

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

**Table of Contents**

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

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

**Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934  
For the quarter ended January 31, 2011  
Commission file number 0-10146  
SERVIDYNE, INC.**

(Exact name of registrant as specified in its charter)

Georgia

58-0522129

(State or other jurisdiction of  
incorporation or organization)

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

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

(Address of principal executive offices) (Zip Code)

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

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated  
Filer

Non-accelerated filer

Smaller Reporting  
Company

(Do not check if a smaller reporting  
company)

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

Yes  No

The number of shares of \$1.00 par value Common Stock of the Registrant outstanding as of February 28, 2011, was 3,675,782.

**TABLE OF CONTENTS**

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

ITEM 4. CONTROLS AND PROCEDURES

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

SIGNATURES

EX-31.1

EX-31.2

EX-32.1

EX-32.2

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**Table of Contents**

***Explanatory Note***

Servidyne, Inc. is filing this Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended January 31, 2011, originally filed with the Securities and Exchange Commission (the "SEC") on March 17, 2011 (the "Original Quarterly Report"), to restate and recast the Condensed Consolidated Balance Sheet as of April 30, 2010, the Condensed Consolidated Statements of Operations for the three and nine month periods ended January 31, 2011 and 2010, the Condensed Consolidated Statements of Cash Flows for the nine month periods ended January 31, 2011 and 2010, and certain footnote disclosures thereto.

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

Upon further analysis during April 2011, the Company determined that it had actually entered into the three-year cumulative book loss position in the fourth quarter of fiscal year 2009. As a result, the Company should not have used future earnings projections to analyze recoverability since the fourth quarter of fiscal 2009. The result of this error is that the Company understated its deferred tax asset valuation allowance by approximately \$600,000 as of April 30, 2010. Additionally, the Company overstated its net loss by approximately \$799,000 and \$600,000 for the three and nine month periods ended January 31, 2011, respectively, and overstated its net earnings by approximately \$7,000 and understated its net loss by approximately \$174,000 for the three and nine month periods ended January 31, 2010, respectively.

See Note 16 to the condensed consolidated financial statements for more information regarding the restatement.

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

Part I Item 1 Financial Statements

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

Part I Item 4 Controls and Procedures

Pursuant to the rules of the SEC, Item 6 of Part II has also been amended to include the currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906. The certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached as Exhibits 31 and 32.

Except as set forth herein, the original filing of the quarterly report has not been amended. The original filing should be read in conjunction with this Amendment No. 1. To the extent not addressed herein or in the original filing, events occurring subsequent to the quarter ended January 31, 2011, have been or will be addressed in the Company's filings with the SEC for subsequent periods.

**Table of Contents**

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

	<b>January 31, 2011</b>	April 30, 2010 (Restated)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,923,907	\$ 1,923,641
Receivables (Note 5):		
Trade accounts and notes, net of allowance for doubtful accounts of \$69,492 and \$58,989, respectively	850,356	953,075
Contracts, net of allowance for doubtful accounts of \$65,069 and \$22,530, respectively, including retained amounts of \$599,802 and \$675,281, respectively (Note 14)	2,859,836	3,337,177
Costs and earnings in excess of billings (Note 14)	476,213	715,129
Assets of discontinued operations (Note 10)	38,141	188,827
Deferred income taxes (Note 16)	342,539	360,097
Other current assets	1,948,011	1,247,844
Total current assets	8,439,003	8,725,790
PROPERTY AND EQUIPMENT, net (Note 2)	4,583,197	4,805,542
ASSETS OF DISCONTINUED OPERATIONS (Note 10)		13,767,227
DEFERRED INCOME TAXES (Note 16)		1,160,371
<b>OTHER ASSETS:</b>		
Real estate held for future development or sale	853,109	853,109
Intangible assets, net (Note 8)	2,197,012	2,395,874
Goodwill (Note 8)	6,354,002	6,354,002
Other assets (Note 9)	2,859,197	2,890,357
Total assets	\$ 25,285,520	\$ 40,952,272
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade and subcontractors payables	\$ 2,015,748	\$ 2,465,112
Accrued expenses	1,755,134	1,378,538
Deferred revenue	440,742	507,383
Billings in excess of costs and earnings	41,500	53,100
Liabilities of discontinued operations (Note 10)	40,285	520,308
Short-term debt and current maturities of long-term debt (Note 13)	330,479	270,592
Total current liabilities	4,623,888	5,195,033
DEFERRED INCOME TAXES (Note 16)	600,663	

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LIABILITIES OF DISCONTINUED OPERATIONS (Note 10)		13,587,832
OTHER LIABILITIES	1,127,105	1,039,633
MORTGAGE NOTES PAYABLE, less current maturities (Note 12)	4,011,188	4,107,996
OTHER LONG-TERM DEBT, less current maturities (Notes 13 and 14)	1,735,378	1,832,000
Total liabilities	12,098,222	25,762,494
COMMITMENTS AND CONTINGENCIES (Note 15)		
SHAREHOLDERS EQUITY:		
Common stock, \$1 par value; 10,000,000 shares authorized; 3,919,173 issued and 3,675,782 outstanding at January 31, 2011; 3,919,773 issued and 3,676,383 outstanding at April 30, 2010	3,919,173	3,919,773
Additional paid-in capital	6,329,223	6,206,521
Retained earnings	3,945,050	6,069,629
Treasury stock (common shares) of 243,391 and 243,390, respectively	(1,006,148)	(1,006,145)
Total shareholders equity	13,187,298	15,189,778
Total liabilities and shareholders equity	\$ 25,285,520	\$ 40,952,272

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents

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

	<b>THIRD QUARTER ENDED JANUARY 31,</b>		<b>NINE MONTHS ENDED JANUARY 31,</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
	<b>(Restated)</b>	(Restated)	<b>(Restated)</b>	(Restated)
<b>REVENUES:</b>				
Building Performance Efficiency ( BPE ) (Note 14)	<b>\$ 5,839,816</b>	\$ 4,119,890	<b>\$ 18,200,690</b>	\$ 11,915,539
Other	<b>101,907</b>	123,122	<b>316,581</b>	330,174
	<b>5,941,723</b>	4,243,012	<b>18,517,271</b>	12,245,713
<b>COST OF REVENUES:</b>				
BPE	<b>4,053,227</b>	2,651,957	<b>13,021,340</b>	7,947,470
Other	<b>173,175</b>	157,397	<b>508,827</b>	509,672
	<b>4,226,402</b>	2,809,354	<b>13,530,167</b>	8,457,142
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>				
	<b>2,230,905</b>	2,457,116	<b>7,275,670</b>	7,133,148
<b>OTHER (INCOME) AND EXPENSES:</b>				
Other income	<b>(78,525)</b>	(5,637)	<b>(122,900)</b>	(70,939)
Interest income	<b>(14)</b>	(20)	<b>(53)</b>	(7,630)
Interest expense	<b>113,749</b>	99,383	<b>334,539</b>	298,724
	<b>35,210</b>	93,726	<b>211,586</b>	220,155
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>				
	<b>(550,794)</b>	(1,117,184)	<b>(2,500,152)</b>	(3,564,732)
<b>INCOME TAX BENEFIT (Note 16)</b>				
	<b>(175,414)</b>	(497,294)	<b>(781,178)</b>	(1,272,387)
<b>LOSS FROM CONTINUING OPERATIONS</b>				
	<b>(375,380)</b>	(619,890)	<b>(1,718,974)</b>	(2,292,345)
<b>DISCONTINUED OPERATIONS (Notes 10 and 16):</b>				
	<b>(3,633)</b>	42,128	<b>(361,661)</b>	133,953

(Loss) earnings from discontinued operations, adjusted for applicable income tax (benefit) expense of (\$2,227), \$26,137, (\$221,663) and \$82,100, respectively				
(Loss) gain on disposition of income-producing properties, adjusted for applicable income tax expense of \$26,206, \$498,017, \$117,350 and \$498,017, respectively	<b>(33,794)</b>	690,622	<b>66,779</b>	690,622
<b>(LOSS) EARNINGS FROM DISCONTINUED OPERATIONS</b>	<b>(37,427)</b>	732,750	<b>(294,882)</b>	824,575
<b>NET (LOSS) EARNINGS</b>	<b>\$ (412,807)</b>	\$ 112,860	<b>\$ (2,013,856)</b>	\$ (1,467,770)
<b>NET (LOSS) EARNINGS PER SHARE (Note 7):</b>				
From continuing operations basic and diluted	<b>\$ (0.10)</b>	\$ (0.17)	<b>\$ (0.47)</b>	\$ (0.62)
From discontinued operations basic and diluted	<b>(0.01)</b>	0.20	<b>(0.08)</b>	0.22
<b>NET (LOSS) EARNINGS PER SHARE BASIC AND DILUTED</b>	<b>\$ (0.11)</b>	\$ 0.03	<b>\$ (0.55)</b>	\$ (0.40)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED</b>	<b>3,675,784</b>	3,685,268	<b>3,676,054</b>	3,688,952

