ABRAMS INDUSTRIES INC
Form 10-K
July 29, 2003

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT

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

For the fiscal year ended April 30, 2003

Commission file number 0-10146

ABRAMS INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	58-0522129 (I.R.S. Employer Identification No.)
1945 The Exchange, Suite 300, Atlanta, GA (Address of principal executive offices)	30339-2029 (Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class:	Name of each exchange on which registered:
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, $1.00 Par Value Per Share
(Title of Class)

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

YES þ NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

YES o NO þ

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of October 31, 2002, was $5,581,724. See Part III for a definition of nonaffiliates. The number of shares of Common Stock of the registrant outstanding as of April 30, 2003, was 2,914,351.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III (Items 10, 11, 12 and 13) is incorporated herein by reference to the registrant s definitive proxy statement for the 2003 Annual Meeting of Shareholders which is to be filed pursuant to Regulation 14A.

TABLE OF CONTENTS

PART I
- ITEM 1 BUSINESS
- ITEM 2 PROPERTIES
- ITEM 3 LEGAL PROCEEDINGS
- ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

PART II
- ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS
- ITEM 6 SELECTED FINANCIAL DATA
- ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR FISCAL YEARS ENDED APRIL 30, 2003, 2002 AND 2001
- ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
- ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
- ITEM 9 CHANGES IN AND DISAGREEMENTS WITH INDEPENDENT AUDITORS ON ACCOUNTING AND FINANCIAL DISCLOSURE

PART III
- ITEMS 10-13
- ITEM 14 CONTROLS AND PROCEDURES

PART IV
- ITEM 16 EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

SIGNATURES
CERTIFICATION BY CHIEF EXECUTIVE OFFICER
CERTIFICATION BY CHIEF FINANCIAL OFFICER
EX-10.(H) EDWARD M. ABRAMS RETIREMENT AGREEMENT
EX-21 LIST OF THE COMPANY'S SUBSIDIARIES
EX-23.(A) CONSENT OF DELOITTE & TOUCHE LLP
EX-23.(B) CONSENT OF PRICEWATERHOUSECOOPERS LLP
EX-99.1 SECTION 906 CERTIFICATION OF CEO
EX-99.2 SECTION 906 CERTIFICATION OF CFO

Table of Contents

PART I

ITEM 1 **BUSINESS**

Abrams Industries, Inc. engages in (i) commercial construction; (ii) real estate investment and development; and (iii) energy management. As used herein, the term Company refers to Abrams Industries, Inc. and its subsidiaries and predecessors, unless the context indicates otherwise, and the term Parent or Parent Company refers solely to Abrams Industries, Inc.

The Company was organized under Delaware law in 1960 to succeed to the business of A. R. Abrams, Inc., which was founded in 1925 by Alfred R. Abrams as a sole proprietorship. In 1984, the Company changed its state of incorporation from Delaware to Georgia.

Financial information for the operating segments is set forth in Note 13 to the consolidated financial statements of the Company.

CONSTRUCTION SEGMENT

The Company, through its wholly owned subsidiary, Abrams Construction, Inc., has engaged in the construction business since 1925. Although the Company does work throughout much of the United States, it concentrates its activities principally in the southern and midwestern states. The Company builds, expands, remodels and renovates retail stores, shopping centers, banks, office buildings, and distribution and manufacturing facilities, and engages in other types of commercial construction.

Construction contracts are obtained by competitive bid and by negotiation. The majority of the Company s construction projects are fixed-price. Construction revenues are accounted for using 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. Generally, the Company purchases materials and services for its construction operations on a project-by-project basis.

REAL ESTATE SEGMENT

The Company, through its wholly owned subsidiary, Abrams Properties, Inc., has engaged in real estate activities since 1960. Historically, these activities primarily involved the acquisition, development, redevelopment, leasing, management, ownership, and sale of shopping centers, industrial facilities, and office buildings, in the Southeast and Midwest. In fiscal year 2001, the Company outsourced all of the asset and property management duties for the Company s properties owned or controlled by the Real Estate Segment to third parties. In fiscal 2003, the Company brought back in house the asset management responsibilities and the property management of one owned shopping center and all of the leaseback centers.

The Company currently owns six shopping centers, four that the Company developed and two that it acquired. In June 2002, the Company sold its shopping center located in Englewood, Florida. This center was classified as property held for sale as of April 30, 2002. See Note 3 to the consolidated financial statements of the Company. The remaining centers are held as long-term investments. See ITEM 2. PROPERTIES Owned Shopping Centers. The Company is also currently lessee and sublessor of seven Company- developed shopping centers that were sold by and leased back to the Company, and subleased to Kmart. See ITEM 2. PROPERTIES Leaseback Shopping Centers. The Company owns two office properties. See ITEM 2. PROPERTIES Office Buildings. The Company also owns, through its subsidiary, AFC Real Estate, Inc., its vacant former manufacturing facility located in Atlanta, Georgia.

ENERGY MANAGEMENT SEGMENT

In fiscal 2002, the Company began operations of a new segment, Energy Management, through its wholly owned subsidiary, Abrams Power, Inc. In May 2001, the Company purchased substantially all of the assets of Servidyne Systems, Inc., an energy engineering and maintenance management company.

The Company provides energy management services that assist its customers in reducing the costs of operating buildings by lowering energy consumption and increasing work efficiency. The Company s engineering services include energy audits, utility monitoring and analysis, mechanical, electrical and plumbing surveys, indoor air quality studies, due diligence, and HVAC retrofit design. The Company also assists building owners and managers in managing equipment maintenance for the highest efficiency and useful equipment life, while maximizing labor productivity through implementation of its proprietary computerized maintenance and work management systems and by providing consulting services.

The primary focus for the business is the continental United States, although the Company does perform services for some international customers. Energy Management service and engineering contracts are primarily obtained through negotiations, but may also be obtained through competitive bids on larger proposals.

EMPLOYEES AND EMPLOYEE RELATIONS

At April 30, 2003, the Company employed 92 salaried employees and 10 hourly employees. On its construction jobs, the Company utilizes local labor whenever practicable, paying the prevailing wage scale. The Company believes that its relations with its employees are good.

SEASONAL NATURE OF BUSINESS

The Company s business historically has been somewhat seasonal, with the Construction Segment affected by weather conditions and its retail customers store opening schedules. The Company s exposure to weather conditions is limited to some extent by operating in several regions of the country, with substantial operations in the southern United States where favorable weather conditions prevail for most of the year. Generally, fewer retailers open stores in the winter months, and new store construction usually is scheduled to be completed prior to the winter season. The businesses of the Real Estate and Energy Management Segments are generally less seasonal.

