IMMERSION CORP
Form SC 13D/A
March 11, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO § 240.13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO § 240.13d-2(a)

(Amendment No. 11)[1]

Immersion Corporation
(Name of Issuer)

Common Stock, par value $0.001 per share
(Title of Class of Securities)

452521107
(CUSIP Number)

STEVEN WOLOSKY, ESQ.
OLSHAN GRUNDMAN FROME ROSENZWEIG & WOLOSKY LLP
Park Avenue Tower
65 East 55th Street
New York, New York 10022
(212) 451-2300
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

March 11, 2011
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box ¨.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

---

1 The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be “filed” for the purpose of Section 18 of the Securities Exchange Act of 1934 (“Act”) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP NO. 452521107

1	NAME OF REPORTING PERSON RAMIUS VALUE AND OPPORTUNITY MASTER FUND LTD		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION CAYMAN ISLANDS		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 1,664,621	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 1,664,621	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,664,621		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 5.9%		
14	TYPE OF REPORTING PERSON CO		

CUSIP NO. 452521107

1	NAME OF REPORTING PERSON COWEN OVERSEAS INVESTMENT LP		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION CAYMAN ISLANDS		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 239,968	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 239,968	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 239,968		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) Less than 1%		
14	TYPE OF REPORTING PERSON PN		

3

CUSIP NO. 452521107

1	NAME OF REPORTING PERSON RAMIUS NAVIGATION MASTER FUND LTD		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION CAYMAN ISLANDS		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 284,140	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 284,140	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 284,140		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 1.0%		
14	TYPE OF REPORTING PERSON CO		

CUSIP NO. 452521107

1	NAME OF REPORTING PERSON RAMIUS ENTERPRISE MASTER FUND LTD		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION CAYMAN ISLANDS		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 284,140	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 284,140	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 284,140		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 1.0%		
14	TYPE OF REPORTING PERSON CO		

CUSIP NO. 452521107

1	NAME OF REPORTING PERSON RAMIUS ADVISORS, LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 524,108	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 524,108	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 524,108		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 1.9%		
14	TYPE OF REPORTING PERSON OO		

CUSIP NO. 452521107

1	NAME OF REPORTING PERSON RAMIUS VALUE AND OPPORTUNITY ADVISORS LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 1,664,621	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 1,664,621	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,664,621		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 5.9%		
14	TYPE OF REPORTING PERSON OO		

CUSIP NO. 452521107

1	NAME OF REPORTING PERSON RAMIUS LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 2,188,729	
	8	SHARED VOTING POWER	

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 an operating segment basis, including intersegment revenues, costs and expenses. In this presentation, management fee expenses charged by the Parent Company are not included in the segments results.

8

Table of Contents

For the Second Quarter Ended October 31, 2010	BPE	Real Estate	Parent (1)	Eliminations	Consolidated
Revenues from unaffiliated customers					
BPE Segment services and products:					
Energy savings projects	$5,803,363				$ 5,803,363
Lighting products	531,177				531,177
Energy management services	426,496				426,496
Fifth fuel management services	33,967				33,967
Productivity software	724,144				724,144
Total revenues from unaffiliated customers	$7,519,147	$ 252,587	$	$	$ 7,771,734
Intersegment revenue		77,270		(77,270)	
Total revenues from continuing operations	$7,519,147	$ 329,857	$	$(77,270)	$ 7,771,734
Earnings (loss) from continuing operations before income taxes	$ 383,153	$(547,595)	$(1,017,151)	$ 64,290	$(1,117,303)

For the Six Months Ended October 31, 2010	BPE	Real Estate	Parent (1)	Eliminations	Consolidated
Revenues from unaffiliated customers					
BPE Segment services and products:					
Energy savings projects	$ 8,821,955				$ 8,821,955
Lighting products	1,215,912				1,215,912
Energy management services	766,586				766,586
Fifth fuel management services	91,026				91,026
Productivity software	1,465,395				1,465,395
Total revenues from unaffiliated customers	$12,360,874	$ 502,054	$	$	$12,862,928
Intersegment revenue		222,254		(222,254)	
Total revenues from continuing operations	$12,360,874	$ 724,308	$	$(222,254)	$12,862,928
(Loss) earnings from continuing operations before income taxes	$ (218,223)	$(481,008)	$(1,901,562)	$ 63,644	$ (2,537,149)

For the Second Quarter Ended October 31, 2009	BPE	Real Estate	Parent (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
Fifth fuel management services					
Productivity software	932,158				932,158
Total revenues from unaffiliated customers	$3,922,541	$240,875	$	$	$ 4,163,416
Intersegment revenue		136,043		(136,043)	
Total revenues from continuing operations	$3,922,541	$376,918	$	$(136,043)	$ 4,163,416
(Loss) earnings from continuing operations before income taxes	$ (352,474)	$ 28,522	$(841,640)	$ 5,984	$(1,159,608)

For the Six Months Ended October 31, 2009	BPE	Real Estate	Parent (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
Fifth fuel management services					
Productivity software	1,772,171				1,772,171
Total revenues from unaffiliated customers	$7,795,649	$483,182	$	$	$ 8,278,831
Intersegment revenue	141,545	272,085		(413,630)	
Total revenues from continuing operations	$7,937,194	$755,267	$	$(413,630)	$ 8,278,831
(Loss) earnings from continuing operations before income taxes	$ (742,959)	$ 15,486	$(1,736,380)	$ (9,456)	$(2,473,309)

