

ABRAMS INDUSTRIES INC

Form 10-Q

March 15, 2006

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT  
Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934  
For the quarter ended January 31, 2006  
Commission file number 0-10146  
ABRAMS INDUSTRIES, INC.  
(Exact name of registrant as specified in its charter)**

Georgia

58-0522129

(State or other jurisdiction of  
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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated filer

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, 2006, was 3,531,390.

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## PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	<b>January 31, 2006</b>	April 30, 2005
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,248,730	\$ 1,402,645
Restricted cash		8,272,399
Short-term investment	2,000,000	2,000,000
Receivables (Note 4)	2,753,740	2,721,051
Less: Allowance for doubtful accounts	(12,701)	(69,801)
Assets of discontinued operations (Note 5)	30,393	142,981
Costs and earnings in excess of billings	252,612	312,781
Deferred income taxes	558,327	552,953
Note receivables	767,691	
Other	779,595	851,953
Total current assets	<b>11,378,387</b>	16,186,962
INCOME-PRODUCING PROPERTIES, net	<b>20,810,317</b>	20,693,372
PROPERTY AND EQUIPMENT, net	<b>897,556</b>	836,227
ASSETS OF DISCONTINUED OPERATIONS (Note 5)		4,174,138
OTHER ASSETS:		
Real estate held for future development or sale	<b>3,087,710</b>	3,692,731
Intangible assets, net (Note 8)	<b>3,041,143</b>	2,794,558
Goodwill (Note 8)	<b>5,458,717</b>	5,458,717
Notes receivable (Note 9)	<b>3,516,306</b>	23,500
Other	<b>3,642,532</b>	3,206,967
	<b>\$ 51,832,668</b>	\$ 57,067,172
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Trade and subcontractors payables	\$ 1,117,634	\$ 885,824
Accrued expenses	1,753,539	1,789,502
Accrued incentive compensation		1,089,369
Liabilities of discontinued operations (Note 5)	57,890	326,188
Billings in excess of costs and earnings	388,795	526,512
Current maturities of long-term debt	1,145,074	1,119,365
Total current liabilities	<b>4,462,932</b>	5,736,760

DEFERRED INCOME TAXES	<b>3,331,289</b>	3,460,151
OTHER LIABILITIES	<b>1,814,083</b>	1,602,243
LIABILITIES OF DISCONTINUED OPERATIONS (Note 5)		2,831,091
MORTGAGE NOTES PAYABLE, less current maturities	<b>20,054,077</b>	20,736,098
OTHER LONG-TERM DEBT, less current maturities	<b>1,490,500</b>	1,787,418
Total liabilities	<b>31,152,881</b>	36,153,761
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS EQUITY:		
Common stock, \$1 par value; 5,000,000 shares authorized; 3,694,436 issued and 3,531,390 outstanding at January 31, 2006 (including 335,203 shares issued on October 11, 2005, as a stock dividend), 3,357,601 issued and 3,209,113 outstanding at April 30, 2005	<b>3,694,436</b>	3,357,601
Additional paid-in capital	<b>4,800,028</b>	3,067,982
Deferred stock compensation	<b>(2,823)</b>	(14,162)
Retained earnings (Note 7)	<b>12,962,028</b>	15,186,932
Treasury stock, common shares; 163,046 at January 31, 2006, and 148,488 at April 30, 2005	<b>(773,882)</b>	(684,942)
Total shareholders equity	<b>20,679,787</b>	20,913,411
	<b>\$ 51,832,668</b>	\$ 57,067,172

*See accompanying notes to consolidated financial statements.*

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

	<b>THIRD QUARTER ENDED JANUARY 31,</b>		<b>FIRST NINE MONTHS ENDED JANUARY 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>REVENUES:</b>				
Energy and facilities solutions	<b>\$ 971,079</b>	\$ 839,864	<b>\$ 2,865,031</b>	\$ 2,670,159
Energy services	<b>1,925,207</b>	2,478,420	<b>5,894,848</b>	6,434,818
Rental income	<b>1,540,032</b>	1,415,138	<b>4,584,054</b>	6,778,226
	<b>4,436,318</b>	4,733,422	<b>13,343,933</b>	15,883,203
Interest	<b>42,953</b>	20,612	<b>141,044</b>	59,172
Other	<b>64,959</b>	6,635	<b>318,830</b>	42,699
	<b>4,544,230</b>	4,760,669	<b>13,803,807</b>	15,985,074
<b>COSTS AND EXPENSES:</b>				
Energy and facilities solutions	<b>517,160</b>	466,942	<b>1,519,684</b>	1,500,700
Energy services	<b>1,126,728</b>	1,668,661	<b>3,394,013</b>	4,528,388
Rental property operating expenses, excluding interest	<b>1,014,922</b>	981,195	<b>2,978,542</b>	3,233,648
	<b>2,658,810</b>	3,116,798	<b>7,892,239</b>	9,262,736
Selling, general and administrative				
Energy and facilities solutions	<b>581,952</b>	621,510	<b>1,669,539</b>	1,720,473
Energy services	<b>548,468</b>	494,414	<b>1,634,104</b>	1,616,105
Real estate	<b>179,905</b>	185,473	<b>628,997</b>	1,128,780
Parent	<b>759,749</b>	626,969	<b>2,395,344</b>	2,227,691
	<b>2,070,074</b>	1,928,366	<b>6,327,984</b>	6,693,049
Extinguishment of debt				218,071
Interest costs incurred	<b>411,313</b>	431,947	<b>1,197,680</b>	1,388,598
	<b>5,140,197</b>	5,477,111	<b>15,417,903</b>	17,562,454
GAIN ON SALES OF REAL ESTATE, net of costs	<b>184,026</b>	191,126	<b>726,156</b>	191,126

LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<b>(411,941)</b>	(525,316)	<b>(887,940)</b>	(1,386,254)
INCOME TAX BENEFIT	<b>(156,538)</b>	(249,583)	<b>(337,417)</b>	(556,270)
LOSS FROM CONTINUING OPERATIONS	<b>(255,403)</b>	(275,733)	<b>(550,523)</b>	(829,984)
DISCONTINUED OPERATIONS:				
(Loss) earnings from discontinued operations, adjusted for applicable income tax (benefit) expense of \$(62,205), \$23,531, \$(101,934), and \$12,855, respectively	<b>(101,495)</b>	27,493	<b>(166,315)</b>	(2,370)
Gain on sale of discontinued operations, adjusted for applicable income tax expense of \$521,230, \$0, \$521,230, and \$0, respectively	<b>850,428</b>		<b>850,428</b>	
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS	<b>748,933</b>	<b>27,493</b>	<b>684,113</b>	<b>(2,370)</b>
NET EARNINGS (LOSS)	<b>\$ 493,530</b>	<b>\$ (248,240)</b>	<b>\$ 133,590</b>	<b>\$ (832,354)</b>
NET EARNINGS (LOSS) PER SHARE BASIC AND DILUTED:				
From continuing operations	<b>\$ (.07)</b>	<b>\$ (.08)</b>	<b>\$ (.15)</b>	<b>\$ (.24)</b>
From discontinued operations	<b>.21</b>	<b>.01</b>	<b>.19</b>	
NET EARNINGS (LOSS) PER SHARE BASIC AND DILUTED	<b>\$ .14</b>	<b>\$ (.07)</b>	<b>\$ .04</b>	<b>\$ (.24)</b>
DIVIDENDS PER SHARE	<b>\$ .04</b>	<b>\$ .04</b>	<b>\$ .11</b>	<b>\$ .25</b>
WEIGHTED AVERAGE SHARES OUTSTANDING				
BASIC AND DILUTED	<b>3,531,409</b>	3,528,878	<b>3,531,003</b>	3,525,026

*See accompanying notes to consolidated financial statements.*

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

	<b>Common Stock Shares</b>	<b>Common Stock Amount</b>	<b>Additional Paid-In Capital</b>	<b>Deferred Stock Compensation</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Total</b>
BALANCES at April 30, 2003	3,060,239	3,060,239	2,153,505	(16,598)	16,734,753	(673,947)	21,257,952
Net loss					(1,850,126)		(1,850,126)
Common stock acquired							
Common stock issued	267,389	267,389	810,369	(41,700)			1,036,058
Stock compensation expense				31,443		(5,836)	25,607
Cash dividends declared - \$.16 per share					(471,964)		(471,964)
BALANCES at April 30, 2004	3,327,628	3,327,628	2,963,874	(26,855)	14,412,663	(679,783)	19,997,527
Net earnings					1,800,358		1,800,358
Common stock acquired							
Common stock issued	29,973	29,973	104,108	(39,175)			94,906
Stock compensation expense				51,868		(5,159)	46,709
Cash dividends declared - \$.32 per share					(1,026,089)		(1,026,089)
BALANCES at April 30, 2005	3,357,601	3,357,601	3,067,982	(14,162)	15,186,932	(684,942)	20,913,411
Net earnings					133,590		133,590
Common stock issued	900	900	3,555	(4,455)			
Stock compensation expense				15,794		(1,376)	14,418
Stock option exercise	732	732	2,196				2,928
Cash dividends declared - \$.11 per share (adjusted for subsequent stock dividend)					(384,560)		(384,560)
Stock dividend declared - 10% at market value on date declared	335,203	335,203	1,726,295		(1,973,934)	(87,564)	
<b>BALANCES at January 31, 2006</b>	<b>3,694,436</b>	<b>\$3,694,436</b>	<b>\$4,800,028</b>	<b>\$ (2,823)</b>	<b>\$12,962,028</b>	<b>\$(773,882)</b>	<b>\$20,679,787</b>

*See accompanying notes to consolidated financial statements.*



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

	<b>NINE MONTHS ENDED</b>	
	<b>JANUARY 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>CONTINUING OPERATIONS:</b>		
Cash flows from operating activities:		
Net earnings (loss)	\$ 133,590	\$ (832,354)
(Earnings) loss from discontinued operations, net of tax	(684,113)	2,370
Adjustments to reconcile net loss to net cash used in operating activities:		
Gains on sale of real estate, net of costs	(726,156)	(191,126)
Depreciation and amortization	1,012,919	1,336,339
Deferred tax benefit	(134,236)	(613,868)
(Recovery of) provision for doubtful accounts, net	(57,100)	52,298
Extinguishment of debt		218,071
Changes in assets and liabilities:		
Receivables	(31,909)	5,386
Costs and earnings in excess of billings	60,169	140,034
Note receivables	(510,497)	
Other current assets	87,427	(216,497)
Other assets	(134,305)	(323,355)
Trade and subcontractors payable	229,237	283,671
Accrued expenses	(107,809)	(169,650)
Accrued incentive compensation	(1,089,369)	
Billings in excess of costs and earnings	(137,717)	188,677
Other liabilities	(67,136)	13,336
 Net cash used in operating activities	 (2,157,005)	 (106,668)
 Cash flows from investing activities:		
Release of restricted cash held in escrow	8,272,399	
Proceeds from sale of real estate	881,177	515,000
Proceeds from maturity of short-term investment		200,000
Additions to income-producing properties, net	(640,715)	(362,452)
Additions to property and equipment, net	(190,059)	(450,482)
Additions to intangible assets, net	(649,754)	(363,101)
Acquisition, net of cash acquired		(183,224)
 Net cash provided by (used in) investing activities	 7,673,048	 (644,259)
 Cash flows from financing activities:		
Debt restructuring		(1,974,042)
Debt principal repayments	(932,448)	(690,196)
Deferred loan costs paid		(50,000)

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Cash received on stock option exercise	<b>2,928</b>	
Cash dividends	<b>(384,560)</b>	(897,773)
Net cash used in financing activities	<b>(1,314,080)</b>	(3,612,011)
<b>DISCONTINUED OPERATIONS:</b>		
Operating activities	<b>(554,697)</b>	1,739,325
Investing activities	<b>2,048,866</b>	(71,745)
Financing activities	<b>(2,850,047)</b>	(177,088)
Net cash (used in) provided by discontinued operations	<b>(1,355,878)</b>	1,490,492
Net increase (decrease) in cash and cash equivalents	<b>2,846,085</b>	(2,872,446)
Cash and cash equivalents at beginning of period	<b>1,402,645</b>	6,379,679
Cash and cash equivalents at end of period	<b>\$ 4,248,730</b>	\$ 3,507,233
<b>Supplemental disclosure of noncash financing activities:</b>		
Issuance of common stock under Stock Award Plan	<b>\$ 4,455</b>	\$ 7,500
<i>See accompanying notes to consolidated financial statements.</i>		

