SERVIDYNE, INC.
Form 10-Q
September 14, 2010

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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 July 31, 2010
Commission file number 0-10146
SERVIDYNE, INC.
(Exact name of registrant as specified in its charter)

Georgia	58-0522129
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1945 The Exchange, Suite 300, Atlanta, GA 30339-2029
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: (770) 953-0304
Former name, former address, former fiscal year, if changed since last report: N/A

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

Yes þ No o

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 o No o

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 o	Accelerated Filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company þ

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

Yes o No þ

The number of shares of $1.00 par value Common Stock of the Registrant outstanding as of August 31, 2010, was 3,676,283.

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SERVIDYNE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	July 31, 2010	April 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 1,797,486**	$ 1,923,641
Receivables (Note 5):		
Trade accounts and notes, net of allowance for doubtful accounts of $90,892 and $58,989, respectively	**1,043,748**	973,442
Contracts, net of allowance for doubtful accounts of $54,804 and $22,530, respectively, including retained amounts of $719,344 and $675,281, respectively	**2,783,576**	3,337,177
Costs and earnings in excess of billings	**724,948**	715,129
Assets of discontinued operations (Note 9)	**67,880**	150,970
Deferred income taxes	**375,604**	401,223
Other current assets	**1,707,104**	1,265,326
Total current assets	**8,500,346**	8,766,908
INCOME-PRODUCING PROPERTIES, net	**8,638,902**	8,701,893
PROPERTY AND EQUIPMENT, net	**651,398**	682,445
ASSETS OF DISCONTINUED OPERATIONS (Note 9)		8,881,447
DEFERRED INCOME TAXES		6,666
OTHER ASSETS:		
Real estate held for future development or sale	**853,109**	853,109
Intangible assets, net (Note 8)	**2,570,670**	2,684,057
Goodwill (Note 8)	**6,354,002**	6,354,002
Other assets	**2,903,391**	2,909,158
Total assets	**$ 30,471,818**	$ 39,839,685
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade and subcontractors payables	**$ 1,113,249**	$ 2,465,112
Accrued expenses	**1,580,905**	1,429,321
Deferred revenue	**430,457**	507,383
Billings in excess of costs and earnings	**479,036**	53,100
Liabilities of discontinued operations (Note 9)	**26,024**	417,681
Short-term debt and current maturities of long-term debt	**324,788**	322,436
Total current liabilities	**3,954,459**	5,195,033
DEFERRED INCOME TAXES	**641,547**	
LIABILITIES OF DISCONTINUED OPERATIONS (Note 9)		7,943,165

OTHER LIABILITIES	**1,000,020**	1,039,633
MORTGAGE NOTES PAYABLE, less current maturities	**7,995,892**	8,040,375
OTHER LONG-TERM DEBT, less current maturities	**1,832,000**	1,832,000
Total liabilities	**15,423,918**	24,050,206
COMMITMENTS AND CONTINGENCIES (Note 11)		
SHAREHOLDERS EQUITY:		
Common stock, $1 par value; 10,000,000 shares authorized; 3,919,673 issued and 3,676,283 outstanding at July 31, 2010; 3,919,773 issued and 3,676,383 outstanding at April 30, 2010	**3,919,673**	3,919,773
Additional paid-in capital	**6,251,691**	6,206,521
Retained earnings	**5,882,681**	6,669,330
Treasury stock (common shares) of 243,390 and 243,390, respectively	**(1,006,145)**	(1,006,145)
Total shareholders equity	**15,047,900**	15,789,479
Total liabilities and shareholders equity	**$ 30,471,818**	$ 39,839,685

See accompanying notes to condensed consolidated financial statements.

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

	FIRST QUARTER ENDED JULY 31,	
	2010	2009
REVENUES:		
Building Performance Efficiency (BPE)	**$ 4,841,727**	$ 3,873,108
Real Estate	**249,467**	242,307
	5,091,194	4,115,415
COST OF REVENUES:		
BPE	**3,565,017**	2,624,609
Real Estate	**250,996**	270,485
	3,816,013	2,895,094
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**2,496,444**	2,385,760
OTHER (INCOME) AND EXPENSES:		
Other expense (income)	**26,632**	(10,264)
Interest income	**(17)**	(5,284)
Interest expense	**171,968**	163,810
	198,583	148,262
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**(1,419,846)**	(1,313,701)
INCOME TAX BENEFIT	**(609,640)**	(533,321)
LOSS FROM CONTINUING OPERATIONS	**(810,206)**	(780,380)
DISCONTINUED OPERATIONS (Note 9):		
Earnings from discontinued operations, adjusted for applicable income tax expense of $5,837 and $44,184, respectively	**9,523**	74,794
Gain on disposition of income-producing properties, adjusted for applicable income tax expense of $63,998 and $0, respectively	**50,940**	
EARNINGS FROM DISCONTINUED OPERATIONS	**60,463**	74,794

NET LOSS	**$ (749,743)**	$ (705,586)
NET (LOSS) EARNINGS PER SHARE (Note 7):		
From continuing operations basic and diluted	**$ (0.22)**	$ (0.21)
From discontinued operations basic and diluted	**.02**	.02
NET LOSS PER SHARE BASIC AND DILUTED	**$ (0.20)**	$ (0.19)
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	**3,676,367**	3,691,294

See accompanying notes to condensed consolidated financial statements.