(1) The Parent Company s net loss in each period was derived from corporate headquarters activities, which consist primarily of the following: salaries and benefits of Parent Company executive officers and staff, equity-based compensation expenses, corporate rent, depreciation and amortization expenses, and costs related to the Company s status as a publicly-held company, which include, among other items, legal fees, non-employee directors fees, consulting expenses, investor relations expenses, corporate audit and tax fees, Nasdaq listing fees, and other Securities & Exchange Commission (SEC) and Sarbanes-Oxley compliance and financial reporting costs. 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 2011 and fiscal 2010 was 22,170 shares and 0 shares, respectively. Because the Company had a loss from continuing operations for the quarter and the six (6) months ended October 31, 2010, as well as for the quarter and the six (6) months ended October 31, 2009, all stock equivalents were anti-dilutive during these periods and, therefore, are excluded when determining the diluted weighted average number of shares outstanding.

Table of Contents

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	October 31, 2010	
Intangible assets, subject to amortization:	Gross Carrying Amount	Accumulated Amortization
Proprietary BPE software solutions	$ 4,261,926	$ 3,095,503
Acquired computer software	706,032	519,376
Real estate lease costs	390,038	140,968
Customer relationships	404,632	308,207
Deferred loan costs	202,109	134,274
Non-compete agreements	63,323	63,323
Tradename	61,299	9,874
Other	44,882	43,449
	$ 6,134,241	$ 4,314,974
Intangible assets and goodwill, not subject to amortization:		
Trademark	$ 708,707	
Goodwill	$ 6,354,002	

	April 30, 2010	
Intangible assets, subject to amortization:	Gross Carrying Amount	Accumulated Amortization
Proprietary BPE software solutions	$ 4,096,802	$ 2,827,071
Acquired computer software	676,837	493,885
Real estate lease costs	389,317	121,762
Customer relationships	404,632	286,433
Deferred loan costs	202,109	124,166
Non-compete agreements	63,323	60,684
Tradename	61,299	7,834
Other	44,882	42,016
	$ 5,939,201	$ 3,963,851
Intangible assets and goodwill, not subject to amortization:		
Trademark	$ 708,707	
Goodwill	$ 6,354,002	

Aggregate amortization expense for all amortizable intangible assets:

For the six months ended October 31, 2010	$351,120
For the six months ended October 31, 2009	295,835
For the quarter ended October 31, 2010	167,768
For the quarter ended October 31, 2009	151,053

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

Remainder of 2011	$ 287,097
2012	532,832
2013	386,351
2014	283,912
2015	161,834
2016	67,502
Thereafter	99,739
	$ 1,819,267

Table of Contents

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

NOTE 9. OTHER ASSETS

Money Market Account Investment

On October 15, 2010, the Company purchased a money market account investment in the amount of $500,000. This investment is classified as a non-current Other Asset, as it serves as security for a performance bond as required by a significant long-term BPE energy savings project contract.

Termination of Split Dollar Life Insurance Agreement

Historically, the Company has been a party to split dollar life insurance agreements pursuant to which, among other things, the Company has agreed to pay premiums on life insurance policies for certain executives of the Company. The cash surrender values of these insurance policies are recorded as long-term other assets in the Company s condensed consolidated balance sheet. As of July 31, 2010, the Company was a party to three (3) split dollar agreements regarding policies insuring the lives of current and former executive officers of the Company, and had long-term loans of approximately $982,000 against its interest in the cash surrender value of these policies.

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

Table of Contents

NOTE 10. DISCONTINUED OPERATIONS

On June 9, 2010, the Real Estate Segment sold its owned shopping center in Jacksonville, Florida, for a sales price of approximately $9.9 million. As part of this transaction, the buyer assumed in full the mortgage note payable on the property of approximately $6.9 million. The Company recognized a pre-tax gain on the sale of approximately $192,000, including approximately $77,000 in additional pre-tax gain recognized in the second quarter of fiscal 2011 as the result of the successful completion of contractual conditions and other cost-basis adjustments.

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

As a result of these real estate transactions, the Company s financial statements have been prepared with the results of operations and cash flows of these two (2) disposed properties shown as discontinued operations. All historical statements have been restated in accordance with GAAP. Summarized financial information for discontinued operations for the second quarter and the six (6) months ended October 31, 2010, and October 31, 2009, is as follows:

	Second Quarter Ended October 31,		**Six Months Ended October 31,**	
	2010	2009	**2010**	2009
REAL ESTATE SEGMENT				
Rental revenues	**$ (9,873)**	$ 444,487	**$ 140,687**	$ 958,275
Rental property operating expenses, including depreciation	**(4,840)**	396,679	**130,360**	791,489
Operating (loss) income from discontinued operations	**(5,033)**	47,808	**10,327**	166,786
Income tax benefit (expense)	**1,913**	(14,805)	**(3,924)**	(58,989)
Operating (loss) income from discontinued operations, net of tax	**(3,120)**	33,003	**6,403**	107,797
Gain on disposition of income-producing properties	**76,779**		**191,717**	
Income tax expense	**(27,146)**		**(91,144)**	
Gain on disposition of income-producing properties, net of tax	**49,633**		**100,573**	
Earnings from discontinued operations, net of tax	**$ 46,513**	$ 33,003	**$ 106,976**	$ 107,797

NOTE 11. FAIR VALUE MEASUREMENTS

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

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

Level 2 Inputs other than quoted prices which are observable for an asset or liability, either directly or indirectly.
Level 3 Unobservable inputs for an asset or liability when little or no market data is available.

