31, 2005, the Company classified its shopping center located in Cincinnati, Ohio, as held for sale. As such, the financial statements have been prepared with the results of operations and cash flows related to the shopping center now shown as discontinued operations. This sale of the shopping center subsequently closed in February 2005. See Note 12 to the consolidated financial statements. There were no other assets classified as held for sale as of January 31, 2005.

During its fiscal year ended April 30, 2004, the Company made the decision to discontinue its operations as a general contractor, and pursuant to this decision, all general contracting operating activities have ceased. The Construction Segment has been classified as a discontinued operation, and the historical assets, liabilities, operating results and cash flows of the Segment have been reclassified to discontinued operations pursuant to SFAS No. 144.

On March 12, 2004, the Company sold its shopping center located in North Fort Myers, Florida, and recognized a pretax gain of approximately \$4.0 million. As a result of this transaction, the Company's financial statements have been prepared with the results of operations and cash flows related to the North Fort Myers shopping center shown as discontinued operations.

Summarized financial information for discontinued operations is as follows:

| Assets of discontinued operations | Balances at | |
|--|-----------------------------|-----------------------|
| | January 31, 2005 | April 30, 2004 |
| Receivables | \$157,182 | \$3,757,896 |
| Cost and earnings in excess of billings | | 379,460 |
| Other current assets | 4,653 | 159,286 |
| | \$161,835 | \$4,296,642 |

Balances at

| Liabilities of discontinued operations | January 31, 2005 | April 30, 2004 |
|---|-----------------------------|-----------------------|
| Trade and subcontractors payable | \$ 49,380 | \$2,234,458 |
| Accrued expenses | 164,704 | 515,426 |
| Billings in excess of cost and earnings | _____ | 110,043 |
| | \$214,084 | \$2,859,927 |
| | _____ | _____ |

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| | Third Quarter Ended January 31, | | Nine Months Ended January 31, | |
|--|--|--------------|--|----------------|
| | 2005 | 2004 | 2005 | 2004 |
| <u>REVENUES:</u> | | | | |
| Construction | \$ | \$2,378,824 | \$145,513 | \$23,788,739 |
| Real estate | 183,522 | 893,028 | 510,726 | 2,646,840 |
| Total revenues | 183,522 | 3,271,852 | 656,239 | 26,435,579 |
| <u>COSTS AND EXPENSES:</u> | | | | |
| Construction costs | | 2,581,359 | 114,734 | 23,198,804 |
| Rental property operating expenses, including depreciation and interest | 141,269 | 613,652 | 289,490 | 1,856,347 |
| Construction selling, general & administrative | (18,668) | 607,408 | 130,325 | 2,904,899 |
| Total costs and expenses | 122,601 | 3,802,419 | 534,549 | 27,960,050 |
| Earnings (loss) from discontinued operations | 60,921 | (530,567) | 121,690 | (1,524,471) |
| Income tax expense (benefit) | 27,293 | (167,000) | 55,114 | (485,000) |
| Earnings (loss) from discontinued operations, net of tax | \$ 33,628 | \$ (363,567) | \$ 66,576 | \$ (1,039,471) |