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

	FIRST QUARTER ENDED JULY 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	**$ (749,743)**	$ (705,586)
Adjustments to reconcile net loss to net cash used in operating activities:		
Earnings from discontinued operations, net of tax	**(60,463)**	(74,794)
Gain on disposal of assets	**(1,385)**	
Depreciation and amortization	**301,496**	264,956
Deferred tax benefit	**(605,390)**	(533,321)
Stock compensation expense	**45,074**	50,298
Adjustment to cash surrender value of life insurance	**(32,233)**	(29,310)
Straight-line rent	**1,658**	(2,825)
Provision for doubtful accounts, net	**64,177**	(26,511)
Changes in assets and liabilities:		
Receivables	**419,118**	(148,014)
Costs and earnings in excess of billings	**(9,819)**	(288,894)
Other current and long-term assets	**(441,778)**	(253,436)
Trade and subcontractors payable	**(1,351,863)**	58,155
Accrued expenses and deferred revenue	**74,658**	(269,823)
Billings in excess of costs and earnings	**425,936**	715,968
Other liabilities	**(750)**	1,400
Net cash used in operating activities	**(1,921,307)**	(1,241,737)
Cash flows from investing activities:		
Premiums paid on officers life insurance policies	**(2,521)**	(5,464)
Additions to income-producing properties		(128,724)
Additions to property and equipment	**(28,175)**	(14,440)
Additions to intangible assets	**(69,966)**	(65,899)
Proceeds from sale of property and equipment	**5,454**	
Net cash used in investing activities	**(95,208)**	(214,527)
Cash flows from financing activities:		
Mortgage repayments	**(42,131)**	(39,176)
Debt repayments		(100,000)
Cash dividends paid to shareholders	**(36,910)**	(74,788)
Net cash used in financing activities	**(79,041)**	(213,964)

DISCONTINUED OPERATIONS:

Operating activities	**47,227**	170,519
Investing activities	**1,937,923**	57,170
Financing activities	**(15,749)**	(54,284)
Net cash provided by discontinued operations	**1,969,401**	173,405
Net decrease in cash and cash equivalents	**(126,155)**	(1,496,823)
Cash at beginning of period	**1,923,641**	4,821,126
Cash at end of period	**$ 1,797,486**	$ 3,324,303

See accompanying notes to condensed consolidated financial statements.

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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. The Company s Real Estate Segment engages in the asset management of its portfolio of commercial income-producing properties and undeveloped land.

NOTE 2. UNAUDITED STATEMENTS

The accompanying unaudited condensed 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, 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 the guidance now codified as Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360-35, *Property, Plant and Equipment* (ASC 360-35). As a result of these sales, the Company s financial statements have been prepared with the results of operations and cash flows of these disposed properties shown as discontinued operations, and the related assets and liabilities presented in the prior periods are currently reflected in discontinued operations on the balance sheets.

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

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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.

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 have been 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.

For the first quarter ended July 31, 2010, total equity-based compensation expenses were $45,074 and the related income tax benefits were $17,126. Comparatively, for the quarter ended July 31, 2009, total equity-based compensation expenses were $50,298, and the related income tax benefits were $18,908. All of these expenses are included in selling, general and administrative expenses in the condensed consolidated statements of operations. At July 31, 2010, there were total unrecognized equity-based compensation expenses of $295,197 that are expected to be recognized over a weighted average period of approximately 1.8 years.

Stock Options

A summary of stock options activity for the quarter ended July 31, 2010, is as follows:

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

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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 July 31, 2010, none of the outstanding stock options, vested or non-vested, were in the money.
A summary of information about all stock options outstanding as of July 31, 2010, is as follows:

Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Term (Years)
$4.42	415,629	2.28
$4.59	55,440	4.65
$5.19	917	3.88
$5.24	10,500	2.87

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 awards. The expected life of the stock options granted is based on the estimated holding period of the awarded stock options. The expected volatility of the stock options 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 options for the first quarter ended July 31, 2010, were $242 and the related income tax benefits were $92. Comparatively, related compensation expenses for the quarter ended July 31, 2009, were $7,979, and the related income tax benefits were $3,055.
Stock Appreciation Rights (SARs)
A summary of SARs activity for the quarter ended July 31, 2010, is as follows:

	SARs	Weighted Average Exercise Price
Outstanding at April 30, 2010	927,425	$ 3.85
Granted		
Exercised		
Forfeited	(52,500)	4.76
Outstanding at July 31, 2010	874,925	$ 3.79
Vested at July 31, 2010	145,499	$ 3.91
Non-vested at July 31, 2010, that are expected to vest	515,930	$ 3.84

All SARs have a five-year vesting period. Typically, thirty percent (30%) of the SARs will vest on the third (3rd) year anniversary of the date of grant, thirty percent (30%) will vest on the fourth (4th) year anniversary of the date of grant, and forty percent (40%) will vest on the fifth (5th) year anniversary of the date of grant. All SARs have early vesting provisions by which one hundred percent (100%) of the SARs

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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 July 31, 2010, 181,500 of the non-vested outstanding SARs, with a weighted average exercise price of $2.13, were in the money, whereas none of the vested SARs were in the money.

