SERVIDYNE, INC.
Form 10-Q
September 14, 2007

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**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

**FORM 10-Q**
**QUARTERLY REPORT**

**Pursuant to Section 13 or 15(d) of**
**the Securities Exchange Act of 1934**
**For the quarter ended July 31, 2007**
**Commission file number 0-10146**
**SERVIDYNE, INC.**
(Exact name of registrant as specified in its charter)

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

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

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

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated Filer o Non-accelerated filer þ

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

Yes o No þ

The number of shares of $1.00 par value Common Stock of the Registrant outstanding as of August 31, 2007, was 3,529,370.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**SERVIDYNE, INC.**

CONSOLIDATED BALANCE SHEETS

| | (UNAUDITED) **July 31, 2007** | April 30, 2007 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | **$ 3,999,755** | $ 5,662,894 |
| Receivables (Note 4) | **3,549,224** | 2,229,813 |
| Less: Allowance for doubtful accounts | **(14,713)** | (14,713) |
| Costs and earnings in excess of billings | **1,114,472** | 265,540 |
| Deferred income taxes | **706,800** | 443,030 |
| Other | **1,303,018** | 1,623,535 |
| Total current assets | **10,658,556** | 10,210,099 |
| INCOME-PRODUCING PROPERTIES, net | **28,979,054** | 29,090,789 |
| ASSETS OF DISCONTINUED OPERATIONS (Notes 5 and 9) | | 2,898,275 |
| PROPERTY AND EQUIPMENT, net | **829,892** | 838,886 |
| RESTRICTED CASH (Note 9) | **6,462,743** | |
| OTHER ASSETS: | | |
| Real estate held for future development or sale | **1,124,850** | 1,124,850 |
| Intangible assets, net (Note 8) | **3,782,284** | 3,919,455 |
| Goodwill (Note 8) | **5,458,717** | 5,458,717 |
| Other | **3,109,132** | 3,852,350 |
| Total assets | **$ 60,405,228** | $ 57,393,421 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade and subcontractors payables | **$ 867,063** | $ 635,308 |
| Accrued expenses | **2,240,415** | 2,011,711 |
| Accrued incentive compensation | **577,500** | 584,416 |
| Liabilities of discontinued operations (Note 5) | | 32,559 |
| Billings in excess of costs and earnings | **351,917** | 219,305 |
| Current maturities of long-term debt | **885,282** | 1,002,718 |
| Total current liabilities | **4,922,177** | 4,486,017 |
| DEFERRED INCOME TAXES | **5,357,760** | 4,233,498 |
| OTHER LIABILITIES | **1,549,789** | 2,074,954 |
| LIABILITIES OF DISCONTINUED OPERATIONS (Note 5) | | 375,776 |
| MORTGAGE NOTES PAYABLE, less current maturities (Note 10) | **24,486,035** | 23,587,965 |
| OTHER LONG-TERM DEBT, less current maturities | **1,167,500** | 1,175,000 |

| | | |
|---|---|---|
| Total liabilities | **37,483,261** | 35,933,210 |
| COMMITMENTS AND CONTINGENCIES (Note 11) | | |
| SHAREHOLDERS EQUITY: | | |
| Common stock, $1 par value; 5,000,000 shares authorized; 3,697,636 issued and 3,529,370 outstanding at July 31, 2007 3,695,336 issued and 3,527,070 outstanding at April 30, 2007 | **3,697,636** | 3,695,336 |
| Additional paid-in capital | **4,903,435** | 4,875,160 |
| Retained earnings | **15,115,960** | 13,684,779 |
| Treasury stock (common shares) 168,266 at July 31, 2007, and 168,266 at April 30, 2007 | **(795,064)** | (795,064) |
| Total shareholders equity | **22,921,967** | 21,460,211 |
| Total liabilities and shareholders equity | **$ 60,405,228** | $ 57,393,421 |

*See accompanying notes to consolidated financial statements.*

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

| | FIRST QUARTER ENDED JULY 31, | |
|---|---|---|
| | **2007** | 2006 |
| REVENUES: | | |
| BPE services | **$ 4,766,392** | $ 2,615,415 |
| Rental income | **2,907,387** | 1,299,015 |
| | **7,673,779** | 3,914,430 |
| Interest | **12,884** | 93,657 |
| Other | **69,617** | 65,048 |
| | **7,756,280** | 4,073,135 |
| COSTS AND EXPENSES: | | |
| BPE services | **3,185,584** | 1,716,030 |
| Rental property operating expenses, excluding interest | **970,472** | 901,725 |
| | **4,156,056** | 2,617,755 |
| Selling, general and administrative | | |
| BPE segment | **1,324,025** | 1,154,576 |
| Real estate segment | **183,019** | 206,704 |
| Parent | **1,288,613** | 772,317 |
| | **2,795,657** | 2,133,597 |
| Interest costs incurred | **448,064** | 349,553 |
| | **7,399,777** | 5,100,905 |
| EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | **356,503** | (1,027,770) |
| INCOME TAX EXPENSE (BENEFIT) | **76,783** | (390,795) |
| EARNINGS (LOSS) FROM CONTINUING OPERATIONS | **279,720** | (636,975) |
| DISCONTINUED OPERATIONS: | | |
| | **89,337** | 86,080 |