NOTE 6. OPERATING SEGMENTS

The Company has three operating segments: Energy and Facilities Solutions, Energy Services, and Real Estate. The Company also formerly provided commercial construction services as a general contractor through its Construction Segment. The Construction Segment has been classified as a discontinued operation, and the historical operating results of the Segment have been reclassified to discontinued operations pursuant to SFAS No. 144. 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, 2005 | Energy and Facilities Solutions | Energy Services (1) | Real Estate | Parent | Eliminations | Consolidated |
|--|--|------------------------------------|--------------------|---------------------|---------------------|---------------------|
| Revenues from unaffiliated customers | \$ 839,864 | \$2,478,420 | \$2,298,994 | \$ | \$ | \$5,617,278 |
| Interest and other income | | (8,100) | 88,102 | 6,717 | (59,378) | 27,341 |
| Intersegment revenue | 3,332 | | 125,134 | | (128,466) | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total revenues from continuing operations | <u>\$ 843,196</u> | <u>\$2,470,320</u> | <u>\$2,512,230</u> | <u>\$ 6,717</u> | <u>\$ (187,844)</u> | <u>\$5,644,619</u> |
| Earnings (loss) before income taxes from continuing operations | <u>\$ (308,343)</u> | <u>\$ 175,957</u> | <u>\$ 221,200</u> | <u>\$ (731,708)</u> | <u>\$ 107,683</u> | <u>\$ (535,211)</u> |
| | | | | | | |
| For the Quarter Ended January 31, 2004 | Energy and Facilities Solutions | Energy Services (1) | Real Estate | Parent | Eliminations | Consolidated |
| Revenues from unaffiliated customers | \$ 756,981 | \$546,744 | \$1,697,211 | \$ | \$ | \$3,000,936 |
| Interest and other income | | 12,536 | 10,122 | 174 | | 22,832 |
| Intersegment revenue | | | 117,041 | | (117,041) | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total revenues from continuing operations | <u>\$ 756,981</u> | <u>\$559,280</u> | <u>\$1,824,374</u> | <u>\$ 174</u> | <u>\$ (117,041)</u> | <u>\$3,023,768</u> |
| Earnings (loss) before income taxes from continuing operations | <u>\$ (114,025)</u> | <u>\$ (70,559)</u> | <u>\$ (97,836)</u> | <u>\$ (450,150)</u> | <u>\$ (53,044)</u> | <u>\$ (785,614)</u> |
| | | | | | | |
| For the Nine Months Ended January 31, 2005 | Energy and Facilities Solutions | Energy Services (1) | Real Estate | Parent | Eliminations | Consolidated |
| Revenues from unaffiliated customers | \$2,670,159 | \$6,434,818 | \$8,295,719 | \$ | \$ | \$17,400,696 |
| Interest and other income | | 3,025 | 236,851 | 21,923 | (159,492) | 102,307 |

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| | | | | | | |
|--|--------------|-------------|-------------|---------------|-------------|---------------|
| Intersegment revenue | 14,867 | | 371,352 | | (386,219) | |
| Total revenues from continuing operations | \$2,685,026 | \$6,437,843 | \$8,903,922 | \$ 21,923 | \$(545,711) | \$17,503,003 |
| Earnings (loss) before income taxes from continuing operations | \$ (660,892) | \$ (82,092) | \$1,537,057 | \$(2,516,037) | \$ 224,506 | \$(1,497,458) |

| For the Nine Months Ended January 31, 2004 | Energy and Facilities Solutions | Energy Services (1) | Real Estate | Parent | Eliminations | Consolidated |
|--|--|------------------------------------|--------------------|---------------|---------------------|---------------------|
| Revenues from unaffiliated customers | \$2,132,265 | \$546,744 | \$5,320,330 | \$ | \$ | \$ 7,999,339 |
| Interest and other income | | 12,536 | 77,635 | 1,539 | | 91,710 |
| Intersegment revenue | | | 344,973 | | (344,973) | |
| Total revenues from continuing operations | \$2,132,265 | \$559,280 | \$5,742,938 | \$ 1,539 | \$(344,973) | \$ 8,091,049 |
| Earnings (loss) before income taxes from continuing operations | \$ (763,879) | \$ (70,559) | \$ (72,678) | \$(1,705,045) | \$(179,651) | \$(2,791,812) |

(1) The Energy Services Segment was formed in December 2003.

Table of Contents**NOTE 7. EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) 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 by 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 nine months ended January 31, 2005, was 711 and 287 shares, respectively, and was 264 and 0 shares for the third quarter and the first nine months ended January 31, 2004, 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, 2005, are as follows:

| | January 31, 2005 | |
|---------------------------------------|----------------------------------|-------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | |
| Proprietary software solutions | \$1,541,661 | \$ 510,294 |
| Applications software | 409,197 | 344,795 |
| Real estate lease costs | 1,750,962 | 748,959 |
| Customer relationships | 218,000 | 47,233 |
| Deferred loan costs | 832,782 | 524,276 |
| Other | 55,609 | 15,271 |
| | \$4,808,211 | \$2,190,828 |
| Unamortized intangible assets: | | |
| Trademark | \$ 708,707 | \$ |
| Goodwill | \$5,458,717 | \$ |

Goodwill increased \$460,475 from April 30, 2004, due to: (1) \$313,035 from the acquisition of Building Performance Engineers, Inc. (see Note 11. Acquisitions); and (2) \$147,440 in purchase price adjustments from prior acquisitions.

The Company tested goodwill and intangible assets, related to its Energy Services Segment, with indefinite useful lives as of December 19, 2004, for impairment, as required by SFAS 142, utilizing the expected present value of future cash flows. The analysis did not result in an impairment.