Table of Contents

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

Financial instruments in the Company s condensed consolidated financial statements that are measured and recorded at fair value on a recurring basis are (1) executive deferred compensation plan and directors deferred compensation plan assets, which are included in Other Assets in the condensed consolidated balance sheet; and (2) the corresponding liability owed to the plans participants that is equal in value to the plans assets, which is included in Other Liabilities in the condensed consolidated balance sheet. Given that the plans assets are invested in mutual funds and money market funds for which quoted market prices are readily available, the quoted prices are considered Level 1 inputs. Based on the quoted prices of the related investments, the fair value of the deferred executive compensation plan and deferred director compensation plan assets and the corresponding liability were $972,664 and $947,023 as of October 31, 2010, and April 30, 2010, respectively.

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

The Company had a certificate of deposit (CD) in the amount of $450,000 as of October 31, 2010, which is included in Other Assets in the Company s condensed consolidated balance sheet. This CD secures a letter of credit, which is required by the terms of the mortgage on the Company s owned corporate headquarters building. Based on the rates currently available on certificates of deposit with similar terms, the CD s carrying amount approximates its fair value as of October 31, 2010.

The Company had a money market account (MMA) investment in the amount of $500,000 as of October 31, 2010, which is included in Other Assets in the Company s condensed consolidated balance sheet (see Note 9 Other Assets for more information). Based on the rates currently available on money market accounts with similar terms, this MMA investment s carrying amount approximates its fair value as of October 31, 2010.

Based on the borrowing rates currently available for mortgage notes with similar terms and average maturities, the carrying value of the mortgage notes payable is a reasonable estimate of fair value. The fair value of mortgage notes payable was $8,281,144 and $8,399,116 as of October 31, 2010, and April 30, 2010, respectively. Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the carrying value of the other debt is considered a reasonable estimate of fair value. The fair value of other debt was $2,074,941 and $1,950,109 as of October 31, 2010, and April 30, 2010, respectively.

Non-Recurring Measurements

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such review takes place on a quarterly basis.

During the second quarter ended October 31, 2010, the Company recorded a loss on impairment of approximately $590,000 of the Company s owned shopping center in Smyrna, Tennessee, to present the carrying amount of this long-lived asset at its fair value of approximately $4,220,000 as of October 31, 2010. The fair value was determined based upon an executed sales contract, a Level 2 input, received in December 2010, which was indicative of the fair value as of October 31, 2010. (See Note 13 Subsequent Events for more information.)

NOTE 12. RELATED PARTY TRANSACTIONS

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

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

NOTE 13. SUBSEQUENT EVENTS

On December 15, 2010, the Company sold its owned shopping center in Smyrna, Tennessee, for a sales price of approximately $4.33 million. The sale generated net cash proceeds of approximately $250,000, after deducting:

- approximately $3.95 million for assumption of the mortgage note; and
- approximately $125,000 for closing costs and prorations.

The Company recorded an impairment loss of approximately $590,000 in the Company s condensed consolidated statement of operations for the quarter ended October 31, 2010.

NOTE 14. 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.

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

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

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

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

OVERVIEW

BUILDING PERFORMANCE EFFICIENCY SEGMENT

The BPE Segment entered fiscal year 2011 with significant momentum as the result of an order backlog of $15.4 million, which at that time represented the highest backlog achieved by the BPE Segment in the Company s history. As a result, BPE generated $12.4 million in revenues in the first six (6) months of fiscal 2011, including $7.5 million of revenues and $383,000 of pre-tax earnings (including intersegment revenues, costs and expenses) in the second quarter. The second quarter revenues were the highest revenues generated in a fiscal quarter by the BPE Segment in the Company s history, and represented an increase of 92% compared to the same period in fiscal 2010, including a 183% year-over-year increase in Energy Savings Projects revenues. The revenues in the first six (6) months of fiscal 2011 represented an increase of 59% compared to the same period in fiscal 2010, including a 117% year-over-year increase in Energy Savings Projects revenues. Correspondingly, BPE s new order activity also strengthened materially in the second quarter, as new customer orders exceeded BPE revenues by $2.1 million. As a result, the Company achieved a record level of order backlog for the BPE Segment of $16.3 million as of October 31, 2010, which was 21% higher than the backlog at July 31, 2010, and was 132% higher than the backlog at October 31, 2009. The new order activity in the second quarter included the award of a $5.8 million design-build retro-commissioning project for the Georgia Department of Corrections under a contract with the Georgia Environmental Finance Authority, which the Company commenced during the quarter and expects to substantially complete by the end of calendar year 2011.

The Company believes that the substantial increase in BPE order activity and revenues over the last year is a direct result of three (3) distinct factors: the success of the Company s enhanced sales and marketing efforts, which were initiated in fiscal 2009; an overall improvement in the capital spending environment for many of the BPE Segment s customers; and the infusion of U.S. government expenditures for energy efficiency upgrades of government facilities. The Company believes that these factors will continue to be favorable for the BPE Segment during the remainder of fiscal year 2011 and beyond. The BPE Segment generated positive EBITDA[1] in the second quarter of $562,000 (pre-tax earnings, including intersegment revenues, costs and expenses, of $383,000, plus interest, depreciation and amortization of $179,000), and management currently expects that the BPE Segment will generate positive EBITDA for the full current fiscal year, with revenues remaining strong; however, EBITDA on a quarterly basis is more sensitive to fluctuations in the timing of revenues and may not be positive in an individual quarter. Moreover, management believes that a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company s consolidated operations.

