

ABRAMS INDUSTRIES INC

Form 10-Q

December 15, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q
QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the quarter ended October 31, 2004

Commission file number 0-10146

ABRAMS INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Georgia

58-0522129

(State or other jurisdiction of
identification No.)

(I.R.S. Employer
incorporation or organization)

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

(Address of principal executive offices) (Zip Code)

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

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

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of \$1.00 par value Common Stock of the Registrant outstanding as of November 30, 2004, was 3,355,901.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ABRAMS INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	<u>October 31, 2004</u>	<u>April 30, 2004</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,364,265	\$ 6,379,679
Short-term investment	200,000	200,000
Receivables (Note 4)	2,454,189	1,860,723
Less: Allowance for doubtful accounts	(69,834)	(60,644)
Assets of discontinued operations	351,998	4,233,462
Costs and earnings in excess of billings	249,174	481,480
Deferred income taxes	1,256,479	623,001
Other	919,056	634,700
	<hr/>	<hr/>
Total current assets	9,725,327	14,352,401
INCOME-PRODUCING PROPERTIES, net	29,290,725	29,628,177
PROPERTY AND EQUIPMENT, net	900,734	605,967
OTHER ASSETS:		
Real estate held for future development or sale	3,970,498	3,970,498
Intangible assets, net (Note 8)	3,405,021	3,527,722
Goodwill (Note 8)	5,383,014	4,998,242
Investment held to maturity	2,000,000	2,000,000
Other	3,082,708	2,793,012
	<hr/>	<hr/>
	\$57,758,027	\$61,876,019
	<hr/>	<hr/>
<u>LIABILITIES AND SHAREHOLDERS EQUITY</u>		
CURRENT LIABILITIES:		
Trade and subcontractors payables	\$ 1,406,396	\$ 694,533
Accrued expenses	2,090,716	2,278,280
Liabilities of discontinued operations	558,487	2,781,147
Billings in excess of costs and earnings	809,563	98,439
Current maturities of long-term debt	1,222,855	1,292,669
	<hr/>	<hr/>

Total current liabilities	6,088,017	7,145,068
DEFERRED INCOME TAXES	2,895,489	2,677,141
OTHER LIABILITIES	1,788,868	4,644,630
MORTGAGE NOTES PAYABLE, less current maturities (Note 9)	26,340,488	25,509,868
OTHER LONG-TERM DEBT, less current maturities	1,880,228	1,901,785
	<u> </u>	<u> </u>
Total liabilities	38,992,730	41,878,492
	<u> </u>	<u> </u>
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY:		
Common stock, \$1 par value; 5,000,000 shares authorized; 3,355,901 issued and 3,207,913 outstanding in October 2004, 3,327,628 issued and 3,180,340 outstanding in April 2004	3,355,901	3,327,628
Additional paid-in capital	3,061,080	2,963,874
Deferred stock compensation	(28,435)	(26,855)
Retained earnings	13,059,093	14,412,663
Treasury stock, common shares, 147,988 in October 2004 and 147,288 in April 2004	(682,702)	(679,783)
	<u> </u>	<u> </u>
Total shareholders' equity	18,764,937	19,997,527
	<u> </u>	<u> </u>
	\$57,758,027	\$61,876,019
	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

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

	SECOND QUARTER ENDED OCTOBER 31,		FIRST SIX MONTHS ENDED OCTOBER 31,	
	2004	2003	2004	2003
REVENUES:				
Energy and facilities solutions	\$ 940,084	\$ 716,480	\$ 1,830,295	\$ 1,375,284
Energy services	1,993,530		3,956,398	
Real estate	4,295,227	1,924,403	6,323,607	3,944,019
	7,228,841	2,640,883	12,110,300	5,319,303
Interest	10,074	3,022	39,224	7,613
Other	30,057	47,863	36,064	61,870
	7,268,972	2,691,768	12,185,588	5,388,786
COSTS AND EXPENSES:				
Energy and facilities solutions	552,869	418,632	1,033,758	822,607
Energy services	1,378,490		2,859,727	
Rental property operating expenses, excluding interest	1,443,489	1,261,189	2,857,505	2,469,891
	3,374,848	1,679,821	6,750,990	3,292,498
Selling, general and administrative				
Energy and facilities solutions	460,031	638,029	1,098,963	1,201,756
Energy services	481,658		1,121,691	
Real estate	586,476	143,446	991,906	367,638
Parent	904,294	525,987	1,600,722	1,156,104
	2,432,459	1,307,462	4,813,282	2,725,498
Extinguishment of debt (Note 9)			218,071	