| | | |
|---|---|---|
| Earnings from discontinued operations, adjusted for applicable income tax expense of $54,755 and $52,759, respectively | | |
| Gain on sale of income producing real estate, adjusted for applicable income tax expense of $728,954 and $0, respectively | **1,189,347** | |
| EARNINGS FROM DISCONTINUED OPERATIONS | **1,278,684** | 86,080 |
| NET EARNINGS (LOSS) | **$ 1,558,404** | $ (550,895) |
| NET EARNINGS (LOSS) PER SHARE BASIC | | |
| From continuing operations | **$ 0.08** | $ (0.18) |
| From discontinued operations | **.36** | .02 |
| NET EARNINGS (LOSS) PER SHARE BASIC | **$ 0.44** | $ (0.16) |
| NET EARNINGS (LOSS) PER SHARE DILUTED | | |
| From continuing operations | **$ 0.07** | $ (0.18) |
| From discontinued operations | **.35** | .02 |
| NET EARNINGS (LOSS) PER SHARE DILUTED | **$ 0.42** | $ (0.16) |
| DIVIDENDS PER SHARE | **$ 0.036** | $ 0.036 |
| WEIGHTED AVERAGE SHARES OUTSTANDING BASIC | **3,529,144** | 3,532,100 |
| WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED | **3,689,085** | 3,532,100 |

*See accompanying notes to consolidated financial statements.*

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**SERVIDYNE, INC.**
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(UNAUDITED)

| | Common Stock | | Additional Paid-In | Deferred Stock | Retained | Treasury | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Compensation | Earnings | Stock | Total |
| BALANCES at April 30, 2005 | 3,357,601 | $3,357,601 | $3,067,982 | $(14,162) | $15,186,932 | $(684,942) | $20,913,411 |
| Net earnings | | | | | 525,766 | | 525,766 |
| Common stock issued | 1,800 | 1,800 | 6,660 | (8,460) | | | |
| Stock compensation expense | | | | 18,202 | | (1,871) | 16,331 |
| Stock option exercise | 732 | 732 | 2,196 | | | | 2,928 |
| Cash dividends declared $.144 per share (adjusted for subsequent stock dividend) | | | | | (511,688) | | (511,688) |
| Stock dividend declared 10% at market value on date declared | 335,203 | 335,203 | 1,726,295 | | (1,973,934) | (87,564) | |
| BALANCES at April 30, 2006 | 3,695,336 | 3,695,336 | 4,803,133 | (4,420) | 13,227,076 | (774,377) | 20,946,748 |
| Net earnings | | | | | 966,626 | | 966,626 |
| Common stock acquired | | | | | | (19,747) | (19,747) |
| Stock compensation expense | | | 72,027 | 4,420 | | (940) | 75,507 |
| Cash dividends declared $.144 per share | | | | | (508,923) | | (508,923) |
| BALANCES at April 30, 2007 | 3,695,336 | 3,695,336 | 4,875,160 | | 13,684,779 | (795,064) | 21,460,211 |
| Net earnings | | | | | 1,558,404 | | 1,558,404 |
| Common stock issued | 2,300 | 2,300 | (2,300) | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Stock compensation expense | | | 30,575 | | | | 30,575 |
| Cash dividends declared $.036 per share | | | | | (127,223) | | (127,223) |
| **BALANCES at July 31, 2007** | **3,697,636** | **$3,697,636** | **$4,903,435** | **$** | **$15,115,960** | **$(795,064)** | **$22,921,967** |

*See accompanying notes to consolidated financial statements.*

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

| | FIRST QUARTER ENDED JULY 31, | |
|---|---|---|
| | **2007** | 2006 |
| CONTINUING OPERATIONS: | | |
| Cash flows from operating activities: | | |
| Net earnings (loss) | **$ 1,558,404** | $ (550,895) |
| Earnings from discontinued operations, net of tax | **(1,278,684)** | (86,080) |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities: | | |
| Write off in conjunction with sale of assets | **83,194** | |
| Depreciation and amortization | **477,246** | 366,140 |
| Deferred tax expense (benefit) | **76,783** | (338,037) |
| Stock compensation expense | **30,575** | 6,278 |
| Adjustment to cash surrender value of life insurance | **(33,948)** | |
| Straight-line rent | **(236)** | |
| Changes in assets and liabilities: | | |
| Receivables | **(1,319,411)** | 305,708 |
| Costs and earnings in excess of billings | **(848,932)** | (159,681) |
| Note receivables | | 530,815 |
| Other current assets | **320,517** | (258,911) |
| Trade and subcontractors payable | **231,755** | 231,154 |
| Accrued expenses | **228,704** | 152,442 |
| Accrued incentive compensation | **(6,916)** | (279,120) |
| Billings in excess of costs and earnings | **132,612** | 13,062 |
| Other liabilities | **412,820** | 4,457 |
| Net cash provided by (used in) operating activities | **64,483** | (62,668) |
| Cash flows from investing activities: | | |
| Deposit of cash proceeds from sale of real estate temporarily held as restricted cash in escrow | **(6,462,743)** | |
| Release of restricted cash held in escrow | | 418,594 |
| Additions to income-producing properties, net | **(136,387)** | (98,352) |
| Additions to property and equipment, net | **(37,900)** | (42,543) |
| Additions to intangible assets, net | **(78,407)** | (219,755) |
| Additions to real estate held for sale or future development | | (34,657) |
| Acquisition, net of escrowed cash | | (1,870,447) |
| Net cash (used in) investing activities | **(6,715,437)** | (1,847,160) |
| Cash flows from financing activities: | | |
| Real estate loan proceeds | **3,200,000** | 2,600,000 |
| Loan repayments | **(2,579,950)** | (157,240) |

