SERVIDYNE, INC.
Form 10-Q
December 15, 2009

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 October 31, 2009
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 November 30, 2009, was 3,689,075.

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SERVIDYNE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	October 31, 2009	April 30, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 2,903,421**	$ 4,821,126
Receivables (Note 5):		
Trade accounts and notes, net of allowance for doubtful accounts of $85,103 and $145,236, respectively	**1,692,245**	1,368,577
Contracts, net of allowance for doubtful accounts of $4,294 and $4,294, respectively, including retained amounts of $359,856 and $219,385, respectively	**2,027,131**	1,764,327
Costs and earnings in excess of billings	**34,149**	408,950
Deferred income taxes	**455,421**	579,423
Other current assets	**1,766,010**	1,659,721
Total current assets	**8,878,377**	10,602,124
INCOME-PRODUCING PROPERTIES, net (Note 10)	**19,258,068**	19,391,375
PROPERTY AND EQUIPMENT, net	**738,345**	797,556
OTHER ASSETS:		
Real estate held for future development or sale	**853,109**	853,109
Intangible assets, net (Note 8)	**3,031,655**	2,910,596
Goodwill (Note 8)	**6,354,002**	6,354,002
Other assets	**2,954,036**	2,735,894
Total assets	**$ 42,067,592**	$ 43,644,656
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade and subcontractors payables	**$ 585,083**	$ 851,633
Accrued expenses	**2,010,347**	1,416,145
Deferred revenue	**460,654**	708,401
Billings in excess of costs and earnings	**962,204**	28,215
Current maturities of mortgage notes and other long-term debt (Note 10)	**3,597,634**	566,858
Total current liabilities	**7,615,922**	3,571,252
DEFERRED INCOME TAXES	**1,446,361**	2,489,357
OTHER LIABILITIES	**991,815**	824,877
MORTGAGE NOTES PAYABLE, less current maturities	**14,911,846**	18,220,640
OTHER LONG-TERM DEBT, less current maturities	**1,000,000**	1,000,000

Total liabilities	**25,965,944**	26,106,126
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS EQUITY:		
Common stock, $1 par value; 10,000,000 shares authorized; 3,917,673 issued and 3,689,075 outstanding at October 31, 2009; 3,917,778 issued and 3,691,369 outstanding at April 30, 2009	**3,922,051**	3,917,778
Additional paid-in capital	**6,114,456**	6,026,101
Retained earnings	**7,044,566**	8,569,451
Treasury stock (common shares) of 228,598 at October 31, 2009 and 226,409 at April 30, 2009	**(979,425)**	(974,800)
Total shareholders equity	**16,101,648**	17,538,530
Total liabilities and shareholders equity	**$ 42,067,592**	$ 43,644,656

See accompanying notes to condensed consolidated financial statements.

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

	SECOND QUARTER ENDED OCTOBER 31,		SIX MONTHS ENDED OCTOBER 31,	
	2009	2008	**2009**	2008
REVENUES:				
Building Performance Efficiency (BPE)	**$ 3,922,541**	$ 3,434,110	**$ 7,795,649**	$ 6,154,183
Real Estate	**685,362**	784,357	**1,441,457**	1,588,821
	4,607,903	4,218,467	**9,237,106**	7,743,004
COST OF REVENUES:				
BPE	**2,670,904**	2,167,704	**5,295,513**	3,920,488
Real Estate	**485,770**	560,618	**993,775**	1,034,665
	3,156,674	2,728,322	**6,289,288**	4,955,153
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:	**2,304,435**	2,695,481	**4,693,896**	5,101,137
OTHER (INCOME) AND EXPENSES:				
Other income	**(57,078)**	(23,804)	**(67,882)**	(36,943)
Interest income	**(3,696)**	(47,971)	**(10,436)**	(103,058)
Interest expense	**319,368**	330,368	**638,763**	662,764
	258,594	258,593	**560,445**	522,763
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**(1,111,800)**	(1,463,929)	**(2,306,523)**	(2,836,049)
INCOME TAX BENEFIT	**(403,778)**	(558,217)	**(892,915)**	(1,082,926)
NET LOSS	**$ (708,022)**	$ (905,712)	**$ (1,413,608)**	$ (1,753,123)
NET LOSS PER SHARE (Note 7):				
Net loss per share basic and diluted	**$ (0.19)**	$ (0.24)	**$ (0.38)**	$ (0.47)
	3,690,288	3,736,346	**3,690,791**	3,733,320

WEIGHTED AVERAGE SHARES OUTSTANDING BASIC				
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	**3,690,288**	3,736,346	**3,690,791**	3,733,320

See accompanying notes to condensed consolidated financial statements.

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

	SIX MONTHS ENDED OCTOBER 31,	
	2009	2008
Cash flows from operating activities:		
Net loss	**$ (1,413,608)**	$ (1,753,123)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on disposal of assets	**1,378**	9,683
Depreciation and amortization	**711,363**	813,179
Amortization of mortgage discount		(15,000)
Deferred tax benefit	**(918,994)**	(1,098,825)
Stock compensation expense	**93,034**	98,447
Adjustment to cash surrender value of life insurance	**(69,217)**	(93,852)
Straight-line rent	**45,052**	(36,672)
Provision for doubtful accounts, net	**(60,133)**	(37,865)
Changes in assets and liabilities:		
Receivables	**(526,339)**	288,049
Costs and earnings in excess of billings	**374,801**	(88,803)
Other current and long-term assets	**(295,765)**	(146,471)
Trade and subcontractors payable	**(266,550)**	(515,625)
Accrued expenses and deferred revenue	**346,455**	(361,115)
Accrued incentive compensation		(318,571)
Billings in excess of costs and earnings	**933,989**	35,824
Other liabilities		(14,219)
Net cash used in operating activities	**(1,044,534)**	(3,234,959)
Cash flows from investing activities:		
Acquisition, net of cash acquired		(891,665)
Premiums paid on officers life insurance policies	**(27,464)**	
Release of restricted cash held in escrow	**57,170**	3,470,700
Purchase of held to maturity investments		(150,000)
Additions to income-producing properties	**(128,925)**	(173,576)
Additions to property and equipment	**(60,028)**	(129,876)
Additions to intangible assets	**(321,598)**	(188,934)
Proceeds from sale of property and equipment	**2,000**	
Net cash (used in) provided by investing activities	**(478,845)**	1,936,649
Cash flows from financing activities:		
Mortgage repayments	**(178,018)**	(169,396)
Debt repayments	**(100,000)**	(240,875)
Repurchase of common stock	**(4,625)**	(57,726)

Cash dividends paid to shareholders	**(111,683)**	(284,370)
Net cash used in financing activities	**(394,326)**	(752,367)
Net decrease in cash and cash equivalents	**(1,917,705)**	(2,050,677)
Cash at beginning of period	**4,821,126**	8,382,947
Cash at end of period	**$ 2,903,421**	$ 6,332,270

See accompanying notes to condensed consolidated financial statements.