*See accompanying notes to condensed consolidated financial statements.*



**Table of Contents**

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

	<b>NINE MONTHS ENDED</b>	
	<b>JANUARY 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Restated)</b>	<b>(Restated)</b>
Cash flows from operating activities:		
Net loss	<b>\$ (2,013,856)</b>	\$ (1,467,770)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss (earnings) from discontinued operations, net of tax	<b>294,882</b>	(824,575)
(Gain) loss on disposal of assets	<b>(1,385)</b>	1,378
Depreciation and amortization	<b>732,916</b>	741,176
Deferred tax benefit (Note 16)	<b>(795,029)</b>	(1,295,051)
Stock compensation expense	<b>122,101</b>	137,711
Adjustment to cash surrender value of life insurance	<b>(35,390)</b>	(75,122)
Straight-line rent	<b>(2,416)</b>	(23,629)
Provision for doubtful accounts, net	<b>53,042</b>	(56,849)
Changes in assets and liabilities:		
Receivables	<b>527,018</b>	45,429
Costs and earnings in excess of billings	<b>238,916</b>	(77,251)
Other current and long-term assets	<b>(644,938)</b>	141,929
Trade and subcontractors payable	<b>(449,364)</b>	287,584
Accrued expenses and deferred revenue	<b>328,093</b>	(317,216)
Billings in excess of costs and earnings	<b>(11,600)</b>	897,679
Net cash used in operating activities	<b>(1,657,010)</b>	(1,884,577)
Cash flows from investing activities:		
Premiums paid on officers' life insurance policies	<b>(5,464)</b>	
Release of restricted cash held in escrow		(27,464)
Purchase of money market account investment	<b>(500,000)</b>	
Proceeds from termination of split-dollar life insurance agreement	<b>194,601</b>	
Additions to property and equipment	<b>(41,581)</b>	(208,355)
Additions to intangible assets	<b>(274,197)</b>	(415,352)
Proceeds from sale of property and equipment	<b>5,454</b>	2,000
Net cash used in investing activities	<b>(621,187)</b>	(649,171)
Cash flows from financing activities:		
Short-term loan proceeds		100,000
Mortgage repayments	<b>(89,612)</b>	(82,948)
Debt repayments	<b>(150,000)</b>	(185,000)
Repurchase of common stock		(31,345)
Proceeds from other long-term debt	<b>500,000</b>	
Cash dividends paid to shareholders	<b>(110,722)</b>	(148,578)

Net cash provided by (used in) financing activities	<b>149,666</b>	(347,871)
DISCONTINUED OPERATIONS:		
Operating activities	<b>(30,642)</b>	615,579
Investing activities	<b>2,208,932</b>	(24,835)
Financing activities	<b>(49,493)</b>	(231,051)
Net cash provided by discontinued operations	<b>2,128,797</b>	359,693
Net increase (decrease) in cash and cash equivalents	<b>266</b>	(2,521,926)
Cash at beginning of period	<b>1,923,641</b>	4,821,126
Cash at end of period	<b>\$ 1,923,907</b>	\$ 2,299,200
Supplemental disclosure of non-cash investing and financing activities:		
Reduction in cash surrender value of life insurance policies	<b>\$ 412,000</b>	\$
Reduction in loans against interest in cash surrender value of life insurance policies	<b>\$ (412,000)</b>	\$
Change in fair market value of deferred executive compensation plan assets and liabilities	<b>\$ 71,941</b>	\$
<i>See accompanying notes to condensed consolidated financial statements.</i>		

**Table of Contents**

**SERVIDYNE, INC.**

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

**NOTE 1. ORGANIZATION AND BUSINESS**

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

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

**NOTE 2. UNAUDITED STATEMENTS**

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

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

**Table of Contents**

**NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

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

**NOTE 4. EQUITY-BASED COMPENSATION**

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

**Table of Contents**

For the third quarter and the nine (9) months ended January 31, 2011, total equity-based compensation expenses were \$36,728 and \$122,101, respectively, and the related income tax benefits were \$13,956 and \$46,397, respectively. Comparatively, for the third quarter and the nine (9) months ended January 31, 2010, total equity-based compensation expenses were \$45,012 and \$137,711, respectively, and the related income tax benefits were \$17,105 and \$52,330, respectively. All of these expenses are included in selling, general and administrative ( SG&A ) expenses in the condensed consolidated statements of operations. At January 31, 2011, there were total unrecognized equity-based compensation expenses of \$217,110 that are expected to be recognized over a weighted average period of approximately 1.7 years.

**Stock Options**

A summary of stock options activity for the nine (9) months ended January 31, 2011, is as follows:

	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding at April 30, 2010	482,486	\$ 4.46
Granted		
Forfeited		
Expired		
Exercised		
Outstanding at January 31, 2011	482,486	\$ 4.46
Vested at January 31, 2011	482,486	\$ 4.46
Non-vested at January 31, 2011, that are expected to vest		\$

Stock options typically vest over a period of two (2) years. The maximum contractual term of the stock options is ten (10) years. As of January 31, 2011, none of the outstanding stock options, vested or non-vested, were in the money. A summary of information about all stock options outstanding as of January 31, 2011, is as follows:

Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Term (Years)
\$4.42	415,629	1.77
\$4.59	55,440	4.15
\$5.19	917	3.38
\$5.24	10,500	2.37

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

**Table of Contents**

Compensation expenses related to the vesting of stock options, and the related income tax benefits, were not material for any of the periods presented.

**Stock Appreciation Rights ( SARs )**

A summary of SARs activity for the nine (9) months ended January 31, 2011, is as follows:

	SARs	Weighted Average Exercise Price
Outstanding at April 30, 2010	927,425	\$ 3.85
Granted		
Exercised		
Forfeited	(52,500)	4.76
Outstanding at January 31, 2011	874,925	\$ 3.79
Vested at January 31, 2011	188,528	\$ 4.01
Non-vested at January 31, 2011, that are expected to vest	505,699	\$ 3.81

All SARs have a five-year vesting period. Typically, thirty percent (30%) of the SARs will vest on the third (3<sup>rd</sup>) year anniversary of the date of grant, thirty percent (30%) will vest on the fourth (4<sup>th</sup>) year anniversary of the date of grant, and forty percent (40%) will vest on the fifth (5<sup>th</sup>) year anniversary of the date of grant. All SARs have early vesting provisions by which one hundred percent (100%) of the SARs would vest immediately (a) on the date of a change in control of the Company; or (b) if the Company's stock price were to close at or above a certain price for ten (10) consecutive trading days. For SARs granted prior to the stock dividend that occurred in the first quarter of fiscal 2009, the triggering price for early vesting is \$19.05 per share. For SARs granted subsequent to the stock dividend that occurred in the first quarter of fiscal 2009, the triggering price for early vesting for SARs issued under the 2000 Award Plan is \$20.00 per share, and the triggering price for early vesting for SARs not issued under the 2000 Award Plan is \$19.05 per share. The maximum contractual term of all SARs is ten (10) years. As of January 31, 2011, 181,500 of the non-vested outstanding SARs, with a weighted average exercise price of \$2.13, were in the money, whereas none of the vested outstanding SARs were in the money. A summary of information about all SARs outstanding as of January 31, 2011, is as follows:

**Table of Contents**

Exercise Price	Outstanding SARs	Vested SARs	Weighted Average Remaining Contractual Term (Years)
\$3.94	180,495	108,959	5.41
\$3.79	109,830	66,339	5.85
\$4.19	10,500	3,150	6.36
\$6.19	33,600	10,080	6.66
\$5.00	52,500	0	7.23
\$4.76	84,000	0	7.37
\$4.00	22,500	0	7.63
\$2.30	30,000	0	8.36
\$4.00	200,000	0	8.79
\$2.12	20,000	0	8.85
\$2.09	131,500	0	9.15

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

Compensation expenses related to the vesting of SARs for the third quarter and the nine (9) months ended January 31, 2011, were \$36,641 and \$119,843, respectively, and the related income tax benefits were \$13,923 and \$45,539, respectively. Comparatively, related compensation expenses for the third quarter and the nine (9) months ended January 31, 2010, were \$42,402 and \$127,785, respectively, and the related income tax benefits were \$16,113 and \$48,558, respectively.

**Shares of Restricted Stock**

Prior to the expiration of the 2000 Award Plan, the Company periodically awarded shares of restricted stock to employees, non-employee directors and certain outside service providers. The awards were recorded at fair market value on the date of grant and typically vested over a period of one (1) year. As of January 31, 2011, there were no material unrecognized compensation expenses related to grants of shares of restricted stock, which the Company expects to be recognized over the ensuing year.

Compensation expenses related to the vesting of shares of restricted stock for the third quarter and the nine (9) months ended January 31, 2011, were \$87 and \$2,016, respectively, and the related income tax benefits were \$33 and \$766, respectively. Comparatively, the related compensation expenses for the third quarter and the nine (9) months ended January 31, 2010, were \$1,886 and \$6,784, respectively, and the related income tax benefits were \$716 and \$2,578, respectively.