NOTE 9. MORTGAGE NOTES PAYABLE

On July 8, 2004, the Company restructured the loan on the Company's owned shopping center in Jacksonville, Florida. The Company paid the lender \$1.5 million as payment in full of the Additional Interest Agreement, which was then terminated. The loan principal amount was reduced by \$474,042. The restructured loan principal amount was \$7.8 million; the loan bears interest at 6.125% and will be

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amortized until it matures on July 1, 2029, although the loan may be called by the lender for early repayment any time after July 1, 2011, upon thirteen months' notice. As a result of the loan restructuring, the Company's annual debt service payment for the shopping center was reduced by \$299,448.

The following table updates Footnote 7 "Mortgage Notes Payable and Leases" in the Company's Annual Report on Form 10-K as of April 30, 2004, to reflect the restructuring of the loan mentioned above. The expected future minimum principal and interest payments on mortgage notes payable on the owned rental properties are as follows:

| Period ending April 30, | Owned Rental Properties Mortgage Payments | |
|--------------------------------|--|---------------------|
| | Principal | Interest |
| 2005 (1) | \$ 774,364 | \$ 1,457,961 |
| 2006 | 1,114,040 | 1,968,410 |
| 2007 | 1,171,418 | 1,877,927 |
| 2008 | 6,833,107 | 1,647,129 |
| 2009 | 767,885 | 1,282,956 |
| Thereafter | 17,007,471 | 9,667,560 |
| | \$27,668,285 | \$17,901,943 |

(1) The amounts represent payments expected for the nine-month period from August 1, 2004, to April 30, 2005.

The mortgage notes payable are due at various dates between January 1, 2008, and July 1, 2029, and bear interest at rates ranging from 6.125% to 9.25%.

Management has determined that the restructuring of the loan mentioned above was a material modification of the original loan, and as a result, the Company recognized an expense relating to the extinguishment of debt in the amount of \$218,071, as shown on the accompanying statement of operations. In conjunction with the restructured loan, the Company recorded \$50,000 in deferred loan costs to be amortized over the life of the loan.

NOTE 10. COMMITMENTS AND CONTINGENCIES

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, who subsequently made a demand against API for arbitration and filed a counterclaim. On December 1, 2004, the arbitrator made separate awards in favor of the claim and counterclaim, and as a result, API incurred a net liability in the amount of approximately \$247,000, of which \$97,000 was accrued and expensed in a prior period. The remaining \$150,000 was expensed in the second quarter and nine months ending January 31, 2005, as selling, general and administrative costs in the accompanying statements of operations.

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.

Table of Contents**NOTE 11. ACQUISITIONS AND DISPOSITIONS**

On September 29, 2004, the Company closed on the sale of its Kmart leaseback interest in a shopping center in Minneapolis, Minnesota, for a price of \$2.25 million, resulting in a pre-tax gain of approximately \$2.2 million and net cash proceeds of approximately \$2.2 million.

On May 26, 2004, Servidyne Systems, LLC (Servidyne), an indirect wholly-owned subsidiary of the Company, acquired the operating business and assets of Building Performance Engineers, Inc. (BPE) for a purchase price of \$337,984, in order to expand the Company's capabilities in energy engineering and design. The consideration consisted of 21,126 newly-issued shares of the Company's common stock, with a fair value of \$94,906 at the date of acquisition, a note payable in the amount of \$136,500, and cash of \$106,578 (including direct acquisition expenses). The amount and type of consideration was determined by negotiation among the parties. The following table summarizes the estimated fair values of the assets acquired as of the date of acquisition:

| | Assets Acquired from | Estimated Life |
|--|--|---------------------------|
| | BPE | |
| | <hr/> | <hr/> |
| Property, furniture and equipment, net | \$ 8,727 | 3 years |
| Non-competes | 16,222 | 2 years |
| Goodwill | 313,035 | Indefinite |
| | <hr/> | |
| Total assets acquired | \$ 337,984 | |
| | <hr style="border-top: 3px solid black;"/> | |

The goodwill has been assigned to the Energy and Facilities Solutions Segment. The acquired assets and the results of operations have been included in the Company's financial statements since the date of acquisition. The Company will test goodwill for impairment related to its Energy and Facilities Solutions Segment at April 30, 2005, pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets*.