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

To support ongoing revenue growth, the Company anticipates continued strong BPE order growth from customers in the government sector and the private sector. The BPE Segment offers the government sector many of the same offerings it provides to its private sector customers, including energy savings projects and other energy efficiency-focused products and services, through direct government contracts and by acting as a subcontractor to large energy services companies (ESCOs). The BPE Segment has a long history of providing energy efficiency 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 has business relationships with a number of government entities and with several of the large ESCOs selected by the U.S. Department of Energy in December 2008 to perform federally-funded projects to improve the energy efficiency of government buildings. The Company also expects to build on its recent successes in the private sector by continuing to broaden its customer base of Fortune 500 companies and large asset and property managers that own or manage numerous facilities across the country. As a result of many funded and proposed government mandates to improve the efficiency of federal, state and local government facilities, as well as a growing awareness in corporate America of the benefits of sustainability and energy efficiency, the Company believes that it is well positioned for significant ongoing revenue growth in both the government and private sectors.

The Company also anticipates that new order activity will be generated by the BPE Segment s recently introduced Fifth Fuel Management service offering over the next several quarters. BPE is offering this technology-enabled demand response and energy efficiency system to a network of utilities and independent system operators in the U.S., as well as to owners and operators of large commercial office buildings, retail stores, hotels, light industrial facilities and institutional buildings. Demand response is emerging as a critical tactic to help address the growing imbalance in the supply and demand of generated electric power in the United States. In February 2010, the Company received its initial multi-year orders for this new offering, and Fifth Fuel Management order bookings totaled approximately $800,000 in fiscal 2010. The Company expects Fifth Fuel Management will provide additional opportunities for sales of BPE Segment s other energy efficiency services and products as well, which can enable BPE 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 better positioned to participate in the growing utility market sector; however, the Company s ability to develop the new Fifth Fuel Management offering to its full potential will require the investment of additional capital.

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

REAL ESTATE SEGMENT

The Company s Real Estate Segment has historically created long-term value through the periodic sale of its real estate assets. The Company has generated substantial liquidity from such sales in recent years, and the proceeds from such sales largely have been redeployed to fund the establishment and growth of the BPE Segment. In fact, in June 2010 the Company successfully closed on the sale of its owned shopping center in Jacksonville, Florida, generating net cash proceeds of $2 million and a pre-tax gain on the sale of $192,000 (see Note 10 Discontinued Operations to the condensed consolidated financial statements for more information). Most recently, in December 2010 the Company successfully closed on the sale of its owned shopping center in Smyrna, Tennessee, generating net cash proceeds of approximately $250,000 (see Note 13 Subsequent Events to the condensed consolidated financial statements for more information). As a cumulative result of the real estate asset sales in recent years, the Company s real estate assets now consist primarily of only the corporate headquarters building in metropolitan Atlanta, Georgia; a land parcel in North Ft. Myers, Florida; and a land parcel in Oakwood, Georgia, and given the declines in commercial real estate markets and asset valuations in the United States in recent years, the Company may be unable to sell any of its remaining real estate assets at acceptable prices, or at all, in the near future. The Company is continuing to monitor the operating performance of the Real Estate Segment s tenants, and is continuing to reduce the Real Estate Segment s operating costs.

LIQUIDITY

The Company s cash increased by 34% during the second quarter of fiscal 2011, as operating activities provided cash of $586,000 during the quarter. Despite this increase in cash and the recent successes and achievements of the BPE Segment described above, the Company s loss from continuing operations in the first quarter of fiscal 2011 resulted in significant usage of the Company s cash, continuing the trend of substantial cash usage to fund operating losses in several consecutive preceding fiscal quarters. Although the BPE Segment generated positive EBITDA and net earnings from operations in the fourth quarter of fiscal 2010 and in the second quarter of fiscal 2011, and is expected to generate positive EBITDA and net earnings for the full fiscal year 2011, a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company s consolidated operations. The Company believes that it has, or can obtain, sufficient capital resources to operate its business in the ordinary course until the BPE Segment begins to generate sufficient sustained cash flow to fund the Company s consolidated operations, which it may seek to obtain using any of the methods described below in Liquidity and Capital Resources; however, there can be no assurance that the Company will be successful in these efforts. Historically, earnings before taxes have been indicative of the BPE Segment s cash flows, before taking into account the timing of receivables and payables. Despite the revenue growth, positive EBITDA and earnings that the Company expects the BPE Segment to achieve for the full fiscal year 2011 and beyond, the timing of when BPE will generate consistent and sustainable cash flow from operations will be dependent on a number of factors, including the timing of collections on customer receivables and payments to vendors and suppliers. In addition, there can be no guarantee that the expected revenue growth, positive EBITDA and earnings at the BPE Segment will actually occur, particularly if recent macro-economic conditions continue, or worsen, for an extended period of time. See Liquidity and Capital Resources later in this discussion and analysis section for more information.

RESULTS OF OPERATIONS

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

Table of Contents

REVENUES

From Continuing Operations

For the second quarter of fiscal 2011, consolidated revenues from continuing operations, prior to intersegment revenues, were $7,771,734 compared to $4,163,416 for the second quarter of fiscal 2010, an increase of approximately 87%. For the first six (6) months of fiscal 2011, consolidated revenues from continuing operations, prior to intersegment revenues, were $12,862,928, compared to $8,278,831 for the first six (6) months of fiscal 2010, an increase of approximately 55%.