**Table of Contents**

The following table summarizes restricted stock activity for the nine (9) months ended January 31, 2011:

	Number of Shares of Restricted Stock	Weighted Average Fair Value per Share on Grant Date
Non-vested restricted stock at April 30, 2010	3,150	\$ 2.99
Granted		
Forfeited	(600)	2.11
Vested	(2,150)	3.41
Non-vested restricted stock at January 31, 2011	400	\$ 2.09

**NOTE 5. RECEIVABLES**

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

**NOTE 6. SEGMENT REPORTING**

In recent years the Company disposed of the vast majority of its real estate holdings, selling its last owned income-producing property, other than its corporate headquarters facility, in December 2010 (see Note 9 *Discontinued Operations* for more information). As a result, during the third quarter of fiscal 2011, following authoritative guidance in ASC 280, *Segment Reporting*, the Company performed a reassessment of the applicable quantitative and qualitative thresholds for segment reporting and determined that the BPE Segment is the Company's only reportable segment. The Company identified this reportable segment based on internal management reporting and management decision-making responsibilities.

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



**Table of Contents****For the Third Quarter****Ended January 31, 2011**

	<b>BPE</b>	<b>Corporate (1)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers				
BPE Segment services and products:				
Energy savings projects	\$ 4,193,371			\$ 4,193,371
Lighting products	533,125			533,125
Energy management services	301,662			301,662
Fifth fuel management services	34,369			34,369
Productivity software	777,289			777,289
Total revenues from unaffiliated customers	\$ 5,839,816	\$ 101,907	\$	\$ 5,941,723
Intercompany revenue		64,548	(64,548)	
Total revenues from continuing operations	\$ 5,839,816	\$ 166,455	\$ (64,548)	\$ 5,941,723
Earnings (loss) from continuing operations before income taxes	\$ 282,733	\$ (833,612)	\$ 85	\$ (550,794)

**For the Nine Months****Ended January 31, 2011**

	<b>BPE</b>	<b>Corporate (1)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers				
BPE Segment services and products:				
Energy savings projects	\$ 13,015,326			\$ 13,015,326
Lighting products	1,749,037			1,749,037
Energy management services	1,068,248			1,068,248
Fifth fuel management services	125,395			125,395
Productivity software	2,242,684			2,242,684
Total revenues from unaffiliated customers	\$ 18,200,690	\$ 316,581	\$	\$ 18,517,271
Intercompany revenue		203,330	(203,330)	
Total revenues from continuing operations	\$ 18,200,690	\$ 519,911	\$ (203,330)	\$ 18,517,271
Earnings (loss) from continuing operations before income taxes	\$ 64,510	\$ (2,628,391)	\$ 63,729	\$ (2,500,152)

**For the Third Quarter****Ended January 31, 2010**

	<b>BPE</b>	<b>Corporate (1)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers				
BPE Segment services and products:				
Energy savings projects	\$ 2,533,469			\$ 2,533,469
Lighting products	379,244			379,244

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Energy management services	417,386			417,386
Fifth fuel management services				
Productivity software	789,791			789,791
Total revenues from unaffiliated customers	\$ 4,119,890	\$ 123,122	\$	\$ 4,243,012
Intercompany revenue		60,211	(60,211)	
Total revenues from continuing operations	\$ 4,119,890	\$ 183,333	\$ (60,211)	\$ 4,243,012
(Loss) earnings from continuing operations before income taxes	\$ (353,718)	\$ (773,413)	\$ 9,947	\$ (1,117,184)

**For the Nine Months**

**Ended January 31, 2010**

	<b>BPE</b>	<b>Corporate (1)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers				
BPE Segment services and products:				
Energy savings projects	\$ 6,594,695			\$ 6,594,695
Lighting products	1,319,982			1,319,982
Energy management services	1,438,900			1,438,900
Fifth fuel management services				
Productivity software	2,561,962			2,561,962
Total revenues from unaffiliated customers	\$ 11,915,539	\$ 330,174	\$	\$ 12,245,713
Intercompany revenue	141,545	193,573	(335,118)	
Total revenues from continuing operations	\$ 12,057,084	\$ 523,747	\$ (335,118)	\$ 12,245,713
(Loss) earnings from continuing operations before income taxes	\$ (1,096,677)	\$ (2,468,546)	\$ 491	\$ (3,564,732)

**Total Assets by Segment**

	<b>BPE</b>	<b>Corporate (1)</b>	<b>Eliminations</b>	<b>Consolidated</b>
As of January 31, 2011	\$ 15,877,132	\$ 11,037,873	\$ (1,629,485)	\$ 25,285,520
As of April 30, 2010	\$ 15,396,815	\$ 26,345,204	\$ (789,747)	\$ 40,952,272

**Table of Contents**

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

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

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average shares outstanding during the reporting period. Diluted earnings (loss) per share is computed giving effect to dilutive stock equivalents resulting from outstanding stock options, restricted stock and stock appreciation rights. The potential dilutive effect on the number of common shares for the first nine (9) months of fiscal 2011 and fiscal 2010 was 22,075 shares and 0 shares, respectively. Because the Company had a loss from continuing operations for the quarter and the nine (9) months ended January 31, 2011, as well as for the quarter and the nine (9) months ended January 31, 2010, all stock equivalents were anti-dilutive during these periods and, therefore, are excluded when determining the diluted weighted average number of shares outstanding.

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

The gross carrying amounts and accumulated amortization for the Company's intangible assets as of January 31, 2011, and April 30, 2010, are as follows:

	January 31, 2011	
	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets, subject to amortization:</b>		
BPE proprietary technology solutions	\$ 4,330,307	\$ 3,204,988
Acquired computer software	717,532	533,753
Real estate lease costs	35,412	12,819
Customer relationships	404,632	317,540
Deferred loan costs	122,687	104,284
Non-compete agreements	63,323	63,323
Tradenname	61,299	10,896
Other	44,882	44,166
	<b>\$ 5,780,074</b>	<b>\$ 4,291,769</b>

**Intangible assets and goodwill, not subject to amortization:**

Trademark	\$ 708,707
Goodwill	\$ 6,354,002

	April 30, 2010	
	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets, subject to amortization:</b>		
BPE proprietary technology solutions	\$ 4,096,802	\$ 2,827,072
Acquired computer software	676,837	493,885
Real estate lease costs	35,412	5,701
Customer relationships	404,632	286,433
Deferred loan costs	122,687	95,082
Non-compete agreements	63,323	60,684
Tradenname	61,299	7,834
Other	44,882	42,016
	<b>\$ 5,505,874</b>	<b>\$ 3,818,707</b>

**Intangible assets and goodwill, not subject to amortization:**

Trademark \$ 708,707

Goodwill \$ 6,354,002

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

For the nine months ended January 31, 2011	\$ 473,059
For the nine months ended January 31, 2010	448,392
For the quarter ended January 31, 2011	140,371
For the quarter ended January 31, 2010	171,450

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

Remainder of 2011	\$ 136,418
2012	512,091
2013	363,980
2014	263,511
2015	142,113
2016	41,243
Thereafter	28,949
	\$ 1,488,305

**Table of Contents**

The Company completed the annual impairment analysis of goodwill and other indefinite-lived intangible assets in the fiscal quarter ended January 31, 2011. The annual analysis resulted in a determination of no impairment. All of the Company's goodwill and other indefinite-lived intangible assets are assigned to the BPE Segment, which has also been determined to be the reporting unit.

**Goodwill**

The valuation methodologies used to calculate the fair value of the BPE Segment were the discounted cash flow method of the income approach and the guideline company method of the market approach. The Company believes that these two methodologies are commonly used valuation methodologies. GAAP states that both methodologies are acceptable in determining the fair value of a reporting unit. In assessing the fair value of the BPE Segment, the Company believes a market participant would likely consider the cash flow generating ability of the reporting unit, as well as current market multiples of companies facing similar risks in the marketplace.

With the income approach, the cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. Projected cash flows are discounted to present value using an estimated weighted average cost of capital, reflecting returns to both equity and debt investors. The Company believes that this is a relevant and beneficial method to use in determining fair value, because it explicitly considers the future cash flow generating potential of the reporting unit.

In the guideline method of the market approach, the value of a reporting unit is estimated by comparing the subject to similar businesses or guideline companies whose securities are actively traded in public markets. The comparison is generally based on data regarding each of the companies' stock prices and earnings, which is expressed as a fraction known as a multiple. The premise of this method is that if the guideline public companies are sufficiently similar to each other, then their multiples should be similar. The multiples for the guideline companies are analyzed, adjusted for differences as compared to the subject company, and then applied to the applicable business characteristics of the subject company to arrive at an indication of the fair value. The Company believes that the inclusion of a market approach analysis in the fair value calculation is beneficial, because it provides an indication of value based on external, market-based measures.

In the application of the income approach, financial projections were developed for use in the discounted cash flow calculations. Significant assumptions included revenue growth rates; margin rates; SG&A costs; and working capital and capital expenditure requirements over a period of ten (10) years. Revenue growth rate and margin rate assumptions were developed using historical Company data, current backlog, specific customer commitments, status of outstanding customer proposals, and future economic and market conditions expected. Consideration was then given to the SG&A costs, working capital, and capital expenditures required to deliver the revenue and margin determined. The other significant assumption used with the income approach was the assumed rate at which to discount the cash flows. The rate was determined by utilizing the weighted average cost of capital method.