The following table summarizes the results of the Company on a pro forma basis for the third quarter and nine months ended January 31, 2004, as if the acquisition of the assets and operating business of BPE in May 2004, the acquisition of the assets and operating business of The Wheatstone Energy Group, Inc., in December 2003, the acquisition of the assets and operating business of iTendant, Inc. in April 2004, and the acquisition of a professional medical office building in Douglasville, Georgia, in April 2004, had all occurred at the beginning of the third quarter and nine months ended January 31, 2004. 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 (As Reported) | 2004 (Pro Forma) | 2004 (As Reported) | 2004 (Pro Forma) |
| Revenues | \$3,001 | \$ 3,735 | \$ 7,999 | \$12,145 |
| Net loss | (883) | (1,517) | (2,888) | (4,378) |
| Net loss per share basic and diluted | \$ (0.30) | \$ (0.52) | \$ (0.98) | \$ (1.50) |

NOTE 12. SUBSEQUENT EVENT

On February 9, 2005, the Company closed on the sale of its shopping center located in Cincinnati, Ohio, for a sales price of \$3.6 million, resulting in a pre-tax gain of approximately \$850,000. After selling expenses, the sale generated net cash proceeds of approximately \$3.45 million. The Company intends to use the net proceeds from this sale to acquire an additional income-producing property, in order to qualify the sale under the Internal Revenue Code Section 1031 for federal income tax deferral, and has placed the net proceeds with a third party intermediary in connection therewith. There can be no assurance that the acquisition will take place.

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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, 2004.

The Company's fiscal year 2005 will end April 30, 2005.

Changes in CONSOLIDATED BALANCE SHEETS between April 30, 2004, and January 31, 2005

Assets of discontinued operations decreased by \$4,134,807 primarily as a result of the cessation of operations of the Construction Segment, and the collection of receivables related to construction work performed in prior periods.

Real estate held for sale increased by \$2,595,493, as a result of the classification of the shopping center located Cincinnati, Ohio, as held for sale as of January 31, 2005. The shopping center was sold in February 2005, at a gain.

Real estate held for future development or sale decreased by \$2,900,586, as a result of classifying the shopping center located in Cincinnati, Ohio, as a current asset as discussed above and the sale of an outparcel in North Fort Myers, Florida, in January 2005.

Goodwill increased by \$460,475, primarily due to the acquisition of the operating business and assets of Building Performance Engineers, Inc.

Liabilities of discontinued operations decreased by \$2,645,843, primarily as a result of the cessation of operations of the Construction Segment, and the payment of invoices to subcontractors for construction work performed in prior periods.

Other long-term liabilities decreased by \$3,072,511, and mortgage notes payable increased by \$550,819, primarily due to the restructuring of the loan on the Company's owned shopping center located in Jacksonville, Florida (See Liquidity and Capital Resources).

Results of operations of the third quarter and first nine months of fiscal 2005, compared to the third quarter and first nine months of fiscal 2004

REVENUES From Continuing Operations

For the third quarter of fiscal 2005, consolidated revenues from continuing operations, including interest income and other income, and net of intersegment eliminations, were \$5,644,619, compared to \$3,023,768 for the third quarter of fiscal 2004, an increase of 87%. For the first nine months of fiscal 2005, consolidated revenues from continuing operations were \$17,503,003, compared to \$8,091,049 for the first nine months of fiscal 2004, an increase of 116%.

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 BY SEGMENT
(Dollars in Thousands)

| | Third Quarter Ended January 31, | | Amount Increase | Percent Increase | Nine Months Ended January 31, | | Amount Increase | Percent Increase |
|-------------------------------------|---------------------------------|----------------|-----------------|------------------|-------------------------------|----------------|-----------------|------------------|
| | 2005 | 2004 | | | 2005 | 2004 | | |
| Energy and Facilities Solutions (1) | \$ 840 | \$ 757 | \$ 83 | 11 | \$ 2,670 | \$2,132 | \$ 538 | 25 |
| Energy Services (2) | 2,478 | 547 | 1,931 | | 6,435 | 547 | 5,888 | |
| Real Estate (3) | 2,299 | 1,697 | 602 | 35 | 8,296 | 5,320 | 2,976 | 56 |
| | <u>\$5,617</u> | <u>\$3,001</u> | <u>\$2,616</u> | <u>87</u> | <u>\$17,401</u> | <u>\$7,999</u> | <u>\$9,402</u> | <u>118</u> |