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

Exercise Price	Outstanding SARs	Vested SARs	Weighted Average Remaining Contractual Term (Years)
$3.94	180,495	108,959	5.91
$3.79	109,830	33,390	6.36
$4.19	10,500	3,150	6.87
$6.19	33,600	0	7.17
$5.00	52,500	0	7.73
$4.76	84,000	0	7.87
$4.00	22,500	0	8.13
$2.30	30,000	0	8.86
$4.00	200,000	0	9.29
$2.12	20,000	0	9.36
$2.09	131,500	0	9.65

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 on the U.S. Treasury Bill having the same maturity as the expected life of the Company s SARs awards. The expected life of the SARs granted is based on the estimated holding period of the awards. 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 quarter ended July 31, 2010, were $43,448, and the related income tax benefits were $16,509. Comparatively, related compensation expenses for the quarter ended July 31, 2009, were $39,037, and the related income tax benefits were $14,605.

Shares of Restricted Stock

Periodically, the Company has awarded shares of restricted stock to employees, non-employee directors and certain outside service providers. The awards are recorded at fair market value on the date of grant and typically vest over a period of one (1) year. As of July 31, 2010, there were unrecognized compensation expenses totaling $1,825 related to grants of shares of restricted stock, which the Company expects to be recognized over the ensuing year.

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Compensation expenses related to the vesting of shares of restricted stock for the quarter ended July 31, 2010, were $1,384, and the related income tax benefits were $525. Comparatively, the related compensation expenses for the quarter ended July 31, 2009, were $3,282, and the related income tax benefits were $1,248.
The following table summarizes restricted stock activity for the quarter ended July 31, 2010:

	Number of Shares of Restricted Stock	Weighted Average Fair Value per Share on Grant Date
Non-vested restricted stock at April 30, 2010	3,150	$ 2.99
Granted		
Forfeited	(100)	2.12
Vested	(1,050)	4.76
Non-vested restricted stock at July 31, 2010	2,000	$ 2.11

NOTE 5. RECEIVABLES
All net contract and trade receivables are expected to be collected within one (1) year.

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NOTE 6. OPERATING SEGMENTS

The table below shows selected financial data on an operating segment basis before intersegment eliminations. In this presentation, management fee expenses charged by the Parent Company are not included in the segments results.

For the Quarter Ended July 31, 2010	BPE	Real Estate	Parent (1)	Eliminations	Consolidated
Revenues from unaffiliated customers					
BPE Segment services and products:					
Energy savings projects	$3,018,592				$ 3,018,592
Lighting products	684,735				684,735
Energy management services	340,090				340,090
Fifth fuel management services	57,059				57,059
Productivity software	741,251				741,251
Total revenues from unaffiliated customers	$4,841,727	$249,467	$	$	$ 5,091,194
Intersegment revenue		144,984		(144,984)	
Total revenues from continuing operations	$4,841,727	$394,451	$	$(144,984)	$ 5,091,194
(Loss) earnings from continuing operations before income taxes	$ (601,376)	$ 66,587	$(884,411)	$ (646)	$(1,419,846)

For the Quarter Ended July 31, 2009	BPE	Real Estate	Parent (1)	Eliminations	Consolidated
Revenues from unaffiliated customers					
BPE Segment services and products:					
Energy savings projects	$2,012,844				$ 2,012,844
Lighting products	456,450				456,450
Energy management services	563,800				563,800
Fifth fuel management services					
Productivity software	840,014				840,014
Total revenues from unaffiliated customers	$3,873,108	$242,307	$	$	$ 4,115,415
Intersegment revenue	141,545	136,042		(277,587)	
Total revenues from continuing operations	$4,014,653	$378,349	$	$(277,587)	$ 4,115,415
	$ (390,485)	$ (13,036)	$(894,740)	$ (15,440)	$(1,313,701)

(Loss) earnings from continuing operations before income taxes

(1) The Parent Company s net loss in each period was derived from corporate headquarters activities and consists primarily of the following: Parent Company executive officers compensation and costs related to the Company s status as a publicly-held company, which include, among other items, legal fees, compliance costs, non-employee director s fees, consulting expenses, and other reporting costs. The corporate headquarters activities do not earn revenue. All relevant costs related to the business operations of the Company s operating segments are either paid directly by the respective operating

segments or are allocated to the segments by the Parent Company. 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 quarter of fiscal 2011 and fiscal 2010 was 27,897 shares and 0 shares, respectively. Because the Company had a loss from continuing operations for the quarter ended July 31, 2010, as well as for the quarter ended July 31, 2009, all stock equivalents were anti-dilutive during these periods and, therefore, are excluded when determining the diluted weighted average number of shares outstanding.

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NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	July 31, 2010	
Intangible assets, subject to amortization:	Gross Carrying Amount	Accumulated Amortization
Proprietary BPE software solutions	$ 4,161,615	$ 2,969,160
Acquired computer software	681,032	506,235
Real estate lease costs	390,038	131,441
Customer relationships	404,632	295,764
Deferred loan costs	202,109	129,219
Non-compete agreements	63,323	63,323
Tradename	61,299	8,854
Other	44,882	42,971
	$ 6,008,930	$ 4,146,967
Intangible assets and goodwill, not subject to amortization:		
Trademark	$ 708,707	
Goodwill	$ 6,354,002	

	April 30, 2010	
Intangible assets, subject to amortization:	Gross Carrying Amount	Accumulated Amortization
Proprietary BPE software solutions	$ 4,096,802	$ 2,827,071
Acquired computer software	676,837	493,885
Real estate lease costs	389,317	121,762
Customer relationships	404,632	286,433
Deferred loan costs	202,109	124,166
Non-compete agreements	63,323	60,684
Tradename	61,299	7,834
Other	44,882	42,016
	$ 5,939,201	$ 3,963,851
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 quarter ended July 31, 2010	$ 183,352
For the quarter ended July 31, 2009	144,783

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

Remainder of 2011	$ 321,908
2012	504,437
2013	357,891
2014	260,256
2015	214,137
2016	103,598
Thereafter	99,736
	$ 1,861,963

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

NOTE 9. DISCONTINUED OPERATIONS

On June 9, 2010, the Real Estate Segment sold its owned shopping center in Jacksonville, Florida, for a sales price of approximately $9.9 million. As part of this transaction, the buyer assumed in full the mortgage note payable on the property of approximately $6.9 million. The Company recognized a pre-tax gain on the sale of approximately $115,000 in the first quarter of fiscal 2011.