| | | |
|---|---|---|
| Deferred loan costs paid | **(57,346)** | (39,154) |
| Cash dividends paid to shareholders | **(127,223)** | (127,262) |
| Net cash provided by financing activities | **435,481** | 2,276,344 |
| DISCONTINUED OPERATIONS: | | |
| Operating activities | **151,101** | 96,314 |
| Investing activities | **4,809,567** | |
| Financing activities | **(408,334)** | (142,632) |
| Net cash provided by (used in ) discontinued operations | **4,552,334** | (46,318) |
| Net (decrease) increase in cash and cash equivalents | **(1,663,139)** | 320,198 |
| Cash and cash equivalents at beginning of period | **5,662,894** | 7,329,805 |
| Cash and cash equivalents at end of period | **$ 3,999,755** | $ 7,650,003 |
| Supplemental disclosure of noncash financing activities: | | |
| Issuance of common stock under Stock Award Plan | **$ 9,889** | $ 4,455 |

*See accompanying notes to consolidated financial statements.*

**SERVIDYNE, INC.**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2007, AND APRIL 30, 2007
(UNAUDITED)

NOTE 1. ORGANIZATION AND BUSINESS

Servidyne, Inc. (together with its subsidiaries, the Company ) was organized under Delaware law in 1960. In 1984, the Company changed its state of incorporation from Delaware to Georgia. The Company (i) provides building performance expert services to building owners and operators; and (ii) engages in commercial real estate investment and development.

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 to make the information presented not misleading. In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals that are necessary for a fair statement of the results for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended April 30, 2007. Results of operations for interim periods are not necessarily indicative of annual results.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

Effective May 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainties in Income Taxes, ( FIN 48 ). FIN 48 prescribes a recognition threshold and measurement attribute for recognizing tax return positions in the financial statements as those which are more likely than not to be sustained upon examination by the taxing authority. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for income tax uncertainties in interim periods and the level of disclosures associated with any recorded income tax uncertainties. The Company adopted FIN 48 on May 1, 2007, and the adoption of FIN 48 did not have a material impact on the Company s financial position or results of operations.

On May 1, 2006, the Company adopted Statement of Financial Accounting Standard ( SFAS ) 123(R), *Share-Based Payment (revised 2004)*. SFAS 123(R) requires that all equity awards to employees be expensed by the Company over the requisite service period. The Company adopted this standard using the modified prospective method. Under this method, the Company records compensation expense for all awards it granted after the date it adopted the standard.

The Company has three outstanding types of equity-based incentive compensation instruments in effect with employees, non-employee directors and selected outside consultants: stock options, stock appreciation rights and restricted stock.

For the three months ended July 31, 2007, and July 31, 2006, the Company s net earnings (loss) includes $30,575 and $6,278, respectively, of total equity-based compensation expense, and $11,619 and $2,386, respectively, of related income tax benefits. All of these expenses were included in selling, general and administrative expense in the consolidated statements of operations.

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*Stock Options*

A summary of stock options activity for the three months ended July 31, 2007, is as follows:

| | Options to Purchase Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at April 30, 2007 | 567,181 | $ 4.66 |
| Granted | | |
| Exercised | | |
| Forfeited / Expired | (40,670) | 4.65 |
| Outstanding at July 31, 2007 | 526,511 | $ 4.66 |
| Vested at July 31, 2007 | 526,511 | $ 4.66 |

A summary of information about all stock options outstanding as of July 31, 2007, is as follows:

| Exercise Price | Number of Outstanding and Exercisable Options | Weighted Average Remaining Contractual Life (Years) |
|---|---|---|
| $4.64 | 461,838 | 5.41 |
| $4.82 | 63,800 | 7.65 |
| $5.45 | 873 | 6.88 |

*Stock Appreciation Rights (SARs)*

A summary of SARs activity for the three months ended July 31, 2007, is as follows:

| | SARs to Purchase Shares | Weighted Average Grant Price |
|---|---|---|
| Outstanding at April 30, 2007 | 430,000 | $ 4.06 |
| Granted | 20,000 | 4.35 |
| Exercised | | |
| Forfeited | (5,000) | 3.98 |
| Outstanding at July 31, 2007 | 445,000 | $ 4.07 |
| Vested at July 31, 2007 | | $ |

The Company estimates the fair value of each SARs grant on the date of grant using the Black-Scholes option-pricing model. The risk free interest rate utilized in the Black-Scholes calculation is the interest rate on the U.S. Treasury Bill having the same maturity as the expected life of the Company s SARs awards. Expected life of the SARs granted was based on the estimated holding period of the SARs award. Expected volatility is based on the historical volatility of the Company s stock over the preceding five year period using the month-end closing stock price.