NOTES TO CHART A

- (1) Revenues for the Energy and Facilities Solutions Segment increased 11% for the third quarter and 25% for the first nine months of fiscal 2005 compared to the same periods in fiscal 2004, primarily due to an increase in revenues of approximately \$129,000 in the third quarter and \$499,000 for the first nine months of fiscal 2005 derived from contributions from the business and assets of iTendant, Inc. and Building Performance Engineers, Inc., which were acquired in April 2004 and May 2004, respectively.
- (2) The Energy Services Segment was formed in December 2003 and, therefore, a comparison of the periods would not be meaningful.
- (3) Real Estate Segment revenues increased 35% for the third quarter of fiscal 2005 compared to the same period in fiscal 2004, primarily due to: (a) the sale of an outparcel located in North Fort Myers, Florida for \$515,000; (b) an increase in rental revenues of approximately \$169,000 related to the acquisition of the professional medical office building in Douglasville, Georgia, in April 2004; offset by (c) a decrease in leaseback income of approximately \$86,000 related to the sale of the Company's Kmart leaseback interest in a shopping center in Minneapolis, Minnesota, in September 2004. Real Estate Segment revenues increased 56% for the first nine months of fiscal 2005 compared to the same period in fiscal 2004, primarily due to: (d) the sale of the Company's Kmart leaseback interest in a shopping center in Minneapolis, Minnesota, for \$2,250,000; (e) the sale of the outparcel for \$515,000 mentioned in (a) above; (f) an increase in rental revenues of approximately \$477,000 related to the Company's acquisition mentioned in (b) above; offset by (g) a decrease in leaseback income of approximately \$128,000 related to another Kmart leaseback that was assigned by the Company in October 2003 to the fee owner; and (h) a decrease in leaseback income of approximately \$116,000 related to the sale mentioned in (c) above. Pursuant to SFAS No. 144, Real Estate Segment revenues for all periods presented do not include rental revenues generated by certain owned income-producing properties which are held for sale or have been sold; such revenues have

been reclassified to discontinued operations.

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

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| | January 31, | |
|---|--------------------|--------------|
| | 2005 | 2004 |
| Energy and Facilities Solutions (i) | \$ 786,000 | \$ 495,000 |
| Energy Services (ii) | 4,439,000 | 1,394,000 |
| Real Estate (iii) | 7,169,000 | 6,526,000 |
| Less: Intersegment eliminations (iv) | (528,000) | (506,000) |
| | <hr/> | <hr/> |
| Total Backlog | \$ 11,866,000 | \$ 7,909,000 |
| | <hr/> | <hr/> |

- (i) The increase in backlog is primarily due to the result of the acquisitions of the operating business and the assets of iTendant, Inc. and Building Performance Engineers, Inc. in April 2004 and May 2004, respectively. Revenues from contracts that can be cancelled with less than one year's notice are not included in backlog. As of January 31, 2005, and January 31, 2004, such contracts not included in backlog totaled \$1.3 million and \$1.2 million, respectively, in potential revenue over the ensuing twelve months, assuming cancellation provisions were not invoked.
- (ii) The increase in backlog is primarily due to an increase in customer contracts in the school/government and retail sectors.
- (iii) Included in Real Estate backlog at January 31, 2005, is approximately \$510,000 related to rental income from the Company's acquisition of the professional medical office building in Douglasville, Georgia, in April 2004. Revenues from any contract in which the prospective buyer is not materially at risk are not included in backlog.
- (iv) The intersegment eliminations reported relate to intercompany rent.

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 66% and 62% for the third quarters of fiscal 2005 and 2004, respectively, and 59% and 62% for the first nine months of fiscal 2005 and 2004, 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.

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

| | Third Quarter Ended January 31, | | Percent of Segment Revenues for Third Quarter Ended January 31, | | Nine Months Ended January 31, | | Percent of Segment Revenues for Nine Months Ended January 31, | |
|-------------------------------------|--|----------------|--|-------------|--------------------------------------|----------------|--|-------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Energy and Facilities Solutions (1) | \$ 467 | \$ 383 | 56 | 51 | \$ 1,501 | \$1,206 | 56 | 57 |
| Energy Services (2) | 1,669 | 369 | 67 | 67 | 4,528 | 369 | 70 | 67 |
| Real Estate (3) | 1,568 | 1,104 | 68 | 65 | 4,279 | 3,418 | 52 | 64 |
| | <u>\$3,704</u> | <u>\$1,856</u> | <u>66</u> | <u>62</u> | <u>\$10,308</u> | <u>\$4,993</u> | <u>59</u> | <u>62</u> |