On January 29, 2010, the Real Estate Segment 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.

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 disposed properties shown as discontinued operations. All historical statements have been restated in accordance with GAAP. Summarized financial information for discontinued operations for the quarters ended July 31, 2010, and July 31, 2009, is as follows:

	First Quarter Ended July 31,	
	2010	2009
REAL ESTATE SEGMENT		
Rental revenues	**$ 150,722**	$ 515,784
Rental property operating expenses, including depreciation	**135,362**	396,806
Operating income from discontinued operations	**15,360**	118,978
Income tax expense	**(5,837)**	(44,184)
Operating income from discontinued operations, net of tax	**9,523**	74,794
Gain on disposition of income-producing properties	**114,938**	
Income tax expense	**(63,998)**	
Gain on disposition of income-producing properties, net of tax	**50,940**	
Earnings from discontinued operations, net of tax	**$ 60,463**	$ 74,794

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NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments 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, for substantially the full term of the financial instrument.

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

Financial instruments in the Company s condensed consolidated financial statements that are measured and recorded at fair value on a recurring basis are (1) deferred executive compensation plan assets, which are included in Other Assets in the condensed consolidated balance sheet; and (2) the corresponding liability owed to the plan participants that is equal in value to the plan assets, which is included in Other Liabilities in the condensed consolidated balance sheet. Given that the plan 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 deferred executive compensation plan assets and the corresponding liability were $912,170 and $947,023 as of July 31, 2010, and April 30, 2010, respectively.

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

The Company had a certificate of deposit (CD) in the amount of $450,000 as of July 31, 2010, which is included within 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 July 31, 2010.

Based on the borrowing rates currently available for mortgage notes with similar terms and average maturities, the carrying value of the mortgage notes payable is a reasonable estimate of fair value. The fair value of mortgage notes payable was $8,340,580 and $8,399,116 as of July 31, 2010, and April 30, 2010, respectively. Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the carrying value of the other debt is considered a reasonable estimate of fair value. The fair value of other debt was $1,965,365 and $1,950,109 as of July 31, 2010, and April 30, 2010, respectively.

NOTE 11. 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.

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

The following discussion should be read in conjunction with the 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 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 fiscal year 2011 will end on April 30, 2011.

OVERVIEW

BUILDING PERFORMANCE EFFICIENCY SEGMENT

The BPE Segment entered fiscal year 2011 with a backlog of approximately $15.4 million, which represents the highest backlog achieved by the BPE Segment in the Company s history. As a result, BPE generated revenues in the first quarter of fiscal 2011 of approximately $4.8 million, representing a year-over-year increase in BPE revenues of 25% compared to last year s first quarter, including a 50% year-over-year increase in Energy Savings Projects revenues. Nevertheless, BPE revenues outpaced new orders during the first quarter, leading to a decline in backlog during that period of $1.9 million. BPE backlog as of July 31, 2010, was approximately $13.5 million, which was 12% lower than the backlog at April 30, 2010, but was 64% higher than the backlog at July 31, 2009. BPE s new order activity strengthened materially once again in August 2010, the first month of the second quarter of fiscal 2011, including the receipt of an award for a $5.8 million project with a state agency for retrocommissioning and related professional services that the Company expects to commence immediately and to substantially complete by the end of calendar year 2011.

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

Management currently expects that the BPE Segment will generate positive EBITDA for the full fiscal year 2011, as revenues remain 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.

The Company currently anticipates that new order activity will be generated by the BPE Segment s new product line, Fifth Fuel Management , over the next several quarters. The BPE Segment has expanded its sales force to offer this new 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.

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In February 2010, the Company received its initial multi-year orders for this new offering, and Fifth Fuel Management order bookings totaled approximately $800,000 in the fourth quarter of fiscal 2010. The Company created Fifth Fuel Management by expanding its Web-based iTenda® platform to become a real-time, energy optimization and demand response system. The new system was successfully tested at several large luxury hotels during the second quarter of fiscal 2010 in a pilot program for a major U.S. electric utility, implementing the demand response participation by controlling the hotels peak time energy usage. 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 designed Fifth Fuel Management to be a cost effective and reliable way for utilities to optimize their customers demand response participation and to enable owners and operators of large, complex buildings to maximize the value of their investments in energy efficiency. In addition, the Company expects Fifth Fuel Management will provide additional opportunities for sales of the BPE Segment s existing services and products, which can enable the BPE Segment to leverage its established customer base of building owners and operators to help utilities gain better utilization of their existing energy generating facilities and infrastructures. The Company believes the BPE Segment is now much better positioned to participate in the growing utility market sector, and as a result, anticipates that it will begin generating additional recurring revenues over the next year through new multi-year contracts with utilities. However, the Company s ability to develop the new Fifth Fuel Management offering to its full potential will require additional capital.