COMPETITION

The businesses of the Company are highly competitive. In the Construction Segment, the Company competes with a large number of national and local construction companies, many of which have proprietary customer relationships or greater financial resources than the Company. The Real Estate Segment also

Table of Contents

operates in a competitive environment, with numerous parties competing for available financing, properties, tenants and investors. The Energy Management Segment s competition is widespread and ranges from multi-national firms to local small businesses.

PRINCIPAL CUSTOMERS

During fiscal 2003, the Company derived approximately 59% ($43,633,503) of its consolidated revenues from continuing operations from direct transactions with The Home Depot, Inc. These revenues resulted principally from construction activities. See Note 13 to the consolidated financial statements of the Company. No other single customer accounted for 10% or more of the Company s consolidated revenues during the year.

BACKLOG

The following table indicates the backlog of contracts, expected rentals and real estate sales for the next twelve months by industry segment:

	April 30, 2003	April 30, 2002
Construction-contracts	$15,262,000	$15,178,000
Real Estate-rental income (1)	8,860,000	9,331,000
Real Estate-sales (2)		14,000,000
Energy Management- contracts (3)	768,000	519,000
Total Backlog	$24,890,000	$39,028,000

(1) The difference between 2003 and 2002 is primarily due to rental income of approximately $279,000 from the Englewood, Florida, shopping center that was sold in fiscal 2003, and scheduled lease expirations.

(2) The Real Estate-sales backlog in 2002 represents the contract to sell the Englewood shopping center. The sale closed in June 2002.

(3) Any Energy Management contract that can be cancelled with less than one year s notice is not included in backlog. As of April 30, 2002, and 2003, such contracts totaled $1,136,000 and $1,139,000, respectively, in potential revenue over the next twelve months, assuming cancellation provisions are not invoked.

The Company estimates that most of the backlog at April 30, 2003, will be completed prior to April 30, 2004. No assurance can be given as to future backlog levels or whether the Company will realize earnings from revenues resulting from the backlog at April 30, 2003.

REGULATION

The Company is subject to the authority of various federal, state and local regulatory agencies concerned with its construction operations, including among others, the Occupational Health and Safety Administration and the Environmental Protection Agency. The Company is also subject to local zoning regulations and building codes in performing its construction and real estate activities. Management believes that it is in substantial compliance with all such governmental regulations, except to the extent set forth under ITEM 3. LEGAL PROCEEDINGS regarding past conduct that possibly may have contravened antitrust laws. Management believes that compliance with federal, state and local provisions, which have been enacted or adopted for regulating the discharge of materials into the environment, does not have a material effect upon the capital expenditures, earnings, or competitive position of the Company.

EXECUTIVE OFFICERS OF THE REGISTRANT

The Executive Officers of the Company as of June 30, 2003, were as follows:

Alan R. Abrams (48) *Officer since 1988*

Co-Chairman of the Board since 1998, and a Director of the Company since 1992, he has been Chief Executive Officer since 1999 and President since 2000. From 1998 to 1999, he was President and Chief Operating Officer. He also served as President and Chief Executive Officer of

Servidyne Systems, LLC from May 2002 to July 2003.

Melinda S. Garrett (47) *Officer since 1990*

Director of the Company since 1999, she has been Chief Financial Officer since 1997. She also has served Abrams Properties, Inc. as President since 2001, Chief Financial Officer from 1998 to 2000, and Vice President from 1993 to 2000.

J. Andrew Abrams (43) *Officer since 1988*

Co-Chairman of the Board since 1998, and a Director of the Company since 1992, he has been Vice President-Business Development since 2000, and served as President and Chief Operating Officer from 1999 to 2000. From 1997 to 1999, he was Executive Vice President.

Executive Officers of the Company are elected by the Board of Directors of the Company or the Board of the respective subsidiary to serve at the pleasure of the Board. Alan R. Abrams and J. Andrew Abrams are brothers, and are the sons of Edward M. Abrams, a retired member of the Board of Directors. David L. Abrams, a member of the Board of Directors, is first cousin to Alan R. Abrams and J. Andrew Abrams, and nephew to Edward M. Abrams. There are no other family relationships between any Executive Officers or Directors of the Company.

Table of Contents

ITEM 2 **PROPERTIES**

The Company, through its Real Estate Segment, owns its corporate headquarters building, which contains approximately 66,000 square feet of office space. The building is located in the North X Northwest Office Park, 1945 The Exchange, in suburban Atlanta, Georgia. The Parent Company, the Real Estate Segment, and the Construction Segment are located in this building. In addition to the 25,928 square feet of offices leased by Abrams entities, another 29,657 square feet is leased to an unrelated tenant, and 10,295 square feet is currently available for lease.

The Company also owns a vacant former metal manufacturing facility located in Atlanta, Georgia.

In May 2001, the Company, through its Energy Management Segment, as part of its acquisition of the assets of Servidyne Systems, Inc., assumed a lease, which expires in July 2004, for 7,418 square feet of office space located at 1350 Spring Street, NW, in midtown Atlanta, Georgia.

In January 2002, Kmart Corporation filed for protection under Chapter 11 of the U.S. Bankruptcy Code. At that time, four of the Company s seven owned retail properties contained stores leased to Kmart, two of which were freestanding stores. In June 2002, the Company sold at a gain its Englewood, Florida, shopping center, which was co-anchored by Kmart. See Note 3 to the consolidated financial statements. The three Kmart locations still owned by the Company, and the seven freestanding Kmart stores that the Company developed, sold, leased back, and then subleased to Kmart, are currently open and operating. All of these Kmart leases were assumed by Kmart, who emerged from bankruptcy in May 2003.