**Table of Contents**

In the income approach model, three (3) separate financial projection scenarios were prepared using the above assumptions: the first used the expected revenue growth rates, the second used higher revenue growth rates, and the third used lower revenue growth rates. The discount rates used in the scenarios ranged from 17% for the lower growth scenario to 19% for the higher growth scenario. In each of the three (3) discounted cash flow models, there was no indication of goodwill impairment. For the assessment of fair value of the BPE Segment based on the income approach, the results of the three (3) scenarios were weighted to produce the applicable fair value indication as follows: 50% for the expected case and 25% each for the other scenarios. The weightings reflect the Company's view of the relative likelihood of each scenario.

In the application of the market approach, the Company considered valuation multiples derived from five (5) public companies that were identified as belonging to a group of industry peers. The applicable financial multiples of the comparable companies were adjusted for profitability and size and then applied to the BPE Segment. This result also indicated that no impairment existed.

The comparable companies selected for the market approach were similar to the BPE Segment in terms of business description and markets served. As such, the Company believes a market participant is likely to consider the market approach in determining the fair value of the BPE Segment. In addition, the Company believes a market participant will consider the cash flow generating capacity of the BPE Segment using an income approach. Both the market and income approaches provide meaningful indications of the fair value of the BPE Segment. The outcomes of the income approach and market approach were weighted 80% and 20%, respectively, with the resulting fair value compared to the carrying value of the BPE Segment. This test of fair value indicated that no impairment existed at January 31, 2011.

**Other Indefinite-Lived Intangible Assets**

The Company holds several trademarks, which comprise all of the other indefinite-lived intangible assets reported by the Company. The relief from royalty valuation methodology was used to analyze the fair value of the Company's trademarks, and the result of the analysis determined that no impairment existed at January 31, 2011.

**NOTE 9. OTHER ASSETS**

**Money Market Account Investment**

On October 15, 2010, the Company purchased a money market account investment in the amount of \$500,000. This investment is classified as a non-current other asset, as it serves as security for the Company's surety program, including the payment and performance bonds required by a significant long-term BPE energy savings project contract.

**Termination of Split Dollar Life Insurance Agreement**

Historically, the Company has been a party to split dollar life insurance agreements pursuant to which, among other things, the Company has agreed to pay premiums on life insurance policies for certain executive officers of the Company. The cash surrender values of these insurance policies are recorded as long-term other assets in the Company's condensed consolidated balance sheet. As of April 30, 2010, the Company was a party to three (3) split dollar agreements regarding policies insuring the lives of current and former executive officers of the Company, and had long-term loans of approximately \$982,000 against its interest in the cash surrender value of these policies.

**Table of Contents**

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

**NOTE 10. DISCONTINUED OPERATIONS**

On December 15, 2010, the Company sold its owned shopping center in Smyrna, Tennessee, for a sales price of approximately \$4.3 million. The sale generated net cash proceeds of approximately \$250,000, after deducting approximately \$125,000 for closing costs and prorations, and net of the approximately \$3.9 million mortgage note, which was assumed by the buyer. The Company recognized a pre-tax loss on the sale of approximately \$6,000. Prior to the sale, the Company recorded an impairment loss of approximately \$590,000 in the second quarter of fiscal 2011. The impairment loss has been reclassified to Loss from discontinued operations in the condensed consolidated statement of operations for the nine months ended January 31, 2011.

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

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



**Table of Contents**

As a result of these real estate transactions, the Company's financial statements have been prepared with the results of operations and cash flows of these three (3) disposed properties shown as discontinued operations. All historical statements have been recast in accordance with GAAP. Summarized financial information for discontinued operations for the third quarter and the nine (9) months ended January 31, 2011, and January 31, 2010, is as follows:

	<b>Third Quarter Ended January 31,</b>		<b>Nine Months Ended January 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Rental revenues	<b>\$ 83,305</b>	\$ 617,932	<b>\$ 511,371</b>	\$ 1,852,338
Rental property operating expenses, including depreciation	<b>89,165</b>	549,667	<b>505,136</b>	1,636,285
Loss on impairment of income-producing property			<b>589,559</b>	
Operating (loss) earnings from discontinued operations	<b>(5,860)</b>	68,265	<b>(583,324)</b>	216,053
Income tax benefit (expense)	<b>2,227</b>	(26,137)	<b>221,663</b>	(82,100)
Operating (loss) earnings from discontinued operations, net of tax	<b>(3,633)</b>	42,128	<b>(361,661)</b>	133,953
(Loss) gain on disposition of income-producing properties	<b>(7,588)</b>	1,188,639	<b>184,129</b>	1,188,639
Income tax expense	<b>(26,206)</b>	(498,017)	<b>(117,350)</b>	(498,017)
(Loss) gain on disposition of income-producing properties, net of tax	<b>(33,794)</b>	690,622	<b>66,779</b>	690,622
(Loss) earnings from discontinued operations, net of tax	<b>\$(37,427)</b>	\$ 732,750	<b>\$(294,882)</b>	\$ 824,575

**NOTE 11. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

**Table of Contents**

Financial instruments in the Company's condensed consolidated financial statements that are measured and recorded at fair value on a recurring basis are (1) executive deferred compensation plan and directors' deferred compensation plan assets, which are included in "Other assets" in the condensed consolidated balance sheet; and (2) the corresponding liability owed to the plans' participants that is equal in value to the plans' assets, which is included in "Other liabilities" in the condensed consolidated balance sheet. Given that the plans' assets are invested in mutual funds and money market funds for which quoted market prices are readily available, the quoted prices are considered Level 1 inputs. Based on the quoted prices of the related investments, the fair value of the executive deferred compensation plan and directors' deferred compensation plan assets and the corresponding liability were \$1,034,555 and \$947,023 as of January 31, 2011, and April 30, 2010, respectively.

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

The Company had a certificate of deposit ("CD") in the amount of \$450,000 as of January 31, 2011, which is included in "Other assets" in the Company's condensed consolidated balance sheet. This CD secures a letter of credit, which is required by the terms of the mortgage on the Company's owned corporate headquarters building. Based on the rates currently available on certificates of deposit with similar terms, the CD's carrying amount approximates its fair value as of January 31, 2011.

The Company had a money market account ("MMA") investment in the amount of \$500,000 as of January 31, 2011, which is included in "Other assets" in the Company's condensed consolidated balance sheet (see Note 9 "Other Assets" for more information). Based on the rates currently available on money market accounts with similar terms, this MMA investment's carrying amount approximates its fair value as of January 31, 2011.

Based on the borrowing rates currently available for mortgage notes with similar terms and average maturities, the fair value of the mortgage note payable on the Company's corporate headquarters building was \$4,233,067 and \$4,368,245 as of January 31, 2011, and April 30, 2010, respectively. Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of other debt was \$1,936,419 and \$1,950,109 as of January 31, 2011, and April 30, 2010, respectively.

*Non-Recurring Measurements*

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company examines long-lived assets for such indications of impairment on a quarterly basis. The results of this examination determined that no impairment of long-lived assets existed at January 31, 2011.

**Table of Contents**

**NOTE 12. MORTGAGE NOTE PAYABLE**

At January 31, 2011, the Company had a mortgage note payable of approximately \$4.0 million on the corporate headquarters building, which is pledged as collateral on the note. Exculpatory provisions of the mortgage loan limit the Company's liability for repayment to its interest in the mortgaged property. The mortgage loan contains a provision that requires a Company subsidiary to maintain a net worth of at least \$2 million. The subsidiary referred to in this loan provision had a net worth of approximately \$16.3 million as of January 31, 2011. The mortgage note contains no other financial covenants.

**NOTE 13. OTHER LONG-TERM DEBT**

Other long-term debt at January 31, 2011, included a note payable of approximately \$850,000, which originated from the acquisition of a wholly-owned subsidiary in fiscal year 2004. In the third quarter of fiscal 2011, the Company and the lender entered into an agreement to amend the note as follows:

The maturity date of the note, originally December 18, 2011, was amended such that \$150,000 is due on October 19, 2011, with the remaining principal balance of \$700,000 maturing on January 19, 2016; and

The interest rate was changed from the prime rate plus 1.5% to a fixed rate of 6% per annum.

The note continues to be secured by the general assets of a Company subsidiary.

**NOTE 14. RELATED PARTY TRANSACTIONS**

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

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

The Company recognized approximately \$1,224,000 and \$4,999,000 in revenue for the third quarter and the nine (9) months ended January 31, 2011, respectively, from an affiliate of a member of the Board of Directors associated with a contract for energy savings projects. The related accounts receivable and costs and earnings in excess of billings as of January 31, 2011, were approximately \$770,000 and \$87,000, respectively.

**Table of Contents**

**NOTE 15. COMMITMENTS AND CONTINGENCIES**

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

**NOTE 16. RESTATEMENT OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

Upon further analysis during April 2011, the Company determined that it had actually entered into the three-year cumulative book loss position in the fourth quarter of fiscal year 2009. As a result, the Company should not have used future earnings projections to analyze recoverability since the fourth quarter of fiscal 2009. The result of this error is that the Company understated its deferred tax asset valuation allowance by approximately \$600,000 as of April 30, 2010. Additionally, the Company overstated its net loss by approximately \$799,000 and \$600,000 for the three and nine month periods ended January 31, 2011, respectively, and overstated its net earnings by approximately \$7,000 and understated its net loss by approximately \$174,000 for the three and nine month periods ended January 31, 2010, respectively.

