

SERVIDYNE, INC.  
Form 10-Q  
December 17, 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 October 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  No

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  Accelerated Filer  Non-accelerated filer

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

Yes  No

The number of shares of \$1.00 par value Common Stock of the Registrant outstanding as of November 30, 2007, was 3,540,570.

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## PART I. FINANCIAL INFORMATION

**ITEM 1. FINANCIAL STATEMENTS**

**SERVIDYNE, INC.**  
CONDENSED CONSOLIDATED BALANCE SHEETS

	(UNAUDITED) <b>October 31, 2007</b>	April 30, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,331,738	\$ 5,662,894
Receivables (Note 4)	3,403,596	2,229,813
Less: Allowance for doubtful accounts	(28,639)	(14,713)
Costs and earnings in excess of billings	589,223	265,540
Deferred income taxes	460,820	443,030
Other	1,039,094	1,623,535
Total current assets	<b>9,795,832</b>	10,210,099
RESTRICTED CASH (Note 9)	<b>6,534,893</b>	
INCOME-PRODUCING PROPERTIES, net	<b>29,241,761</b>	29,090,789
ASSETS OF DISCONTINUED OPERATIONS (Notes 5 and 9)		2,898,275
PROPERTY AND EQUIPMENT, net	<b>798,268</b>	838,886
<b>OTHER ASSETS:</b>		
Real estate held for future development or sale	<b>1,124,850</b>	1,124,850
Intangible assets, net (Note 8)	<b>3,669,794</b>	3,919,455
Goodwill (Note 8)	<b>5,458,717</b>	5,458,717
Other	<b>3,273,811</b>	3,852,350
Total assets	<b>\$ 59,897,926</b>	\$ 57,393,421
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	\$ 796,550	\$ 635,308
Accrued expenses	<b>2,493,309</b>	2,596,127
Liabilities of discontinued operations (Note 5)		32,559
Billings in excess of costs and earnings	<b>246,623</b>	219,305
Current maturities of mortgage notes and long-term debt payable	<b>1,168,809</b>	1,002,718
Total current liabilities	<b>4,705,291</b>	4,486,017
DEFERRED INCOME TAXES	<b>4,911,080</b>	4,233,498
OTHER LIABILITIES	<b>1,396,576</b>	2,074,954
LIABILITIES OF DISCONTINUED OPERATIONS (Note 5)		375,776
MORTGAGE NOTES PAYABLE, less current maturities (Note 10)	<b>25,244,061</b>	23,587,965
OTHER LONG-TERM DEBT, less current maturities	<b>1,160,000</b>	1,175,000

Total liabilities	<b>37,417,008</b>	35,933,210
COMMITMENTS AND CONTINGENCIES (Note 11)		
SHAREHOLDERS EQUITY:		
Common stock, \$1 par value; 5,000,000 shares authorized; 3,697,836 issued and 3,529,570 outstanding at October 31, 2007, 3,695,336 issued and 3,527,070 outstanding at April 30, 2007	<b>3,697,836</b>	3,695,336
Additional paid-in capital	<b>4,934,121</b>	4,875,160
Retained earnings	<b>14,644,025</b>	13,684,779
Treasury stock (common shares) 168,266 at October 31, 2007, and 168,266 at April 30, 2007	<b>(795,064)</b>	(795,064)
Total shareholders equity	<b>22,480,918</b>	21,460,211
Total liabilities and shareholders equity	<b>\$ 59,897,926</b>	\$ 57,393,421