The Company owns, or has an interest in, the following properties:

OWNED SHOPPING CENTERS

As of April 30, 2003, the Company s Real Estate Segment owned four shopping centers that it developed and two that it acquired. The following chart provides relevant information relating to the owned shopping centers:

Location	Acres	Leasable Square Feet in Building(s)	Percentage of Square Footage Leased as of April 30, 2003	Calendar Year(s) Placed in Service by Company	Rental Income 2003	Rental Income Per Leased Square Foot 2003 (1)	EBITDA 2003 (2)	Debt Service Payments 2003 (3)	Principal Amount of Debt Outstanding as of April 30, 2003 (4)
1100 W. Argyle Street Jackson, MI	10.5	110,046	81%	1972,1996	$ 567,763	$ 6.37	$ 374,090	$ 396,928	$ 2,751,537
1075 W. Jackson Street Morton, IL (5)	7.3	92,120	100	1980,1992	547,570	5.94	467,852	405,269	2,521,592
2500 Airport Thruway Columbus, GA (5) (6)	8.0	87,543	100	1980,1988	442,953	5.06	394,801	391,681	1,667,048
15201 N. Cleveland North Ft. Myers, FL	72.3	293,801	97	1993,1996	2,851,717	10.01	1,971,803	1,558,105	11,351,353

5700 Harrison Avenue Cincinnati, OH (7)	10.8	86,396	90	1998	645,903	8.31	338,553		
8106 Blanding Blvd. Jacksonville, FL (8)	18.8	174,220	89	1999	1,502,006	9.69	1,096,442	918,750	8,600,058

(1) Calculated by dividing rental income by leased square feet in building, as of April 30, 2003.

(2) EBITDA is defined as earnings (loss) before the following: interest, income taxes, depreciation, and amortization of loan and lease costs. See table following in this ITEM 2. PROPERTIES, which reconciles earnings (loss) before income taxes from continuing operations to EBITDA.

(3) Includes principal and interest.

(4) The Company s liability for repayment is limited by exculpatory provisions to its interest in the respective mortgaged properties, except for the loan in North Ft. Myers, Florida, which has been guaranteed by Abrams Properties, Inc. See Notes 7 and 8 to the consolidated financial statements of the Company.

(5) Land is leased, not owned.

(6) The center in Columbus, Georgia, is owned by Abrams-Columbus Limited Partnership, in which Abrams Properties, Inc. serves as general partner and owns an 80% interest.

(7) Originally developed by others in 1982.

(8) Originally developed by others in 1985.

The two centers located in Morton, Illinois, and Columbus, Georgia, are leased exclusively to Kmart. The Kmart lease in Columbus, Georgia, expires in 2008 and has ten five-year renewal options, and the Kmart lease in Morton, Illinois, expires in 2016 and has eight five-year renewal options. Anchor tenant lease terms for the other owned centers are shown in the following table:

Location	Anchor Tenant (1)	Square Footage	Lease Expiration Date	Options to Renew
Jackson, MI	Big Lots	26,022	2007	2 for 5 years each
	Kroger	63,024	2021	6 for 5 years each
North Ft. Myers, FL	AMC	54,805	2016	4 for 5 years each
	Beall s	35,600	2009	9 for 5 years each
	Kash n Karry	33,000	2013	4 for 5 years each
	Jo-Ann Fabrics	16,000	2004	3 for 5 years each
	Kmart	107,806	2018	10 For 5 years each
Cincinnati, OH	Kroger (2)	42,456	2005	3 For 5 years each
	Harbor Freight Tools	13,500	2010	2 For 5 years each
Jacksonville, FL	Publix (3)	85,560	2010	6 For 5 years each
	Office Depot	22,692	2008	2 For 5 years each

(1) A tenant is considered to be an Anchor Tenant if it leases 12,000 square feet or more for an initial lease term in excess of five years.

(2) Tenant has vacated the premises, but remains responsible for lease payments until the expiration date.

(3) Tenant has subleased the premises to Floor and Decor Outlets, but remains responsible for lease payments until the expiration date.

With the exception of the Kmart lease in Columbus, Georgia, and the Harbor Freight Tools lease in Cincinnati, Ohio, all of the anchor tenant and many of the small shop leases provide for contingent rentals if sales exceed specified amounts. In fiscal 2003, the Company recognized $89,782 in contingent rentals, net of offsets, which amounts are included in the aggregate rentals set forth above.

Typically, tenants are responsible for their pro rata share of ad valorem taxes, insurance and common area maintenance (subject to the right of offset mentioned above). Kmart has total maintenance responsibility for the centers in Morton, Illinois, and Columbus, Georgia.

OFFICE BUILDINGS

The Company, through its Real Estate Segment, owns two office properties: the corporate headquarters building located at 1945 The Exchange, in suburban Atlanta, Georgia, and an office park in suburban Atlanta, Georgia. The following chart provides pertinent information relating to the office buildings:

Location	Acres	Leasable Square Feet in Building(s)	Percentage of Square Footage Leased as of April 30, 2003	Calendar Year(s) Placed in Service by Company	Rental Income 2003	Rental Income Per Leased Square Foot 2003 (1)	EBITDA 2003 (2)	Debt Service Payments 2003 (3)	Principal Amount of Debt Outstanding as of April 30, 2003
1945 The Exchange Atlanta, GA (4)	3.12	65,880	90%	1997	$1,126,983	$19.01	$647,691	$435,285	$4,856,088
1501-1523 Johnson Ferry Rd.	8.82	121,476	65	1997	1,539,601	19.50	897,630	538,925	6,138,567

Marietta, GA
(5)

(1) Calculated by dividing rental income by leased square feet in building, as of April 30, 2003.

(2) EBITDA is defined as earnings (loss) before the following: interest, income taxes, depreciation, and amortization of loan and lease costs. See table following in this ITEM 2. PROPERTIES, which reconciles earnings (loss) before income taxes from continuing operations to EBITDA.

(3) Includes principal and interest.

(4) Corporate headquarters building of which the Parent Company, Real Estate Segment, and Construction Segment lease approximately 25,928 square feet. Rental income and cash flow includes intercompany rent at a competitive rate of $471,842 paid by the Parent Company, Real Estate and the Construction Segment. See ITEM 7. LIQUIDITY AND CAPITAL RESOURCES for additional discussion regarding new financing. Originally developed by others in 1974 and acquired and re-developed by the Company in 1997.

(5) The Company, through a subsidiary of its Real Estate Segment, is the lessee of 10,661 square feet of space under a master lease agreement to satisfy a condition required by the lender, of which 5,445 square feet has been leased to third parties as of April 30, 2003. Rental income and cash flow include intercompany rent at a competitive rate of $154,528 paid by the Real Estate Segment. The building was originally developed by others in 1980 and 1985.