To support revenue growth over a longer time horizon, in addition to the inherent potential of the utility market sector, the Company anticipates continued strong BPE order growth from the government sector and from customers in the private sector. The Company s BPE Segment offers the government sector many of the same offerings provided to private sector customers, including energy savings projects and other energy efficiency-focused products and services, usually by acting as a subcontractor to large energy services company (ESCO) partners to provide services to end-user government facilities. Through this channel, the BPE Segment provides services to a wide range of government facilities, including U.S. military bases, federal and state prisons, and large public educational facilities, school districts, and a variety of other federal, state and municipal buildings and facilities. The Company believes that future growth in BPE s government business should be underpinned by two (2) federal actions: in December 2008, the U.S. Department of Energy (DOE) announced a program to fund $80 billion of energy savings performance contracts through sixteen (16) large ESCOs to improve the energy efficiency of government buildings; and in February 2009, President Obama signed the American Recovery and Reinvestment Act of 2009, which is providing an additional approximately $75 billion for the performance of energy efficiency projects in government buildings. The Company has existing business relationships with half of these sixteen (16) selected ESCOs and a long history of providing these exact types of services to the government sector. As a result, the Company believes that it is well positioned to perform a significant amount of these funded projects.

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

REAL ESTATE SEGMENT

The Company s Real Estate Segment is in the business of creating long-term value and has periodically realized gains through the sale of its real estate assets. The Company has historically generated substantial liquidity from such periodic sales, and the proceeds from such sales often have then been

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redeployed to the BPE Segment of the Company. In fact, 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 a pre-tax gain on the sale of approximately $115,000. Also, in January 2010, the Company transferred its interest in an owned office building located in Newnan, Georgia, to the property s note holder, which resulted in a pre-tax gain of approximately $1.2 million. See Note 10 Discontinued Operations to the condensed consolidated financial statements for more information. As a cumulative result of the real estate assets sales, the Company s real estate portfolio now consists of only a few properties, and given recent declines in commercial real estate markets and asset valuations in the United States, 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 is continuing to monitor the sales and operating performance of the Real Estate Segment s tenants, and is continuing to reduce Real Estate Segment operating costs.

LIQUIDITY

Despite the recent successes and achievements described above, the Company s loss from continuing operations in the first quarter of fiscal 2011 resulted in significant usage of the Company s cash, continuing the trend of substantial cash usage to fund operating losses in recent fiscal quarters. Although the BPE Segment generated positive EBITDA and net earnings from operations in the fourth quarter of fiscal 2010, and is expected to see improved financial performance during the balance of fiscal year 2011, a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company s consolidated operations. The Company believes that it has, or can obtain, sufficient capital resources to operate its business in the ordinary course until the BPE Segment begins to generate sufficient sustained cash flow to fund the Company s consolidated operations, which it may seek to obtain using any of the methods described below in Liquidity and Capital Resources ; however, there can be no assurance that the Company would be successful in the efforts.

Historically, earnings before taxes have been indicative of the BPE Segment s cash flow before taking into account the timing of receivables and payables. Given the continuing substantial revenue growth and earnings that the Company currently expects the BPE Segment to achieve in the next few fiscal quarters, the timing of when the segment will begin to generate consistent positive cash flow from operations will be dependent on the timing of collections on customer receivables and payments to vendors and suppliers. In addition, there can be no guarantee that the expected substantial revenue growth, positive EBITDA and net earnings from operations at the BPE Segment will actually occur, particularly if recent macro-economic conditions continue, or worsen, for an extended period of time. See Liquidity and Capital Resources later in this discussion and analysis section for more information.

RESULTS OF OPERATIONS

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

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REVENUES
From Continuing Operations

For the first quarter of fiscal 2011, consolidated revenues from continuing operations, net of intersegment eliminations, were $5,091,194 compared to $4,115,415 for the first quarter of fiscal 2010, an increase of approximately 24%.

CHART A

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

	First Quarter Ended July 31,		Amount	Percentage
	2010	2009	Change	Change
BPE (1)	$4,842	$3,873	$969	25
Real Estate	249	242	7	3
	$5,091	$4,115	$976	24

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)

	First Quarter Ended July 31,		Amount	Percentage
	2010	2009	Change	Change
Energy Savings Projects	$3,019	$2,013	$1,006	50
Lighting Products	685	456	229	50
Energy Management Services	340	564	(224)	(40)
Fifth Fuel Management Services	57		57	
Productivity Software	741	840	(99)	(12)
	$4,842	$3,873	$ 969	25

BPE Segment revenues increased by approximately $969,000, or 25%, in the first 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 $1,006,000; and

(b) an increase in lighting product revenues of approximately $229,000;

partially offset by:

(c) a decrease in energy management services of approximately $224,000; and

(d) a decrease in productivity software revenues of approximately $99,000.

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The following table indicates the backlog of contracts and rental income, by segment.