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**ABRAMS INDUSTRIES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JANUARY 31, 2006, AND APRIL 30, 2005  
(UNAUDITED)

**NOTE 1. ORGANIZATION AND BUSINESS**

Abrams Industries, Inc. (together with its subsidiaries, the Company ) was organized under Delaware law in 1960. In 1984, the Company changed its state of incorporation from Delaware to Georgia. The Company (i) provides energy engineering and analytical consulting services and develops, implements and supports facility management software applications; (ii) implements energy saving lighting programs and provides other energy services, including facility related improvements that reduce energy and operating costs; and (iii) engages in real estate investment and development.

**NOTE 2. UNAUDITED STATEMENTS**

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations, although management believes that the accompanying disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals that are necessary for a fair statement of the results for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended April 30, 2005. Results of operations for interim periods are not necessarily indicative of annual results.

Certain reclassifications have been made to the fiscal 2005 consolidated financial statements to conform to the classifications adopted in 2006.

**NOTE 3. SIGNIFICANT ACCOUNTING POLICIES**

For purposes of the required pro forma disclosures required by Statement of Financial Accounting Standards ( SFAS ) No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the Company has computed the value of all stock option awards granted for the quarter ended January 31, 2006, and January 31, 2005, using the Black-Scholes option pricing model. If the Company had accounted for its stock-based compensation awards in accordance with SFAS 123, pro forma results would have been as follows:

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	<b>Quarter</b>		<b>Nine Months</b>	
	<b>Ended January 31,</b>		<b>Ended January 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net earnings (loss), as reported	<b>\$493,530</b>	\$(248,240)	<b>\$133,590</b>	\$(832,354)
Add: Stock-based compensation	<b>4,913</b>	13,887	<b>21,000</b>	48,568
Deduct: Total stock-based compensation expense as determined under fair value based method for all awards, net of related tax effects	<b>(20,184)</b>	(31,622)	<b>(78,869)</b>	(138,904)
Add: Forfeitures, net of related tax effects		1,128	<b>9,659</b>	47,663
Pro forma net earnings (loss)	<b>\$478,259</b>	\$(264,847)	<b>\$ 85,380</b>	\$(875,027)
Net earnings (loss) per share:				
Basic and diluted as reported	<b>\$ 0.14</b>	\$ (0.07)	<b>\$ 0.04</b>	\$ (0.24)
Basic and diluted pro forma	<b>\$ 0.14</b>	\$ (0.08)	<b>\$ 0.02</b>	\$ (0.25)

The Company adjusted the stock awards and stock options previously awarded for the 10% stock dividend declared and distributed during the quarter ended October 31, 2005 (See Note 7). All share amounts have been adjusted on a prospective basis to reflect the stock dividend.

Options to purchase 773,890 shares were outstanding at January 31, 2006, of which 646,868 options were vested. The Company did not grant any stock options or shares of restricted stock for the quarters ended January 31, 2006, and January 31, 2005. The Company granted 4,000 stock options and 900 shares of restricted stock for the first nine months ended January 31, 2006, and granted 84,900 stock options and 7,500 shares of restricted stock for the first nine months ended January 31, 2005. The number of stock options forfeited in the quarters ended January 31, 2006, and January 31, 2005, was 0 and 2,200, respectively. The number of stock options forfeited in the first nine months ended January 31, 2006, and January 31, 2005, was 16,248 and 68,200, respectively. There were 4,028 stock options that were in-the-money and exercisable as of January 31, 2006. The number of shares of unvested and restricted stock forfeited in the quarters ended January 31, 2006, and January 31, 2005, was 110 and 0, respectively. The number of shares of unvested and restricted stock forfeited in the first nine months ended January 31, 2006, and January 31, 2005, was 320 and 700, respectively.

**NOTE 4. RECEIVABLES**

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

**NOTE 5. DISCONTINUED OPERATIONS***Construction Segment*

During fiscal 2004, the Company made the decision to curtail its operations as a general contractor, and pursuant to this decision, all operating activities were ceased. The former Construction Segment has been classified as a discontinued operation.

*Real Estate Sales of Income-Producing Properties*

The Company is in the business of creating long-term value by periodically realizing gains through the sale of existing real estate assets, and then redeploying its capital by reinvesting the proceeds from such sales. Effective May 1, 2002, the Company adopted SFAS 144, *Accounting for the Impairment or*

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*Disposal of Long-Lived Assets*, which requires, among other things, that the operating results of certain income-producing assets, sold subsequent to April 30, 2002, be included in discontinued operations in the statements of operations for all periods presented. The Company classifies an asset as held for sale when the asset is under a binding sales contract with minimal contingencies, and the buyer is materially at risk if the buyer fails to complete the transaction. However, each potential transaction is evaluated based on its separate facts and circumstances. Pursuant to this standard, as of January 31, 2006, the Company had no assets that were classified as held for sale.