NOTES TO CHART B

- (1) The increase in the dollar amount for the third quarter and for the first nine months of fiscal 2005, compared to the same periods in fiscal 2004, is directly related to the increase in revenues. The change in the percentage of costs and expenses applicable to revenues from continuing operations of the Energy and Facilities Solutions Segment for the third quarter and first nine months of fiscal 2005, compared to the same periods in fiscal 2004, is primarily a result of the change in the mix of services and products.
- (2) The Energy Services Segment was formed in December 2003 and, therefore, a comparison of the periods would not be meaningful.
- (3) The increase in the dollar amount and percentage of costs and expenses applicable to revenues for the third quarter of fiscal 2005, compared to the same period in fiscal 2004, is primarily due to: (a) the cost of sale of real estate related to an outparcel in North Fort Myers, Florida, of approximately \$324,000; and (b) rental operating costs and expenses of approximately \$132,000 generated by the Company's professional medical office building located in Douglasville, Georgia, which was acquired in April 2004. The decrease in the percentage of costs and expenses applicable to the Real Estate Segment's revenues for the first nine months of fiscal 2005, compared to the same period in fiscal 2004, is primarily due to the increased revenues that resulted from the sale of the Company's Kmart leaseback interest in the shopping center in Minneapolis, Minnesota. The cost of the sale of the leaseback interest was \$42,115. The increase in the dollar amount for the first nine months of fiscal 2005,

compared to the same period in fiscal 2004, is primarily due to: (c) the cost of sale of real estate of approximately \$324,000 mentioned in (a) above; and (d) rental operating costs and expenses of approximately \$415,000 due to the acquisition mentioned in (b) above. Pursuant to SFAS No. 144, costs and expenses for all periods presented do not include the costs and expenses of certain owned income-producing properties that are held for sale or have been sold, and do not include the costs of sale of these properties; those costs and expenses have been reclassified to discontinued operations.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
From Continuing Operations

For the third quarters of fiscal 2005 and 2004, total selling, general and administrative expenses (SG&A) from continuing operations, net of intersegment eliminations, were \$1,931,624 and \$1,343,111, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 34% and 45% for the third quarters of fiscal 2005 and 2004, respectively. For the first nine months of fiscal 2005 and 2004, total SG&A expenses from continuing operations, net of intersegment eliminations, were \$6,742,407 and \$4,065,475, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 39% and 51% for the first nine months of fiscal 2005 and 2004, respectively. In reviewing Chart C, the reader should recognize that the level 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)

| | Third Quarter Ended January 31, | | Percent of Segment Revenues for Third Quarter Ended January 31, | | Nine Months Ended January 31, | | Percent of Segment Revenues for Nine Months Ended January 31, | |
|-------------------------------------|---------------------------------|----------------|---|-----------|-------------------------------|----------------|---|-----------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Energy and Facilities Solutions (1) | \$ 622 | \$ 487 | 74 | 64 | \$1,720 | \$1,689 | 64 | 79 |
| Energy Services (2) | 494 | 244 | 20 | 45 | 1,616 | 244 | 25 | 45 |
| Real Estate (3) | 189 | 218 | 8 | 13 | 1,178 | 582 | 14 | 11 |
| Parent (4) | 627 | 393 | 11 | 13 | 2,228 | 1,550 | 13 | 19 |
| | <u>\$1,932</u> | <u>\$1,342</u> | <u>34</u> | <u>45</u> | <u>\$6,742</u> | <u>\$4,065</u> | <u>39</u> | <u>51</u> |

NOTES TO CHART C

- (1) On a dollar and percentage basis, SG&A expenses for the Energy and Facilities Solutions Segment were higher for the third quarter of fiscal 2005, compared to the same period of fiscal 2004, primarily due to: (a) an increase in

bad debt expense related to one customer of approximately \$50,000; and (b) an increase in personnel and personnel related costs of approximately \$123,000; offset by (c) a decrease in rent expense of approximately \$40,000. For the first nine months of fiscal 2005, SG&A expenses were lower on a percentage basis due to an increase in revenues, and were higher on a dollar basis, compared to the same period of fiscal 2004, primarily due to: (d) an increase in bad debt expense related to one customer of approximately \$50,000; (e) an increase in personnel and personnel related costs of approximately \$203,000; offset by (f) a decrease in rent expense of approximately \$92,000; and (g) a decrease in temporary contract labor and consulting expense of \$145,000.