	July 31,		Increase (Decrease)	
	2010	2009	Amount	Percentage
BPE (1)	$13,489,000	$8,234,000	$5,255,000	64
Real Estate	1,437,000	1,380,000	57,000	4
Less: Intersegment eliminations (2)	(600,000)	(551,000)	(49,000)	(9)
Total Backlog	$14,326,000	$9,063,000	$5,263,000	58

(1) BPE backlog at July 31, 2010, increased by approximately $5,255,000, or 64%, compared to the year-earlier period, primarily due to:

(a) an increase of approximately $4,580,000 in energy savings (lighting and mechanical) projects;

(b) approximately $642,000 in backlog from the BPE Segment s new Fifth Fuel Management™ service offering;

(c) an increase of approximately $77,000 in energy management consulting services; and

(d) an increase of approximately $50,000 in lighting products from the Company s lighting distribution business;

partially offset by:

(e) a decrease of approximately $96,000 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, and assumes that such cancellation provisions will not be invoked. The value of such contracts included in the prior year s backlog that were subsequently cancelled was approximately $123,000, or 1.5%.

(2) Represents rental revenues at the Company s owned headquarters building to be paid to the Real Estate Segment by the Parent Company and the BPE Segment.

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

COST OF REVENUES

From Continuing Operations

As a percentage of total segment revenues from continuing operations (see Chart A), the total applicable costs of revenues (see Chart B) of $3,816,013 in the first quarter of fiscal 2011 and $2,895,094 in the first quarter of fiscal 2010, were 75% and 70%, respectively. In reviewing Chart B, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented.

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The figures in Chart B are net of intersegment eliminations.

CHART B

COST OF REVENUES
FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT
(Dollars in Thousands)

	First Quarter Ended July 31,		Percentage of Segment Revenues for the First Quarter Ended July 31,	
	2010	2009	2010	2009
BPE (1)	$3,565	$2,625	74	68
Real Estate	251	270	101	112
	$3,816	$2,895	75	70

NOTES TO CHART B

(1) BPE Segment cost of revenues increased by approximately $940,000 , or 36%, in the first quarter of fiscal 2011 compared to the same period 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 6% in the first quarter of fiscal 2011 compared to the same period in fiscal 2010, primarily due to a change in the mix of services and products and an increasingly competitive market pricing environment for energy savings projects.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
From Continuing Operations

As a percentage of total segment revenues from continuing operations (see Chart A), the total applicable selling, general and administrative expenses (SG&A) (see Chart C), net of intersegment eliminations, of $2,496,444 in the first quarter of fiscal 2011 and $2,385,760 in the first quarter of fiscal 2010, were 49% and 58%, respectively. In reviewing Chart C, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented. The percentages in Chart C are based upon expenses as they relate to segment revenues from continuing operations (see Chart A), with the exception that Parent and total expenses relate to total consolidated revenues from continuing operations.

The figures in Chart C are net of intersegment eliminations.

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CHART C

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

	First Quarter Ended July 31,		Percentage of Segment Revenues for the First Quarter Ended July 31,	
	2010	2009	2010	2009
BPE (1)	$1,577	$1,360	33	35
Real Estate	135	157	54	65
Parent Company	784	869	15	21
	$2,496	$2,386	49	58

NOTES TO CHART C

(1) BPE Segment SG&A expenses increased by approximately $217,000, or 16%, in the first quarter of fiscal 2011 compared to the same period in fiscal 2010, primarily due to higher personnel-related costs, product development expenses, and sales and marketing expenses.

LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES

Consolidated loss from continuing operations before income taxes was $1,419,846 in the first quarter of fiscal year 2011, compared to $1,313,701 in the same period of fiscal year 2010, an increase in the loss of $106,145, or 8%. The figures in Chart D are net of intersegment eliminations.

CHART D

LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES
SUMMARY BY SEGMENT
(Dollars in Thousands)

	First Quarter Ended July 31,		(Increase) Decrease
	2010	2009	Amount
BPE (1)	$ (314)	$ (124)	$ (190)
Real Estate (2)	(284)	(323)	39
Parent Company (3)	(822)	(867)	45
	$ (1,420)	$ (1,314)	$ (106)

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NOTES TO CHART D

(1) BPE Segment loss before income taxes increased by approximately $190,000, or 153%, in the first quarter of fiscal 2011 compared to the same period in fiscal 2010, primarily due to an increase in revenues of approximately $969,000 (see Chart A), an increase in gross margin of approximately $28,000 offset by an increase in SG&A expenses of approximately $217,000 (see Chart C).

(2) Real Estate Segment loss before income taxes decreased by approximately $39,000, or 12%, in the first quarter of fiscal 2011 compared to the same period in fiscal 2010, primarily due to a decrease in SG&A expenses of approximately $22,000 (see Chart C).

(3) Parent Company loss before income taxes decreased by approximately $45,000, or 5%, in the first quarter of fiscal 2011 compared to the same period in fiscal 2010, primarily due to a decrease in SG&A expenses of approximately $85,000 (see Chart C), partially offset by an increase in other expenses of approximately $41,000.

INCOME TAX BENEFIT

The Company s effective rate for income taxes, based upon estimated annual income tax rates, approximated 42.9% of the loss from continuing operations before income taxes for the first quarter of fiscal 2011 and 40.6% for the comparable period in fiscal year 2010.

DISCONTINUED OPERATIONS

On June 9, 2010, the Real Estate Segment sold its owned shopping center in Jacksonville, Florida, for a sales price of approximately $9.9 million. As part of this transaction, the buyer assumed in full the mortgage note payable on the property of approximately $6.9 million. The Company recognized a pre-tax gain on the sale of approximately $115,000 in the first quarter of fiscal 2011. The Company s federal and state tax liabilities on the disposition were approximately $64,000. These tax liabilities primarily resulted from the pre-tax gain of approximately $115,000 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 Real Estate Segment disposed of its interest in its owned office building in Newnan, Georgia. In this transaction, the Real Estate Segment 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 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 $0.6 million. These tax liabilities primarily resulted from the pre-tax gain of approximately $1.2 million on the disposition, partially offset by operating losses 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.