On January 30, 2006, the Company sold its professional medical office building located in Douglasville, Georgia, which the Company had acquired in April 2004, and recognized a pre-tax gain on the sale of approximately \$1.37 million. On April 18, 2005, the Company sold its shopping center located in Jackson, Michigan, and recognized a pre-tax gain of approximately \$4.1 million. On February 9, 2005, the Company sold its shopping center in Cincinnati, Ohio, and recognized a pre-tax gain of approximately \$850,000. As a result of these transactions, the Company's financial statements have been prepared with the assets, liabilities, results of operations, cash flows, and the gains on the sales of these properties shown as discontinued operations. All historical statements have been restated in accordance with SFAS 144. Summarized financial information for discontinued operations for the quarters and nine month periods ended January 31, 2006, and 2005, is as follows:

	<b>Third Quarter Ended January 31,</b>		<b>Nine Months Ended January 31,</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
<b>REVENUES:</b>				
Construction	\$	\$	\$ 40	\$ 145,513
Rental properties	<b>178,634</b>	552,472	<b>513,103</b>	1,513,655
Total revenues	<b>178,634</b>	552,472	<b>513,143</b>	1,659,168
<b>COSTS AND EXPENSES:</b>				
Construction cost and expenses			<b>(25,964)</b>	114,734
Rental property operating expenses, including depreciation	<b>111,708</b>	406,706	<b>386,058</b>	1,060,357
Interest expense and prepayment fees	<b>201,380</b>	113,409	<b>319,983</b>	343,266
Construction selling, general & administrative	<b>29,246</b>	(18,667)	<b>101,315</b>	130,326
Total costs and expenses	<b>342,334</b>	501,448	<b>781,392</b>	1,648,683
(Loss) earnings from discontinued operations	<b>(163,700)</b>	51,024	<b>(268,249)</b>	10,485
Income tax (benefit) expense	<b>(62,205)</b>	23,531	<b>(101,934)</b>	12,855
(Loss) earnings from discontinued operations, net of tax	<b>(101,495)</b>	27,493	<b>(166,315)</b>	(2,370)
Gain on sale from real estate	<b>1,371,658</b>		<b>1,371,658</b>	
Income tax expense	<b>521,230</b>		<b>521,230</b>	

Gain on sale from real estate, net of tax	<b>850,428</b>		<b>850,428</b>	
Earnings (loss) from discontinued operations, net of tax	<b>\$ 748,933</b>	\$ 27,493	<b>\$ 684,113</b>	\$ (2,370)

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	<b>Balances at</b>	
	<b>January 31,</b>	April 30, 2005
<b>Assets of discontinued operations</b>	<b>2006</b>	
Receivables, net	\$	\$ 101,257
Other current assets	<b>30,393</b>	41,724
Income-producing properties		3,720,273
Intangible assets		369,714
Other assets		84,151
	<b>\$30,393</b>	\$4,317,119

	<b>Balances at</b>	
	<b>January 31,</b>	April 30, 2005
<b>Liabilities of discontinued operations</b>	<b>2006</b>	
Trade and subcontractors payables	<b>\$26,721</b>	\$ 76,723
Accrued expenses	<b>31,169</b>	194,123
Current maturities of long-term debt		55,342
Mortgage notes payable		2,831,091
	<b>\$57,890</b>	\$3,157,279

**NOTE 6. OPERATING SEGMENTS**

The Company has three operating segments: Energy and Facilities Solutions, Energy Services, and Real Estate. The table below shows selected financial data on a segment basis. Net earnings (loss) is total revenues less operating expenses, including depreciation, interest, and income taxes. In this presentation, management fee expense charged by the Parent Company has not been allocated to the subsidiaries.

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<b>For the Quarter Ended January 31, 2006</b>	<b>Energy and Facilities Solutions</b>	<b>Energy Services</b>	<b>Real Estate (1)</b>	<b>Parent</b>	<b>Elimination</b>	<b>Consolidated</b>
Revenues from unaffiliated customers	\$ 971,079	\$ 1,925,207	\$ 1,540,032	\$	\$	\$ 4,436,318
Interest and other income	205	24,340	254,811	10,948	(182,392)	107,912
Intersegment revenue			134,613		(134,613)	
Total revenues from continuing operations	\$ 971,284	\$ 1,949,547	\$ 1,929,456	\$ 10,948	\$(317,005)	\$ 4,544,230
Net earnings (loss)(2)	\$(147,771)	\$ 76,852	\$ 1,106,748	\$(547,322)	\$ 3,497	\$ 492,004

<b>For the Quarter Ended January 31, 2005</b>	<b>Energy and Facilities Solutions</b>	<b>Energy Services</b>	<b>Real Estate (1)</b>	<b>Parent</b>	<b>Elimination</b>	<b>Consolidated</b>
Revenues from unaffiliated customers	\$ 839,864	\$ 2,478,420	\$ 1,415,138	\$	\$	\$ 4,733,422
Interest and other income		(8,100)	88,008	6,717	(59,378)	27,247
Intersegment revenue	14,867		113,599		(128,466)	
Total revenues from continuing operations	\$ 854,731	\$ 2,470,320	\$ 1,616,745	\$ 6,717	\$(187,844)	\$ 4,760,669
Net (loss) earnings (2)	\$(192,317)	\$ 109,093	\$ 266,944	\$(550,941)	\$ 111,550	\$ (255,671)

<b>For the Nine Months Ended January 31, 2006</b>	<b>Energy and Facilities Solutions</b>	<b>Energy Services</b>	<b>Real Estate (1)</b>	<b>Parent</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers	\$ 2,865,031	\$ 5,894,848	\$ 4,584,054	\$	\$	\$ 13,343,933
Interest and other income	1,938	33,870	827,428	24,588	(427,950)	459,876
Intersegment revenue			396,506		(396,506)	
Total revenues from continuing operations	\$ 2,866,969	\$ 5,928,718	\$ 5,807,988	\$ 24,588	\$(824,456)	\$ 13,803,803
Net earnings (loss)(2)	\$ (405,211)	\$ 313,081	\$ 1,901,083	\$(1,631,518)	\$ (3,838)	\$ 173,593

<b>For the Nine Months Ended January 31, 2005</b>	<b>Energy and Facilities Solutions</b>	<b>Energy Services</b>	<b>Real Estate (1)</b>	<b>Parent</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers	\$ 2,670,159	\$ 6,434,818	\$ 6,778,226	\$	\$	\$ 15,883,203
Interest and other income		3,025	236,415	21,923	(159,492)	101,871



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Intersegment revenue	14,867		371,352		(386,219)	
Total revenues from continuing operations	\$2,685,026	\$6,437,843	\$7,385,993	\$ 21,923	\$(545,711)	\$15,985,074
Net (loss) earnings (2)	\$ (410,899)	\$ (50,897)	\$1,291,694	\$(1,854,624)	\$ 262,962	\$ (761,764)

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- (1) The Company is in the business of creating long-term value by periodically realizing gains through the sale of income-producing properties. The Real Estate Segment's net earnings include results from income-producing properties that are reflected as discontinued operations pursuant to SFAS 144, including gains on the sale of those properties.
- (2) The Company has changed its measurement of profit or loss previously disclosed from net earnings (loss) from continuing operations before income taxes to net earnings (loss). The chief executive officer uses this measurement to analyze each Segment's operating performance.