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The SARs granted in the first quarter of fiscal 2008 had the following weighted average assumptions and fair value:

| | |
|---|---|
| Expected life (years) | 5 |
| Dividend yield | 3.41% |
| Expected stock price volatility | 35.20% |
| Risk free interest rate | 4.81% |
| Fair value of SARs granted | $ 0.78 |

The Company s net earnings (loss) for the three months ended July 31, 2007, and July 31, 2006, includes $28,176 and $5,291, respectively, of equity-based compensation expense, and income tax benefits of $10,707 and $2,011, respectively, related to the vesting of SARs. All of these expenses were included in selling, general and administrative expense in the consolidated statements of operations for both periods.

*Shares of Restricted Stock*

Periodically, the Company has awarded shares of restricted stock to employees, directors and select outside consultants. The awards are recorded at fair market value on the date of grant and typically vest over a period of one year. As of July 31, 2007, there was a total of $7,490 of unrecognized compensation expense related to shares of restricted stock, which will be recognized over the ensuing year. For the quarters ended July 31, 2007, and July 31, 2006, restricted stock equity-based compensation expense related to the vesting of shares of restricted stock was $2,399 and $987, respectively, and the related income tax benefits were $912 and $375, respectively. The following table summarizes restricted stock activity for the three months ended July 31, 2007:

| | Number of Restricted Shares of Stock | Weighted Average Grant Date Fair Value per Share |
|---|---|---|
| Non-vested restricted stock at April 30, 2007 | | $ |
| Granted | 2,300 | 4.30 |
| Vested | | |
| Forfeited | | |
| Non-vested restricted stock at July 31, 2007 | 2,300 | $ 4.30 |

NOTE 4. RECEIVABLES

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

NOTE 5. DISCONTINUED OPERATIONS

*Sales of Income-Producing Properties*

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 as of fiscal 2003, the Company adopted SFAS 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 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 standard, as of July 31, 2007, the Company had no income-producing properties that were classified as held for sale.

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On July 31, 2007, the Company sold its leasehold interest in the land and its owned shopping center building located in Columbus, Georgia, and its owned shopping center located in Orange Park, Florida, and recognized a pre-tax gain on sale of approximately $1.9 million. On November 1, 2006, the Company sold its owned shopping center located in Morton, Illinois, and recognized a pre-tax gain on sale of approximately $3.48 million. As a result of these transactions, the Company s financial statements have been prepared with the results of operations and cash flows of these sold properties shown as discontinued operations. All historical statements have been restated in accordance with SFAS 144. Summarized financial information for discontinued operations for the three month periods ended July 31, 2007, and July 31, 2006, is as follows:

| | **First Quarter Ended July 31,** | |
|---|---|---|
| | **2007** | 2006 |
| REAL ESTATE SEGMENT | | |
| Rental revenues | **$ 173,592** | $226,128 |
| Rental property operating expenses, including depreciation | **(23,025)** | (30,955) |
| Interest expense and loan prepayment fees | **(6,475)** | (56,335) |
| Operating earnings from discontinued operations before income taxes | **144,092** | 138,838 |
| Income tax expense | **(54,755)** | (52,758) |
| Operating earnings from discontinued operations, net of tax | **89,337** | 86,080 |
| Gain on sales of income-producing real estate | **1,918,301** | |
| Income tax expense | **(728,954)** | |
| Gain on sales of income-producing real estate, net of tax | **1,189,347** | |
| Earnings from discontinued operations, net of tax | **$1,278,684** | $ 86,080 |

| | **Balances at** | |
|---|---|---|
| | **July 31, 2007** | April 30, 2007 |
| **Assets of Discontinued Operations** | | |
| Income-producing properties | **$** | $ 2,870,240 |
| Intangible assets | | 28,035 |
| | **$** | $ 2,898,275 |
| **Liabilities of Discontinued Operations** | | |
| Current maturities of long-term debt | **$** | $ 32,559 |

| | | | |
|---|---|---|---|
| Mortgage notes payable | | | 375,776 |
| | **$** | $ | 408,335 |

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NOTE 6. OPERATING SEGMENTS

The table below shows selected financial data on a segment basis. Net earnings is defined as total revenues less operating expenses, including depreciation, interest, and income taxes. In this presentation, management fee expense charged by the Parent Company is not included in the Segments results.