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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 restated in accordance with GAAP.

LIQUIDITY AND CAPITAL RESOURCES

Between April 30, 2010, and July 31, 2010, the Company s cash decreased by a total of $126,155, or 7%. The Company s working capital increased by approximately $974,000, or 27%, between April 30, 2010, and July 31, 2010, which was largely the result of cash proceeds from the sale of real estate of approximately $2 million and by a reduction in trade accounts payable of approximately $1.4 million in the current fiscal year.

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

Operating activities used cash of approximately $1,921,000, primarily as a result of:

(a) current year losses from continuing operations before depreciation, amortization, and income taxes of approximately $1,119,000;

(b) an increase in other current and long-term assets of approximately $442,000; and

(c) a net decrease in trade accounts payable, accrued expenses, and other liabilities of approximately $1,278,000;

partially offset by:

(d) an increase in billings in excess of costs and earnings of approximately $426,000; and

(e) a decrease in net accounts receivable of approximately $483,000.

Investing activities used cash of approximately $95,000, primarily as a result of:

(a) approximately $70,000 used for additions to intangible assets, primarily related to enhancements to the BPE Segment s proprietary building productivity software solutions; and

(b) approximately $28,000 used for additions to property and equipment, primarily related to computer hardware purchases.

Financing activities used cash of approximately $79,000 primarily for:

(a) scheduled principal payments on real estate mortgage notes of approximately $42,000; and

(b) payment of the regular quarterly cash dividends to shareholders of approximately $37,000.

Discontinued operations provided cash of approximately $1,969,000, primarily as a result of the sale of an income-producing property.

During the first quarter of fiscal 2011, operating activities used approximately $1,921,000 of cash, primarily due to the operating loss and the reduction in accounts payable, partially offset by a reduction in

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accounts receivable. The significant BPE Segment backlog at July 31, 2010, and the increased order activity as discussed above are expected to result in substantially higher revenues in fiscal 2011, and management believes that the BPE Segment will be able to generate positive cash flow from operations during the year as a result. 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 the BPE Segment 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 cash flow to fund the Company s consolidated operations, although there can be no guarantee that this will be the case, particularly if the macro-economic conditions experienced in recent fiscal years continue for an extended period of time, or worsen.

Achieving sufficient positive cash flow from the operations of the BPE Segment to fund the Company s consolidated operations will depend on the occurrence of a number of assumed factors, including the timing 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 positive cash flow to fund the Company s consolidated operations through BPE Segment 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 often have then been redeployed to the BPE Segment of the Company. Most recently, 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 a pre-tax gain on the sale of approximately $115,000. As a cumulative result of the Company s real estate asset sales in recent years, the Company s real estate portfolio now consists of only a few properties, and given recent declines in commercial real estate markets and asset valuations in the United States, 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. As of July 31, 2010, the Company has drawn $982,000 in loans against its interest in the cash surrender value of certain life insurance policies; however, 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 new Fifth Fuel Management 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.

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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 to develop the Fifth Fuel Management 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 cash flow to fully fund consolidated operations, and might be obliged to explore strategic alternatives for its business.

The Company has no material commitments for capital expenditures. However, the Company does expect that total capital spending in fiscal year 2011 will approximate $790,000, including BPE Segment expenditures of approximately $510,000 for proprietary BPE software solutions and approximately $240,000 for property and equipment, Real Estate Segment expenditures of approximately $20,000, and Parent Company expenditures of approximately $20,000. Of these forecasted amounts, approximately $75,000, or 10%, of the BPE Segment expenditures were already expended during the first quarter of the fiscal year. No significant amounts of the forecasted Real Estate Segment and Parent Company expenditures were expended during the first quarter of the fiscal year. Other significant uses of cash are anticipated to be regular scheduled principal repayments of the Real Estate Segment s mortgage loans and the regular cash requirements of corporate headquarters. The Company s uses of cash are not expected to change materially in the near future, with the exception of Real Estate Segment capital expenditures, which may increase if significant discretionary tenant improvements and lease commission payments are used for tenant leasing. This discretionary use of cash would be recovered during the terms of such new leases by the additional rental income generated as a result.

The Company currently has two (2) mortgage notes on long-term real estate assets and two (2) other long-term debt obligations. The owned shopping center mortgage loan contains a provision that requires a Real Estate Segment subsidiary to maintain a net worth of at least $4 million. The owned office building mortgage loan contains a provision that requires the same Real Estate Segment subsidiary to maintain a net worth of at least $2 million. The subsidiary referred to in these mortgage loan provisions had a net worth of approximately $16.4 million as of July 31, 2010. The Real Estate Segment s mortgage notes contain no other financial covenants. None of the Company s other long-term debt obligations have any financial or non-financial covenants.

The cash principal payment obligations during the next twelve (12) months related to the Company s long-term debt are expected to be approximately $325,000.

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, projects, forecast words of similar import, are forward-looking statements within the meaning of the federal securities laws.

Forward-looking statements in this report include, without limitation: the Company s expected continuing strengthening of orders and achievement of positive EBITDA for its BPE Segment; trends in the BPE Segment s government business and private sector business; the Company s expectations of generating additional recurring revenues as a result of

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

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

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

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.