The following is a reconciliation of Segment net earnings (loss) shown in the table above to consolidated net earnings (loss) on the statements of operations for the quarters and nine months ended January 31, 2006, and 2005:

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>January 31,</b>		<b>January 31,</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
Consolidated Segment net earnings (loss)	<b>\$ 492,004</b>	\$ (255,671)	<b>\$ 173,597</b>	\$ (761,764)
Discontinued Construction Segment net earnings (loss)	<b>1,526</b>	80,716	<b>(40,007)</b>	(70,590)
Eliminations related to Construction Segment		(73,285)		
Consolidated net earnings (loss)	<b>\$ 493,530</b>	\$ (248,240)	<b>\$ 133,590</b>	\$ (832,354)

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

Basic earnings per share are computed by dividing net earnings (loss) by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed giving effect to dilutive stock equivalents resulting from outstanding stock options and stock warrants. The dilutive effect on the number of common shares for the third quarter and for the first nine months of fiscal 2006 was 626 and 67,541 shares, respectively, and was 711 and 287 shares, respectively, for the third quarter and for the first nine months of fiscal 2005. Since the Company had a loss from continuing operations for all periods presented, all stock equivalents were antidilutive during these periods, and therefore, are excluded when determining the diluted weighted average shares outstanding.

On August 25, 2005, the Company awarded a stock dividend of ten percent (10%) to all shareholders of record on September 27, 2005. On October 11, 2005, the Company issued 335,203 shares of stock pursuant to the stock dividend. Earnings (loss) per share have been adjusted retroactively to present the shares issued, including the shares pursuant to the stock dividend, as outstanding for all periods presented.

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

The gross carrying amounts and accumulated amortization for all of the Company's intangible assets as of January 31, 2006, are as follows:

	Gross Carrying Amount	Accumulated Amortization
<b>Amortized intangible assets:</b>		
Proprietary facility management software applications	\$ 2,253,051	\$ 774,614
Computer software	415,085	391,719
Real estate lease costs	1,184,633	715,443
Customer relationships	218,000	90,833
Deferred loan costs	751,547	535,984
Other	55,608	36,895
	\$ 4,877,924	\$ 2,545,488
<b>Unamortized intangible assets:</b>		
Trademark	\$ 708,707	\$
Goodwill	\$ 5,458,717	\$

Aggregate amortization expense for all amortized intangible assets

For the three months ended January 31, 2006	\$ 145,068
For the nine months ended January 31, 2006	394,833
For the three months ended January 31, 2005	136,817
For the nine months ended January 31, 2005	408,652

The Company tested goodwill impairment and intangible assets, with indefinite useful lives related to its Energy Services Segment as of December 19, 2005, for impairment, as required by SFAS 142, utilizing the estimated discounted cash flows. The analysis did not result in an impairment.

**NOTE 9. DISPOSITIONS**

On January 30, 2006, the Company closed on the sale of its medical office building in Douglasville, Georgia, which it had acquired in April 2004, for a sales price of \$5.5 million, resulting in a pre-tax gain of approximately \$1.37 million. The Company provided financing for a portion of the transaction and recorded a note receivable in the amount of \$3.3 million, bearing interest at an annual rate of 5.5%, commencing on March 1, 2006, with interest only payments due monthly until maturity on May 31, 2006. The \$3.3 million is included in notes receivable on the accompanying balance sheet. After selling expenses and the repayment of the mortgage note payable, the sale generated proceeds of approximately \$2.5 million. The Company currently intends to use the net proceeds from this sale to acquire an additional income producing property, which would qualify the sale under Internal Revenue Code Section 1031 for federal income tax deferral, and has assigned the note receivable to a third party intermediary in connection therewith.

On December 22, 2005, the Company closed on the sale of a 4.7 acre tract of land in Louisville, Kentucky, for a sales price of approximately \$270,000, resulting in a pre-tax gain of approximately \$185,000. After selling expenses, the sale generated proceeds of approximately \$265,000.

On October 28, 2005, the Company closed on the sale of one of its outparcels located in North Fort



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Myers, Florida, for a sales price of \$625,000, resulting in a pre-tax gain of approximately \$296,000. After selling expenses, the sale generated proceeds of approximately \$577,000 of which \$450,000 was recorded as a note receivable, bearing interest at an annual rate of 7.25%, commencing on December 1, 2005, with interest only payments due monthly until maturity on April 28, 2006.

On October 21, 2005, the Company closed on the sale of one of its outparcels located in North Fort Myers, Florida, for a sales price of approximately \$529,000, resulting in a pre-tax gain of approximately \$246,000. After selling expenses, the sale generated net cash proceeds of approximately \$488,000.

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

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

**NOTE 11. SUBSEQUENT EVENT**

The Company has entered into a contract to sell an approximately seven acre parcel of land in North Fort Myers, Florida, at a gain. The contract specifies a closing date in fiscal 2006. The sale is subject to customary conditions, and there can be no assurance that the contract will close.

The Company has entered into a contract to sell the Company's leaseback interest in a shopping center located in Bayonet Point, Florida, at a gain. The contract specifies a closing date in fiscal 2006. The sale is subject to customary conditions, and there can be no assurance that the contract will close.

**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 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 the management's discussion and analysis section and the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 30, 2005. The Company's fiscal year 2006 ends April 30, 2006.

In the following charts, changes in revenues, costs and expenses and changes in selling, general and administrative expenses from period to period are analyzed on both segment and consolidated basis. For net earnings and similar profit information on a consolidated basis, please see the Company's consolidated financial statements.

Pursuant to SFAS 144, the figures shown in the following charts for all periods presented do not include Real Estate Segment revenues, cost and expenses, and selling, general and administrative expenses, generated by certain owned income-producing properties which have been sold, including the gains on the sale of these properties; such amounts have been reclassified to discontinued operations. See "Critical Accounting Policies - Discontinued Operations" later in this discussion and analysis section.