*See accompanying notes to consolidated financial statements.*

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

	<b>SECOND QUARTER ENDED OCTOBER 31,</b>		<b>FIRST SIX MONTHS ENDED OCTOBER 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>REVENUES:</b>				
Building Performance Expert ( BPE )	<b>\$ 3,987,123</b>	\$ 3,238,652	<b>\$ 8,753,515</b>	\$ 5,854,067
Real Estate	<b>1,273,959</b>	1,423,861	<b>4,181,346</b>	2,722,876
	<b>5,261,082</b>	4,662,513	<b>12,934,861</b>	8,576,943
Interest	<b>99,849</b>	82,133	<b>112,733</b>	175,790
Other	<b>15,327</b>	31,988	<b>84,944</b>	97,036
	<b>5,376,258</b>	4,776,634	<b>13,132,538</b>	8,849,769
<b>COSTS AND EXPENSES:</b>				
BPE	<b>2,760,396</b>	2,113,354	<b>5,945,980</b>	3,829,384
Real Estate, excluding interest	<b>824,471</b>	1,020,124	<b>1,794,943</b>	1,921,849
	<b>3,584,867</b>	3,133,478	<b>7,740,923</b>	5,751,233
Selling, general and administrative				
BPE	<b>1,336,182</b>	1,066,445	<b>2,660,207</b>	2,221,021
Real Estate	<b>190,135</b>	239,861	<b>384,782</b>	446,565
Parent	<b>340,535</b>	1,027,720	<b>1,617,520</b>	1,800,037
	<b>1,866,852</b>	2,334,026	<b>4,662,509</b>	4,467,623
Interest costs incurred	<b>470,116</b>	409,098	<b>918,180</b>	758,651
	<b>5,921,835</b>	5,876,602	<b>13,321,612</b>	10,977,507
GAIN ON SALE OF REAL ESTATE, net of costs of sale of \$0, \$504,563, \$0, and \$504,563, respectively		1,545,437		1,545,437
(LOSS) EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<b>(545,577)</b>	445,469	<b>(189,074)</b>	(582,301)
INCOME TAX (BENEFIT) EXPENSE	<b>(200,705)</b>	169,522	<b>(123,922)</b>	(221,273)

(LOSS) EARNINGS FROM CONTINUING OPERATIONS	<b>(344,872)</b>	275,947	<b>(65,152)</b>	(361,028)
DISCONTINUED OPERATIONS:				
Earnings from discontinued operations, adjusted for applicable income tax expense of \$0, \$49,036, \$54,755 and \$101,794, respectively		80,004	<b>89,337</b>	166,084
Gain on sale of income producing real estate, adjusted for applicable income tax expense of \$0, \$0, \$728,954 and \$0, respectively			<b>1,189,347</b>	
EARNINGS FROM DISCONTINUED OPERATIONS		80,004	<b>1,278,684</b>	166,084
NET (LOSS) EARNINGS	<b>\$ (344,872)</b>	\$ 355,951	<b>\$ 1,213,532</b>	\$ (194,944)
NET (LOSS) EARNINGS PER SHARE BASIC AND DILUTED				
From continuing operations	<b>\$ (0.10)</b>	\$ 0.08	<b>\$ (0.02)</b>	\$ (0.10)
From discontinued operations		0.02	<b>0.36</b>	0.05
NET (LOSS) EARNINGS PER SHARE BASIC AND DILUTED	<b>\$ (0.10)</b>	\$ 0.10	<b>\$ 0.34</b>	\$ (0.05)
DIVIDENDS PER SHARE	<b>\$ 0.036</b>	\$ 0.036	<b>\$ 0.072</b>	\$ 0.072
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	<b>3,529,444</b>	3,531,600	<b>3,529,294</b>	3,531,850

*See accompanying notes to consolidated financial statements.*

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

	<b>Common Stock</b>		<b>Additional</b>	<b>Deferred</b>		<b>Treasury</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Paid-In</b>	<b>Stock</b>	<b>Retained</b>	<b>Stock</b>	<b>Total</b>
			<b>Capital</b>	<b>Compensation</b>	<b>Earnings</b>		
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					1,213,532		1,213,532
Common stock issued	2,500	2,500	(2,500)				
Stock compensation expense			61,461				61,461
Cash dividends declared - \$.072 per share						(254,286)	(254,286)
<b>BALANCES at October 31, 2007</b>	<b>3,697,836</b>	<b>\$3,697,836</b>	<b>\$4,934,121</b>	<b>\$</b>	<b>\$14,644,025</b>	<b>\$(795,064)</b>	<b>\$22,480,918</b>