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
	2010	2009	Change	Change	2010	2009	Change	Change
BPE (1)	$7,519	$3,923	$3,596	92	$12,361	$7,796	$4,565	59
Real Estate	253	241	12	5	502	483	19	4
	$7,772	$4,164	$3,608	87	$12,863	$8,279	$4,584	55

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
	2010	2009	Change	Change	2010	2009	Change	Change
Energy Savings Projects	$5,803	$2,048	$3,755	183	$ 8,822	$4,061	$4,761	117
Lighting Products	531	485	46	9	1,216	941	275	29
Energy Management Services	427	458	(31)	(7)	767	1,022	(255)	(25)
Fifth Fuel Management Services	34		34		91		91	
Productivity Software	724	932	(208)	(22)	1,465	1,772	(307)	(17)
	$7,519	$3,923	$3,596	92	$12,361	$7,796	$4,565	59

BPE Segment revenues increased by approximately $3,596,000, or 92%, in the second quarter of fiscal 2011 compared to the same period in fiscal 2010, primarily due to:

(a) an increase in energy savings (lighting and mechanical) project revenues of approximately $3,755,000; partially offset by:

(b) a decrease in productivity software revenues of approximately $208,000.

19

Table of Contents

BPE Segment revenues increased by approximately $4,565,000, or 59%, in the first six (6) months of fiscal 2011 compared to the same period in fiscal 2010, primarily due to:

(a) an increase in energy savings (lighting and mechanical) project revenues of approximately $4,761,000;

(b) an increase in lighting product revenues of approximately $275,000; and

(c) approximately $91,000 in revenues from the Company s new Fifth Fuel Management service offering; partially offset by:

(d) a decrease in energy management service revenues of approximately $255,000; and

(e) a decrease in productivity software revenues of approximately $307,000.

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

	October 31,		Increase (Decrease)	
	2010	2009	Amount	Percentage
BPE (1)	$16,299,000	$7,027,000	$9,272,000	132
Real Estate (2)	1,428,000	1,414,000	14,000	1
Less: Intersegment eliminations (3)	(546,000)	(587,000)	41,000	7
Total Backlog	$17,181,000	$7,854,000	$9,327,000	119

(1) BPE backlog at October 31, 2010, increased by approximately $9,272,000, or 132%, compared to the year-earlier period, primarily due to:

(a) an increase of approximately $8,262,000 in energy savings (lighting and mechanical) projects;

(b) approximately $622,000 in backlog from BPE s new Fifth Fuel Management™ service offering; and

(c) an increase of approximately $349,000 in energy management consulting services.

BPE backlog includes some contracts that can be cancelled by customers with less than one (1) year s notice, and assumes that such cancellation provisions will not be invoked. The value of such contracts included in the prior year s backlog that were subsequently cancelled was approximately $168,000, or 2.4%.

(2) In December 2010, during the third quarter of fiscal 2011, the Company sold its owned shopping center in Smyrna, Tennessee (see Note 13 Subsequent Events to the condensed consolidated financial statements for more information). The Real Estate backlog related to this property was $477,000 and $433,000 as of October 31, 2010, and October 31, 2009, respectively. These amounts are included in the total Real Estate backlog figures shown above.

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

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

COST OF REVENUES

From Continuing Operations

As a percentage of total segment revenues from continuing operations (see Chart A), the total applicable costs of revenues (see Chart B), prior to intersegment costs, were 73% and 70% for the second quarters of fiscal 2011 and 2010, respectively, and were 74% and 70% for the first six (6) months of fiscal 2011 and 2010, respectively. In reviewing Chart B, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented.

The figures in Chart B are prior to intersegment costs.

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,	
	2010	2009	2010	2009	2010	2009	2010	2009
BPE (1)	$5,403	$2,671	72	68	$8,968	$5,296	73	68
Real Estate	241	254	96	105	492	524	98	109
	$5,644	$2,925	73	70	$9,460	$5,820	74	70

NOTES TO CHART B

(1) BPE Segment cost of revenues increased by approximately $2,732,000, or 102%, and by approximately $3,672,000, or 69%, in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to a corresponding increase in revenues (See Chart A).

On a percentage-of-revenues basis, BPE Segment cost of revenues increased by approximately 4% and by approximately 5% in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to changes in the mix of services and products and an increasingly competitive market pricing environment for energy savings projects.

Table of Contents

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), prior to intersegment expenses, were 33% and 55%, for the second quarters of fiscal 2011 and 2010, respectively, and were 39% and 57% for the first six (6) months of fiscal 2011 and 2010, respectively. In reviewing Chart C, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented. The percentages in Chart C are based upon expenses as they relate to 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 prior to intersegment expenses.

CHART C
SELLING, GENERAL AND ADMINSTRATIVE EXPENSES
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,	
	2010	2009	2010	2009	2010	2009	2010	2009
BPE (1)	$1,428	$1,362	19	35	$3,005	$2,722	24	35
Real Estate	130	131	51	55	265	288	53	60
Parent Company (2)	994	801	13	19	1,779	1,670	14	20
	$2,552	$2,294	33	55	$5,049	$4,680	39	57

NOTES TO CHART C

(1) BPE Segment SG&A expenses increased by approximately $283,000, or 10%, in the first six (6) months of fiscal 2011 compared to the same period in fiscal 2010, primarily due to higher personnel-related costs, product development expenses, and sales and marketing expenses.