Earnings (loss) before interest, taxes, depreciation, and amortization of loan and lease costs (EBITDA) is not a measure of performance defined in accordance with accounting principles generally accepted in the United States of America (GAAP). However, management believes that EBITDA is useful to investors and management in evaluating performance because it is a commonly used financial analysis tool for measuring and comparing individual properties in the area of operating performance. EBITDA should not be considered as an alternative to earnings (loss) before income taxes as an indicator of the Company s performance or as an alternative to net cash provided by operating activities as a measure of liquidity and may not be comparable to similarly titled measures used by other companies. The following table reconciles earnings (loss) before income taxes from continuing operations under GAAP to EBITDA presented in the owned shopping center and owned office tables above:

Table of Contents

	OWNED SHOPPING CENTERS						OWNED OFFICE	
	Jackson, Michigan	Morton, Illinois	Columbus, Georgia	N. Ft. Myers, Florida	Cincinnati, Ohio	Jacksonville, Florida	Atlanta, Georgia	Marietta, Georgia
Earnings (loss) before income taxes from continuing operations	$ 61,635	$ 95,607	$131,564	$ 747,949	$281,115	$ (9,581)	$ 51,392	$ 88,531
Add:								
Depreciation	52,648	125,151	104,300	616,110	50,493	143,684	201,216	278,764
Amortization	16,327	7,236	29,037	18,255	6,945	20,267	55,980	65,985
Interest expense	243,480	239,858	129,900	589,489		942,072	339,103	464,350
EBITDA	$374,090	$467,852	$394,801	$1,971,803	$338,553	$1,096,442	$647,691	$897,630

LEASEBACK SHOPPING CENTERS

The Company, through its Real Estate Segment, has a leasehold interest in seven shopping centers that it developed, sold, and leased back under leases expiring from years 2004 to 2014. The centers are 100% subleased by the Company to Kmart Corporation, and the Company has the ability to lease the properties for periods corresponding with the Kmart subleases. (See previous discussion regarding Kmart in this ITEM 2. above.) The Kmart subleases provide for contingent rentals if sales exceed specified amounts, and contain ten five-year renewal options, except Jacksonville, Florida, which has eight five-year renewal options, and Bayonet Point, Florida, and Orange Park, Florida, and Davenport, Iowa, all of which have nine five-year renewal options. The Company s leases with the fee owners contain renewal options coextensive with Kmart s renewal options.

Kmart is responsible for insurance and ad valorem taxes, but has the right to offset against contingent rentals any such taxes paid in excess of specified amounts. In fiscal 2003, the Company recognized $96,411 in contingent rentals, net of offsets, which amounts are included in the aggregate annual rentals set forth below. The Company has responsibility for structural and roof maintenance of the buildings. The Company also has responsibility for underground utilities, parking lots and driveways, except routine upkeep, which is the responsibility of the subtenant, Kmart. The Company s leases contain exculpatory provisions, which limit the Company s liability for payments to its interest in the respective leases.

The following chart provides certain information relating to the leaseback shopping centers:

Location	Acres	Square Feet in Building(s)	Calendar Years Placed in Service by Company	Rental Income 2003	Rental Income Per Square Foot 2003 (1)	Rent Expense 2003
Bayonet Point, FL	10.8	109,340	1976,1994	$365,788	$ 3.35	$269,564
Orange Park, FL	9.4	84,180	1976	264,000	3.14	226,796
Davenport, IA	10.0	84,180	1977	255,308	3.03	204,645
Minneapolis, MN	7.1	84,180	1978	383,543	4.56	238,637
Ft. Smith, AR	9.2	106,141	1979,1994	255,350	2.41	223,195
Jacksonville, FL	11.6	97,032	1979	303,419	3.13	258,855

Richfield, MN	5.7	74,217	1979	300,274	4.05	241,904

(1) Calculated by dividing rental income by square feet in building.

REAL ESTATE LEASED OR HELD FOR FUTURE DEVELOPMENT OR SALE

The Company, through its Real Estate Segment, owns or has an interest in the following real estate leased or held for future development or sale:

Location	**Acres**	**Calendar Year Development Completed**	**Intended Use (1)**
Dixie Highway Louisville, KY	4.7	1979	Food store and/or retail shops
West 15th Street Washington, NC (2)	1.4	1979	Two outlots
Mundy Mill Road Oakwood, GA	5.3	1987	Commercial development pad or up to four outlots
North Cleveland Avenue North Ft. Myers, FL	11.6	1993	Five outlots, anchor pads and retail shops
Metropolitan Parkway Atlanta, GA (3)	3.6	(3)	Warehouse, industrial or commercial building

(1) Outlot as used herein refers to a small parcel of land platted separately from the shopping center parcel, which is generally sold for, leased for, or developed as, a fast-food restaurant, bank, or similar use.

(2) Leased under leases terminating in years 2005 and 2010 with a right to extend the term for three additional five-year periods. One outlot is subleased for terms coextensive with the Company s lease. The second outlot was subleased to Kmart, but was rejected during fiscal 2003 under Kmart s Chapter 11 bankruptcy plan of reorganization. The Company has offered to relinquish its interest in this outlot to the landlord, and is no longer making payments under the lease. The landlord has filed a complaint in small claims court seeking only possession of the property.

(3) Land and building, originally utilized by the Company as its metal manufacturing facility; owned by AFC Real Estate, Inc., formerly known as Abrams Fixture Corporation. The Company assembled the property in a series of transactions. The building was developed by others prior to 1960.

An outlot located in Jackson, Michigan, and an outlot and anchor store pads located in Davenport, Iowa, were all sold at a gain during fiscal 2003. These properties are not included above.

There is no debt on any of the above properties, except for the anchor pads and retail shop land in North Ft. Myers, Florida. See Note 8 to the consolidated financial statements of the Company. The Company will either develop the properties described above or will continue to hold them for sale or lease to others.

For further information on the Company s properties see Notes 3, 5, 7, 8 and 16 to the consolidated financial statements and SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION.

ITEM 3 **LEGAL PROCEEDINGS**

On July 7, 2003, the Company announced that an internal investigation, which was conducted by the Company s legal counsel at the request of senior management, had revealed information suggesting that behavior in violation of Federal antitrust laws may have taken place in a certain job bidding process for one customer of the Company s subsidiary, Abrams Construction, Inc. The results of this investigation were reported to the Board of Directors of the Company on June 9, 2003. The Company has also voluntarily communicated the results of its investigation to the United States Department of Justice (DOJ) and is fully cooperating in the subsequent inquiry that has resulted. The DOJ, on July 1, 2003, issued a conditional letter of amnesty to the Company and its subsidiaries for their cooperation in recognizing and then immediately reporting the irregularities. The Company believes, based on its internal investigation, that the specific improprieties were confined to a bidding process for The Home Depot, Inc. (Home Depot), its largest customer. At this time, the Company has no reason to believe that any other customers were affected. The Company has also communicated its concerns about the job bidding process to Home Depot. The Company has conducted extensive additional training of all employees and is implementing additional procedures to prevent a recurrence of this behavior.