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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.

The Company leases space in its income-producing properties to tenants and recognizes minimum base rentals as revenue on a straight-line basis over the lease terms. The lease term usually begins when the tenant takes possession of, or controls the physical use of, the leased asset. Generally, this occurs on the lease commencement date. In determining what constitutes a leased asset, the Company evaluates whether the Company or the tenant is the owner of the improvements. If the Company is the owner of the improvements, then the leased asset is the finished space. In such instances, revenue recognition begins when the tenant takes possession of the finished space, typically when the improvements are substantially complete. If the Company determines that the improvements belong to the tenant, then the leased asset is the unimproved space, and any improvement allowances funded by the Company pursuant to the terms of the lease are treated as lease incentives that reduce the revenue recognized over the term of the lease. In these circumstances, the Company begins revenue recognition when the tenant takes possession of the unimproved space. The Company considers a number of different factors in order to determine who owns the improvements. These factors include: (1) whether the lease stipulates the terms and conditions of how an improvement allowance may be spent; (2) whether the tenant or the Company retains legal title to the improvements; (3) the uniqueness of the improvements; (4) the expected economic life of the 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 improvements 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. Certain leases may also require tenants to pay additional rental amounts as partial reimbursements for their shares of property operating and common area expenses, real estate taxes, and insurance costs, which additional rental amounts are recognized only when earned. In addition, certain retail leases require tenants to pay incremental rental amounts, which are contingent upon their stores sales. These percentage rents are recognized only if and when earned and are not recognized on a straight-line basis.

Revenues from the sales of real estate assets are recognized when all of the following has occurred: (1) the property is transferred from the Company to the buyer; (2) the buyer s initial and continuing investment is adequate to demonstrate a commitment to pay for the property; and (3) the buyer has assumed all future ownership risks of the property. Costs of sales related to sales of real estate assets are based on the specific property sold. If a portion or unit of a property is sold, a proportionate share of the total cost of the property is charged to cost of sales.

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Long-Lived Assets: Income-Producing Properties, Capitalized Software, and Property and Equipment

Income-producing properties 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 of the assets. 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. Interest and other carrying costs related to real estate assets under active development are capitalized. Other 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. Property and equipment are recorded at historical cost and are depreciated for financial reporting purposes using the straight-line method over the estimated useful lives of the respective assets.

The Company s most significant long-lived assets are income-producing properties held in its Real Estate Segment. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such review takes place on a quarterly basis. The types of events and circumstances that might indicate impairment in the Real Estate Segment include, but are not limited to, the following:

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

A significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition;

A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator;

An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction 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;

A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life;

The Company has recently sold similar income-producing properties at losses;

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

Income-producing properties that have significant vacancy rates 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;

Depressed market conditions;

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Presence of a new competitive property constructed in the asset s market area; and

Evidence of significant corrective measures required to cure structural problems, physical obsolescence, or deterioration of essential building components.

The Company has determined that the lowest level of identifiable cash flows for long-lived assets in its Real Estate Segment is at each of the individual income-producing properties. Each of these income producing properties operates independent of one another, and financial information for these properties is recorded on an individual property basis. 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 of the Real Estate Segment using assumptions regarding occupancy, counter-party creditworthiness, costs of leasing including tenant improvements and leasing commissions, rental rates and expenses of the property, as well as the expected holding period and cash to be received from disposition. The Company has considered all of these factors in its undiscounted cash flows.

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

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

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

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

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

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

Valuation of Goodwill and Other Indefinite-Lived Intangible Assets

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

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

Income Taxes

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

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

Positive evidence considered includes, among others, the following: deferred tax liabilities in excess of DTA, future reversals of temporary differences, Company historical evidence of not having DTAs expire prior to utilization, long carryforward period remaining for net operating loss (NOL) carryforwards, lack of cumulative taxable loss in recent years, taxable income projections that conclude that NOL carryforwards will be utilized prior to expiration, and evidence of appreciated real estate holdings planned to be sold prior to expiration of the NOL carryforward period.

Negative evidence considered includes, among others, 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 for certain separate return limitation years. These were years that the separate legal entities generated tax losses prior to the filing of a consolidated tax return. In order for these losses to be utilized in the future, the legal entity which generated the losses must generate the taxable income to offset it. The allowance was recorded as management determined that it was not more-likely-than-not that these losses would be utilized prior to expiration.

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The Company will have to generate $6.1 million of taxable income in future years to realize the federal NOL carryforwards and an additional $23.6 million of taxable income in future years to realize the state NOL carryforwards. These amounts of taxable income would allow for the reversal of the $3.2 million DTA related to NOL carryforwards. There is a long carryforward period remaining for the NOL carryforwards. The oldest federal NOL carryforwards will expire in the April 30, 2024, tax-year, and the most recent federal NOL carryforwards will expire in the April 30, 2031, tax-year. The significant state NOL carryforwards will also expire between the April 30, 2024, and April 30, 2031, tax years. The Company has no material permanent book/tax differences.

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Based on management s evaluation, the Chief Executive Officer and Chief Financial Officer 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.

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 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 1A. RISK FACTORS

The reader should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2010, which could materially affect the business, financial condition or future operating results of the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also could materially affect the Company s business, financial condition and/or operating results.

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

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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.

SERVIDYNE, INC.
(Registrant)

Date: September 14, 2010

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

Date: September 14, 2010

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