**Table of Contents**

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

	<b>As of April 30, 2010</b>		
	<b>Originally Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated balance sheet accounts impacted by restatement:</b>			
Deferred income taxes (current)	\$ 401,215	\$ (41,118)	\$ 360,097
Total current assets	8,766,908	(41,118)	8,725,790
Deferred income taxes (non-current)	1,718,954	(558,583)	1,160,371
Total assets	41,551,973	(599,701)	40,952,272
Retained earnings	6,669,330	(599,701)	6,069,629
Total shareholders equity	15,789,479	(599,701)	15,189,778
Total liabilities and shareholders equity	41,551,973	(599,701)	40,952,272
	<b>For the Third Quarter Ended January 31, 2011</b>		
	<b>Originally Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated statement of operations accounts impacted by restatement:</b>			
Income tax expense (benefit)	\$ 623,765	\$(799,179)	\$ (175,414)
Loss from continuing operations	(1,174,559)	799,179	(375,380)
Net loss	(1,211,986)	799,179	(412,807)
Net loss per share from continuing operations	\$ (0.32)	\$ 0.22	\$ (0.10)
Net loss per share basic and diluted	(0.33)	0.22	(0.11)
	<b>For the Nine Months Ended January 31, 2011</b>		
	<b>Originally Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated statement of operations accounts impacted by restatement:</b>			
Income tax benefit	\$ (181,477)	\$(599,701)	\$ (781,178)
Loss from continuing operations	(2,318,675)	599,701	(1,718,974)
Net loss	(2,613,557)	599,701	(2,013,856)
Net loss per share from continuing operations	\$ (0.63)	\$ 0.16	\$ (0.47)
Net loss per share basic and diluted	(0.71)	0.16	(0.55)
<b>Consolidated statement of cash flows accounts impacted by restatement:</b>			
Net loss	\$ (2,613,557)	\$ 599,701	\$ (2,013,856)
Deferred tax benefit	(195,328)	(599,701)	(795,029)

**Table of Contents**

	<b>For the Third Quarter Ended January 31, 2010</b>		
	<b>Originally Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated statement of operations accounts impacted by restatement:</b>			
Income tax benefit	\$ (504,416)	\$ 7,122	\$ (497,294)
Loss from continuing operations	(612,768)	(7,122)	(619,890)
Net earnings	119,982	(7,122)	112,860
Net loss per share from continuing operations	\$ (0.17)	\$	\$ (0.17)
Net earnings per share basic and diluted	0.03		0.03

	<b>For the Nine Months Ended January 31, 2010</b>		
	<b>Originally Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
<b>Consolidated statement of operations accounts impacted by restatement:</b>			
Income tax benefit	\$ (1,446,531)	\$ 174,144	\$ (1,272,387)
Loss from continuing operations	(2,118,201)	(174,144)	(2,292,345)
Net loss	(1,293,626)	(174,144)	(1,467,770)
Net loss per share from continuing operations	\$ (0.57)	\$ (0.05)	\$ (0.62)
Net loss per share basic and diluted	(0.35)	(0.05)	(0.40)

<b>Consolidated statement of cash flows accounts impacted by restatement:</b>			
Net loss	\$ (1,293,626)	\$ (174,144)	\$ (1,467,770)
Deferred tax benefit	(1,469,195)	174,144	(1,295,051)

Additionally, subsequent to the filing of Form 10-Q for the quarter ended January 31, 2011, the Company has included a disclosure associated with a BPE contract with a related party. See Note 14 Related Party Transactions for more information.

**Table of Contents**

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

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

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

The Company's financial condition as of April 30, 2010, the results of operations for the three and nine month periods ended January 31, 2011 and 2010, and the cash flows for the nine month periods ended January 31, 2011 and 2010, have been restated. All information and disclosures in this management's discussion and analysis have been updated to reflect the effects of such restatement. For a more detailed description of the restatement, see Note 16 of the Notes to the accompanying condensed consolidated financial statements in this Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended January 31, 2011.

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

**OVERVIEW**

The Company entered fiscal year 2011 with significant momentum as the result of an order backlog at its BPE Segment of \$15.4 million, which at that time represented the highest backlog achieved by BPE in the Company's history. The Company recognized historic levels of BPE revenues during the first nine (9) months of fiscal year 2011. In addition, BPE's new order activity has shown continued strength in fiscal 2011, with order activity exceeding revenues during the period. This has resulted in a new record backlog of \$16.4 million as of January 31, 2011, which was 7% higher than the backlog at April 30, 2010, and was 90% higher than the backlog at January 31, 2010. The new order activity in the first nine (9) months of fiscal 2011 included the award of a \$5.8 million design-build retro-commissioning project for the Georgia Department of Corrections under a contract with the Georgia Environmental Finance Authority, which the Company commenced during the fiscal second quarter and expects to substantially complete by the end of calendar year 2011.

More specifically, BPE generated \$18.2 million in revenues, \$65,000 in pre-tax earnings (including intercompany costs and expenses), and \$621,000 in EBITDA<sup>1</sup> (pre-tax earnings, plus interest, depreciation and amortization of \$557,000) in the first nine (9) months of fiscal 2011, including \$5.8 million of revenues, \$283,000 of pre-tax earnings, and \$440,000 in EBITDA (pre-tax earnings, plus interest, depreciation and amortization of \$157,000) in the third quarter. The third quarter revenues represented an increase of 42% compared to the same period in fiscal 2010, including a 66% year-over-year increase in Energy Savings Projects revenues. The revenues in the first nine (9) months of fiscal 2011 represented an increase of 53% compared to the same period in fiscal 2010, including a 97% year-over-year increase in Energy Savings Projects revenues.

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

**Table of Contents**

The Company believes that the substantial increase in BPE's order activity, revenues and profitability over the last year is a direct result of three (3) distinct factors: the success of the Company's enhanced sales and marketing efforts, which were initiated in fiscal 2009; an overall improvement in the capital spending environment for many of the BPE customers; and the infusion of U.S. government expenditures for energy efficiency upgrades of government facilities. The Company believes that these factors will continue to be favorable for the BPE Segment during the remainder of fiscal year 2011 and beyond. Management expects that the BPE Segment will generate positive EBITDA for the full current fiscal year, with revenues and order activity remaining strong. However, EBITDA on a quarterly basis is more sensitive to fluctuations in the timing of revenues and may not be positive in an individual quarter. Moreover, management believes that a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company's consolidated operations. See the Liquidity section below for more information.

To support ongoing revenue growth, the Company anticipates continued strong order growth from customers in the government sector, the private sector and from utility companies. The Company offers government sector customers many of the same offerings it provides to private sector customers, including energy savings projects and other energy efficiency-focused products and services, by entering into direct contracts and by acting as a subcontractor to large energy services companies ( ESCOs ). The Company has a long history of providing energy efficiency services for a wide range of government facilities, including U.S. military bases, federal, state and county prisons, large public educational facilities, school districts, and a variety of other federal, state, county and municipal buildings and facilities. The Company has existing business relationships with a number of government entities and with several of the large ESCOs currently authorized by the U.S. Department of Energy to perform federally-funded projects to improve the energy efficiency of government buildings. In addition, due to the growing corporate awareness of the investment potential of sustainable and energy efficient facility upgrades, the Company expects to build on its recent successes in the private sector by continuing to broaden its customer base of Fortune 500 companies and large asset and property managers that own or manage numerous facilities across the country. The Company also has recently developed relationships with a number of major U.S. utility companies, who are actively seeking the Company's energy efficiency expertise, demand response services, project management capabilities, and engineering and implementation services to offer to their end-use customers' buildings and facilities. Demand from utilities is growing rapidly, driven by increasing pressures on these companies to provide more power without adding a commensurate amount of new generating capacity, as construction of new generating plants in most regions of the U.S. is either politically unpopular or economically unfeasible, or both. As the combined result of the many funded and proposed government mandates to improve the efficiency of federal, state and local government facilities, the growing awareness in corporate America of the benefits of sustainability and energy efficiency, and the increasing pressures faced by utility companies to meet customer demand, the Company believes that it is well positioned for significant ongoing revenue growth.

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



**Table of Contents**

While the market demand for the BPE s offerings appears to be strong and growing, there can be no assurance that this will result in sustained revenue growth, particularly if recent improvements in macro-economic conditions do not continue, or if such conditions were to worsen, for an extended period of time.

**Discontinued Operations**

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

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

**Liquidity**

The Company s cash decreased by \$484,000 during the third quarter of fiscal 2011, as operating activities used cash of \$266,000. On a year-to-date basis, the Company s cash remained unchanged at January 31, 2011, from the balance at April 30, 2010, as operating and investing activities used cash of \$1,657,000 and \$621,000, respectively, offset primarily by cash generated from sales of real estate assets. Despite the recent successes and achievements of the BPE Segment described above, the Company s loss from continuing operations in fiscal 2011 resulted in significant usage of the Company s cash, continuing the trend of substantial cash usage to fund operating losses in several consecutive preceding fiscal quarters. Although the BPE Segment generated positive EBITDA and net earnings from operations in three of the last four fiscal quarters, and is expected to generate positive EBITDA and net earnings for the full fiscal year 2011, a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company s consolidated operations. The Company believes that it has, or can obtain, sufficient capital resources to operate its business in the ordinary course until the BPE Segment begins to generate sufficient sustained cash flow to fund the Company s consolidated operations, which it may seek to obtain by using any of the methods described below in Liquidity and Capital Resources; however, there can be no assurance that the Company will be successful in these efforts.