- (2) The Energy Services Segment was formed in December 2003 and, therefore, a comparison of the periods would not be meaningful.
- (3) On a percentage basis, SG&A expenses for the Real Estate Segment were lower for the third quarter of fiscal 2005 primarily due to the increase in revenues. On a dollar and percentage basis,

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SG&A expenses for the Real Estate Segment were higher for the first nine months of fiscal 2005, compared to the same period in 2004, primarily due to: (a) an increase in personnel and personnel costs of approximately \$97,000; (b) an increase of approximately \$410,000 related to legal fees and the conclusion of an arbitration matter with the Company's former asset manager in December 2004. See Footnote 10 to the consolidated financial statements. Pursuant to SFAS No. 144, SG&A expenses for all periods presented do not include SG&A expenses of certain owned income-producing properties that are held for sale or have been sold. These expenses have been reclassified as discontinued operations.

(4) On a percentage basis SG&A expenses, for the third quarter and first nine months of fiscal 2005 were lower due to the increase in revenues. On a dollar basis, SG&A expenses were higher for the third quarter of fiscal 2005, compared to the same periods in 2004, primarily due to: (a) an increase in special tax consulting of approximately \$23,000; and (b) an increase in consulting fees related to Sarbanes-Oxley Act of 2002 of approximately \$50,000. On a dollar basis, SG&A expenses were higher for the first nine months of fiscal 2005, compared to the same periods in 2004, primarily due to: (c) an increase related to the restructuring of the accounting department to a shared services support for all segments of approximately \$261,000; and (d) an increase in personnel and personnel related costs of approximately \$264,000.

Liquidity and capital resources

Between April 30, 2004, and January 31, 2005, working capital decreased by \$2,357,408, primarily due to: (1) a cash payment of approximately \$2.0 million utilized in the restructuring of the loan related to the Company's owned shopping center in Jacksonville, Florida; (2) cash payments of regular and special dividends totaling approximately \$898,000; and (3) cash payments of approximately \$340,000 for leasehold improvements related to both the Energy and Facilities Solutions Segment and Energy Services Segment relocating their main offices to the Company's corporate headquarters building.

Operating activities used cash of \$40,901, primarily due to: (1) a net increase in other current assets and other assets; offset by (2) the sale of the Company's Kmart leaseback interest in a shopping center in Minneapolis, Minnesota; and (3) an increase in trade and subcontractors payables and billings in excess of costs and earnings.

Investing activities used cash of \$716,004, primarily due to: (1) additions to property and equipment, related to the leasehold improvements to the corporate headquarters building mentioned above; (2) additions to income-producing properties and intangible assets; and (3) the acquisition of the operating business and assets of Building Performance Engineers, Inc.

Financing activities used cash of \$3,789,099, primarily due to: (1) the payment related to the restructuring of the loan on the Company's owned shopping center in Jacksonville, Florida; (2) scheduled principal payments of mortgage notes and other debt obligations; and (3) the payments of the regular and special dividends.

Discontinued operations provided cash of \$1,673,558, primarily due to a collection of accounts receivable offset by payoffs of trade and subcontractor accounts in the Construction Segment.

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 sales of real

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estate, the Company has an available bank line of credit. The Company's line of credit, which previously provided for \$4 million in commitments, expired on January 31, 2005, and was renewed in the amount of \$1.5 million, of which \$150,000 is restricted as it secures a letter of credit. The bank line of credit is secured by the Company's investment in a long-term securities bond of \$2.0 million that matures in April 2006, which is recorded on the accompanying balance sheet. The Company can borrow an amount not to exceed 75% of the current market value of the bond, which was approximately \$1,970,000 as of January 31, 2005. The line of credit bears interest at the prime rate or LIBOR plus 2%, and has a commitment fee of 0.375% on any unused portion. The bank line of credit expires on January 31, 2006. No amounts were outstanding under the line of credit as of January 31, 2005.

In October 2004, the Company sold its leaseback interest in a shopping center in Minneapolis, Minnesota, for a price of \$2.25 million. The transaction generated cash proceeds of approximately \$2.2 million.