| For the Quarter Ended July 31, 2007 | BPE | Real Estate (1) | Parent | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues from unaffiliated customers | $4,766,392 | $2,907,387 | $ | $ | $7,673,779 |
| Interest and other income | 55,094 | 292,246 | 12,770 | (277,609) | 82,501 |
| Intersegment revenue | | 147,541 | | (147,541) | |
| Total revenues from continuing operations | $4,821,486 | $3,347,174 | $ 12,770 | $(425,150) | $7,756,280 |
| Net earnings (loss) | $ 34,595 | $2,340,159 | $(810,326) | $ (6,024) | $1,558,404 |

| For the Quarter Ended July 31, 2006 | BPE | Real Estate (1) | Parent | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues from unaffiliated customers | $2,615,415 | $1,299,015 | $ | $ | $3,914,430 |
| Interest and other income | 47,077 | 345,221 | 16,687 | (250,281) | 158,704 |
| Intersegment revenue | | 124,143 | | (124,143) | |
| Total revenues from continuing operations | $2,662,492 | $1,768,379 | $ 16,687 | $(374,424) | $4,073,134 |
| Net (loss) earnings | $ (292,628) | $ 268,965 | $(530,730) | $ 3,498 | $ (550,895) |

(1) The Company is in the business of creating long-term value by periodically realizing gains through the sale of income-producing properties and the sale of real estate held for future development or sale; therefore, in this presentation the Real Estate Segment s net earnings includes earnings from

discontinued operations, pursuant to SFAS 144, that resulted from the sales of certain income-producing properties, and earnings included in continuing operations that resulted from the gains on sale of certain other real estate assets.

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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, stock warrants and stock appreciation rights. The dilutive effect on the number of common shares for the first three months of fiscal 2008 and fiscal 2007 was 159,941 and 7,998 shares, respectively. Because the Company had a loss from continuing operations for the quarter ended July 31, 2006, all stock equivalents were anti-dilutive, and therefore, are excluded when determining the diluted weighted average number of shares outstanding. The following tables set forth the computations of basic and diluted net earnings (loss) per share:

| | *For the quarter ended July 31, 2007* | | |
|---|---|---|---|
| | **Earnings** | **Shares** | **Per share amount** |
| Basic EPS earnings per share from continuing operations | $ 279,720 | 3,529,144 | $ 0.08 |
| Basic EPS earnings per share from discontinued operations | 1,278,684 | 3,529,144 | 0.36 |
| Effect of dilutive securities: | | | |
| Options | | 56,048 | |
| Warrants | | 6,111 | |
| SARs | | 97,782 | |
| | | 159,941 | (0.02) |
| Diluted EPS earnings per share | $1,558,404 | 3,689,085 | $ 0.42 |

| | *For the quarter ended July 31, 2006* | | |
|---|---|---|---|
| | **(Loss) Earnings** | **Shares** | **Per share amount** |
| Basic EPS loss per share from continuing operations | $ (636,975) | 3,532,100 | $ (0.18) |
| Basic EPS earnings per share from discontinued operations | 86,080 | 3,532,100 | 0.02 |
| Effect of dilutive securities | | | |
| Diluted EPS loss per share | $ (550,895) | 3,532,100 | $ (0.16) |

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NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization for all of the Company s intangible assets as of July 31, 2007, are as follows:

| | July 31, 2007 | |
|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization |
| **Intangible assets, subject to amortization:** | | |
| Proprietary BPE software solutions | $ 3,268,285 | $ 1,410,273 |
| Computer software | 460,526 | 437,880 |
| Real estate lease costs | 1,364,955 | 502,608 |
| Customer relationships | 218,000 | 156,233 |
| Deferred loan costs | 492,265 | 223,460 |
| | $ 5,804,031 | $ 2,730,454 |
| **Intangible assets and goodwill, not subject to amortization:** | | |
| Trademark | $ 708,707 | $ |
| Goodwill | $ 5,458,717 | $ |

| | April 30, 2007 | |
|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization |
| **Intangible assets, subject to amortization:** | | |
| Proprietary BPE software solutions | $ 3,186,699 | $ 1,271,190 |
| Computer software | 453,525 | 431,551 |
| Real estate lease costs | 1,779,868 | 818,054 |
| Customer relationships | 218,000 | 145,393 |
| Deferred loan costs | 531,432 | 304,049 |
| Other | 28,660 | 17,199 |
| | $ 6,198,184 | $ 2,987,436 |
| **Intangible assets and goodwill, not subject to amortization:** | | |
| Trademark | $ 708,707 | $ |
| Goodwill | $ 5,458,717 | $ |

| Aggregate amortization expense for all amortized intangible assets | |
|---|---|
| For the three months ended July 31, 2007 | $207,012 |

| | |
|---|---|
| For the three months ended July 31, 2006 | 152,708 |

NOTE 9. DISPOSITIONS

On July 31, 2007, the Company sold: its leasehold interest in a shopping center in Jacksonville, Florida; its leasehold interest in the land and its owned shopping center building located in Columbus, Georgia; and its shopping center located in Orange Park, Florida; for a total combined sales price of $6.797 million, resulting in a pre-tax gain of approximately $3.776 million. After selling expenses, the sale generated net cash proceeds of approximately $6.4 million. In addition, the Company purchased the minority partners interest in the Columbus, Georgia Property with two notes payable totaling $400,000, which are recorded on the accompanying consolidated balance sheet. The cash proceeds are recorded on the accompanying consolidated balance sheet as restricted cash. In accordance with SFAS 144, the sale of its leasehold interest in Jacksonville, Florida, is recorded in rental income on the accompanying consolidated statements of operations and the sale of its leasehold interest in the land and its owned building located in Columbus, Georgia, and its owned shopping center located in Orange Park, Florida, is recorded in discontinued operations in the accompanying consolidated statements of operations. The Company currently intends to use the net proceeds from this sale to acquire a like-kind property in order to qualify the sale and acquisition under Internal Revenue Code Section 1031 for federal income tax deferral, and has placed the proceeds with a qualified third-party intermediary.