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Supplementary Disclosures of Noncash Investing and Financing Activities:
On June 6, 2008, the Company purchased substantially all of the assets and certain liabilities of Atlantic Lighting & Supply Co., Inc. for $902,657 in cash (net of cash received and including acquisition costs) and 17,381 shares of Servidyne common stock. The related assets and liabilities at the date of acquisition were as follows:

Total assets acquired, net of cash	**$1,577,844**
Total liabilities assumed	**(583,937)**
Net assets acquired, net of cash	**993,907**
Less value of shares issued for acquisition	**(91,250)**
Total cash paid (including acquisition costs)	**$ 902,657**

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 private utilities. The Company s Real Estate Segment engages in commercial real estate investment and development.

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 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, 2009. Results of operations for interim periods are not necessarily indicative of annual results.

Subsequent Events

The Company evaluated subsequent events through December 15, 2009, which represents the date the condensed consolidated financial statements were issued.

Restatement of Previously Issued Condensed Consolidated Financial Statements

Subsequent to the issuance of the quarterly report on Form 10-Q for the period ended October 31, 2008, the Company determined that interest income and certain components of other income were not presented in accordance with the Securities and Exchange Commission (SEC) Regulation S-X, Article 5, Rule 5-03, Income Statement. In the interim period for the quarter ended October 31, 2008, the Company included interest income and certain components of other income in the determination of total revenues. The Company has revised its presentation of interest income and certain components of other income to other (income) and expenses in the condensed consolidated statements of operations. Prior period amounts in the condensed consolidated statements of operations, as well as in the notes to the condensed consolidated financial statements, where affected, have been restated to conform to this new presentation. The Company does not believe that this restatement is material to the condensed consolidated financial statements.

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Reclassification of Previously Issued Condensed Consolidated Financial Statements
The Company previously included interest expense together with cost of revenues and selling, general and administrative expenses in the determination of total operating expenses. The Company has reclassified interest expense to other (income) and expenses in the condensed consolidated statement of operations for the quarter ended October 31, 2008, to conform to this new presentation.

NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105-10, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASC 105-10 or the Codification), which became effective for interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current U.S. generally accepted accounting principles (GAAP), the Codification does not change GAAP, but rather is intended to make it easier to find and research GAAP applicable to particular transactions or specific accounting issues. The Codification organizes previous accounting pronouncements into approximately 90 accounting topics and is now considered to be the single source of authoritative U.S. GAAP. The Company adopted ASC 105-10 in the second quarter of fiscal 2010. Adoption had no impact on the determination or reporting of the Company s financial results. All references to specific authoritative guidance have been updated within this report to reflect the new Accounting Standards Codification structure.

In May 2009, the FASB issued guidance now codified as FASB ASC topic 855, *Subsequent Events* (ASC 855). ASC 855 modifies the names of the two types of subsequent events and, for public entities, modifies the definition of subsequent events to refer to events or transactions that occur after the balance sheet date but before the financial statements are issued. Also, ASC 855 requires that entities disclose the date through which subsequent events have been evaluated and the basis for that date. ASC 855 was effective for all interim and annual periods ending after June 15, 2009. The Company adopted ASC 855 in the first quarter of fiscal 2010. See Note 2 for required disclosures.

In April 2009, the FASB issued new guidance now codified within FASB ASC topic 825, *Financial Instruments* (ASC 825). Following this new guidance, ASC 825 requires disclosure about the fair value of financial instruments for publicly traded companies in interim reporting periods, as well as in annual reporting periods. The Company adopted the new provisions of ASC 825 in the first quarter of fiscal 2010. See Note 11 for fair value disclosure of the Company s financial instruments.

In December 2007, the FASB issued guidance now codified as FASB ASC topic 805, *Business Combinations* (ASC 805). ASC 805 retains the underlying concepts of previous guidance in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but ASC 805 changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; non-controlling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. ASC 805 was effective on a prospective basis for all business combinations for which the acquisition date occurred on or after the beginning of the first annual period

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subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. ASC 805 amends previous guidance such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of ASC 805 would also apply the provisions of ASC 805. The Company has determined that adoption did not have a significant impact on the determination or reporting of the Company s financial results.

In April 2008, the FASB issued guidance now codified as FASB ASC Subtopic 350-30, *Intangibles Goodwill and Other; General Intangibles Other than Goodwill* (ASC 350-30) and ASC topic 275, *Risks and Uncertainties* (ASC 275). This new guidance was designed to improve the consistency between the useful life of a recognized intangible asset under ASC 350, *Intangibles Goodwill and Other*, and the period of expected cash flows used to measure the fair value of the asset under ASC 805, *Business Combinations*, and other guidance under GAAP. The Company adopted ASC 350-30 and ASC 275 in the first quarter of fiscal 2010. The Company has determined that adoption did not have a significant impact on the determination or reporting of the Company s financial results.

NOTE 4. EQUITY-BASED COMPENSATION

The Company has three (3) outstanding types of equity-based incentive compensation instruments in effect with employees, non-employee directors and certain outside service providers: stock options, stock appreciation rights, and restricted stock. Most of these equity-based instruments have been granted under the terms of the Company s 2000 Stock Award Plan (the 2000 Award Plan). The total number of shares that can be granted under the 2000 Award Plan is 1,155,000 shares. The Company typically uses authorized, unissued shares to provide shares for these equity-based instruments.

For the second quarter and the six (6) months ended October 31, 2009, total equity-based compensation expenses were $43,073 and $93,035, respectively, and the related income tax benefits were $16,240 and $35,225, respectively. Comparatively, for the second quarter and the six (6) months ended October 31, 2008, total equity-based compensation expenses were $49,603 and $98,447, respectively, and the related income tax benefits were $18,849 and $37,410, respectively. All of these expenses are included in selling, general and administrative expenses in the condensed consolidated statements of operations. At October 31, 2009, there were total unrecognized equity-based compensation expenses of $294,944 that are expected to be recognized over a weighted average period of approximately 1.7 years.

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Stock Options

A summary of stock options activity for the six (6) months ended October 31, 2009, is as follows:

	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding at April 30, 2009	482,486	$ 4.46
Granted		
Forfeited		
Expired		
Exercised		
Outstanding at October 31, 2009	482,486	$ 4.46
Vested at October 31, 2009	471,986	$ 4.44
Non-vested at October 31, 2009, that are expected to vest	10,500	$ 5.24

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 October 31, 2009, 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 October 31, 2009, is as follows:

Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Term (Years)
$4.42	415,629	3.03
$4.59	55,440	5.40
$5.19	917	4.63
$5.24	10,500	3.62

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 second quarter and the six (6) months ended October 31, 2009, were $242 and $2,417, respectively, and the related income tax benefits were $92 and $919, respectively. Comparatively, related compensation expenses for the second quarter and the six (6) months ended October 31, 2008, were $5,979 and $7,666, respectively, and the related income tax benefits were $2,272 and $2,913, respectively.