*See accompanying notes to consolidated financial statements.*



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

	<b>FIRST SIX MONTHS ENDED OCTOBER 31,</b>	
	2007	2006
<b>CONTINUING OPERATIONS:</b>		
Cash flows from operating activities:		
Net earnings (loss)	<b>\$ 1,213,532</b>	\$ (194,944)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Income from discontinued operations, net of tax	<b>(1,278,684)</b>	(166,084)
Loss (gain) on sale of real estate	<b>83,194</b>	(1,545,437)
Loss on disposal of assets	<b>11,630</b>	
Depreciation and amortization	<b>961,478</b>	808,586
Deferred tax benefit	<b>(123,922)</b>	(119,480)
Provision for doubtful accounts, net	<b>13,926</b>	39,050
Stock compensation expense	<b>61,481</b>	22,636
Cash surrender value	<b>(39,533)</b>	(62,627)
Straight-line rent	<b>29,133</b>	(10,443)
Changes in assets and liabilities:		
Receivables	<b>(1,173,783)</b>	(910,044)
Costs and earnings in excess of billings	<b>(323,683)</b>	225,560
Note receivables	<b>500</b>	602,405
Other current assets	<b>583,941</b>	(757,033)
Other assets		1,063
Trade accounts payable	<b>161,242</b>	(411,434)
Accrued expenses	<b>(102,820)</b>	(29,119)
Billings in excess of costs and earnings	<b>27,318</b>	(56,962)
Other liabilities	<b>312,019</b>	(55,279)
Net cash provided by (used in) operating activities	<b>416,949</b>	(2,619,586)
Cash flows from investing activities;		
Release of restricted cash held in escrow		418,594
Deposit of cash proceeds from sale of real estate held in escrow	<b>(6,464,276)</b>	(1,931,666)
Deposit of interest on cash proceeds held in escrow	<b>(70,617)</b>	(14,455)
Proceeds from sale of real estate		1,867,052
Additions to income-producing properties, net	<b>(635,186)</b>	(195,973)
Additions to property and equipment, net	<b>(54,456)</b>	(63,705)
Additions to intangible assets, net	<b>(119,040)</b>	(495,508)
Additions to real estate held for sale or future development		(28,546)
Acquisition, net of cash released from escrow		(1,870,447)
Net cash used in investing activities	<b>(7,343,575)</b>	(2,314,654)

Cash flows from financing activities:		
Mortgage proceeds	<b>9,850,000</b>	6,700,000
Mortgage repayments	<b>(8,279,170)</b>	(2,600,000)
Debt repayments	<b>(150,102)</b>	(240,917)
Repurchase of common stock		(19,747)
Deferred loan costs paid	<b>(123,311)</b>	(113,696)
Cash dividends	<b>(254,286)</b>	(254,514)
Net cash provided by financing activities	<b>1,043,131</b>	3,471,126
DISCONTINUED OPERATIONS:		
Operating activities	<b>151,106</b>	185,136
Investing activities	<b>4,809,567</b>	
Financing activities	<b>(408,334)</b>	(288,159)
Net cash provided by (used in) discontinued operations	<b>4,552,339</b>	(103,023)
Net decrease in cash and cash equivalents	<b>(1,331,156)</b>	(1,566,137)
Cash and cash equivalents at beginning of period	<b>5,692,894</b>	7,329,805
Cash and cash equivalents at end of period	<b>\$ 4,331,738</b>	\$ 5,763,668

*See accompanying notes to consolidated financial statements.*

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**SERVIDYNE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 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 comprehensive energy, infrastructure and productivity management solutions and 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 its employees, non-employee directors, and selected outside consultants: stock options, stock appreciation rights and restricted stock.

For the second quarter and the first six months ended October 31, 2007, the Company s net (loss) earnings includes \$30,886 and \$61,461, respectively, of total equity-based compensation expense, and \$11,736 and \$23,355, respectively, of related income tax benefits. All of these expenses were included in selling, general and administrative expenses in the consolidated statements of operations.