NOTE 10. MORTGAGE NOTES PAYABLE

On June 1, 2007, the Company replaced its interim bank loan of $2.5 million used in the acquisition of its office building in Newnan, Georgia, with a permanent loan in the amount of $3.2 million. The permanent loan bears interest at 5.96%, with interest only payments required for the first twelve months, and then the loan will be amortized using a 30-year amortization schedule until it matures on June 8, 2017.

NOTE 11. COMMITMENTS AND CONTINGENCIES

The Company is subject to legal proceedings and other claims that arise 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 these matters will not have a material adverse effect on the Company s financial position or results of operations. See Item 1A, Risk Factors, in the Company s Annual Report on Form 10-K for the year ended April 30, 2007.

NOTE 12. SUBSEQUENT EVENT

On August 1, 2007, the Company refinanced its owned office park in Marietta, Georgia, with a new mortgage loan in the amount of $6.65 million. The new loan bears interest at LIBOR +1.75%, with monthly principal and interest payments. The loan will be amortized using a 20-year amortization schedule until it matures on July 1, 2010.

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

The following discussion should be read in conjunction with the 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 the 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, 2007.

The Company s fiscal year 2008 will end April 30, 2008.

In the following charts, changes in revenues, costs and expenses, and changes in selling, general and administrative expenses from period to period are analyzed on a segment basis. For net earnings and similar profit information on a consolidated basis, please see the Company s consolidated financial statements.

Pursuant to SFAS 144, the figures shown in the following charts for all periods presented do not include Real Estate Segment revenues, costs and expenses, and selling, general and administrative expenses, generated by certain formerly owned income-producing properties which have been sold; such amounts have been reclassified to discontinued operations. See Critical Accounting Policies Discontinued Operations later in this discussion and analysis section.

Results of operations of the first quarter of fiscal 2008, compared to the first quarter of fiscal 2007

REVENUES From Continuing Operations

For the first quarter of fiscal 2008, consolidated revenues from continuing operations, net of intersegment eliminations, was $7,673,779, compared to $3,914,430 for the first quarter of fiscal 2007, an increase of approximately 96%.

**CHART A**

REVENUES FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT

(Dollars in Thousands)

| | First Quarter Ended July 31, | | Amount | Percent |
| --- | --- | --- | --- | --- |
| | 2007 | 2006 | Increase | Increase |
| BPE (1) | $4,766 | $2,615 | $2,151 | 82 |
| Real Estate (2) | 2,907 | 1,299 | 1,608 | 124 |
| | $7,673 | $3,914 | $3,759 | 96 |

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NOTES TO CHART A

(1) BPE Segment revenues increased approximately $2,151,000, or 82%, for the first quarter of fiscal 2008, compared to the same period in fiscal 2007, primarily due to:

(a) an increase in revenues of approximately $1,805,000, or 118%, in infrastructure upgrades and energy savings projects; and

(b) an increase of approximately $320,000, or 74%, in a long term energy management services contract and several large engineering energy audits.

(2) Real Estate Segment revenues increased $1,608,000 or 124%, for the first quarter of fiscal 2008, compared to the same period in fiscal 2007, primarily due to:

(a) revenues of approximately $1,553,000 related to the sale of the Company s leasehold interest in its shopping center in Jacksonville, Florida; and

(b) an increase in rental revenues of approximately $195,000 as the result of the Company s acquisition of the shopping center located in Smyrna, Tennessee, in July 2006, and the Company s acquisition of the office building located in Newnan, Georgia, in March 2007;

partially offset by:

(c) a decrease in leaseback income of approximately $141,000, resulting from the sale of the Company s former leaseback shopping center in Orange Park, Florida, and the sale of its leaseback shopping center in Richfield, Minnesota, in fiscal 2007.

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

| | July 31, 2007 | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2007 | 2006 | Amount | Percent |
| BPE (1) | $ 7,734,000 | $ 6,480,000 | $ 1,254,000 | 19 |
| Real Estate (2) | 4,833,000 | 5,467,000 | (634,000) | (12) |
| Less: Intersegment eliminations (3) | (568,000) | (552,000) | (16,000) | 3 |
| Total Backlog | $ 11,999,000 | $ 11,395,000 | $ 604,000 | 5 |

(1) BPE backlog increased $1,254,000 primarily due to:

(a) an increase of approximately $1,317,000, or 122%, in energy management services; and

(b) an increase of approximately $440,000, or 17%, in building productivity services;

partially offset by:

(c) a decrease of approximately $502,000, or 18%, in infrastructure upgrades and energy savings projects.

The Company estimates that the BPE backlog at July 31, 2007, will be recognized prior to July 31, 2008, with the exception of approximately $986,000 in energy management services from contracts that extended longer than one year.