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Stock Appreciation Rights (SARs)

A summary of SARs activity for the six (6) months ended October 31, 2009, is as follows:

	SARs	Weighted Average Exercise Price
Outstanding at April 30, 2009	565,350	$ 4.37
Granted	30,000	2.30
Exercised		
Forfeited	(10,500)	4.09
Outstanding at October 31, 2009	584,850	$ 4.27
Vested at October 31, 2009	54,810	$ 3.94
Non-vested at October 31, 2009, that are expected to vest	360,818	$ 4.30

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 would vest immediately (1) on the date of a change in control of the Company; or (2) 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 is $20.00 per share. The maximum contractual term of all SARs is ten (10) years. As of October 31, 2009, none of the outstanding SARs, vested or non-vested, were in the money.

A summary of information about all SARs outstanding as of October 31, 2009, is as follows:

Exercise Price	Outstanding SARs	Vested SARs	Weighted Average Remaining Contractual Term (Years)
$3.94	182,700	54,810	6.66
$3.79	111,300	0	7.10
$4.19	10,500	0	7.62
$6.19	38,850	0	7.92
$5.00	52,500	0	8.48
$4.76	136,500	0	8.62
$4.00	22,500	0	8.88
$2.30	30,000	0	9.61

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

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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.

No SARs were granted in the second quarter ended October 31, 2009. The fair value of the SARs granted in the six (6) months ended October 31, 2009, was estimated on the respective grant dates using the following weighted average assumptions in the Black-Scholes option-pricing model:

Expected life (years)	5
Dividend yield	3.24%
Expected stock price volatility	49.19%
Risk-free interest rate	2.95%
Fair value of SARs granted	$0.51

Compensation expenses related to the vesting of SARs for the second quarter and the six (6) months ended October 31, 2009, were $41,215 and $85,719 , respectively, and the related income tax benefits were $15,534 and $32,444 , respectively. Comparatively, related compensation expenses for the second quarter and the six (6) months ended October 31, 2008, were $38,821 and $83,243, respectively, and the related income tax benefits were $14,752 and $31,632, respectively.

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 October 31, 2009, there were unrecognized compensation expenses totaling $3,332 related to grants of shares of restricted stock, which the Company expects to be recognized over the ensuing year. Compensation expenses related to the vesting of shares of restricted stock for the second quarter and the six (6) months ended October 31, 2009, were $1,616 and $4,899, respectively, and the related income tax benefits were $614 and $1,862, respectively. Comparatively, the related compensation expenses for the second quarter and the six (6) months ended October 31, 2008, were $4,803 and $7,538, respectively, and the related income tax benefits were $1,825 and $2,864, respectively.

The following table summarizes restricted stock activity for the six (6) months ended October 31, 2009:

	Number of Shares of Restricted Stock	Weighted Average Fair Value per Share on Grant Date
Non-vested restricted stock at April 30, 2009	5,295	$ 4.61
Granted		
Forfeited		
Vested	(4,245)	4.55
Non-vested restricted stock at October 31, 2009	1,050	$ 4.76

NOTE 5. RECEIVABLES

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

NOTE 6. OPERATING SEGMENTS

The table below shows selected financial data on a 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 Second Quarter Ended October 31, 2009	BPE	Real Estate	Parent Company (1)	Eliminations	Consolidated
Revenues from unaffiliated customers					
BPE Segment services and products:					
Energy savings projects	$ 2,048,382				$ 2,048,382
Lighting products	484,287				484,287
Energy management services	457,714				457,714
Productivity software	932,157				932,157
Total revenues from unaffiliated customers	$ 3,922,541	$ 685,362	$	$	$ 4,607,903
Intersegment revenue		136,043		(136,043)	
Total revenues from continuing operations	$ 3,922,541	$ 821,405	$	$ (136,043)	$ 4,607,903
(Loss) earnings from continuing operations before income taxes	$ (352,474)	$ 76,330	$ (841,640)	$ 5,984	$ (1,111,800)

For the Six Months Ended October 31, 2009	BPE	Real Estate	Parent Company (1)	Eliminations	Consolidated
Revenues from unaffiliated customers					
BPE Segment services and products:					
Energy savings projects	$ 4,061,226				$ 4,061,226
Lighting products	940,738				940,738
Energy management services	1,021,514				1,021,514
Productivity software	1,772,171				1,772,171
Total revenues from unaffiliated customers	$ 7,795,649	$ 1,441,457	$	$	$ 9,237,106
Intersegment revenue	141,545	272,085		(413,630)	
Total revenues from continuing operations	$ 7,937,194	$ 1,713,542	$	$ (413,630)	$ 9,237,106
(Loss) earnings from continuing operations before income taxes	$ (742,959)	$ 182,272	$ (1,736,380)	$ (9,456)	$ (2,306,523)

For the Second Quarter

Ended October 31, 2008	BPE	Real Estate	Parent Company (1)	Eliminations	Consolidated
Revenues from unaffiliated customers					
Interest and other income					
BPE Segment services and products:					
Energy savings projects	$ 1,224,618				$ 1,224,618
Lighting products	658,913				658,913
Energy management services	641,817				641,817
Productivity software	908,761				908,761
Total revenues from unaffiliated customers	$ 3,434,110	$ 784,357	$	$	$ 4,218,467
Intersegment revenue		140,455		(140,455)	
Total revenues from continuing operations	$ 3,434,110	$ 924,812	$	$ (140,455)	$ 4,218,467
(Loss) earnings from continuing operations before income taxes	$ (641,228)	$ 162,204	$ (981,580)	$ (3,325)	$ (1,463,929)

For the Six Months Ended October 31, 2008	BPE	Real Estate	Parent Company (1)	Eliminations	Consolidated
Revenues from unaffiliated customers					
Interest and other income					
BPE Segment services and products:					
Energy savings projects	$ 2,172,088				$ 2,172,088
Lighting products	916,631				916,631
Energy management services	1,241,463				1,241,463
Productivity software	1,824,000				1,824,000
Total revenues from unaffiliated customers	$ 6,154,183	$ 1,588,821	$	$	$ 7,743,004
Intersegment revenue	20,362	283,032		(303,394)	
Total revenues from continuing operations	$ 6,174,545	$ 1,871,853	$	$ (303,394)	$ 7,743,004
(Loss) earnings from continuing operations before income taxes	$ (1,379,962)	$ 410,720	$ (1,856,291)	$ (10,516)	$ (2,836,049)