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For the second quarter and first six months ended October 31, 2006, the Company's net earnings (loss) includes \$16,358 and \$22,636, respectively, of total equity-based compensation expense, and \$6,216 and \$8,602, respectively, of related income tax benefits. All of these expenses were included in selling, general and administrative expenses in the consolidated statements of operations.

*Stock Options*

A summary of stock options activity for the first six months ended October 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 October 31, 2007	526,511	\$ 4.66
Vested at October 31, 2007	526,511	\$ 4.66

As of October 31, 2007, 100% of the 526,511 stock options were in the money.

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

Exercise Price	Number of Outstanding and Exercisable Options	Weighted Average Remaining Contractual Life (Years)
\$4.64	461,838	5.14
\$4.82	63,800	7.40
\$5.45	873	6.63

*Stock Appreciation Rights (SARs)*

A summary of SARs activity for the first six months ended October 31, 2007, is as follows:

	SARs to Purchase Shares	Weighted Average Exercise Price
Outstanding at April 30, 2007	430,000	\$ 4.06
Granted	62,000	5.80
Exercised		
Forfeited	(25,000)	4.06
Outstanding at October 31, 2007	467,000	\$ 4.29
Vested at October 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. The expected life of the SARs granted was determined by the estimated holding period of the

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SARs award. The 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.

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

Expected life (years)	5
Dividend yield	3.04%
Expected stock price volatility	37.58%
Risk free interest rate	4.42%
Fair value per SAR granted	\$ 1.13

The Company's net (loss) earnings for the second quarter and the first six months ended October 31, 2007, includes \$28,480 and \$56,656, respectively, of equity-based compensation expenses, and income tax benefits of \$10,822 and \$21,529, respectively, related to the vesting of SARs. All of these expenses were included in selling, general and administrative expenses in the consolidated statements of operations for all periods.

The Company's net earnings (loss) for the second quarter and the first six months ended October 31, 2006, includes \$15,356 and \$20,647, respectively, of equity-based compensation expenses related to the vesting of SARs. Related income tax benefits were \$5,835 and \$7,846 for the second quarter and the first six months ended October 31, 2006, respectively. All of these expenses were included in selling, general and administrative expenses in the consolidated statements of operations for all periods.

*Shares of Restricted Stock*

Periodically, the Company has awarded shares of restricted stock to employees, directors and selected outside consultants. These awards are recorded at the fair market value on the date of grant and typically vest over a period of one year. As of October 31, 2007, there was a total of \$5,018 of unrecognized compensation expenses related to awards of shares of restricted stock, which will be recognized over the ensuing year. For the quarter ended October 31, 2007, and October 31, 2006, restricted stock equity-based compensation expenses related to the vesting of shares of restricted stock were \$2,406 and \$1,002, respectively, and the related income tax benefits were \$914 and \$380, respectively.

In the first six months ended October 31, 2007, and October 31, 2006, equity-based compensation expenses related to the vesting of shares of restricted stock were \$4,805 and \$1,989, respectively, and the related income tax benefits were \$1,825 and \$755, respectively.

The following table summarizes restricted stock activity for the first six months ended October 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	2,500	4.48
Vested		
Forfeited		
Non-vested restricted stock at October 31, 2007	2,500	\$ 4.48

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**NOTE 4. RECEIVABLES**

All net 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 October 31, 2007, the Company had no income-producing properties that were classified as held for sale.