BPE backlog includes some contracts that can be cancelled with less than one year s notice, and assumes cancellation provisions will not be invoked. The amount for such cancelled contracts included in the prior year s Backlog was approximately $252,000 or 3.9%.

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(2) The decrease in Real Estate backlog of $634,000 primarily consisted of:
  (a) approximately $300,000 related to the Company s leasehold interest in a shopping center located in Richfield, Minnesota, that was sold on March 12, 2007;

  (b) approximately $303,000 related to the Company s leasehold interest in a shopping center located in Jacksonville, Florida, that was sold on July 31, 2007;

  (c) approximately $264,000 related to the Company s leasehold interest in a shopping center located in Orange Park, Florida, that was sold on July 31, 2007; and

  (d) rental revenues of $351,000 as a result of the pending expiration in January 2008 of a third-party lease at the Company s headquarters building in Atlanta, Georgia;

  partially offset by:

  (e) rental revenues of approximately $384,000 related to the Company s acquisition of the office building in Newnan, Georgia, in March 2007; and

  (f) an increase in net rental revenues of approximately $200,000 related to successful leasing activities at other properties.

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

COSTS AND EXPENSES APPLICABLE TO REVENUES
From Continuing Operations

As a percentage of total segment revenues from continuing operations (See Chart A), the total applicable costs and expenses (See Chart B) were 54% and 67% for the first quarters of fiscal 2008 and 2007, respectively. In reviewing Chart B, the reader should recognize that the volume of revenues generally will affect the amounts and percentages presented.

The figures in Chart B are net of intersegment eliminations.

**CHART B**
COSTS AND EXPENSES APPLICABLE TO REVENUES
FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT
(Dollars in Thousands)

| | First Quarter Ended July 31, | | Percent of Segment Revenues for First Quarter Ended July 31, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| BPE (1) | $3,186 | $1,716 | 67 | 66 |
| Real Estate (2) | 970 | 902 | 33 | 69 |
| | $4,156 | $2,618 | 54 | 67 |

NOTES TO CHART B

(1) On a dollar basis, BPE Segment costs and expenses increased $1,470,000, or 86%, for the first quarter of fiscal 2008, compared to the same period of fiscal 2007, primarily due to the corresponding increase in revenues.

(2) On a dollar basis, Real Estate Segment costs and expenses increased $68,000, or 8%, for the first quarter of fiscal 2008, compared to the same period of fiscal 2007, primarily due to:

(a) costs of approximately $95,000 from the sale of the Company s leasehold interest in a shopping center located in Jacksonville, Florida; and

(b) an increase in rental operating costs and expenses of approximately $115,000 as the result of the Company s acquisition of the shopping center located in Smyrna, Tennessee, and the Company s office building located in Newnan, Georgia, in July 2006 and March 2007, respectively;

partially offset by:

(c) the absence of lease costs of approximately $156,000 as a result of the sale of two of the Company s former leasehold interests in shopping centers located in Orange Park, Florida, and Richfield, Minnesota, which were sold in July 2007 and March 2007, respectively.

Real Estate Segment costs and expenses as a percentage of revenues were lower for the first quarter of fiscal 2008, compared to fiscal 2007, primarily due to revenues of $1,553,000 in the current year as a result of the sale of the Company s leasehold interest in a shopping center located in Jacksonville, Florida, in July 2007; the costs of the sale were approximately $95,000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
From Continuing Operations

For the first quarters of fiscal 2008 and 2007, total selling, general and administrative expenses ( SG&A ) from continuing operations, net of intersegment eliminations, were $2,795,657 and $2,133,597, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 36% and 55%, 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 (Chart A), except that Parent and total expenses relate to consolidated revenues from continuing operations.

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

| | First Quarter Ended July 31, | | Percent of Segment Revenues for First Quarter Ended July 31, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| BPE (1) | $1,324 | $1,155 | 28 | 44 |
| Real Estate (2) | 183 | 207 | 6 | 16 |
| Parent (3) | 1,289 | 772 | 17 | 20 |
| | $2,796 | $2,134 | 36 | 55 |

NOTES TO CHART C

(1) BPE SG&A expenses as a percentage of revenues from continuing operations decreased in the first quarter of fiscal 2008, compared to the same period of fiscal 2007, primarily because the increase in revenues did not cause a proportional increase in SG&A expenses.

On a dollar basis, BPE SG&A expenses increased $169,000 or 15%, for the first quarter of fiscal 2008, compared to the same period of fiscal 2007, primarily due to higher sales and marketing expenses.

(2) On percentage basis, Real Estate SG&A expenses as a percentage of revenues were lower for the first quarter of fiscal 2008, compared to fiscal 2007, primarily due to the increase in revenues.

(3) On a dollar basis, Parent SG&A expenses increased $517,000 or 67%, for the first quarter of fiscal 2008, compared to the same period of fiscal 2007, primarily due to:

(a) incentive compensation accruals of approximately $577,000 pursuant to the Company's cash incentive compensation plan;

partially offset by:

(b) a decrease in consulting fees of approximately $67,000.