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(1) The Parent Company s net loss in each period was derived from corporate headquarters activities and consisted primarily of the following: Parent Company executive officers compensation expenses 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, 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 six (6) months of fiscal 2010 and fiscal 2009 was 0 shares and 98,137 shares, respectively. Because the Company had a loss from continuing operations for the quarter and the six (6) months ended October 31, 2009, as well as for the quarter and the six (6) months ended October 31, 2008, 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 October 31, 2009, and April 30, 2009, are as follows:

	October 31, 2009	
	Gross Carrying Amount	Accumulated Amortization
Intangible assets, subject to amortization:		
Proprietary BPE software solutions	$ 3,957,809	$ 2,569,828
Acquired computer software	650,880	470,026
Real estate lease costs	701,776	347,362
Customer relationships	404,632	270,880
Deferred loan costs	331,488	143,819
Non-compete agreements	63,323	44,854
Tradename	61,299	5,789
Other	44,882	40,583
	$ 6,216,089	$ 3,893,141
Intangible assets and goodwill, not subject to amortization:		
Trademark	$ 708,707	
Goodwill	$ 6,354,002	

	April 30, 2009	
	Gross Carrying Amount	Accumulated Amortization
Intangible assets, subject to amortization:		
Proprietary BPE software solutions	$ 3,689,695	$ 2,340,980
Acquired computer software	466,589	458,883
Real estate lease costs	699,852	308,010
Customer relationships	404,632	252,216
Deferred loan costs	331,488	128,826
Non-compete agreements	63,323	29,023
Tradename	61,299	3,746
Other	45,844	39,149
	$ 5,762,722	$ 3,560,833
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 six months ended October 31, 2009	$ 334,946
For the six months ended October 31, 2008	$ 406,728
For the quarter ended October 31, 2009	$ 177,404
For the quarter ended October 31, 2008	$ 208,271

Estimated future amortization expenses for all amortized intangible assets for the fiscal years ended:	
Remainder of fiscal year 2010	380,347
2011	628,438
2012	482,863
2013	327,282
2014	229,097
2015	91,380
Thereafter	183,541
	$ 2,322,948

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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, 2009. 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 October 31, 2009. 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. ACQUISITIONS

Fiscal 2010

There were no acquisitions in the first six (6) months of fiscal 2010.

Fiscal 2009

On June 6, 2008, Atlantic Lighting & Supply Co., LLC (AL&S LLC), an indirect wholly-owned subsidiary of the Company, acquired substantially all of the assets and assumed certain operating liabilities of Atlantic Lighting & Supply Co., Inc. (the Seller), for a total consideration, including the assumption of certain operating liabilities, of approximately $1.5 million (excluding acquisition costs). The Seller was engaged in the business of distributing energy efficient lighting products to building owners and operators, and the Company is continuing to conduct this business. The acquisition was made pursuant to an asset purchase agreement dated June 6, 2008, between the Company, AL&S LLC, the Seller, and the shareholders of the Seller (the Agreement). The consideration consisted of 17,381 newly-issued shares of the Company s common stock, with a fair value of $91,250, the payment of approximately $618,000 in cash to the Seller, the payment of approximately $165,000 in cash to satisfy outstanding debt to two (2) lenders of the Seller, and the assumption of certain operating liabilities of the Seller that totaled approximately $584,000. The amounts and types of the consideration were determined through negotiations among the parties.

Pursuant to the Agreement, AL&S LLC acquired substantially all of the assets of the Seller, including cash, accounts receivable, inventory, personal property and equipment, proprietary information, intellectual property, and the Seller s right, title, and interest to assigned contracts. Only certain specified operating liabilities of the Seller were assumed, including executory obligations under assigned contracts and certain current balance sheet operating liabilities.

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During fiscal 2009, subsequent to the quarter ended October 31, 2008, the Company finalized its allocation of the purchase price. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Assets and Liabilities Acquired from Seller	Estimated Life
Current assets	$ 322,514	
Property, furniture and equipment, net	58,699	Various (3-5)
Trade name	61,299	15 years
Non-compete agreements	63,323	2 years
Customer relationships	186,632	5 years
Goodwill	895,285	Indefinite
Total assets acquired	$ 1,587,752	
Current liabilities	(483,937)	
Long term liabilities	(100,000)	
Net assets acquired	$ 1,003,815	

The goodwill amount is not subject to amortization. The amounts assigned to all intangible assets are deductible for tax purposes over a period of fifteen (15) years. The goodwill amount has been assigned to the BPE Segment.
The following table summarizes what the results of operations of the Company would have been on a pro forma basis for the first six (6) months of fiscal 2009 if the acquisition had occurred prior to the beginning of the period. These results do not purport to represent what the results of operations for the Company actually would have been or to be indicative of the future results of operations of the Company (in thousands, except for per share amounts):

	Six Months Ended October 31, 2008
Revenues	$ 8,012
Net loss	$ (1,767)
Net loss per share basic	$ (0.47)
Net loss per share diluted	$ (0.47)

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NOTE 10. INCOME-PRODUCING PROPERTIES

During the fourth quarter of fiscal 2009, the anchor tenant of the Real Estate Segment s owned office building in Newnan, Georgia, defaulted on its lease obligations, and subsequently vacated its leased space during the first quarter of fiscal 2010. Accordingly, management does not anticipate that this tenant will make any additional lease payments. Given this event, management determined that the building s fair market value was less than its book value at that time, and therefore, the Real Estate Segment recorded an impairment loss of approximately $2,007,000 in the fourth quarter of fiscal 2009. Additionally, given this event, the segment also recorded an impairment loss of approximately $151,000 in the fourth quarter of fiscal 2009 to write off the remaining net book value of the anchor tenant s capitalized lease cost, which was initially recorded as an intangible asset when the office building was acquired in fiscal 2007.

In April 2009, the Real Estate Segment offered to transfer its interest in the property to the mortgage lender to satisfy in full its repayment obligations under the mortgage. During the first quarter of fiscal 2010, the segment forwarded only the monthly cash flow generated by the property s remaining tenants to the mortgage lender, constituting partial monthly debt service payments, and pursuant to certain provisions of the loan, the lender satisfied the balance of each monthly mortgage payment with funds the segment had previously deposited in a debt service reserve account held by the lender. As a result, as of July 31, 2009, the Company was in compliance with all provisions of the mortgage, and the loan was current with the lender.