**Results of operations of the third quarter and first nine months of fiscal 2006, compared to the third quarter and first nine months of fiscal 2005****REVENUES From Continuing Operations**

For the third quarter of fiscal 2006, consolidated revenues from continuing operations, including interest income and other income, and net of intersegment eliminations, were \$4,544,230 compared to \$4,760,669 for the third quarter of fiscal 2005, a decrease of 5%. For the first nine months of fiscal 2006, consolidated revenues from continuing operations were \$13,803,807, compared to \$15,985,074 for the first nine months of fiscal 2005, a decrease of 14%.

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

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

	Third Quarter		Amount Increase (Decrease)	Percent Increase (Decrease)	Nine Months Ended		Amount Increase (Decrease)	Percent Increase (Decrease)
	Ended January 31, 2006	2005			January 31, 2006	2005		
Energy and Facilities								
Solutions(1)	\$ 971	\$ 840	\$ 131	16	\$ 2,865	\$ 2,670	\$ 195	7
Energy Services (2)	1,925	2,478	(553)	(22)	5,895	6,435	(540)	(8)
Real Estate (3)	1,540	1,415	125	9	4,584	6,778	(2,194)	(32)
	\$ 4,436	\$ 4,733	\$ (297)	(6)	\$ 13,344	\$ 15,883	\$ (2,539)	(16)

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**NOTES TO CHART A**

- (1) Energy and Facilities Solutions revenues from continuing operations increased \$131,000 or 16% for the third quarter of fiscal 2006, and \$195,000 or 7% for the first nine months of fiscal 2006, compared to the same periods in fiscal 2005, primarily due to:
  - (a) an increase in revenues related to energy engineering services of approximately \$102,000 and \$93,000, in the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, respectively; and
  - (b) an increase in revenues related to the installation of the Company's proprietary facility management software applications of approximately \$63,000 and \$151,000, in the third quarter and for the first nine months of fiscal 2006, respectively.
- (2) Energy Services revenues from continuing operations decreased \$553,000 or 22% for the third quarter of fiscal 2006, compared to the same period in fiscal 2005, because the fiscal 2005 period included revenues from two large contracts in the education and government sector.

Energy Services revenues from continuing operations decreased \$540,000 or 8% for the first nine months of fiscal 2006, compared to the same period in fiscal 2005, primarily due to:

- (a) revenues from two large contracts in fiscal 2005 in the education and government sector; offset by:
  - (b) the recognition of approximately \$660,000 in revenues in the first quarter of fiscal 2006 from a consulting services contract that was substantially performed in prior periods and did not have any associated costs and expenses (See Chart B).
- (3) Real estate revenues from continuing operations increased \$125,000 or 9% for the third quarter of fiscal 2006, compared to the same period in fiscal 2005, primarily due to an increase in rental income in fiscal 2006 related to increased occupancy.

Real estate revenues from continuing operations decreased \$2,194,000 or 32% for the first nine months of fiscal 2006, compared to the same period in fiscal 2005, primarily due to:

- (a) an increase in rental income in fiscal 2006 of approximately \$202,000 related to increased occupancy; offset by:
  - (b) one-time rental revenues of \$2,250,000 in fiscal 2005 from the termination of the Company's leaseback interest in a shopping center in Minneapolis, Minnesota, in September 2004; whereas there were no rental revenues from a leaseback termination in the first nine months of fiscal 2006; and
  - (c) a decrease in leaseback income of approximately \$141,000 related to the leaseback termination mentioned in (b) above.

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

	January 31,	
	2006	2005
Energy and Facilities Solutions (a)	\$ 3,108,000	\$ 2,634,000
Energy Services (b)	2,299,000	4,439,000
Real Estate (c)	5,920,000	6,009,000
Less: Intersegment eliminations	(544,000)	(528,000)
<b>Total Backlog</b>	<b>\$ 10,783,000</b>	<b>\$ 12,554,000</b>

- (a) The increase in backlog is primarily due to an increase in energy engineering service contracts. Backlog includes contracts that can be cancelled with less than one year's notice, and assumes cancellations provisions will not be invoked. The cancellation rate for such contracts in the previous twelve months was approximately 9%.
- (b) The decrease in backlog is primarily due to one large order included in the prior period in the retail sector and one smaller contract in the prior period in the education and government sector.
- (c) Revenues from any contract to sell real estate in which the prospective buyer is not materially at risk are not included in backlog. As of January 31, 2006, backlog does not include a contract to sell, at a gain, a tract of land in North Fort Myers, Florida, and a contract to sell, at a gain, the Company's leaseback interest in a shopping center located in Bayonet Point, Florida. See Note 11 to the consolidated financial statements.

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

As a percentage of total segment revenues from continuing operations (See Chart A), the total applicable costs and expenses (See Chart B) were 60% and 66% for the third quarters of fiscal 2006 and 2005, respectively, and 59% and 58%, respectively, for the first nine months of fiscal 2006 and 2005, respectively. In reviewing Chart B, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented there. The figures in Chart B are net of intersegment eliminations.

**CHART B****COSTS AND EXPENSES APPLICABLE TO REVENUES****FROM CONTINUING OPERATIONS BY SEGMENT**

(Dollars in Thousands)

	Third Quarter Ended		Percent of Segment Revenues for Third Quarter Ended		Nine Months Ended		Percent of Segment Revenues for Nine Months Ended	
	January 31,	January 31,	January 31,	January 31,	January 31,	January 31,	January 31,	January 31,
	2006	2005	2006	2005	2006	2005	2006	2005
Energy and Facilities Solutions (1)	\$ 517	\$ 467	53	56	\$ 1,520	\$ 1,501	53	56
Energy Services (2)	1,127	1,669	59	67	3,394	4,528	58	70
Real Estate (3)	1,015	981	66	69	2,978	3,234	65	48
	\$ 2,659	\$ 3,117	60	66	\$ 7,892	\$ 9,263	59	58





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**NOTES TO CHART B**

- (1) The change in the percentage of costs and expenses applicable to revenues from continuing operations of the Energy and Facilities Solutions Segment for all periods presented is primarily due to:
  - (a) changes in the mix of services and products; and
  - (b) improved operational efficiencies related to energy engineering services.
- (2) On a dollar basis, costs and expenses from continuing operations decreased \$542,000 or 32% for the third quarter of fiscal 2006 and \$1,134,000 or 25% for the first nine months of fiscal 2006, compared to the same periods of fiscal 2005, primarily due to a corresponding decrease in installation contract revenues.