On a percentage-of-revenue basis, BPE Segment SG&A expenses decreased by approximately 16% and 11% in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to the increases in revenues (see Chart A) without corresponding proportional increases in expenses.

(2) Parent Company SG&A expenses increased by approximately $193,000, or 24%, and by approximately $109,000, or 7%, in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to increases in consulting, legal, and non-employee directors fees and investor relations expenses, partially offset by reductions in audit and tax fees.

On a percentage-of-revenue basis, Parent Company SG&A expenses decreased by 6% in both the second quarter and first six (6) months of fiscal 2011, compared to the same respective periods in fiscal 2010, primarily due to the increase in revenues (see Chart A) without corresponding proportional increases in expenses.

Table of Contents

EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES

Consolidated loss from continuing operations before income taxes was $1,117,303 in the second quarter of fiscal 2011, compared to $1,159,608 in the same period of fiscal 2010, a decrease of $42,305, or 4%. For the first six (6) months of fiscal 2011, the consolidated loss from continuing operations before income taxes was $2,537,149, compared to $2,473,309 in the same period of fiscal 2010, an increase of $63,840, or 3%.

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

CHART D

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

	Second Quarter Ended October 31,		(Increase) Decrease	Six Months Ended October 31,		(Increase) Decrease
	2010	2009	Amount	2010	2009	Amount
BPE (1)	$ 697	$ (75)	$ 772	$ 383	$ (199)	$ 582
Real Estate (2)	(857)	(285)	(572)	(1,141)	(608)	(533)
Parent Company (3)	(957)	(800)	(157)	(1,779)	(1,666)	(113)
Total	$ (1,117)	$ (1,160)	$ 43	$ (2,537)	$ (2,473)	$ (64)

NOTES TO CHART D

(1) BPE Segment earnings before income taxes of approximately $697,000 in the second quarter of fiscal 2011 represents growth in earnings of approximately $772,000 compared to the same period in fiscal 2010, primarily due to an increase in revenues of approximately $3,596,000 (see Chart A) and an increase in gross margin of approximately $864,000, partially offset by an increase in SG&A expenses of approximately $66,000 (see Chart C).

BPE Segment earnings before income taxes of approximately $383,000 in the first six (6) months of fiscal 2011 represents growth in earnings of approximately $582,000 compared to the same period in fiscal 2010, primarily due to an increase in revenues of approximately $4,565,000 (see Chart A) and an increase in gross margin of approximately $893,000, partially offset by an increase in SG&A expenses of approximately $283,000 (see Chart C).

(2) Real Estate Segment loss before income taxes increased by approximately $572,000, or 201%, and by approximately $533,000, or 88%, in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to a one-time non-cash impairment charge of approximately $590,000 related to the sale of the Company s owned shopping center located in Smyrna, Tennessee, in December 2010. For more information, see Note 13 Subsequent Events to the condensed consolidated financial statements.

(3) Parent Company loss before income taxes increased by approximately $157,000, or 20%, and by approximately $113,000, or 7%, in the second quarter and the first six (6) months of fiscal 2011, respectively, compared to the same periods in fiscal 2010, primarily due to increases in SG&A expenses of approximately $193,000 and $109,000, respectively (see Chart C).

INCOME TAX BENEFIT

The Company s effective rate for income taxes, based upon estimated annual income tax rates, approximated 40.5% of the loss from continuing operations before income taxes in the first six (6) months of fiscal 2011 and 38.5% in the comparable period in fiscal year 2010.

DISCONTINUED OPERATIONS

On June 9, 2010, the Real Estate Segment sold its owned shopping center in Jacksonville, Florida, for a sales price of approximately $9.9 million. As part of this transaction, the buyer assumed in full the mortgage note payable on the property of approximately $6.9 million. The Company recognized a pre-tax gain on the sale of approximately $192,000 (see Note 10 Discontinued Operations to the condensed consolidated financial statements for more information). The Company s federal and state tax liabilities on the disposition were approximately $95,000. These tax liabilities primarily resulted from the pre-tax gain on the disposition and the operating earnings of the property during the current fiscal year. These tax liabilities were offset by the Company s net operating loss carry-forwards for tax purposes.

On January 29, 2010, the Real Estate Segment disposed of its interest in its owned office building in Newnan, Georgia. In this transaction, the Real Estate Segment transferred its approximately $2.0 million interest in the property and related assets to the note holder, which satisfied in full the Company s liability for the approximately $3.2 million remaining balance on the property s non-recourse mortgage loan. Correspondingly, the Company recognized a non-cash pre-tax gain of approximately $1.2 million in the third quarter of fiscal 2010 as a result of the elimination of the balance of the indebtedness on the property. The Company s federal and state tax liabilities on the disposition were approximately $0.6 million. These tax liabilities primarily resulted from the pre-tax gain on the disposition, partially offset by operating losses of the property during fiscal 2010. These tax liabilities were offset by the Company s net operating loss carry-forwards for tax purposes.

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

LIQUIDITY AND CAPITAL RESOURCES

Between April 30, 2010, and October 31, 2010, the Company s cash increased by a total of approximately $485,000, or 25%. The Company s working capital increased by approximately $858,000, or 24%, between April 30, 2010, and October 31, 2010.