During the second quarter of fiscal 2010, the Real Estate Segment continued to forward only the monthly cash flow generated by the property s remaining tenants to the mortgage lender, constituting partial monthly debt service payments. However, as of August 2009, the lender changed its position and elected to no longer utilize the funds previously deposited in the debt service reserve account to satisfy the remaining balance of the monthly mortgage payments. As a result, the mortgage loan was no longer current with the lender, and therefore, the entire balance of approximately $3,159,000 was classified in current liabilities in the Company s condensed consolidated balance sheet as of October 31, 2009, although the lender at no point had demanded payment.

In early November 2009, the lender completed the sale of the mortgage note to a third party. Management in turn immediately contacted the new holder of the note, and reiterated the desire to transfer the Real Estate Segment s interest in the property in order to satisfy in full its repayment obligations under the mortgage. The new note holder indicated a definitive interest in working to affect a transfer of the segment s interest in the property, and in late November 2009 notified the Company that it was commencing proceedings to affect the transfer, which it expected to complete by early January 2010. Consistent with that timetable, on December 10, 2009, the new note holder placed the requisite advertising notice of the transfer, which indicates that the transfer will be completed on January 5, 2010. The approximately $3.2 million mortgage is a non-recourse loan, as exculpatory provisions generally limit the Company s liability for repayment to the Real Estate Segment s interest in the property. Therefore, upon the completion of the transfer of the segment s remaining approximately $1.9 million interest in the property and related assets, the Company projects that it will have no further liability under the loan whatsoever, and that it will not be required to make any expenditures to satisfy any remaining loan balance. Also, the Company expects to recognize a gain of approximately $1.3 million in the third quarter of fiscal 2010 as a result of the elimination of the balance of the Real Estate Segment s indebtedness on the property.

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NOTE 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company s cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to their short-term maturities.

As of October 31, 2009, the Company had the following assets and liabilities that represent financial instruments: a certificate of deposit (CD), mortgage notes payable, and other long-term debt.

The CD, which had a balance of $450,000 as of October 31, 2009, 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 October 31, 2009.

Based on the borrowing rates currently available for mortgage notes with similar terms and average maturities, the fair value of mortgage notes payable was $16,410,455 as of October 31, 2009. Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of other long-term debt was $1,004,006 as of October 31, 2009.

NOTE 12. 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, 2009.

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

The Company s fiscal year 2010 will end on April 30, 2010.

The Company currently expects the BPE Segment to be generating positive cash flow within the next two (2) to three (3) fiscal quarters, with revenues continuing to grow. Although BPE backlog at October 31, 2009, increased by 1% from the backlog at October 31, 2008, revenues exceeded new orders during the quarter ended October 31, 2009, resulting in a decrease of 15% from the backlog at July 31, 2009. This is primarily due to the timing of receipt of material contracts for the Company s energy savings projects offering. The Company anticipates strong growth from the government sector to support revenue growth over a longer time horizon, in addition to multi-year programs that have already begun with large customers in the private sector. The Company 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) recent U.S. Government 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 will provide 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. The Company believes that it is well positioned to perform a significant amount of these funded projects.

In addition, the BPE Segment recently took steps to position itself as a service provider to the utility sector, in order to pursue this additional vertical market, by implementing a new technology-enabled demand response and energy efficiency product line under the brand name Fifth Fuel Management . The Company has begun marketing this new product line 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. The Company created Fifth Fuel Management by expanding its Web-based iTendant® 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 current fiscal quarter in a pilot program for a major U.S. electric utility, implementing the demand response participation by controlling the hotels peak time energy usage.

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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 buildings to maximize the value of their investments in energy efficiency. The Company expects Fifth Fuel Management to provide additional opportunities for sales of the BPE Segment s existing services and products, and to allow 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, which the Company may seek to raise through any of the methods described under Liquidity and capital resources.

While the potential market demand for the BPE Segment s offerings appears to be 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.

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 redeployed to other segments of the Company. However, the current real estate portfolio consists of a limited number of 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 real estate assets at acceptable prices, or at all, in the near future.

The loss from operations during the first six (6) months of fiscal 2010 resulted in significant usage of the Company s cash, continuing the trend of substantial cash usage to fund operating losses in recent quarters. During the second quarter of fiscal 2010, however, the Company generated approximately $27,000 in positive cash flow from 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 cash flow from operations, which, as noted above, is currently expected to occur within the next two (2) to three (3) fiscal quarters. There can be no guarantee that this will be the case, however, particularly if recent macro-economic conditions continue, or worsen, for an extended period of time. See Liquidity and capital resources for more information.

Results of operations of the second quarter and first six (6) months of fiscal 2010, compared to the second quarter and first six (6) months of fiscal 2009.

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 net earnings and similar profit 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 second quarter of fiscal 2010, consolidated revenues from continuing operations, net of inter-segment eliminations, were $4,607,903 compared to $4,218,467 for the second quarter of fiscal 2009, an increase of approximately 9%. For the first six (6) months of fiscal 2010, consolidated revenues from continuing operations were $9,237,106, compared to $7,743,004 for the first six (6) months of fiscal 2009, an increase of approximately 19%.

CHART A

REVENUES FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT

(Dollars in Thousands)

	Second Quarter Ended October 31,		Amount	Percentage	Six Months Ended October 31,		Amount	Percentage
	2009	2008	Change	Change	2009	2008	Change	Change
BPE (1)	$3,923	$3,434	$489	14	$7,796	$6,154	$1,642	27
Real Estate (2)	685	784	(99)	(13)	1,441	1,589	(148)	(9)
	$4,608	$4,218	$390	9	$9,237	$7,743	$1,494	19

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)

	Second Quarter Ended October 31,		Amount	Percentage	Six Months Ended October 31,		Amount	Percentage
	2009	2008	Change	Change	2009	2008	Change	Change
Energy Savings Projects	$2,048	$1,225	$ 823	67	$4,061	$2,172	$1,889	87
Lighting Products	485	659	(174)	(26)	941	917	24	3
Energy Management Services	458	641	(183)	(29)	1,022	1,241	(219)	(18)
Productivity Software	932	909	23	3	1,772	1,824	(52)	(3)
	$3,923	$3,434	$ 489	14	$7,796	$6,154	$1,642	27

BPE Segment revenues increased by approximately $489,000, or 14%, in the second quarter of fiscal 2010 compared to the same period in fiscal 2009, primarily due to:

(a) an increase in energy savings (lighting and mechanical) project revenues of approximately $823,000;

partially offset by:

(b) a decrease in lighting product revenues of approximately $174,000 generated by the Company s lighting distribution business; and

(c) a decrease in energy management services revenues of approximately $183,000.

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BPE Segment revenues increased by approximately $1,642,000, or 27%, in the first six (6) months of fiscal 2010 compared to the same period in fiscal 2009, primarily due to:

(a) an increase in energy savings (lighting and mechanical) project revenues of approximately $1,889,000;

partially offset by:

(b) a decrease in energy management services revenues of approximately $219,000.