Historically, earnings before taxes have been indicative of the BPE Segment s cash flows, before taking into account the timing of receivables and payables. Despite the revenue growth, positive EBITDA and earnings that the Company expects the BPE Segment to achieve for the full fiscal year 2011 and beyond, the timing of when BPE will generate consistent and sustainable cash flow from operations will be dependent on a number of factors, including the timing of collections on customer receivables and payments to vendors and suppliers. In addition, there can be no guarantee that the expected revenue growth, positive EBITDA and earnings at the BPE Segment will actually occur, particularly if recent improvements in macro-economic conditions do not continue, or if such conditions were to worsen, for an extended period of time. See Liquidity and Capital Resources later in this discussion and analysis section for more information.

**Table of Contents****RESULTS OF OPERATIONS**

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

**REVENUES****From Continuing Operations**

For the third quarter of fiscal 2011, consolidated revenues from continuing operations, prior to intercompany revenues, were \$5,941,722 compared to \$4,243,012 for the third quarter of fiscal 2010, an increase of approximately 40%. For the first nine (9) months of fiscal 2011, consolidated revenues from continuing operations, prior to intercompany revenues, were \$18,517,271, compared to \$12,245,713 for the first nine (9) months of fiscal 2010, an increase of approximately 51%.

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

(Dollars in Thousands)

	Third Quarter Ended		Amount Change	Percentage Change	Nine Months Ended		Amount Change	Percentage Change
	January 31, 2011	2010			January 31, 2011	2010		
BPE (1)	\$5,840	\$4,120	\$1,720	42	\$18,201	\$11,916	\$6,285	53
Other	102	123	(21)	(17)	317	330	(13)	(4)
	\$5,942	\$4,243	\$1,699	40	\$18,518	\$12,246	\$6,272	51

**Table of Contents****NOTES TO CHART A**

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

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

(Dollars in Thousands)

	Third Quarter Ended		Amount		Percentage		Nine Months Ended		Amount		Percentage	
	January 31, 2011	January 31, 2010	Change	Change	January 31, 2011	January 31, 2010	Change	Change				
Energy Savings Projects	\$4,194	\$2,534	\$1,660	66	\$13,016	\$6,595	\$6,421	97				
Lighting Products	533	379	154	41	1,749	1,320	429	33				
Energy Management Services	301	417	(116)	(28)	1,068	1,439	(371)	(26)				
Fifth Fuel Management Services	34		34		125		125					
Productivity Software	778	790	(12)	(2)	2,243	2,562	(319)	(12)				
	\$5,840	\$4,120	\$1,720	42	\$18,201	\$11,916	\$6,285	53				

BPE Segment revenues increased by approximately \$1,720,000, or 42%, in the third quarter of fiscal 2011 compared to the same period in fiscal 2010, primarily due to:

(a) an increase in energy savings (lighting and mechanical) project revenues of approximately \$1,660,000; and

(b) an increase in lighting product revenues of approximately \$154,000;

partially offset by:

(c) a decrease in energy management service revenues of approximately \$116,000.

BPE Segment revenues increased by approximately \$6,285,000, or 53%, in the first nine (9) months of fiscal 2011 compared to the same period in fiscal 2010, primarily due to:

(a) an increase in energy savings (lighting and mechanical) project revenues of approximately \$6,421,000;

(b) an increase in lighting product revenues of approximately \$429,000; and

(c) approximately \$125,000 in revenues from the Company's recently-introduced Fifth Fuel Management service offering;

partially offset by:

(d) a decrease in energy management service revenues of approximately \$371,000; and

(e) a decrease in productivity software revenues of approximately \$319,000.

The following table indicates the backlog of BPE products and services and rental revenues.

	January 31,		Increase (Decrease)	
	2011	2010	Amount	Percentage
BPE (1)	\$16,374,000	\$8,602,000	\$7,772,000	90
Other (2)	416,000	401,000	15,000	4

Total Backlog	\$16,790,000	\$9,003,000	\$7,787,000	86
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**Table of Contents**

(1) BPE backlog at January 31, 2011, increased by approximately \$7,772,000, or 90%, compared to the year-earlier period, primarily due to:

(a) an increase of approximately \$6,838,000 in energy savings (lighting and mechanical) projects;

(b) approximately \$859,000 in backlog from BPE's Fifth Fuel Management® service offering; and

(c) an increase of approximately \$367,000 in energy management consulting services.

partially offset by:

(d) a decrease of approximately \$176,000 in lighting products; and

(e) a decrease of approximately \$116,000 in productivity software products and services.

BPE backlog includes some contracts that can be cancelled by customers with less than one (1) year's notice. This presentation assumes that such cancellation provisions will not be invoked. The value of such contracts included in the prior year's backlog that were subsequently cancelled was approximately \$165,000, or 1.9%.

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

The Company estimates that a substantial majority of the backlog at January 31, 2011, will be recognized prior to January 31, 2012. No assurance can be given as to future backlog levels or whether the Company will actually realize earnings from revenues that result from the backlog at January 31, 2011.

**COST OF REVENUES**

**From Continuing Operations**

As a percentage of total revenues from continuing operations (see Chart A), the total applicable costs of revenues (see Chart B), prior to intercompany costs, were 71% and 66% for the third quarters of fiscal 2011 and 2010, respectively, and were 73% and 69% for the first nine (9) months of fiscal 2011 and 2010, respectively. In reviewing Chart B, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented.

**Table of Contents**

The figures in Chart B are prior to intercompany costs.

**CHART B**  
**COST OF REVENUES**  
**FROM CONTINUING OPERATIONS**  
(Dollars in Thousands)

	Third Quarter Ended		Percentage of Revenues for the Third Quarter Ended		Nine Months Ended		Percentage of Revenues for the Nine Months Ended	
	January 31, 2011	2010	January 31, 2011	2010	January 31, 2011	2010	January 31, 2011	2010
BPE (1)	\$4,053	\$2,652	69	64	\$13,021	\$7,947	72	67
Other	173	157	170	128	509	510	161	154
	\$4,226	\$2,809	71	66	\$13,530	\$8,457	73	69

**NOTES TO CHART B**

- (1) BPE Segment cost of revenues increased by approximately \$1,401,000, or 53%, and by approximately \$5,074,000, or 64%, in the third quarter and the first nine (9) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to a corresponding increase in revenues (See Chart A).

On a percentage-of-revenues basis, BPE Segment cost of revenues increased by approximately 5% in both the third quarter and the first nine (9) months of fiscal 2011 compared to the same periods in fiscal 2010, primarily due to changes in the mix of services and products and an increasingly competitive market pricing environment for energy savings projects.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

From Continuing Operations

As a percentage of total revenues from continuing operations (see Chart A), the total applicable selling, general and administrative expenses ( SG&A ) (see Chart C), prior to intercompany expenses, were 38% and 58%, for the third quarters of fiscal 2011 and 2010, respectively, and were 39% and 58% for the first nine (9) months of fiscal 2011 and 2010, respectively. In reviewing Chart C, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented. The percentages for BPE are based upon expenses as they relate to BPE revenues from continuing operations (see Chart A). The percentages for Corporate and totals are based upon expenses as they relate to total consolidated revenues from continuing operations.

**Table of Contents**

The figures in Chart C are prior to intercompany expenses.

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

	Third Quarter Ended		Percentage of Revenues for the Third Quarter Ended		Nine Months Ended		Percentage of Revenues for the Nine Months Ended	
	January 31, 2011	2010	January 31, 2011	2010	January 31, 2011	2010	January 31, 2011	2010
BPE (1)	\$1,210	\$1,530	21	37	\$4,215	\$4,252	23	36
Corporate (2)	1,021	927	17	21	3,061	2,881	16	23
	\$2,231	\$2,457	38	58	\$7,276	\$7,133	39	58

**NOTES TO CHART C**

- (1) BPE Segment SG&A expenses decreased by approximately \$320,000, or 21%, in the third quarter of fiscal 2011 compared to the same period in fiscal 2010, primarily due to lower personnel-related costs, project development expenses, and sales and marketing expenses.

On a percentage-of-revenue basis, BPE Segment SG&A expenses decreased from 37% of revenues to 21% of revenues, and from 36% of revenues to 23% of revenues, in the third quarter and the first nine (9) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to the increases in revenues (see Chart A) without corresponding increases in expenses.

- (2) Corporate SG&A expenses increased by approximately \$94,000, or 10%, and by approximately \$180,000, or 6%, in the third quarter and the first nine (9) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to increases in consulting, legal, and non-employee directors' fees and investor relations expenses, partially offset by lower personnel-related costs and reductions in audit and tax fees.