On a percentage basis, costs and expenses decreased for the third quarter of fiscal 2006, compared to the same period of fiscal 2005, primarily due to improved operational efficiencies on lighting installations.

On a percentage basis, costs and expenses decreased for the first nine months of fiscal 2006, compared to the same period of fiscal 2005, primarily due to:

- (a) improved operational efficiencies on lighting installations; and
  - (b) the recognition of revenue from a consulting services contract in the first quarter of fiscal 2006, that had no associated cost and expense in the first nine months of fiscal 2006.
- (3) On a dollar basis, cost and expenses from continuing operations decreased \$256,000 or 8% for the first nine months of fiscal 2006, compared to the same period of fiscal 2005, primarily due to:
    - (a) the absence of lease costs of \$103,000 in the first nine months of fiscal 2006 related to the termination of the Company's leaseback interest in a shopping center located in Minneapolis, Minnesota, in September 2004; and
    - (b) a decrease in depreciation expense of approximately \$99,000 related to one of the owned shopping centers being fully depreciated in fiscal 2006.

On a percentage basis, costs and expenses from continuing operations are higher for the first nine months of fiscal 2006, primarily due to the absence of the rental revenues of \$2,250,000 that was included in last year's first nine months of fiscal 2005, that resulted from the termination of the Company's leaseback interest in the shopping center in Minneapolis, Minnesota, in the second quarter ended October 31, 2004; the cost of the sale was \$42,115.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

**From Continuing Operations**

For the third quarters of fiscal 2006 and 2005, total selling, general and administrative expenses ( SG&A ) from continuing operations, net of intersegment eliminations, were \$2,070,074 and \$1,928,366, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 47% and 41% for the third quarters of fiscal 2006 and 2005, respectively. For the first nine months of fiscal 2006 and 2005, total SG&A expenses from continuing operations, net of intersegment eliminations, were \$6,327,984 and \$6,693,049, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 47% and 42% for the first nine months of fiscal 2006 and 2005, respectively. In reviewing Chart C, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented there. The percentages in Chart C are based upon expenses as they relate to segment revenues from continuing operations (Chart A), except that parent and total expenses relate to consolidated revenues from continuing operations.

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

	Third Quarter		Percent of Segment		Nine Months Ended		Percent of Segment	
	Ended	Ended	Revenues for	Third Quarter	Nine Months Ended	Nine Months	Revenues for	Segment
	January 31,	January 31,	Third Quarter	Ended	January 31,	Ended	Ended	Revenues for
	2006	2005	2006	2005	2006	2005	2006	2005
Energy and Facilities								
Solutions	\$ 582	\$ 622	60	74	\$ 1,670	\$ 1,720	58	64
Energy Services	548	494	28	20	1,634	1,616	28	25
Real Estate (1)	180	185	12	13	629	1,129	14	17
Parent	760	627	17	13	2,395	2,228	18	14
	\$ 2,070	\$ 1,928	47	41	\$ 6,328	\$ 6,693	47	42

**NOTES TO CHART C**

(1) On a dollar and percentage basis, SG&A expenses from continuing operations are \$500,000 or 44% lower for the first nine months of fiscal 2006, compared to the same period of fiscal 2005, primarily due to the legal costs and a net settlement cost that were expensed in fiscal 2005, due to the conclusion of arbitration proceedings.

**Gain on sales of real estate, net of costs**

On December 22, 2005, the Company closed on the sale of a 4.7 acre tract of land in Louisville, Kentucky, for a sales price of approximately \$270,000, resulting in a pre-tax gain of approximately \$184,000. After selling expenses, the sale generated proceeds of approximately \$265,000.

On October 28, 2005, the Company closed on the sale of one of its outparcels located in North Fort Myers, Florida, for a sales price of \$625,000, resulting in a pre-tax gain of approximately \$296,000. After selling expenses, the sale generated proceeds of approximately \$577,000 of which \$450,000 was recorded as a note receivable, bearing interest at an annual rate of 7.25%, commencing on December 1, 2005, with interest only payments due monthly until maturity on April 28, 2006.

On October 21, 2005, the Company closed on the sale of one of its outparcels located in North Fort Myers, Florida, for a sales price of approximately \$529,000, resulting in a pre-tax gain of approximately \$246,000. After selling expenses, the sale generated net cash proceeds of approximately \$488,000.

**Liquidity and capital resources**

Between April 30, 2005, and January 31, 2006, working capital decreased by \$3,535,000. Operating activities used cash of \$2,157,000 primarily due to:

- (a) an increase in note receivables of approximately \$510,000 primarily related to services performed on a consulting contract;
- (b) cash payments of \$1,089,000 related to the incentive compensation generated by the successful achievement of Company-wide earnings and performance goals in fiscal 2005; and
- (c) current year losses from continuing operations



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Investing activities provided cash of approximately \$7,673,000 primarily due to:

- (a) the release of approximately \$8,272,000 previously held in escrow for the purpose of purchasing a replacement property as part of an Internal Revenue Code Section 1031 federal tax deferred exchange for the Company's former shopping center located in Cincinnati, Ohio, which was sold in February 2005, and the Company's former shopping center located in Jackson, Michigan, which was sold in April 2005, as the Company did not purchase replacement properties;
- (b) proceeds of approximately \$881,000 from the sale of two outparcels located in North Fort Myers, Florida, that were sold at gains in October 2005, and the sale of a 4.7 acre tract of land located in Louisville, Kentucky, that was sold at a gain in December 2005;

offset by:

- (c) additions to income-producing properties of approximately \$641,000 primarily related to tenant and building improvements; and
- (d) additions to intangible assets of approximately \$650,000 primarily related to software development costs for one of the Company's proprietary software solutions.