(2) Real Estate Segment revenues decreased by $99,000, or 13%, in the second quarter of fiscal 2010 compared to the same period in fiscal 2009, primarily due to a decrease in rental revenues at the segment s owned office building located in Newnan, Georgia, due to the anchor tenant s default in the fourth quarter of fiscal 2009 (see Note 10 Income-Producing Properties to the condensed consolidated financial statements) and the expiration of other leases at that location.

Real Estate Segment revenues decreased by $148,000, or 9%, in the first six (6) months of fiscal 2010 compared to the same period in fiscal 2009, primarily due to:

(a) the absence in the current year of the one-time early lease termination payment received in the first quarter of fiscal 2009 at the Company s owned shopping center located in Jacksonville, Florida; and

(b) the anchor tenant s default at the Real Estate Segment s owned office building in Newnan, Georgia, as discussed above, and the expiration of other leases at that location;

partially offset by:

(c) revenues generated by new tenant leases at the Company s owned shopping center located in Jacksonville, Florida.

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

	October 31,		Increase (Decrease)	
	2009	2008	Amount	Percentage
BPE (1)	$7,027,000	$6,963,000	$ 64,000	1
Real Estate (2)	2,746,000	3,089,000	(343,000)	(11)
Less: Intersegment eliminations (3)	(587,000)	(539,000)	(48,000)	(9)
Total Backlog	$9,186,000	$9,513,000	$(327,000)	(3)

(1) BPE backlog at October 31, 2009, increased by approximately $64,000, or 1%, compared to the year-earlier period, primarily due to:

(a) an increase of approximately $1,182,000 in energy savings (lighting and mechanical) projects;

partially offset by:

(b) a decrease of approximately $286,000 in productivity software products and services; and

(c) a decrease of approximately $831,000 in energy management consulting services, primarily as a result of the successful completion of approximately $700,000 of multi-year consulting services projects.

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The Company estimates that the BPE backlog at October 31, 2009, will be recognized prior to October 31, 2010.

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 $107,000, or 1.5%.

(2) Real Estate backlog at October 31, 2009, decreased by approximately $343,000, or 11%, compared to the year-earlier period, primarily due to a decrease in rental revenues at the Real Estate Segment s owned office building located in Newnan, Georgia, due to the anchor tenant s default (see Note 10 Income-Producing Properties to the condensed consolidated financial statements).

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

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) were 69% and 65% for the second quarters of fiscal 2010 and 2009, respectively, and 68% and 64% for the first six (6) months of fiscal 2010 and 2009, respectively. In reviewing Chart B, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented.

The figures in Chart B are net of intersegment eliminations.

CHART B

COST OF REVENUES

FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT

(Dollars in Thousands)

	Second Quarter Ended October 31,		Percentage of Segment Revenues for the Second Quarter Ended October 31,		Six Months Ended October 31,		Percentage of Segment Revenues for the Six Months Ended October 31,	
	2009	2008	2009	2008	2009	2008	2009	2008
BPE (1)	$2,671	$2,168	68	63	$5,296	$3,920	68	64
Real Estate (2)	486	561	71	72	994	1,035	69	65
	$3,157	$2,729	69	65	$6,290	$4,955	68	64

NOTES TO CHART B

(1) BPE Segment cost of revenues increased by approximately $503,000, or 23%, in the second quarter of fiscal 2010, and increased by approximately $1,376,000, or 35%, in the first six (6) months of fiscal 2010, compared to the same respective periods in fiscal 2009, primarily due to corresponding increases in revenues (see Chart A).

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On a percentage-of-revenues basis, BPE Segment cost of revenues increased by approximately 5% and 4% in the second quarter and first six (6) months of fiscal 2010, respectively, compared to the same periods in fiscal 2009, primarily due to a change in the mix of services and products.

(2) Real Estate Segment cost of revenues decreased by approximately $75,000, or 13%, in the second quarter of fiscal 2010 compared to the same period in fiscal 2009, primarily due to a decrease in depreciation and amortization expense of approximately $47,000 at the Real Estate Segment s owned office building in Newnan, Georgia, for which the Company recognized an impairment loss in the fourth quarter of fiscal 2009, as well as due to a decrease in legal fees of approximately $19,000.

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, were 50% and 64% in the second quarters of fiscal 2010 and 2009, respectively, and 51% and 66% for the first six (6) months of fiscal 2010 and 2009, respectively. In reviewing Chart C, the reader should recognize that the volume of revenues generally will affect the percentages presented. The percentages in Chart C are based upon expenses as they relate to the respective segment revenues from continuing operations (see Chart A), with the exception that Parent Company and total expenses relate to total consolidated revenues from continuing operations.

The figures in Chart C are net of intersegment eliminations.

CHART C

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

	Second Quarter Ended October 31,		Percentage of Segment Revenues for the Second Quarter Ended October 31,		Six Months Ended October 31,		Percentage of Segment Revenues for the Six Months Ended October 31,	
	2009	2008	2009	2008	2009	2008	2009	2008
BPE (1)	$1,362	$1,613	35	47	$2,722	$3,022	35	49
Real Estate	142	165	21	21	302	334	21	21
Parent Company (2)	800	918	17	22	1,670	1,745	18	23
	$2,304	$2,696	50	64	$4,694	$5,101	51	66

NOTES TO CHART C

(1) BPE Segment SG&A expenses decreased by approximately $251,000, or 16%, in the second quarter of fiscal 2010, and decreased by approximately $300,000, or 10%, in the first six (6) months of fiscal 2010, compared to the same respective periods in fiscal 2009, primarily due to a decrease in general and administrative costs and product and project development expenses.

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On a percentage-of-revenues basis, BPE Segment SG&A expenses decreased by 12% and 14% in the second quarter and first six (6) months of fiscal 2010, respectively, compared to the same periods in fiscal 2009, primarily due to the increase in revenues (see Chart A) and cost savings as described in the previous paragraph.

(2) Parent Company SG&A expenses decreased by approximately $118,000, or 13%, in the second quarter of fiscal 2010 compared to the same period in fiscal 2009, primarily due to a decrease in legal fees of approximately $92,000 primarily related to costs incurred in the prior year to settle an insurance claim.

On a percentage-of-revenues basis, Parent Company SG&A expenses decreased by 5% in the second quarter of fiscal 2010 compared to the same period in fiscal 2009, primarily due to the increase in revenues (see Chart A) without a corresponding proportional increase in expenses.

LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES

Consolidated loss before income taxes from continuing operations was $1,111,800 in the second quarter of fiscal year 2010, compared to $1,463,929 in the same period of fiscal year 2009, a reduction in the loss of $352,129, or 24%. For the six (6) months of fiscal 2010, the consolidated loss before income taxes from continuing operations was $2,306,523, compared to $2,836,049 in the same period of fiscal year 2009, a reduction in the loss of $529,526, or 19%.