The Company estimates the costs associated with this matter, including the Company s internal investigation and its ongoing cooperation with the DOJ, are expected to approximate $750,000 in the current fiscal year ending April 30, 2004. Such cost estimates, however, are particularly difficult to make with any precision, and as a result the actual costs may be lower or higher than this amount. To date, no third party has made, or threatened to make, any claim in connection with this matter. It is possible, however, that claims could be made as a result of this situation.

On December 18, 2002, ASK Financial, counsel for Montgomery Ward, LLC (Ward), filed a complaint in Bankruptcy Court in Delaware to recover approximately $1.84 million in alleged preference payments made by Ward to the Company s subsidiary, Abrams Construction, Inc. (ACI), prior to Ward s Chapter 11 bankruptcy filing on December 28, 2000. Under federal bankruptcy law, a bankrupt debtor-in-possession can sue to recover preferential payments made to the creditors of the bankrupt debtor-in-possession during the 90-day period preceding the filing for bankruptcy protection, subject to certain defenses, including payments made in the ordinary course of business. The Company believes that it has meritorious defenses to the action, and intends to continue to vigorously defend against the claim.

On September 20, 2002, the Company s subsidiary, Abrams Properties, Inc. (API), filed a claim in the Superior Court of Cobb County, Georgia, against API s former real estate asset manager. The defendant subsequently made a demand against API for arbitration and filed a counterclaim. During the third quarter of fiscal 2003, the Cobb County Superior Court denied the defendant s demand for arbitration, but in July 2003, this decision was reversed by the Georgia Court of Appeals. The Company intends to seek appellate review of this most recent decision. The dispute arises out of the defendant s former provision of real estate asset management services to API. The Company believes API s counter claims against its former asset manager and its defenses to the manager s claims are meritorious and intends to continue to vigorously pursue its claims and assert its defenses.

Other than the costs of the Company s internal investigation and ongoing cooperation associated with the DOJ, the Company believes the ultimate disposition of the above noted legal proceedings and claims or potential claims will not have a material adverse affect on the financial condition, cash flows, or results of operations of the Company; however, the Company cannot predict the ultimate disposition of the above noted claims, potential claims and proceedings, and therefore, the Company cannot be certain that the above noted legal proceedings and claims or potential claims will not have a material adverse affect on the financial condition, cash flows, or results of operations of the Company.

ITEM 4 **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

Table of Contents

PART II

ITEM 5 **MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS**

	CLOSING MARKET PRICES				DIVIDENDS PAID PER SHARE	
	FISCAL 2003		FISCAL 2002		FISCAL 2003	FISCAL 2002
	HIGH TRADE	LOW TRADE	HIGH TRADE	LOW TRADE		
First Quarter	$5.310	$4.600	$4.240	$3.400	$.040	$ .040
Second Quarter	4.840	3.370	4.200	3.800	.040	.040
Third Quarter	4.580	3.470	3.900	3.630	.040	.040
Fourth Quarter	4.100	3.750	5.310	3.650	.040	.040

The common stock of Abrams Industries, Inc. is traded on the NASDAQ National Market System (Symbol: ABRI). The approximate number of holders of common stock was 465 (including shareholders of record and shares held in street name) at May 31, 2003.

The information contained under the heading Equity Compensation Plan in the Company s definitive proxy materials for its 2003 Annual Meeting of Shareholders will be filed with the Securities and Exchange Commission under a separate filing, and is hereby incorporated by reference.

ITEM 6 **SELECTED FINANCIAL DATA**

The following table sets forth selected financial data for the Company and should be read in conjunction with the consolidated financial statements and the notes thereto:

Year Ended April 30,	2003	2002	2001	2000	1999
Net Earnings (Loss) (1)	$ (1,073,524)	$ 811,774	$ 676,172	$ (456,605)	$ (676,031)
Net Earnings (Loss) Per Share (1)	$ (.37)	$ .28	$ .23	$ (.16)	$ (.23)
Consolidated Revenues - Continuing Operations	$74,135,347	$115,627,822	$152,622,433	$172,654,127	$170,232,540
Net Earnings (Loss) - Continuing Operations	$ (1,694,481)	$ (1,053,271)	$ 322,066	$ 2,301,833	$ (53,455)
Net Earnings (Loss) Per Share - Continuing Operations	$ (.58)	$ (.36)	$ .11	$ .78	$ (.02)
Shares Outstanding at Year-End	2,914,351	2,909,079	2,943,303	2,936,356	2,936,356
Cash Dividends Paid Per Share	$ .16	$ .16	$ .16	$ .16	$ .20
Shareholders Equity	$21,257,952	$ 22,778,876	$ 22,505,543	$ 22,346,138	$ 23,272,560
Shareholders Equity Per Share	$ 7.29	$ 7.83	$ 7.65	$ 7.61	$ 7.93
Working Capital	$ 7,638,091	$ 9,875,096	$ 11,442,348	$ 10,820,179	$ 9,885,902
Depreciation and Amortization Expense - Continuing Operations	$ 2,326,517	$ 3,164,886	$ 2,495,327	$ 2,710,729	$ 2,343,838
Total Assets	$73,797,098	$ 91,784,369	$ 97,619,685	$102,845,867	$126,132,540
Income-Producing Properties and Property and Equipment, net (2)	$43,650,850	$ 45,188,295	$ 28,134,764	$ 61,456,455	$ 64,680,003
Long-Term Debt	$33,523,314	$ 35,163,492	$ 50,180,619	$ 51,929,637	$ 56,554,488
Interest Rate Sensitive Debt (3)	$11,351,353	$ 16,916,652	$ 17,941,479	$ 18,302,855	$ 38,032,872

Return on Average Shareholders Equity - Continuing Operations	(7.7)%	(4.7)%	1.4%	10.1%	(.2)%
Return on Average Shareholders Equity (1)	(4.9)%	3.6%	3.0%	(2.0)%	(2.8)%

(1) Includes continuing operations, discontinued operations, and extraordinary items, if any.

(2) Does not include property held for sale or real estate held for future development or sale.

(3) Includes short-term and long-term debt.