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

Operating activities used cash of approximately $1,335,000, primarily as a result of:

(a) current year losses from continuing operations before depreciation, amortization, income taxes and loss on impairment of an income-producing property of approximately $1,361,000;

24

Table of Contents

(b) an increase in costs and earnings in excess of billings of approximately $538,000; and

(c) an increase in other current and long-term assets of approximately $414,000;

partially offset by:

(d) an increase in trade accounts payable, accrued expenses, and other liabilities of approximately $580,000; and

(e) a decrease in net accounts receivable of approximately $303,000.

Investing activities used cash of approximately $545,000, primarily as a result of:

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

(b) approximately $195,000 used for additions to intangible assets, primarily related to enhancements to the BPE Segment s proprietary building productivity software solutions;

partially offset by:

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

Financing activities provided cash of approximately $342,000, primarily as a result of:

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

partially offset by:

(b) scheduled principal payments on real estate mortgage notes of approximately $84,000; and

(c) payment of the regular quarterly cash dividends to shareholders of approximately $74,000.

Discontinued operations provided cash of approximately $2,023,000, primarily as a result of the sale of an income-producing property.

During the second quarter of fiscal 2011, operating activities provided approximately $586,000 of cash, primarily due to the increase in accounts payable, partially offset by the operating loss in the quarter, whereas during the first quarter of fiscal 2011, operating activities used approximately $1,921,000 of cash, primarily due to the operating loss in the quarter and the reduction in accounts payable, partially offset by a reduction in accounts receivable. The significantly higher BPE Segment revenues in the second quarter, in combination with BPE s increased order activity and higher backlog at October 31, 2010, as discussed above, are expected to result in substantially higher full-year revenues in fiscal 2011. As a result, management believes that the BPE Segment will be able to generate cash flow from operations for the year. However, management believes that a longer period of time will be required before the BPE Segment is able to generate sufficient sustained cash flow to fully fund the Company s consolidated operations. Recent growth in BPE s business has strained the Company s capital resources. However, the Company believes that it has sufficient capital resources on hand to operate its business in the ordinary course for the next twelve (12) months. The Company also currently believes that it has, or can obtain, sufficient capital resources to continue to operate its business in the ordinary course until the BPE Segment begins to generate sufficient sustained cash flow to fully fund the Company s consolidated operations, although there can be no guarantee that this will be the case, particularly if the macro-economic conditions experienced in recent fiscal years continue for an extended period of time, or worsen.

Table of Contents

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

The Company historically has generated substantial liquidity from the periodic sales of real estate assets, and the proceeds from such sales largely have been redeployed to fund the establishment and growth of the BPE Segment. In June 2010, the Company successfully closed on the sale of its owned shopping center in Jacksonville, Florida, generating net cash proceeds of approximately $2 million and a pre-tax gain on the sale of approximately $192,000. Most recently, in December 2010 the Company successfully closed on the sale of its owned shopping center in Smyrna, Tennessee, generating net cash proceeds of approximately $250,000 (see Note 13 Subsequent Events to the condensed consolidated financial statements for more information). As a cumulative result of the Company s real estate asset sales in recent years, the Company s real estate assets now consist primarily of only the corporate headquarters building in metropolitan Atlanta, Georgia; a land parcel in North Ft. Myers, Florida; and a land parcel in Oakwood, Georgia, and given the declines in commercial real estate markets and asset valuations in the United States in recent years, the Company may be unable to sell any of its remaining real estate assets at acceptable prices, or at all, in the near future.

The Company in recent years has not utilized bank lines of credit for operating purposes and does not currently have in place any such line of credit. In the current fiscal quarter, the Company borrowed $500,000 from related parties through the issuance of promissory notes (see the *Sales of Promissory Notes to Related Parties* section below for more information). Additionally, as of October 31, 2010, the Company has drawn $570,000 in loans against its interest in the cash surrender value of certain life insurance policies. In the current fiscal quarter, the Company repaid a loan of approximately $412,000, which had been drawn against the cash surrender value of another of these life insurance policies (see the *Termination of Split Dollar Life Insurance Agreement* section below for more information). There is currently minimal additional borrowing capacity left under such policies.

In the event that currently available cash, cash generated from operations, and cash generated from real estate sales were not sufficient to meet future operating cash requirements, the Company would need to sell additional real estate or other assets at potentially otherwise unacceptable prices, seek external debt financing or refinancing of existing debt, seek to raise funds through the issuance of equity securities, or limit growth or curtail operations to levels consistent with the constraints imposed by the available cash and cash flow, or any combination of these options. Depending on the form of such additional capital, the equity interests of the Company s existing shareholders could be diluted as a result. In addition, the development of the BPE Segment s new Fifth Fuel Management service offering to its full potential will require the investment of additional capital, which the Company may seek to raise through outside sources or the sale of assets.

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

Sales of Promissory Notes to Related Parties

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

Termination of Split Dollar Life Insurance Agreement

Historically, the Company has been a party to split dollar life insurance agreements pursuant to which, among other things, the Company has agreed to pay premiums on life insurance policies for certain executives of the Company. The cash surrender values of these insurance policies are recorded as long-term other assets in the Company s condensed consolidated balance sheet. As of July 31, 2010, the Company was a party to three (3) split dollar agreements regarding policies insuring the lives of current and former executive officers of the Company, and had long-term loans of approximately $982,000 against its interest in the cash surrender value of these policies.