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)

	Second Quarter Ended October 31, 2009	Second Quarter Ended October 31, 2008	(Increase) Decrease Amount	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008	(Increase) Decrease Amount
BPE (1)	$ (75)	$ (353)	$ 278	$ (199)	$ (806)	$ 607
Real Estate (2)	(238)	(209)	(29)	(442)	(309)	(133)
Parent Company (3)	(799)	(902)	103	(1,666)	(1,721)	55
Total	$(1,112)	$(1,464)	$ 352	$(2,307)	$(2,836)	$ 529

NOTES TO CHART D

(1) BPE Segment loss before income taxes decreased by approximately $278,000, or 79%, in the second quarter of fiscal 2010 compared to the same period in fiscal 2009, primarily due to a decrease in SG&A expenses of approximately $251,000 (see Chart C).

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BPE Segment loss before income taxes decreased by approximately $607,000, or 75%, in the first six (6) months of fiscal 2010 compared to the same period in fiscal 2009, primarily due to an increase in revenues of approximately $1,642,000 (see Chart A), an increase in gross margin of approximately $266,000, a decrease in SG&A expenses of approximately $300,000 (see Chart C), and an increase in interest and other income of approximately $34,000.

(2) Real Estate Segment loss before income taxes increased by approximately $133,000, or 43%, in the first six (6) months of fiscal 2010 compared to the same period in fiscal 2009, primarily due to a decrease in revenues of approximately $148,000 (see Chart A), a decrease in gross margin of approximately $106,000, and a decrease in interest and other income of approximately $75,000, partially offset by a decrease in SG&A expenses of approximately $32,000 (see Chart C) and a decrease in interest expense of approximately $17,000.

(3) Parent Company loss before income taxes decreased by approximately $103,000, or 11%, in the second quarter of fiscal 2010 compared to the same period in fiscal 2009, primarily due to a decrease in SG&A expenses of approximately $118,000 (see Chart C).

INCOME TAX BENEFIT

The Company s effective rate for income taxes, based upon estimated annual income tax rates, approximated 38.0% of the loss from continuing operations before income taxes for the first six (6) months of fiscal 2010 and 38.2% for the comparable period in fiscal year 2009.

LIQUIDITY AND CAPITAL RESOURCES

Between July 31, 2009, and October 31, 2009, the Company s cash decreased by $420,882, or 13%, to $2,903,421 and between April 30, 2009, and October 31, 2009, the Company s cash decreased by a total of $1,917,705, or 40%. However, in the second fiscal quarter ended October 31, 2009, the Company s operating activities generated positive cash flow of approximately $27,000, a significant improvement from the cash utilized by operating activities in the first fiscal quarter and in other recent quarters. The Company s working capital decreased by approximately $4,482,000, or 78%, between July 31, 2009, and October 31, 2009, although approximately $3,106,000 of the decrease was the result of the non-cash accounting reclassification of the mortgage note payable on the Real Estate Segment s owned office building in Newnan, Georgia, as a current liability on the accompanying condensed consolidated balance sheet at October 31, 2009, in accordance with U.S. GAAP, which had no impact on the Company s available liquidity. The balance of the decrease in working capital in the second quarter was approximately $1,376,000, which was largely the result of discretionary capital expenditures and other scheduled regular debt service payments.

The non-cash accounting classification of the Real Estate Segment s mortgage note payable was a result of the anchor tenant lease default at the Real Estate Segment s owned office building in Newnan, Georgia, that occurred in April 2009, and the Company s subsequent decision to limit the monthly debt service payments to only the actual cash flow generated by the building s remaining tenants. In the first quarter of fiscal 2010, the lender pursuant to certain provisions of the mortgage satisfied the balance of each monthly payment with funds the Real Estate Segment had previously deposited in a debt service reserve account held by the lender, and as of July 31, 2009, the loan was current with the lender. However, beginning in August 2009, the lender changed its position and decided to no longer utilize the funds the Real Estate Segment had previously deposited in the debt service reserve account to satisfy the remaining balance of the monthly mortgage payments, which ultimately caused the mortgage note payable to be classified as a current liability on the accompanying condensed consolidated balance sheet as of October 31, 2009. In contrast, the related property remains classified as a long-term asset, in accordance with GAAP, even though the Real Estate Segment was formally notified by the new note holder in December 2009 that it had commenced the formal process to transfer the Real Estate Segment s interest in the property, which transfer is currently expected to be completed on January 5, 2010.

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Because the mortgage note payable is a non-recourse loan, with exculpatory provisions generally limiting the Company s liability for repayment to the Real Estate Segment s interest in the property, the Company expects that upon the completion of the transfer of the property, it will have no further liability under the loan whatsoever, and will not be required to make any other expenditures of cash to satisfy any remaining loan balance. The Company projects, therefore, that the resolution of this matter will not result in any expenditure of working capital, and that upon the completion of the transfer of the approximately $1.9 million of related assets, the effect of the non-cash accounting classification of the Real Estate Segment s mortgage note payable will be eliminated, and approximately $3,159,000 of working capital will be restored. Additionally, the Company expects that the Real Estate Segment will recognize a gain of approximately $1.3 million in the third quarter of fiscal 2010 upon transfer of the property, in connection with the elimination of the remaining indebtedness under the mortgage. For additional discussion related to the Real Estate Segment s owned office building in Newnan, Georgia, refer to Note 10 Income-Producing Properties to the condensed consolidated financial statements.

The following describes the changes in the Company s cash from April 30, 2009, to October 31, 2009:

Operating activities used cash of approximately $1,045,000, primarily as a result of:

(a) current year losses from continuing operations before depreciation, amortization and income taxes of approximately $1,596,000; and

(b) an increase in other current and long-term assets of approximately $296,000;

partially offset by:

(c) an increase in billings in excess of costs and earnings of approximately $934,000 and a corresponding decrease in costs and earnings in excess of billings of approximately $375,000; partially offset by an increase in accounts receivable (net of changes in the provision for doubtful accounts) of approximately $586,000. These changes were primarily as a result of the timing of billings and receipt of payments; and

(d) a net increase in trade accounts payable, accrued expenses, and other liabilities of approximately $80,000, due to the timing and submission of payments.

Investing activities used cash of approximately $479,000, primarily as a result of:

(a) approximately $322,000 used for additions to intangible assets, primarily related to enhancements to the BPE Segment s proprietary building productivity software solutions, and to purchased accounting software;

(b) approximately $129,000 used for additions to income-producing properties related to building improvements; and

(c) approximately $60,000 used for additions to property and equipment, primarily related to vehicle and computer hardware purchases;

partially offset by:

(d) approximately $57,000 provided by the release of restricted cash previously held in escrow.