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 the sale of approximately \$1.9 million. On November 1, 2006, the Company sold its leasehold interest in the land and its owned shopping center located in Morton, Illinois, and recognized a pre-tax gain on the sale of approximately \$3.48 million. In accordance with SFAS 144, the Company's historical financial statements have been prepared with the results of operations and cash flows of these sold properties shown as discontinued operations, with the exception of the revenues, backlog, costs and expenses, and cash flows associated with the shopping center located in Orange Park, Florida, for the period between May 1, 2006, and February 12, 2007, which have not been restated as discontinued operations and are still included in continuing operations; the Company acquired the fee interest in the shopping center on February 12, 2007, and as a result, the property was re-classified as an Owned Shopping Center rather than a Leaseback Shopping Center. The reader should keep this in mind when analyzing the annual results of operations, backlog and cash flows of the Real Estate Segment. All historical statements have been restated in accordance with SFAS 144. Summarized financial information for discontinued operations for the second quarter and the first six month periods ended October 31, 2007, and October 31, 2006, is as follows:

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	<b>Second Quarter Ended October 31,</b>		<b>First Six Months Ended October 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>REAL ESTATE SEGMENT</b>				
Rental revenues	\$	\$ 226,128	\$ 173,592	\$ 452,256
Rental property operating expenses, including depreciation		(43,667)	(23,025)	(74,622)
Interest expense and mortgage prepayment fees		(53,421)	(6,475)	(109,756)
Operating earnings from discontinued operations before income taxes		129,040	144,092	267,878
Income tax expense		(49,036)	(54,755)	(101,794)
Operating earnings from discontinued operations, net of tax		80,004	89,337	166,084
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	\$	\$ 80,004	\$ 1,278,684	\$ 166,084

	<b>Balances at</b>	
	<b>October 31, 2007</b>	<b>April 30, 2007</b>
<b>Assets of Discontinued Operations</b>		
Income-producing properties	\$	\$ 2,870,240
Intangible assets		28,035
	\$	\$ 2,898,275
<b>Liabilities of Discontinued Operations</b>		
Current maturities of mortgage notes and long-term debt payable	\$	\$ 32,559
Mortgage notes payable		375,776
	\$	\$ 408,335



**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 expenses charged to the segments by the Parent Company are not included in the segments' results.

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<b>For the Second Quarter Ended October 31, 2007</b>	<b>BPE</b>	<b>Real Estate (1)</b>	<b>Parent</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers	\$ 3,987,123	\$ 1,273,959	\$	\$	\$ 5,261,082
Interest and other income		405,622	15,278	(305,724)	115,176
Intersegment revenues		147,541		(147,541)	
Total revenues from continuing operations	\$ 3,987,123	\$ 1,827,122	\$ 15,278	\$ (453,265)	\$ 5,376,258
Net (loss) earnings	\$ (234,141)	\$ 200,346	\$ (398,052)	\$ 86,975	\$ (344,872)

<b>For the Second Quarter Ended October 31, 2006</b>	<b>BPE</b>	<b>Real Estate (1)</b>	<b>Parent</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers	\$ 3,238,652	\$ 3,473,861	\$	\$	\$ 6,712,513
Interest and other income	7,772	299,137	35,829	(228,617)	114,121
Intersegment revenues		126,596		(126,596)	
Total revenues from continuing operations	\$ 3,246,424	\$ 3,899,594	\$ 35,829	\$ (355,213)	\$ 6,826,634
Net (loss) earnings	\$ (126,282)	\$ 1,375,424	\$ (826,007)	\$ (67,184)	\$ 355,951

<b>For the First Six Months Ended October 31, 2007</b>	<b>BPE</b>	<b>Real Estate (1)</b>	<b>Parent</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers	\$ 8,753,515	\$ 4,181,346	\$	\$	\$ 12,934,861
Interest and other income	55,094	697,868	28,048	(583,333)	197,677
Intersegment revenues		295,105		(295,105)	
Total revenues from continuing operations	\$ 8,808,609	\$ 5,174,319	\$ 28,048	\$ (878,438)	\$ 13,132,538
Net (loss) earnings	\$ (199,546)	\$ 2,540,505	\$ (1,208,378)	\$ 80,951	\$ 1,213,532