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

Table of Contents

Capital Expenditures

The Company has no material commitments for capital expenditures. However, the Company does expect that total capital spending in fiscal year 2011 will approximate $540,000, including BPE Segment expenditures of approximately $300,000 for proprietary BPE software solutions and approximately $200,000 for property and equipment, Real Estate Segment expenditures of approximately $20,000, and Parent Company expenditures of approximately $20,000. Of these forecasted amounts, approximately $210,000, or 42%, of the BPE Segment expenditures were already expended during the first six (6) months of the fiscal year. No significant amounts of the forecasted Real Estate Segment and Parent Company expenditures were expended during the first six (6) months of the fiscal year.

Significant Uses of Cash

Significant uses of cash in the future are anticipated to be regular scheduled principal repayments of the Company s mortgage notes and other long-term debt, capital expenditures for property and equipment, capital expenditures for enhancing the Company s proprietary software solutions, funding collateral for performance bonds when required by energy savings projects contracts, and the regular cash operating requirements of corporate headquarters. The Company s uses of cash are not expected to change materially in the near future, with the exception of Real Estate Segment capital expenditures, which may increase if significant discretionary tenant improvements and lease commission payments are used for tenant leasing. This discretionary use of cash would be recovered during the terms of such new leases by the additional rental income generated as a result.

Mortgage Notes and Other Long-Term Debt

At October 31, 2010, the Company had two (2) mortgage notes on long-term real estate assets and two (2) other long-term debt obligations. In December 2010, the Company sold its owned shopping center in Smyrna, Tennessee, and the purchaser assumed the mortgage note obligation (see Note 13 Subsequent Events to the condensed consolidated financial statements for more information). The owned shopping center mortgage loan contained a provision that required a Real Estate Segment subsidiary to maintain a net worth of at least $4 million. The owned office building mortgage loan contains a provision that requires the same Real Estate Segment subsidiary to maintain a net worth of at least $2 million. The subsidiary referred to in these mortgage loan provisions had a net worth of approximately $16.4 million as of October 31, 2010. The Real Estate Segment s mortgage notes contain no other financial covenants. None of the Company s other long-term debt obligations have any financial or non-financial covenants.

The cash principal payment obligations during the next twelve (12) months related to the Company s long-term debt are expected to be approximately $283,000, excluding approximately $44,000 in principal payment obligations related to the mortgage note on the Company s owned shopping center in Smyrna, Tennessee, which was sold subsequent to the current fiscal quarter end (see Note 13 Subsequent Events to the condensed consolidated financial statements for more information).

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 continuing strengthening of orders and achievement of

Table of Contents

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

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

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

Table of Contents

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.

Table of Contents

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

Income-producing properties are stated at historical cost or, if the Company determines that impairment has occurred, at fair market value, and are depreciated for financial reporting purposes using the straight-line method over the respective estimated useful lives of the assets. Significant additions that extend asset lives are capitalized and are depreciated over their respective estimated useful lives. Normal maintenance and repair costs are expensed as incurred. Interest and other carrying costs related to real estate assets under active development are capitalized. Other costs of development and construction of real estate assets are also capitalized. Capitalization of interest and other carrying costs is discontinued when a development project is substantially completed or if active development ceases. Property and equipment are recorded at historical cost and are depreciated for financial reporting purposes using the straight-line method over the estimated useful lives of the respective assets.

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

- A significant decrease in the market price of a long-lived asset;
- A significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset;
- A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life;
- The Company has recently sold similar income-producing properties at losses;
- The Company has received purchase offers at prices below carrying value;
- Income-producing properties that have significant vacancy rates or significant rollover exposure from one or more tenants;
- A major tenant experiencing financial difficulties that may jeopardize the tenant s ability to meet its lease obligations;

Table of Contents

- 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.

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.

Table of Contents

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, 2010. The annual analysis resulted in a determination of no impairment. Management considers both positive and negative indicators of impairment on an interim basis. The Company has concluded it was not necessary to perform an interim test of goodwill impairment as of October 31, 2010.

Income Taxes

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

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

Positive evidence considered includes, among others, the following: deferred tax liabilities in excess of DTA, future reversals of temporary differences, Company historical evidence of not having DTAs expire prior to utilization, long carryforward period remaining for net operating loss (NOL) carryforwards, lack of cumulative taxable loss in recent years, taxable income projections that conclude that NOL carryforwards will be utilized prior to expiration, and evidence of appreciated real estate holdings planned to be sold prior to expiration of the NOL carryforward period. Negative evidence considered includes, among others, the fact that the current real estate market conditions and lack of readily available credit could make it difficult for the Company to trigger gains on sales of real estate.

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

Table of Contents

The Company will have to generate $6.4 million of taxable income in future years to realize the federal NOL carryforwards and an additional $24.1 million of taxable income in future years to realize the state NOL carryforwards. These amounts of taxable income would allow for the reversal of the $3.3 million DTA related to NOL carryforwards. There is a long carryforward period remaining for the NOL carryforwards. The oldest federal NOL carryforwards will expire in the April 30, 2024, tax-year, and the most recent federal NOL carryforwards will expire in the April 30, 2031, tax-year. The significant state NOL carryforwards will also expire between the April 30, 2024, and April 30, 2031, tax years. The Company has no material permanent book/tax differences.

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

Table of Contents

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

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

ITEM 6. EXHIBITS

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

Table of Contents

SIGNATURES

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

SERVIDYNE, INC.
(Registrant)

Date: December 15, 2010 — /s/ Alan R. Abrams
Alan R. Abrams
Chief Executive Officer

Date: December 15, 2010 — /s/ Rick A. Paternostro
Rick A. Paternostro
Chief Financial Officer

36