On a percentage-of-revenue basis, Corporate SG&A expenses decreased from 21% of revenues to 17% of revenues, and from 23% of revenues to 16% of revenues, in the third quarter and the first nine (9) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to the increases in revenues (see Chart A) without corresponding proportional increases in expenses.

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

Consolidated loss from continuing operations before income taxes was \$550,794 in the third quarter of fiscal 2011, compared to \$1,117,184 in the same period of fiscal 2010, an improvement of \$566,390, or 51%. For the first nine (9) months of fiscal 2011, the consolidated loss from continuing operations before income taxes was \$2,500,152, compared to \$3,564,732 in the same period of fiscal 2010, an improvement of \$1,064,580, or 30%.

**Table of Contents**

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

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

	Third Quarter Ended		Increase (Decrease) Amount	Nine Months Ended		Increase (Decrease) Amount
	January 31,			January 31,		
	2011	2010		2011	2010	
BPE (1)	\$ 581	\$ (76)	\$ 657	\$ 964	\$ (275)	\$ 1,239
Corporate (2)	(1,132)	(1,041)	(91)	(3,464)	(3,290)	(174)
Total	\$ (551)	\$ (1,117)	\$ 566	\$ (2,500)	\$ (3,565)	\$ 1,065

**NOTES TO CHART D**

(1) BPE Segment earnings before income taxes of approximately \$581,000 in the third quarter of fiscal 2011 represents growth in earnings of approximately \$657,000 compared to the same period in fiscal 2010, primarily due to an increase in revenues of approximately \$1,720,000 (see Chart A), an increase in gross margin of approximately \$319,000, and a decrease in SG&A expenses of approximately \$320,000 (see Chart C).

BPE Segment earnings before income taxes of approximately \$964,000 in the first nine (9) months of fiscal 2011 represents growth in earnings of approximately \$1,239,000 compared to the same period in fiscal 2010, primarily due to an increase in revenues of approximately \$6,285,000 (see Chart A), an increase in gross margin of approximately \$1,211,000, and a decrease in SG&A expenses of approximately \$37,000 (see Chart C).

(2) Corporate loss before income taxes increased by approximately \$91,000, or 9%, and by approximately \$174,000, or 5%, in the third quarter and the first nine (9) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to increases in SG&A expenses of approximately \$94,000 and \$180,000, respectively (see Chart C).

**INCOME TAX BENEFIT**

The Company's effective rate for income taxes, based upon estimated annual income tax rates, approximated 31.2% of the loss from continuing operations before income taxes in the first nine (9) months of fiscal 2011 and 35.7% in the comparable period in fiscal year 2010. The effective rates in both periods reflect the valuation allowances recorded against the Company's state deferred tax assets as described in Note 16 to the condensed consolidated financial statements.

**DISCONTINUED OPERATIONS**

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



**Table of Contents**

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

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

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

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash was virtually unchanged at the end of the fiscal third quarter compared to the prior fiscal year end, amounting to approximately \$1,924,000 at both April 30, 2010, and January 31, 2011. The Company's working capital increased by approximately \$282,000, or 8%, between April 30, 2010, and January 31, 2011.

The following describes the changes in the Company's cash from April 30, 2010, to January 31, 2011:

Operating activities used cash of approximately \$1,657,000, primarily as a result of:

- (a) current year losses from continuing operations before depreciation, amortization, and income taxes of approximately \$1,767,000;
- (b) a decrease in trade accounts payable, accrued expenses, and other liabilities of approximately \$121,000; and

**Table of Contents**

(c) an increase in other current and long-term assets of approximately \$645,000; partially offset by:

(d) a decrease in net accounts receivable of approximately \$580,000; and

(e) a decrease in costs and earnings in excess of billings of approximately \$239,000.

Investing activities used cash of approximately \$621,000, primarily as a result of:

(a) \$500,000 used for the purchase of a held-to-maturity investment;

(b) approximately \$274,000 used for additions to intangible assets, primarily related to enhancements to the BPE Segment's proprietary technology solutions; and

(c) approximately \$42,000 used for additions to property and equipment, primarily related to the purchase of computer hardware;

partially offset by:

(d) proceeds of approximately \$195,000 from the termination of a split-dollar life insurance agreement.

Financing activities provided cash of approximately \$150,000, primarily as a result of:

(a) proceeds from other long-term debt of \$500,000;

partially offset by:

(b) scheduled principal payments on other debt of approximately \$150,000;

(c) scheduled principal payments on the mortgage note on the corporate headquarters building of approximately \$90,000; and

(d) payment of the regular quarterly cash dividends to shareholders of approximately \$111,000.

Discontinued operations provided cash of approximately \$2,129,000, primarily as a result of the sales of real estate assets.

During the third quarter of fiscal 2011, operating activities used approximately \$266,000 of cash, primarily due to the operating loss in the quarter, whereas during the first nine (9) months of fiscal 2011, operating activities used approximately \$1,657,000 of cash, again primarily due to the operating loss in the period. The significantly higher BPE Segment revenues in the first nine (9) months of fiscal 2011, in combination with BPE's increased order activity and high backlog at January 31, 2011, as discussed above, are expected to result in substantially higher full-year revenues in fiscal 2011. As a result, management believes that the BPE Segment will be able to generate cash flow from operations for the year. However, management believes that a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company's consolidated operations. Recent growth in BPE's business has strained the Company's capital resources. However, the Company believes that it has sufficient capital resources on hand to operate its business in the ordinary course for the next twelve (12) months. The Company also currently believes that it has, or can obtain, sufficient capital resources to continue to operate its business in the ordinary course until the BPE Segment begins to generate sufficient sustained cash flow to fully fund the Company's consolidated operations, although there can be no guarantee that this will be the case, particularly if recent improvements in macro-economic conditions do not continue, or if such conditions were to worsen, for an extended period of time.

**Table of Contents**

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

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

The Company in recent years has not utilized bank lines of credit for operating purposes and does not currently have in place any such line of credit. In October 2010, the Company borrowed \$500,000 from related parties through the issuance of promissory notes (see the *Sales of Promissory Notes to Related Parties* section below for more information). Additionally, as of January 31, 2011, the Company has drawn \$570,000 in loans against its interest in the cash surrender value of certain life insurance policies. There is currently minimal additional borrowing capacity left under such policies.

In the event that currently available cash, cash generated from operations, and cash generated from real estate sales were not sufficient to meet future operating cash requirements, the Company would need to sell additional real estate or other assets at potentially otherwise unacceptable prices, seek external debt financing or refinancing of existing debt, seek to raise funds through the issuance of equity securities, or limit growth or curtail operations to levels consistent with the constraints imposed by the available cash and cash flow, or any combination of these options.

Depending on the form of such additional capital, the equity interests of the Company's existing shareholders could be diluted as a result. In addition, the development of the BPE Segment's Fifth Fuel Management service offering to its full potential will require the investment of additional capital, which the Company may seek to raise through outside sources or the sale of assets.

**Table of Contents**

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

**Sales of Promissory Notes to Related Parties**

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

**Termination of Split Dollar Life Insurance Agreement**

Historically, the Company has been a party to split dollar life insurance agreements pursuant to which, among other things, the Company has agreed to pay premiums on life insurance policies for certain executive officers of the Company. The cash surrender values of these insurance policies are recorded as long-term other assets in the Company's condensed consolidated balance sheet. As of April 30, 2010, the Company was a party to three (3) split dollar agreements regarding policies insuring the lives of current and former executive officers of the Company, and had long-term loans of approximately \$982,000 against its interest in the cash surrender value of these policies. On October 21, 2010, the split dollar life insurance agreement (the "Agreement") related to the policy jointly insuring the lives of Edward M. Abrams (deceased), the Company's former Chairman of the Board and Chief Executive Officer, and his widow, Ann U. Abrams (the parents of Alan R. Abrams, the Company's Chairman of the Board and Chief Executive Officer, and J. Andrew Abrams, the Company's Executive Vice President) was terminated prior to the death of the remaining insured. Prior to the termination of the Agreement, the Company had a long-term loan of approximately \$412,000 against its interest in the cash surrender value of this policy, which loan amount approximately equaled the cumulative policy premiums paid by the Company through the date the loan was originated, and represented a substantial majority of the policy's cash surrender value prior to the loan. Under the terms of the Agreement, in the event of an early termination prior to the death of the insured, the Company was entitled to receive the remaining cash surrender value of the policy, if any, on the date of termination. However, in consideration of the consent to the early termination of the Agreement by the trust that owns the policy, the Company agreed to reduce the net cash surrender value otherwise payable to the Company by \$42,000. As a result of the early termination of the Agreement: (1) the long-term loan

**Table of Contents**

against the Company's interest in the cash surrender value of the policy of approximately \$412,000, and the related accrued interest of approximately \$13,000, was repaid in full; (2) the Company received approximately \$195,000 in cash proceeds; (3) the Company's ongoing obligation to pay premiums on the policy and its entitlement to any portion of the policy's death benefit were terminated; and (4) the Company reduced its long-term other assets by approximately \$662,000, representing the Company's interest in the cash surrender value of the policy prior to termination.