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Interest costs incurred	<u>551,012</u>	<u>601,964</u>	<u>1,186,508</u>	<u>1,214,175</u>
	<u>6,358,319</u>	<u>3,589,247</u>	<u>12,968,851</u>	<u>7,232,171</u>
EARNINGS (LOSS) BEFORE INCOME TAXES FROM CONTINUING OPERATIONS	910,653	(897,479)	(783,263)	(1,843,385)
INCOME TAX EXPENSE (BENEFIT)	<u>360,830</u>	<u>(301,000)</u>	<u>(277,170)</u>	<u>(615,000)</u>
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	<u>549,823</u>	<u>(596,479)</u>	<u>(506,093)</u>	<u>(1,228,385)</u>
DISCONTINUED OPERATIONS (Note 5): Loss from discontinued operations, adjusted for applicable income tax benefit of \$15,193, \$229,000, \$40,193 and \$380,000, respectively	<u>(28,483)</u>	<u>(460,217)</u>	<u>(78,021)</u>	<u>(776,717)</u>
LOSS FROM DISCONTINUED OPERATIONS	<u>(28,483)</u>	<u>(460,217)</u>	<u>(78,021)</u>	<u>(776,717)</u>
NET EARNINGS (LOSS)	<u>\$ 521,340</u>	<u>\$ (1,056,696)</u>	<u>\$ (584,114)</u>	<u>\$ (2,005,102)</u>
NET EARNINGS (LOSS) PER SHARE BASIC AND DILUTED (Note 7):				
From continuing operations	\$.17	\$ (.20)	\$ (.16)	\$ (.42)
From discontinued operations	\$ (.01)	\$ (.16)	\$ (.02)	\$ (.27)
NET EARNINGS (LOSS) PER SHARE BASIC AND DILUTED	<u>\$.16</u>	<u>\$ (.36)</u>	<u>\$ (.18)</u>	<u>\$ (.69)</u>
DIVIDENDS PER SHARE	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.24</u>	<u>\$ 0.08</u>
	3,206,710	2,914,167	3,202,153	2,914,219

WEIGHTED AVERAGE
SHARES OUTSTANDING
BASIC AND DILUTED

See accompanying notes to consolidated financial statements.

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

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Deferred Stock Compensation</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
BALANCES at April 30, 2002	3,054,439	\$3,054,439	\$2,135,005	\$(12,744)	\$18,273,853	\$(671,677)	\$22,778,876
Net loss					(1,073,524)		(1,073,524)
Common stock acquired						(2,270)	(2,270)
Common stock issued	5,800	5,800	18,500	(24,300)			
Stock compensation expense				20,446			20,446
Cash dividends declared - \$.16 per share					(465,576)		(465,576)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BALANCES at April 30, 2003	3,060,239	3,060,239	2,153,505	(16,598)	16,734,753	(673,947)	21,257,952
Net loss					(1,850,126)		(1,850,126)
Common stock acquired						(5,836)	(5,836)
Common stock issued	267,389	267,389	810,369	(41,700)			1,036,058
Stock compensation expense				31,443			31,443
Cash dividends declared - \$.16 per share					(471,964)		(471,964)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BALANCES at April 30, 2004	3,327,628	3,327,628	2,963,874	(26,855)	14,412,663	(679,783)	19,997,527
Net loss					(584,114)		(584,114)

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Common stock acquired						(2,919)	(2,919)
Common stock issued	28,273	28,273	97,206	(30,573)			94,906
Stock compensation expense				28,993			28,993
Cash dividends declared - \$.24 per share					(769,456)		(769,456)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BALANCES at October 31, 2004	3,355,901	\$3,355,901	\$3,061,080	\$(28,435)	\$13,059,093	\$(682,702)	\$18,764,937
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