Liquidity and capital resources

Between April 30, 2007, and July 31, 2007, working capital increased by approximately $12,000. Operating activities provided cash of approximately $64,000, primarily due to:

(a) proceeds of approximately $1,540,000 related to the sale of the Company s leasehold interest in a shopping center located in Jacksonville, Florida;

(b) a net increase in BPE Segment trade and subcontractors payables, accrued expenses, and billings in excess of costs of approximately $593,000 primarily as a result of the timing and submission of payments; and

(c) an increase in other liabilities of approximately $412,000 primarily related to notes payable to the minority owners of the former leasehold interest in the land and the interest in the shopping center building located in Columbus, Georgia;

partially offset by:

(d) an increase in BPE Segment accounts receivable and costs and earnings in excess of billings of approximately $2,168,000 primarily as a result of the timing of billing and receipt of payments.

Investing activities used cash of approximately $6,715,000 primarily for:

(a) the deposit with a qualified intermediary of cash proceeds of approximately $6,463,000 from the sales described in Note 9 to the consolidated financial statements in order to qualify the sales for federal income tax deferral under Internal Revenue Code Section 1031;

(b) additions to income-producing properties of $136,000, primarily related to tenant and building improvements; and

(c) additions to intangible assets of $78,000, primarily related to new software development efforts for the Company s proprietary Web/wireless building performance expert building productivity applications.

Financing activities provided cash of approximately $435,000 primarily from:

(a) net proceeds of $700,000 from the permanent loan of $3,200,000 on the Company s office building located in Newnan, Georgia, which replaced the interim loan of $2,500,000;

partially offset by:

(b) scheduled principal payments on mortgage notes and other long-term debt of approximately $80,000; and

(c) payment of a regular quarterly cash dividend to shareholders of approximately $127,000.

Discontinued operations provided cash of $4,552,000 from the sale of the Company s leasehold interest in the land and its owned building in the shopping center located in Columbus, Georgia, and its owned shopping center located in Orange Park, Florida.

The Company anticipates that its existing cash balances, equity, potential proceeds from sales of real estate, potential cash flows provided by financing or refinancing of debt obligations, and cash flows 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, debt service, and investment activities.

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 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 include:

*Revenue Recognition*

Revenues derived from implementation, training, support and base service license fees from customers accessing the Company s proprietary building performance expert software on an application service provider (ASP) basis follow the provisions of Securities and Exchange Commission Staff Accounting Bulletin ( SAB ) 104, *Revenue Recognition*. For these sources of revenues, the Company recognizes revenue 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 terms 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 in accordance with SAB 104. Sales of proprietary building productivity software solutions and hardware products are recognized when products are sold.

Energy savings and infrastructure upgrade 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 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 term. 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 the 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 under 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 evaluate 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 share of property operating and common area expenses, real estate taxes, and insurance, which are recognized when earned. In addition, certain leases require retail tenants to pay incremental rental amounts, which are contingent upon their store sales. These percentage rents are recognized only if and when earned and are not recognized on a straight-line basis.

Revenue from the sale of real estate assets is recognized when all of the following has occurred: (a) the property is transferred from the Company to the buyer; (b) the buyer s initial and continuing investment is adequate to demonstrate a commitment to pay for the property; and (c) the buyer has assumed all future ownership risks of the property. Costs of sales related to 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 development or acquisition is charged to cost of sales.

*Income-Producing Properties and Property and Equipment*

Income-producing properties are stated at historical cost, and are depreciated for financial reporting purposes using the straight-line method over the 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 project is substantially completed or if active development ceases. 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.

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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.

*Valuation of Goodwill and Other Intangible Assets*

Goodwill and intangible assets with indefinite lives are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying basis of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying basis of the asset to the future net discounted cash flows expected to be generated by the asset. If an asset is determined to be impaired, the impairment to be recognized is determined by the amount by which the carrying amount of the asset exceeds the asset s estimated fair value. Assets to be disposed of are reported at the lower of their carrying basis or estimated fair value less estimated costs to sell.

*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. 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.

*Discontinued Operations*

The Company adopted SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* effective in fiscal 2003, which requires, among other things, that the gains and losses from the disposition of certain income-producing real estate assets, and associated liabilities, operating results, and cash flows be reflected as discontinued operations in the financial statements for all periods presented. Although net earnings are not affected, the Company has reclassified results that were previously included in continuing operations as discontinued operations for qualifying dispositions under SFAS 144.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company s market risk since April 30, 2007. Refer to the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2007, for detailed disclosures about quantitative and qualitative disclosures about market risk.

ITEM 4. 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.

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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.

## PART II. OTHER INFORMATION

### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, 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, 2007, which could materially affect the business, financial condition or future operating results of the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also could materially affect the Company s business, financial condition and/or operating results.

### ITEM 6. EXHIBITS

| | |
|---|---|
| 31(a) | Certification of Chief Executive Officer, pursuant to Rules 13a-14(a)/15d-14(a) |
| 31(b) | Certification of Chief Financial Officer, pursuant to Rules 13a-14(a)/15d-14(a) |
| 32(a) | 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(b) | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act 2002 |

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SIGNATURES

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

SERVIDYNE, INC.
(Registrant)

Date: September 14, 2007

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

Date: September 14, 2007

/s/ Mark J. Thomas
Mark J. Thomas
Chief Financial Officer

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