**Capital Expenditures**

The Company has no material commitments for capital expenditures. However, the Company does expect that total capital spending in fiscal year 2011 will be approximately \$420,000, including BPE Segment expenditures of approximately \$320,000 for proprietary technology solutions and approximately \$60,000 for property and equipment, and Corporate Headquarters expenditures of approximately \$40,000. Of these forecasted amounts, approximately \$250,000, or 66%, of the BPE Segment capital expenditures were already expended during the first nine (9) months of the fiscal year. No significant amounts of the forecasted Corporate Headquarters capital expenditures were expended during the first nine (9) months of the fiscal year.

**Significant Uses of Cash**

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

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

At January 31, 2011, the Company had a mortgage note on the corporate headquarters building and two (2) other long-term debt obligations. The mortgage loan contains a provision that requires a Company subsidiary to maintain a net worth of at least \$2 million. The subsidiary referred to in this mortgage loan provision had a net worth of approximately \$16.3 million as of January 31, 2011. The mortgage note contains no other financial covenants. None of the Company's other long-term debt obligations have any financial or non-financial covenants.

Other long-term debt at January 31, 2011, included a note payable of approximately \$850,000, which originated from the acquisition of a wholly-owned subsidiary in fiscal year 2004. In the third quarter of fiscal 2011, the Company and the lender entered into an agreement to amend the note as follows:

The maturity date of the note, originally December 18, 2011, was amended such that \$150,000 is due on October 19, 2011, with the remaining principal balance of \$700,000 due on January 19, 2016; and

The interest rate was changed from the prime rate plus 1.5% to a fixed rate of 6% per annum. The note continues to be secured by the general assets of a Company subsidiary.

**Table of Contents**

The cash principal payment obligations during the next twelve (12) months related to the Company's long-term debt are expected to be approximately \$330,000.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

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

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

**CRITICAL ACCOUNTING POLICIES**

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

**Revenue Recognition**

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

Additionally, the Company defers such direct costs and amortizes them over the same time period as the revenue is recognized.

**Table of Contents**

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

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

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

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

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

**Table of Contents**

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

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

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

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

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

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

Depressed market conditions.

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

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

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

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

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

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



**Table of Contents**

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

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

Goodwill and intangible assets with indefinite lives are reviewed for impairment annually at the end of the fiscal third quarter, or whenever events or changes in circumstances indicate that the carrying basis of an asset may not be recoverable. Although management believes goodwill and other indefinite-lived intangible assets are appropriately stated in the condensed consolidated financial statements, future changes in strategy or market conditions could significantly impact these judgments and result in an impairment charge.

The Company completed the annual impairment analysis of goodwill and other indefinite-lived intangible assets in the fiscal quarter ended January 31, 2011. The annual analysis resulted in a determination of no impairment. All of the Company's goodwill and other indefinite-lived intangible assets are assigned to the BPE Segment, which has also been determined to be the reporting unit.

**Goodwill**

The valuation methodologies used to calculate the fair value of the BPE Segment were the discounted cash flow method of the income approach and the guideline company method of the market approach. The Company believes that these two methodologies are commonly used valuation methodologies. GAAP states that both methodologies are acceptable in determining the fair value of a reporting unit. In assessing the fair value of the BPE Segment, the Company believes a market participant would likely consider the cash flow generating ability of the reporting unit, as well as current market multiples of companies facing similar risks in the marketplace.

With the income approach, the cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. Projected cash flows are discounted to present value using an estimated weighted average cost of capital, reflecting returns to both equity and debt investors. The Company believes that this is a relevant and beneficial method to use in determining fair value, because it explicitly considers the future cash flow generating potential of the reporting unit.

In the guideline method of the market approach, the value of a reporting unit is estimated by comparing the subject to similar businesses or guideline companies whose securities are actively traded in public markets. The comparison is generally based on data regarding each of the companies' stock prices and earnings, which is expressed as a fraction known as a multiple. The premise of this method is that if the guideline public companies are sufficiently similar to each other, then their multiples should be similar. The multiples for the guideline companies are analyzed, adjusted for differences as compared to the subject company, and then applied to the applicable business characteristics of the subject company to arrive at an indication of the fair value. The Company believes that the inclusion of a market approach analysis in the fair value calculation is beneficial, because it provides an indication of value based on external, market-based measures.

**Table of Contents**

In the application of the income approach, financial projections were developed for use in the discounted cash flow calculations. Significant assumptions included revenue growth rates; margin rates; SG&A costs; and working capital and capital expenditure requirements over a period of ten (10) years. Revenue growth rate and margin rate assumptions were developed using historical Company data, current backlog, specific customer commitments, status of outstanding customer proposals, and future economic and market conditions expected. Consideration was then given to the SG&A costs, working capital, and capital expenditures required to deliver the revenue and margin determined. The other significant assumption used with the income approach was the assumed rate at which to discount the cash flows. The rate was determined by utilizing the weighted average cost of capital method.

In the income approach model, three (3) separate financial projection scenarios were prepared using the above assumptions: the first used the expected revenue growth rates, the second used higher revenue growth rates, and the third used lower revenue growth rates. The discount rates used in the scenarios ranged from 17% for the lower growth scenario to 19% for the higher growth scenario. In each of the three (3) discounted cash flow models, there was no indication of goodwill impairment. For the assessment of fair value of the BPE Segment based on the income approach, the results of the three (3) scenarios were weighted to produce the applicable fair value indication as follows: 50% for the expected case and 25% each for the other scenarios. The weightings reflect the Company's view of the relative likelihood of each scenario.

In the application of the market approach, the Company considered valuation multiples derived from five (5) public companies that were identified as belonging to a group of industry peers. The applicable financial multiples of the comparable companies were adjusted for profitability and size and then applied to the BPE Segment. This result also indicated that no impairment existed.

The comparable companies selected for the market approach were similar to the BPE Segment in terms of business description and markets served. As such, the Company believes a market participant is likely to consider the market approach in determining the fair value of the BPE Segment. In addition, the Company believes a market participant will consider the cash flow generating capacity of the BPE Segment using an income approach. Both the market and income approaches provide meaningful indications of the fair value of the BPE Segment. The outcomes of the income approach and market approach were weighted 80% and 20%, respectively, with the resulting fair value compared to the carrying value of the BPE Segment. This test of fair value indicated that no impairment existed at January 31, 2011.

**Other Indefinite-Lived Intangible Assets**

The Company holds several trademarks, which comprise all of the other indefinite-lived intangible assets reported by the Company. The relief from royalty valuation methodology was used to analyze the fair value of the Company's trademarks, and the result of the analysis determined that no impairment existed at January 31, 2011.

**Income Taxes**

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

**Table of Contents**

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

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

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

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

The Company will have to generate \$3.1 million of taxable income in future years to realize the federal NOL carryforwards and an additional \$25.5 million of taxable income in future years to realize the state NOL carryforwards. These amounts of taxable income would allow for the reversal of the \$2.1 million DTA related to NOL carryforwards. There is a long carryforward period remaining for the NOL carryforwards. The oldest federal NOL carryforwards will expire in the April 30, 2024, tax-year, and the most recent federal NOL carryforwards will expire in the April 30, 2031, tax-year. The significant state NOL carryforwards will also expire between the April 30, 2024, and April 30, 2031, tax years. The Company has no material permanent book/tax differences.

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

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Management has evaluated the Company's disclosure controls and procedures as defined by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. This evaluation was carried out with the participation of the Company's Chief Executive Officer and Chief Financial Officer. No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that the system of controls has operated effectively in all cases. The Company's disclosure controls and procedures, however, are designed to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

**Table of Contents**

Based on management's evaluation, the Chief Executive Officer and Chief Financial Officer initially concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that the objectives of disclosure controls and procedures were met. However, as a result of the identification of the issue that caused the restatement described in Note 16 to the condensed consolidated financial statements and management's determination that there is a material weakness in the Company's internal control over financial reporting in the area of accounting for income taxes, as described below, the Chief Executive Officer and Chief Financial Officer have subsequently concluded that the Company's disclosure controls and procedures were not effective as of January 31, 2011.

**Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the period covered by this quarterly report on Form 10-Q/A that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. However, management is currently in the process of implementing changes to the Company's internal control over financial reporting to remediate the material weakness related to the Company's accounting for income taxes described below, which resulted in the restatement described in Note 16 to the condensed consolidated financial statements.

A material weakness in internal control over financial reporting is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of a company's financial statement will not be prevented or detected on a timely basis by the company's internal controls. The restatement of the Company's financial statements resulted from an error in the timing of recording a valuation allowance for its state deferred tax assets in accordance with ASC 740, *Accounting for Income Taxes*, related to the recoverability of the deferred tax assets, as more fully described in Note 16 to the condensed consolidated financial statements included in this Amendment 1. Management believes that this error constitutes a material weakness in the design of the Company's internal control over financial reporting in the area of accounting for income taxes and has begun to take the following steps to remediate the deficiency:

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

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

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

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

**Table of Contents**

PART II. OTHER INFORMATION

**ITEM 6. EXHIBITS**

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

**Table of Contents**

SIGNATURES

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

SERVIDYNE, INC.

(Registrant)

Date: June 2, 2011

/s/ Alan R. Abrams

Alan R. Abrams  
Chief Executive Officer

Date: June 2, 2011

/s/ Rick A. Paternostro

Rick A. Paternostro  
Chief Financial Officer