Financing activities used cash of approximately \$1,314,000 for scheduled principal payments of mortgage notes and other long-term debt and regular quarterly dividends.

Discontinued operations used cash of approximately \$1,356,000 primarily due to the Company financing a portion of the sale of a professional medical office building in Douglasville, Georgia, and recording a note receivable of \$3,300,000, which is included on the accompanying balance sheet. In addition, the Company paid off the principal balance of the related mortgage note payable of approximately \$2,850,000.

The Company has a commitment from a bank for a secured line of credit in the amount of \$1.5 million, of which a total of \$300,000 is restricted to secure a letter of credit. The bank line of credit is secured by the Company's investment in a short-term securities bond of \$2.0 million that matures in April 2006. The Company can borrow an amount not to exceed 75% of the current market value on the bond. The line of credit bears interest at the prime rate or LIBOR plus 2%, and has a commitment fee of .375% on any unused portion. The bank line of credit expires April 7, 2006. The Company expects to renew or replace the bank line of credit; however, there can be no assurance that it will be renewed or replaced. As of January 31, 2006, there were no amounts outstanding on this line of credit.

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

**Cautionary statement regarding forward-looking statements**

Certain statements contained or incorporated by reference in this Quarterly Report on Form 10-Q, including without limitation, statements containing the words believes, anticipates, estimates, expects, plans, and words of similar import, are forward-looking statements within the meaning of the federal securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other matters which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or uncertainties expressed or implied by such forward-looking statements.

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Factors relating to general global, national, regional, and local economic conditions, including international political stability, national defense, homeland security, natural disasters, employment levels, wage and salary levels, consumer confidence, availability of credit, taxation policies, the Sarbanes-Oxley Act, SEC reporting requirements, fees paid to vendors in order to remain in compliance with Sarbanes-Oxley Act and SEC requirements, interest rates, capital spending, and inflation could negatively impact the Company and its customers, suppliers, and sources of capital. Any significant negative impact from these factors could result in material adverse effects on the Company's results of operations and financial condition.

The Company is at risk for many other matters beyond its control, including, but not limited to: the possible impact, if any, on the ultimate disposition of legal proceedings in which the Company may be involved; the potential loss of significant customers; the Company's ability to sell or refinance its real estate; the possibility of not achieving projected backlog revenues or not realizing earnings from such revenues; the cost and availability of insurance; the ability of the Company to attract and retain key personnel; weather conditions; changes in laws and regulations, including changes in accounting standards, generally accepted accounting principles, and regulatory requirements of the SEC and NASDAQ; overall vacancy rates in markets where the Company leases retail and office space; overall capital spending trends in the economy; the timing and amount of earnings recognition related to the possible sale of real estate properties held for sale; delays in or cancellations of customers' orders; the level and volatility of interest rates; the level and volatility of energy prices; the failure of a subcontractor to perform; and the deterioration in the financial stability of an anchor tenant, significant subcontractor, vendor, or other significant customer.

**Critical Accounting Policies**

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

*Revenue recognition*

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

Energy services revenues are reported on the percentage-of-completion method, using costs incurred to-date in relation to estimated total costs of the contracts, to measure the stage of completion. Original contract prices are adjusted for changes in estimated total contract costs and revenues (change orders), in the amounts that are reasonably estimated based on the Company's historical experience. The cumulative effects of 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.

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The Company leases space in its income-producing properties to tenants, and recognizes minimum base rentals as revenue on a straight-line basis over the lease term. The lease term usually begins when the lessee takes possession of or controls the physical use of the leased asset. Generally, this occurs on the lease commencement date. In determining what constitutes the leased asset, the Company evaluates whether the Company or the lessee is the owner of the tenant improvements. If the Company is the owner of the tenant improvements then the leased asset is the finished space and revenue recognition begins when the lessee takes possession of the finished space, typically when the improvements are substantially complete. If the Company concludes that the tenant improvements belong to the lessee, then the leased asset is the unimproved space and any tenant improvement allowances funded under the lease are treated as lease incentives which reduce the revenue recognized over the term of the lease. In these circumstances, the Company begins revenue recognition when the lessee takes possession of the unimproved space for the lessee to construct improvements. The Company considers a number of different factors to evaluate who owns the tenant improvements. These factors include (1) whether the lease stipulates how and on what a tenant improvement allowance may be spent; (2) whether the tenant or the landlord retain legal title to the improvements; (3) the uniqueness of the improvements; (4) the expected economic life of the tenant improvements relative to the length of the lease; and (5) who constructs or directs the construction of the improvements. The determination of who owns the tenant improvement is subject to significant judgment. In making the determination the Company considers all of the above factors; however, no one factor is determinative in reaching a conclusion. Tenants may also be required to pay additional rental amounts as reimbursement for their share of property operating expenses. In addition, certain tenants are required to pay incremental rental amounts, which are contingent on their store sales. These percentage rents are recognized only if and when earned.

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

*Income-producing properties and property and equipment*

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

Property and equipment are stated at cost and are depreciated for financial reporting purposes using the straight-line method over the estimated useful lives of the assets. Significant additions that extend asset lives are capitalized.

Normal maintenance and repair costs are expensed as incurred.

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

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.

*Valuation of goodwill and other intangible assets*

Goodwill and intangible assets with indefinite lives are required to be reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of an

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asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to estimated future net discounted cash flows expected to be generated by the asset. The most significant assumptions in the impairment analysis are revenue growth and the discount rate utilized. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the asset's fair value. Assets to be disposed of are reported at the lower of their carrying amount or estimated fair value less costs to sell.

*Income taxes*

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

*Discontinued Operations*

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

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

There have been no material changes since April 30, 2005. Refer to the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2005, for detailed disclosures about quantitative and qualitative disclosures about market risk.

**ITEM 4. CONTROLS AND PROCEDURES**

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

Based on management's evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that the objectives of disclosure controls and procedures were met.

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



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PART II. OTHER INFORMATION

**ITEM 6. EXHIBITS**

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

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SIGNATURES

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

ABRAMS INDUSTRIES,  
INC.

(Registrant)

Date: March 15, 2006

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

Date: March 15, 2006

/s/ Mark J. Thomas

Mark J. Thomas  
Chief Financial  
Officer