Table of Contents

ITEM 7 **MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR FISCAL YEARS ENDED APRIL 30, 2003, 2002 AND 2001.**

RESULTS OF OPERATIONS

REVENUES

Revenues from continuing operations for 2003 were $74,135,347, compared to $115,627,822 and $152,622,433, for 2002 and 2001, respectively. This represents decreases in revenues of 36% in 2003, and 24% in 2002. Revenues include interest income of $55,317, $171,137, and $461,493, for 2003, 2002, and 2001, respectively, and other income of $65,172, $90,418, and $51,030, for 2003, 2002, and 2001, respectively. The figures in Chart A below, however, do not include interest income, other income or intersegment revenues. When more than one segment is involved, revenues are reported by the segment that sells the product or service to an unaffiliated purchaser.

REVENUES FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT

CHART A

(Dollars in Thousands)

	Years Ended April 30,		**(Decrease)**		**Years Ended April 30,**		**Increase (Decrease)**	
	2003	**2002**	**Amount**	**Percent**	**2002**	**2001**	**Amount**	**Percent**
Construction (1)	$59,528	$100,688	$(41,160)	(41)	$100,688	$141,118	$(40,430)	(29)
Real Estate (2)	11,587	11,684	(97)	(1)	11,684	10,992	692	6
Energy Management (3)	2,900	2,995	(95)	(3)	2,995		2,995	
Total	$74,015	$115,367	$(41,352)	(36)	$115,367	$152,110	$(36,743)	(24)

NOTES:

(1) Revenues decreased for 2003 compared to 2002 and 2002 compared to 2001 primarily due to: (a) the Company s ongoing election to reduce revenue volume rather than continuing to bid at prices that offered the Company unacceptable levels of potential profitability on a number of jobs for the Company s largest customer (revenues from this customer decreased by approximately $22.2 million in 2003 compared to 2002, and $35.7 million in 2002 compared to 2001); and (b) a limited number of construction jobs available in a very competitive marketplace, which is a result of a weakness in capital spending by many retail companies. A significant portion of 2003 revenues were from jobs the Company would not bid today based on its current profitability criteria. In fiscal 2003, the Company increased its new business development efforts, in order to identify customers and contracts that place more value on the Company s high quality and high service approach, and is exploring different commercial market sectors for potential opportunities to broaden and increase construction segment revenues. The Company has seen no indication that the possible construction job bidding improprieties described in ITEM 3. LEGAL PROCEEDINGS will negatively impact the Company s ability to achieve future potential revenues.

(2) Rental revenues for 2003 were $10,727,247, compared to $11,218,516 in 2002, and $10,991,599 in 2001. Rental revenues exclude intercompany rents of $449,549 in 2003, $461,818 in 2002, and $388,960 in 2001, which amounts were received from the Company s other segments. Revenues from sales of real estate were $859,561 in 2003, resulting from the sale of an outparcel in Jackson, Michigan, and an outparcel and an anchor store pad in Davenport, Iowa, and $465,000 in 2002, resulting from the sale of an outlot in North Ft. Myers, Florida. There were no sales of real estate in 2001. The Company reviews its real estate portfolio on an ongoing basis, and places a property on the market for sale when it believes it is in its best interests to do so. In addition, a property may be marketed in one fiscal year, but a potential sale may not close until a subsequent year, due to market conditions or individually negotiated contract terms. Sales of real estate, which may have a material impact on the Company s net earnings, do not occur every year, and the Company cannot predict the timing of any such sales.

(3) The Energy Management Segment was formed in May 2001.

COST AND EXPENSES: APPLICABLE TO REVENUES

As a percentage of total segment revenues (See Chart A), the applicable total segment costs and expenses (See Chart B) of $65,881,110 for 2003, $106,619,741 for 2002, and $138,365,211 for 2001, were 89%, 92%, and 91%, respectively.

Table of Contents

COSTS AND EXPENSES:APPLICABLE TO REVENUES FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT

CHART B

(Dollars in Thousands)

	Years Ended April 30,			**Percent of Segment Revenues For Years Ended April 30,**		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
Construction (1)	$57,279	$ 97,150	$131,821	96	96	93
Real Estate (2)	7,029	7,710	6,544	61	66	60
Energy Management (3)	1,573	1,760		54	59	
Total	$65,881	$106,620	$138,365	89	92	91

NOTES:

(1) The increase in the percentage of costs and expenses applicable to revenues from continuing operations for 2002 compared to 2001 is primarily attributable to an oversupply of contractors that began in 2002 in the Company s marketplace, and the resulting competitive pressure on margins, which are the result of a weakness in capital spending in the retail industry. The Company also has exposure to increased costs for many reasons beyond its immediate control, including, but not limited to, unexpected costs, delays due to weather, or an individual customer s scheduling adjustments. Therefore, the Company cannot predict whether or how long the percentages reflected above will continue at the current levels.

(2) The decrease in the dollar amount and percentage of costs and expenses applicable to revenues from continuing operations for 2003 compared to 2002 is primarily attributable to: (a) lower cost of real estate sold of approximately $110,000; (b) a decrease in lease costs of approximately $380,000 due to the cancellation of Kmart subleases; (c) a decrease in depreciation expense of approximately $217,000; and (d) a decrease in management fees of approximately $217,000 paid to an outside asset manager that only served for a partial year in 2003; offset by (e) an increase in common area operating expenses of approximately $233,000, primarily due to parking lot repairs. The increase in the dollar amount and percentage of costs and expenses applicable to revenues from continuing operations for 2002 compared to 2001 is primarily attributable to: (a) the cost of real estate sold in 2002 of approximately $406,000; (b) an increase in management fees of approximately $283,000 paid to an outside asset manager that only served for a partial year in 2001; and (c) an increase in depreciation expense of approximately $116,000 on the Company s North Ft. Myers, Florida, shopping center, which was not depreciated during the fourth quarter of 2001 as it was held for sale. During the fourth quarter of 2002, the center was removed from the market and reclassified to income-producing property, resulting in recapture of the depreciation not taken in 2001.