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Financing activities used cash of approximately $394,000 primarily for:

(a) scheduled principal payments on real estate mortgage notes of approximately $178,000;

(b) payment of the regular quarterly cash dividends to shareholders of approximately $112,000; and

(c) a scheduled principal payment on other debt of approximately $100,000.

The Company s operating activities generated positive cash flow during the second quarter, as cash usage in the quarter was primarily due to capital expenditures. 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 cash flow from operations, which the Company currently expects to occur within the next two (2) to three (3) fiscal quarters, although there can be no guarantee that this will be the case, particularly if recent macro-economic conditions continue, or worsen, for an extended period of time.

Achieving sufficient positive cash flow from the operations of the BPE Segment on the timetable currently anticipated will depend on the occurrence of a number of assumed factors, including the timing and volume of additional revenues generated by the business, which historically have been difficult to predict. Consequently, there can be no assurance that the Company will achieve consistent positive cash flow through BPE Segment operations on the currently anticipated schedule, or at all.

The Company has historically generated substantial liquidity from the periodic sales of real estate assets. As a result, the current real estate portfolio consists of a limited number of properties. Given the recent decline in commercial real estate markets and asset valuations in the United States, the Company may be unable to sell any of its real estate assets in the near future at acceptable prices, or at all. The Company in recent years has not utilized bank lines of credit for operating purposes and does not currently have in place any such lines of credit. The Company does have the ability, however, to draw approximately $1,000,000 in loans against its interest in the cash surrender value of certain life insurance policies.

In the event that currently available cash, cash generated from operations, and funds borrowed against the Company s interest in life insurance policies were not sufficient to meet future operating cash requirements, the Company would need to sell real estate or other assets, 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. 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. Moreover, depending on the form of such additional capital, the equity interests of the Company s existing shareholders could be diluted.

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 fully 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 in 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 the Company, if at all, in which event the Company could deplete its capital resources before achieving sufficient cash flows to fund operations.

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The Company has no material commitments for capital expenditures. However, the Company does expect that total capital spending in fiscal year 2010 will approximate $790,000, including BPE Segment capital expenditures of approximately $540,000, and the remainder of capital expenditures for the replacement of computer hardware, of which approximately $460,000, or 58%, was already expended during the first six (6) months 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 discretionary Real Estate Segment capital expenditures, which may increase if significant tenant improvements and lease commission payments are needed for tenant leasing. This 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 four (4) mortgage notes on long-term real estate assets and two (2) other long-term debt obligations, although the Company expects to eliminate all indebtedness under the Newnan, Georgia, mortgage loan during the third quarter of fiscal 2010 (see Note 10 Income-Producing Properties to the condensed consolidated financial statements). None of the Company s long-term debt obligations have any financial or non-financial covenants. None of the Real Estate Segment s mortgage notes contain any financial covenants, with the exception of a provision in one (1) of the owned shopping center mortgage loans that requires a Real Estate Segment subsidiary to maintain a net worth of at least $4 million; that subsidiary s net worth was approximately $15.7 million as of October 31, 2009.

The cash principal payment obligations during the next twelve (12) months related to the Company s long-term debt are expected to be approximately $440,000.

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, forecas 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 achievement of positive cash flow for its BPE Segment; trends in the BPE Segment s government business; the Company s expectations of generating higher recurring revenues as a result of the BPE Segment s new Fifth Fuel Management™ offering; the expected timing of the recognition as revenue of current backlog; and the expected elimination of the Newnan, Georgia, mortgage indebtedness in the third quarter of fiscal 2010. Forward-looking statements involve known and unknown risks, uncertainties and other matters which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or uncertainties expressed or implied by such forward-looking statements. Factors affecting forward-looking statements include, without limitation, the length and severity of the current economic recession 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; 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, 2009, 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. 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.

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

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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;

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.

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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.

The Company performed the annual impairment analysis of goodwill and indefinite-lived intangible assets for the BPE Segment in the quarter ended January 31, 2009. 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 October 31, 2009.

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.

The Company will have to generate $8.4 million of taxable income in future years to realize the federal NOL carryforwards and an additional $22.3 million of taxable income in future years to realize the state NOL carryforwards. This amount of taxable income would allow for the reversal of the $4.0 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, 2028, tax-year. The significant state NOL carryforwards will also expire between the April 30, 2024, and April 30, 2028, tax years. The Company has no material permanent book/tax differences.

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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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company s market risk since April 30, 2009. Refer to the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2009, for detailed disclosures about quantitative and qualitative disclosures about market risk.

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 Company s new Fifth Fuel Management product line is largely untested. If the Company fails to fully develop this product line, its prospects could be adversely affected. Moreover, the development of Fifth Fuel Management will require additional capital, which the Company may not be able to obtain.

The Company s Fifth Fuel Management product line is new, and its business viability is largely untested. The Company s ability to develop Fifth Fuel Management into a profitable product line will depend upon a variety of factors, some of which are not entirely within its control, including:

- The Company s ability to develop, acquire and/or license any additional technologies and processes necessary to fully develop the Fifth Fuel Management system;
- The Company s ability to market and sell this new offering to significant customers, such as public and private utilities; and
- The availability of adequate capital to fund the full development and marketing of Fifth Fuel Management .

In the light of the relative newness of Fifth Fuel Management , and the absence of a proven track record of profitability, the Company cannot guarantee that this new product line will be successful.

In addition, the Company anticipates that the development of new Fifth Fuel Management to meet expected demand may require additional capital, which the Company may seek to raise through outside sources or the sale of assets. There can be no assurance that the Company will be successful in raising additional capital on acceptable terms, or at all. Moreover, depending on the form of such additional capital, the equity interests of the Company s existing shareholders could be diluted.

If the Company s new Fifth Fuel Management system ultimately were to be unsuccessful, the Company s revenues, earnings, stock price, and the business as a whole could be adversely affected.

Additionally, 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, 2009, 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 5. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company s Annual Meeting of Shareholders held on August 26, 2009, the Company s shareholders elected six (6) directors to constitute the Board of Directors until the next Annual Meeting of Shareholders and until their successors are qualified and elected.

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The results of the voting were as followed:

Election of Directors

Director	Votes for	Votes Withheld
Alan R. Abrams	3,347,919	62,956
J. Andrew Abrams	3,347,919	62,956
Samuel E. Allen	3,357,020	53,855
Gilbert L. Danielson	3,355,129	55,746
Herschel Kahn	3,356,749	54,126
Robert T. McWhinney, Jr.	3,356,749	54,126

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: December 15, 2009	/s/ Alan R. Abrams Alan R. Abrams Chief Executive Officer
Date: December 15, 2009	/s/ Rick A. Paternostro Rick A. Paternostro Chief Financial Officer