On February 9, 2005, the Company closed on the sale of its shopping center located in Cincinnati, Ohio, for a sales price of \$3.6 million, resulting in a pre-tax gain of approximately \$850,000. After selling expenses, the sale generated net cash proceeds of approximately \$3.45 million. The Company intends to use the net proceeds from this sale to acquire an additional income-producing property, which would qualify the sale under the Internal Revenue Code Section 1031 for federal income tax deferral, and has placed the net proceeds with a third party intermediary in connection therewith.

The Company anticipates that its equity, line of credit, potential proceeds from sales of real estate, potential cash flow provided by financing or refinancing of debt obligations, 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.

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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 defense, homeland security, employment levels, wage and salary levels, consumer confidence, availability of credit, taxation policies, the Sarbanes-Oxley Act, SEC reporting requirements, interest rates, capital spending, deflation, and inflation could negatively impact the Company and its customers, suppliers, and sources of capital. Any significant 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 the ultimate disposition of legal proceedings in which the Company is involved, including the matters described in previous SEC reports; 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 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 level and volatility of interest rates; the level and volatility of energy prices; 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 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 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. Summaries of the Company's accounting policies that management believes are the most critical are as follows:

Revenue recognition

Energy and facilities solutions 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 either when products are delivered or installed.

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Energy 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 as partial reimbursements of property operating and common area expenses, which are recognized when earned. 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.

Revenues from the sale of real estate are 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.

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

Impairment of long-lived assets, including goodwill, and assets to be disposed of

Long-lived assets and certain intangible assets, including goodwill, 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 costs 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

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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.

Discontinued operations

The Company adopted SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Asset*, effective May 1, 2002, which requires, among other things, that the gains and losses from the disposition of certain income-producing real estate assets and the related historical operating results be reflected as discontinued operations in the statements of operations for all periods presented. Although net earnings is not affected, the Company has reclassified results previously included in continuing operations to discontinued operations for qualifying dispositions pursuant to SFAS 144.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On July 8, 2004, the Company restructured the loan on the Company's owned shopping center in Jacksonville, Florida. The Company paid the lender \$1.5 million as payment in full of the Additional Interest Agreement, which was then terminated. The restructured loan has a principal amount of \$7.8 million, bears interest at 6.125%, and matures on July 1, 2029, but may be called by the lender after July 1, 2011, with thirteen months' notice. Refer to the Company's Quarterly Report on Form 10Q as of July 31, 2004, which updates the Company's disclosures about market risk sensitive debt instruments as of April 30, 2004.

The Company's line of credit, which previously provided for \$4 million in commitments, expired on January 31, 2005, and was renewed in the amount of \$1.5 million, of which \$150,000 is restricted as it secures a letter of credit. The bank line of credit is secured by the Company's investment in a long-term securities bond of \$2.0 million that matures in April 2006, which is recorded on the accompanying balance sheet. The Company can borrow an amount not to exceed 75% of the current market value of the bond, which was approximately \$1,970,000 as of January 31, 2005. The line of credit bears interest at the prime rate or LIBOR plus 2%, and has a commitment fee of 0.375% on any unused portion. The bank line of credit expires on January 31, 2006.

There have been no other material changes since April 30, 2004, except as discussed above. Refer to the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2004, for detailed disclosures about quantitative and qualitative disclosures about market risk.

ITEM 3. LEGAL PROCEEDINGS

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, who subsequently made a demand against API for arbitration and filed a counterclaim. On December 1, 2004, the arbitrator made separate awards in favor of the claim and counterclaim, and as a result, API incurred a net liability in the amount of approximately \$247,000, of which \$97,000 was accrued and expensed in a prior period. The remaining \$150,000 was expensed in the second quarter and nine months ending January 31, 2005, as selling, general and administrative costs in the accompanying statements of operations.

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ITEM 4. 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 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.

There was no change in the Company's internal controls over financial reporting that occurred during the period covered by this quarterly report on Form 10-Q that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company continues to integrate and standardize internal accounting systems across subsidiaries in an effort to prepare for Section 404 of the Sarbanes-Oxley Act, which becomes effective for the Company April 30, 2007.

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PART II. OTHER INFORMATION

ITEM 6. 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

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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.

(Registrant)

Date: March 17, 2005

/s/ Alan R. Abrams

Alan R. Abrams
Chief Executive Officer

Date: March 17, 2005

/s/ Mark J. Thomas

Mark J. Thomas
Chief Financial Officer