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

	SIX MONTHS ENDED OCTOBER 31,	
	2004	2003
Cash flows from operating activities:		
Net loss	\$ (584,114)	\$(2,005,102)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss from discontinued operations, net of tax	78,021	776,717
Depreciation and amortization	1,077,261	780,063
Deferred tax benefit	(333,325)	(1,030,922)
Provision for (recovery of) doubtful accounts, net	9,190	(9,955)
Extinguishment of debt	218,071	
Changes in assets and liabilities, net of effect of acquisition:		
Receivables, net	(593,466)	402,882
Costs and earnings in excess of billings	232,306	
Other current assets	(284,356)	(202,382)
Other assets	(303,504)	(121,346)
Trade and subcontractors payable	630,058	(324,050)
Accrued expenses	(187,204)	132,399
Billings in excess of costs and earnings	711,124	
Other liabilities	180,736	48,865
	850,798	(1,552,831)
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Additions to income-producing properties, net	(240,850)	(154,296)
Additions to property and equipment, net	(400,581)	(22,658)
Additions to intangible assets, net	(266,024)	(57,975)
Acquisition, net of cash acquired	(178,315)	
Repayments received on notes receivable		66,147
	(1,085,770)	(168,782)
Net cash used in investing activities		
Cash flows from financing activities:		
Debt repayments	(567,368)	(520,230)
Mortgage restructuring	(1,974,042)	
Deferred loan costs paid	(50,000)	

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Cash dividends	(769,456)	(233,144)
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Net cash used in financing activities	(3,360,866)	(753,374)
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Cash flows from discontinued operations:		
Operating activities	1,580,424	1,629,204
Mortgage repayments		(525,663)
	<hr/>	<hr/>
Net cash provided by discontinued operations	1,580,424	1,103,541
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(2,015,414)	(1,371,446)
Cash and cash equivalents at beginning of period	6,379,679	5,157,639
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ 4,364,265	\$ 3,786,193
	<hr/>	<hr/>
Supplemental disclosure of non-cash financing activities:		
Issuance of common stock under Stock Award Plan	\$ 7,500	\$
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

ABRAMS INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2004, AND APRIL 30, 2004
(UNAUDITED)

NOTE 1. ORGANIZATION AND BUSINESS

Abrams Industries, Inc. (together with its subsidiaries, the Company) was organized under Delaware law in 1960. In 1984, the Company changed its state of incorporation from Delaware to Georgia. The Company (i) provides energy engineering services and develops, implements and supports maintenance and service request solutions for facilities; (ii) implements energy saving lighting programs and provides other energy services, including facility-related improvements that reduce energy and operating costs; and (iii) engages in real estate investment and development. The Company also formerly provided commercial construction services as a general contractor.

NOTE 2. UNAUDITED STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations, although management believes that the accompanying disclosures are adequate. In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals, that are necessary for a fair statement of the results for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended April 30, 2004. Results of operations for interim periods are not necessarily indicative of annual results.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

As of October 31, 2004, the Company elected to early adopt EITF 03-13 issued by the Financial Accounting Standards Board, Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations. During fiscal 2004, the Company made the decision to discontinue its operations as a general contractor, and pursuant to this decision, all general contracting operating activities have ceased. The Construction Segment has been classified as a discontinued operation, and the historical assets, liabilities, operating results and cash flows of the Segment have been reclassified to discontinued operations pursuant to SFAS No. 144.

As of January 31, 2003, the Company adopted the fair value disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. Under SFAS No. 148, the Company is required to disclose the effects on reported net earnings (loss) with respect to stock-based compensation.

For purposes of the required pro forma disclosures, the Company has computed the value of all stock option awards granted for the second quarter and for the six months ended October 31, 2004, and October 31, 2003, using the Black-Scholes option pricing model.