(3) The decrease in the dollar amount and percentage of costs and expenses applicable to revenues for 2003 compared to 2002 is primarily a result of a change in the mix of services and products sold. The Energy Management Segment was formed in May 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

For the years 2003, 2002, and 2001, selling, general and administrative expenses (See Chart C) were $8,046,676, $7,540,071, and $9,857,847, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 11%, 7%, and 6% in 2003, 2002, and 2001, respectively. In reviewing Chart C, the reader should recognize that the volume of revenues generally affects these amounts and percentages. The percentages in Chart C are based on expenses as they relate to segment revenues in Chart A, with the exception that parent expenses and total expenses relate to consolidated revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT

CHART C

(Dollars in Thousands)

	Years Ended April 30,			Percent of Segment Revenues For Years Ended April 30,		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
Construction (1)	$2,426	$3,092	$6,054	4	3	4
Real Estate (2)	844	497	1,096	7	4	10
Energy Management (3)	1,795	1,360		62	45	
Parent (4)	2,982	2,591	2,708	4	2	2
Total	$8,047	$7,540	$9,858	11	7	6

NOTES:

(1) On a dollar basis, selling, general and administrative expenses were lower for 2003 compared to 2002, due to: (a) a $450,000 reduction in an allowance for doubtful accounts reserve for a receivable from Montgomery Ward & Company; and (b) a reduction in personnel and incentive compensation costs of approximately $278,000; offset by (c) an increase in information technology costs of approximately $122,000. On a dollar basis comparison, the decrease in expenses in 2002 compared to 2001 was primarily due to: (a) a decrease in incentive compensation costs of approximately $1,598,000, which are based on segment earnings; (b) a decrease in the number of personnel; and (c) the expense charge in 2001 of approximately $918,000 for an allowance for doubtful accounts reserve related to a receivable from Montgomery Ward, which had filed for bankruptcy protection.

(2) On a dollar and percentage basis, selling, general and administrative expenses were higher for 2003 compared to 2002, primarily due to (a) increased legal and professional fees of approximately $201,000 largely attributable to: Kmart s bankruptcy; a legal dispute with the Company s former asset manager; and the employment of an outside consultant to assist in asset management; and (b) increased personnel and staffing costs of approximately $149,000 due to the Company s reversion to internal asset management. On a dollar and percentage basis comparison, the decrease in expenses in 2002 as compared to 2001 resulted primarily from a decrease in personnel costs in connection with the Company s outsourcing of its asset management activities, which began in January 2001.

(3) On a dollar and percentage basis, selling, general and administrative expenses were higher for 2003 compared to 2002, primarily due to an increase in the number of personnel and other personnel costs and consulting fees. The Energy Management Segment was formed in May 2001.

(4) On a dollar and percentage basis, selling, general and administrative expenses were higher for 2003 compared to 2002, primarily due to the accrual of an expense of $484,000 related to a retirement agreement, which replaced a previous employment agreement of a former officer and director of the Company. See Note 17 to the consolidated financial statements.

INTEREST COSTS

Most of the interest costs expensed of $2,967,042, $3,227,253, and $3,866,644, in 2003, 2002, and 2001, respectively, is related to debt on real estate. Interest costs decreased in 2003 and 2002 primarily due to a decrease in interest rates on the Company s variable rate debt. There was no capitalized interest in any of the years presented.

FINANCIAL CONDITION AND CHANGES IN FINANCIAL CONDITION

Assets of discontinued operations decreased by $12,423,795 in 2003, due to the sale in June 2002 of the Company s shopping center located in Englewood, Florida. See ITEM 2. PROPERTIES.

Current maturities of long-term debt decreased by $70,462, and mortgage notes payable increased by $3,715,022, primarily due to the refinancing of the corporate headquarters building in Atlanta, Georgia. The prior acquisition and construction loan in the amount of $4,279,361 was previously classified as other long- term debt, and $317,322 was included in current maturities of long-term debt at April 30, 2002.

Liabilities of discontinued operations decreased by $11,977,452, primarily due to the repayment of the debt upon the Company s sale of the shopping center located in Englewood, Florida.

LIQUIDITY AND CAPITAL RESOURCES

Except for certain real estate construction loans and occasional short-term operating loans, the Company has been able to finance its working capital needs through funds generated internally. If adequate funds are not generated through normal operations or the sale of income producing properties, the Company has available bank lines of credit. See Note 8 to the consolidated financial statements. Working capital was $7,638,091 at April 30, 2003, compared to $9,875,096 at April 30, 2002. Operating activities used cash of $1,816,199, which primarily consisted of a decrease in trade and subcontractors payable. Investing activities provided cash of $200,237. Financing activities used cash of $2,204,904, primarily for scheduled principal payments of mortgage notes and other long-term debt. Discontinued operations provided cash of $1,067,300, primarily from the sale of the Company s shopping center located in Englewood, Florida.

In 1992, the Company secured a construction loan for the property in North Ft. Myers, Florida, from SunTrust Bank. The original term of the construction financing was five years, and the loan most recently was extended to August 2004, in accordance with the loan agreement, as amended. The loan carries a floating interest rate of prime plus .375%. As of April 30, 2003, the principal amount outstanding was $11,351,353. The Company is currently considering selling the property. Although the Company has regularly received extensions on the SunTrust loan, there can be no assurance it will be able to continue to do so; and, there can be no assurance that sufficient proceeds from any sale or refinancing of the property would be available to pay off the loan on or before its maturity.

In 1997, the Company obtained a permanent mortgage loan of $3,500,000 on its shopping center in Jackson, Michigan. The loan had an original term of 22 years and bears interest at 8.625%. Certain provisions of the loan, as most recently amended in April 2003, require the establishment of a $500,000 letter of credit, which is to be used to pay down the loan in October 2003 if certain leasing requirements are not met. As these requirements had not yet been met as of April 30, 2003, the Company has classified $500,000 as current maturities of long-term debt.

In 1999, in connection with the financing of the purchase of the Company s shopping center in Jacksonville, Florida, the Company obtained a permanent mortgage loan in the amount of $9,500,000, which is secured by the center. The loan bears interest at 7.375% and is scheduled to be fully amortized over twenty years. The loan matures in 2019, but the lender has the right to call the loan at any time after September 1, 2002, upon thirteen months notice. If the loan were called, the Company would have up to thirteen months to repay the principal amount of the loan without penalty, by selling or refinancing the loan on the shopping center. There can be no assurance that the property could be refinanced or sold, and that sufficient proceeds would be realized during the time allowed to pay off this loan. However, the Company s liability for repayment is limited to its interest in the center. In conjunction with the loan, an Additional

Interest Agreement was executed, which entitles the lender to be paid additional interest equal to fifty percent of the quarterly net cash flow and fifty percent of the appreciation in the property upon sale or refinance. The liability related to the lender s fifty percent share of the appreciation in the property was $2,721,448 at April 30, 2003. The mortgage debt and related unamortized loan discount was $8,600,058 and $1,732,647, respectively, at April 30, 2003.