Options to purchase 722,492 shares were outstanding at October 31, 2004, of which 490,028 options were vested. The Company granted 30,000 stock options and 2,300 shares of restricted stock in the second quarter ended October 31, 2004, and 84,900 stock options and 7,500 shares of restricted stock in the six months ended October 31, 2004. No options or shares of restricted stock were granted in the second quarter or six months ended October 31, 2003. The number of options forfeited in the second quarter and six months ended October 31, 2004, was 33,500 and 60,000, respectively, and 88,000 and 211,000 for the second quarter and six months ended October 31, 2003, respectively. None of the stock options outstanding were in-the-money as of October 31, 2004.

If the Company had accounted for its stock-based compensation awards in accordance with SFAS No. 123, pro forma results would have been as follows:

	Quarter Ended October 31,		Six Months Ended October 31,	
	2004	2003	2004	2003
Net earnings (loss), as reported	\$521,340	\$(1,056,696)	\$(584,114)	\$(2,005,102)
Deduct: Total stock-based compensation expense as determined under fair value based method for all awards, net of related tax effects	(17,401)	(34,040)	(72,988)	(73,122)
Add: Forfeitures, net of related tax effects	18,219	51,471	32,429	110,816
Pro forma net earnings (loss)	<u>\$522,158</u>	<u>\$(1,039,265)</u>	<u>\$(624,673)</u>	<u>\$(1,967,408)</u>
Net earnings (loss) per share:				
Basic and diluted as reported	<u>\$ 0.16</u>	<u>\$ (0.36)</u>	<u>\$ (0.18)</u>	<u>\$ (0.69)</u>
Basic and diluted pro forma	<u>\$ 0.16</u>	<u>\$ (0.36)</u>	<u>\$ (0.20)</u>	<u>\$ (0.68)</u>

NOTE 4. RECEIVABLES

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

NOTE 5. DISCONTINUED OPERATIONS

During fiscal 2004, the Company made the decision to discontinue its operations as a general contractor, and pursuant to this decision, all general contracting operating activities have ceased. The Construction Segment has been classified as a discontinued operation, and the historical assets, liabilities, operating results and cash flows of the Segment have been reclassified to discontinued operations pursuant to SFAS No. 144.

The Company is in the business of creating long-term value by periodically realizing gains through the sale of existing real estate assets, and then redeploying its capital by reinvesting the proceeds from such sales. Effective May 1, 2002, the Company adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires, among other things, that the operating results of certain income-producing assets, sold subsequent to April 30, 2002, be included in discontinued operations in the statements of operations for all periods presented. The Company classifies an asset as held for sale when the asset is under a binding sales contract with minimal contingencies, and the prospective buyer

is materially at risk if the buyer fails to complete the transaction. However, each potential transaction is evaluated based on its separate facts and circumstances. Pursuant to this criteria, as of October 31, 2004, the Company had no income-producing assets that were classified as held for disposition or sale. Although in December 2004, the Company entered into a contract to sell its shopping center located in Jackson, Michigan. See Note 12 to the consolidated financial statements.

On March 12, 2004, the Company sold its shopping center located in North Fort Myers, Florida, and recognized a pretax gain of approximately \$4.0 million. As a result of this transaction, the Company's financial statements have been prepared with the results of operations and cash flows related to the North Fort Myers shopping center shown as discontinued operations.

Summarized financial information for discontinued operations for the second quarter and six months ended October 31, 2004, and 2003, respectively is as follows:

	Second Quarter Ended October 31,		Six Months Ended October 31,	
	2004	2003	2004	2003
<u>REVENUES:</u>				
Construction	\$ 11	\$10,376,148	\$ 145,513	\$21,409,915
Real estate		725,683		1,432,307
Total revenues	11	11,101,831	145,513	22,842,222
<u>COSTS AND EXPENSES:</u>				
Construction costs		9,997,762	114,734	20,617,445
Rental property operating expenses, including depreciation and interest		541,441		1,084,003
Construction selling, general & administrative	43,687	1,251,845	148,993	2,297,491
Total costs and expenses	43,687	11,791,048	263,727	23,998,939
Loss from discontinued operations	(43,676)	(689,217)	(118,214)	(1,156,717)
Income tax benefit	(15,193)	(229,000)	(40,193)	(380,000)