In October 1999, the Georgia World Congress Center Authority acquired the Company s former wood manufacturing facility located in Atlanta, Georgia, for approximately $4.5 million. For income tax purposes, the company treated this transaction as an involuntary conversion under Section 1033 of the Internal Revenue Code, which allows for the tax deferral on the gain if the Company acquires a qualified replacement property by April 30, 2004. The Company intends to acquire such property, primarily through the use of debt financing, by April 30, 2004. There can be no assurance, however, that such acquisition will take place. If a qualified replacement property were not acquired by April 30, 2004, the Company would be required to pay the deferred taxes of approximately $1.15 million, which are classified as a long-term liability on the Company s consolidated balance sheets at April 30, 2003, and April 30, 2002.

In fiscal 2000, the Company s Board of Directors authorized the repurchase of up to 200,000 shares of Common Stock during the twelve-month period beginning February 25, 2000, and ending February 24, 2001. In February 2001, 2002, and 2003, the Company s Board authorized additional repurchases of up to 200,000 shares of the Company Stock in each of the subsequent twelve-month periods, the most recent to end on March 4, 2004. Any such purchases, if made, could be in the open market at prevailing prices or in privately negotiated transactions. During fiscal 2003, the Company repurchased a total of 128 shares at a cost of $470. The Company financed the purchases with available cash and expects any future purchases would be made with available cash. The Company did not purchase any shares in the period between May 1, 2003, and June 30, 2003.

In May 2001, the Company acquired substantially all of the assets of an energy engineering and maintenance management company, Servidyne Systems, Inc., and some intellectual and other intangible property assets of its affiliated company, Servidyne, Incorporated. The Company used available cash to purchase the assets for approximately $3.1 million, including the costs associated with completing the transaction.

In July 2002, the Company refinanced the loan on its corporate headquarters building in Atlanta, Georgia, which loan had a balance of $4,596,683 as of April 30, 2002. The new permanent loan, in the original principal amount of $4,900,000, bears interest at 7.75%, is due August 2012, and is to be amortized on a twenty-five year schedule. In conjunction with the refinancing of the loan, the Company is required to provide for potential future tenant improvement expenses and lease commissions through additional collateral, in the form of a letter of credit, in the amount of $150,000 for each of the first three loan years, $300,000 during the fourth, fifth, and sixth loan years, and $450,000 during the seventh, eighth, ninth, and tenth loan years. The $150,000 letter of credit is secured by a bank line of credit.

In April 2003, the Company leased (subject to approval by a co-tenant, which approval has not yet been granted) 8,000 square feet of space in its Jackson, Michigan shopping center. In fiscal 2004, the Company plans to invest approximately $800,000 of its available cash to complete the build-out of this space, and an additional 13,000 square feet of adjacent shop space. The Company also plans to market this center for sale during fiscal 2004.

Effective April 30, 2003, the Company terminated an employment agreement and entered into a new retirement agreement with a former officer and director of the Company. Beginning May 1, 2003, the new agreement requires the Company to pay a retirement benefit of approximately $87,000 through August 19, 2003, and approximately $100,000 per year thereafter for a term of four years, ending on August 19, 2007. In addition, the Company will also continue to provide medical insurance benefits through the term of the retirement agreement. The new agreement accelerated the exercise date of the retiree s stock options and provided that such options expire no later than August 19, 2004. The retirement agreement would terminate early, in the event of the death of the retiree.

Assuming a discount rate of 5.25%, the Company has accrued the net present value expense of $484,000 related to the retirement agreement, which is included in selling, general and administrative expenses in the accompanying statement of operations for fiscal 2003. As of April 30, 2003, $162,000 is included in accrued expenses and $322,000 is included in other long-term liabilities in the accompanying balance sheet.

The Company estimates the costs associated with the U.S. Department of Justice investigation described under ITEM 3. LEGAL PROCEEDINGS, including the Company s internal investigation and its ongoing cooperation with the Justice Department, are expected to approximate $750,000 in the current fiscal year ending April 30, 2004. Such cost estimates, however, are particularly difficult to make with any precision, and as a result the actual costs may be lower or higher than this amount.

The Company s other commitments primarily include operating leases for its leaseback shopping centers and land leased for future development as described in ITEM 2. PROPERTIES. The Company has no long-term commitments to purchase building materials or other supplies.

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

EFFECTS OF INFLATION ON REVENUES AND OPERATING PROFITS

The effects of inflation upon the Company s operating results are varied. Inflation in recent years has been modest and has had minimal effect on the Company. The Construction Segment subcontracts most of its work at fixed prices, which normally will help that segment protect its profit margin from any erosion due to inflation.

In the Real Estate Segment, many of the anchor tenant leases are long-term (original terms over 20 years), with fixed rents, except for some leases with contingent rent provisions by which the Company may earn additional rent as a result of increases in tenants sales. In many cases, however, the contingent rent provisions permit the anchor tenant to offset against contingent rents any increases in ad valorem taxes over a specified amount. If

inflation were to rise, ad valorem taxes would probably increase as well, which, in turn, could cause a decrease in the contingent rents. Furthermore, the Company has certain repair obligations, and the costs of repairs generally increase with inflation.

The Energy Management Segment generally has contracts that renew on an annual basis. At the time of renewal, contract fees may be adjusted, subject to customer approval. As inflation impacts the Company s costs, primarily labor, the Company could seek a price increase for its contracts in order to protect its profit margin.

Inflation causes interest rates to rise, which has a positive effect on investment income, but could have a negative effect on profit margins, because of the increased costs of contracts and the increase in interest expense on variable rate loans. Overall, inflation could tend to limit the Company s markets, and in turn, could reduce revenues as well as operating profits and earnings.

CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one which is both important to the portrayal of a Company s financial position and results of operations, and requires the Company to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, the Company has made its best estimates and used its best judgments regarding certain amounts included in the financial statements, giving due consideration to materiality. The application of these accounting policies involves the exercise of judgment and the use of assumptions regarding future uncertainties, and as a result, actual results could differ from those estimates. Management believes that the Company s most critical accounting policies are discussed and described in Note 2 to the consolidated financial statements, and include:

Revenue recognition

Construction 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 based on the Company s historical experience. 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.

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. Tenants may also be required to pay additional rental amounts based on property operating expenses. In addition, certain tenants are required to pay incremental rental amounts, which are conting