<b>For the First Six Months Ended October 31, 2006</b>	<b>BPE</b>	<b>Real Estate (1)</b>	<b>Parent</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from unaffiliated customers	\$ 5,854,067	\$ 4,772,876	\$	\$	\$ 10,626,943
Interest and other income	54,849	644,358	52,517	(478,898)	272,826
Intersegment revenues		250,739		(250,739)	
Total revenues from continuing operations	\$ 5,908,916	\$ 5,667,973	\$ 52,517	\$ (729,637)	\$ 10,899,769

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Net (loss) earnings	\$ (418,910)	\$ 1,644,389	\$ (1,356,737)	\$ (63,686)	\$ (194,944)
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- (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, and therefore, in this presentation the Real Estate Segment's net earnings includes earnings from discontinued operations, pursuant to SFAS 144, that resulted from the gain on sale of certain income-producing properties, and earnings included in continuing operations that resulted from the gain on sale of other real estate assets.

The following is a reconciliation of segment revenues shown in the table above to consolidated revenues on the statements of operations for the second quarter and the first six month periods ended October 31, 2007, and October 31, 2006:

	Second Quarter Ended October 31,		First Six Months Ended October 31,	
	<b>2007</b>	2006	<b>2007</b>	2006
Consolidated segment revenues	<b>\$ 5,376,258</b>	\$ 6,826,634	<b>\$ 13,132,538</b>	\$ 10,899,769
Revenues from sales of real estate held for sale		(2,050,000)		(2,050,000)
Total consolidated revenues	<b>\$ 5,376,258</b>	\$ 4,776,634	<b>\$ 13,132,538</b>	\$ 8,849,769

**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. Because the Company had a loss from continuing operations for the second quarter of fiscal 2008, and the first six months ended October 31, 2007, and the first six months ended October 31, 2006, all stock equivalents were antidilutive during these periods, and therefore, are excluded when determining the diluted weighted average number of shares outstanding. Even though the Company had earnings from continuing operations for the second quarter ended October 31, 2006, there were no related stock options, SARs or warrants in the money that would cause a dilutive effect on the weighted average number of shares outstanding. If the Company had earnings from continuing operations, the dilutive effect on the number of common shares for the second quarter of fiscal 2008 and fiscal 2007 would have been 287,690 and zero shares, respectively, and for the first six months of fiscal 2008 and fiscal 2007, the dilutive effect on the number of common shares would have been 228,863 and zero shares, respectively.

**Table of Contents****NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS**

The gross carrying amounts and accumulated amortization for all of the Company's intangible assets as of October 31, 2007, and as of April 30, 2007, are as follows:

	October 31, 2007	
	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets, subject to amortization:</b>		
Proprietary BPE software solutions	\$ 3,266,363	\$ 1,520,901
Acquired computer software	462,555	444,305
Real estate lease costs	1,378,831	556,798
Customer relationships	218,000	167,133
Deferred loan costs	421,948	107,501
Other	28,660	18,632
	<b>\$ 5,776,357</b>	<b>\$ 2,815,270</b>
<b>Intangible assets and goodwill, not subject to amortization:</b>		
Trademark	\$ 708,707	\$
Goodwill	\$ 5,458,717	\$
	April 30, 2007	
	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets, subject to amortization:</b>		
Proprietary BPE software solutions	\$ 3,186,699	\$ 1,271,190
Acquired 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
	<b>\$ 6,198,184</b>	<b>\$ 2,987,436</b>
<b>Intangible assets and goodwill, not subject to amortization:</b>		
Trademark	\$ 708,707	\$
Goodwill	\$ 5,458,717	\$
Aggregate amortization expenses for all amortized intangible assets		
For the second quarter ended October 31, 2007		\$207,459

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For the six months ended October 31, 2007	414,472
For the second quarter ended October 31, 2006	202,383
For the six months ended October 31, 2006	353,280

**Table of Contents****NOTE 9. DISPOSITIONS**

On July 31, 2007, the Company sold: its leasehold interest in a shopping center located in Jacksonville, Florida; 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; for a total combined sales price of \$6.797 million, resulting in a pre-tax gain on the sales of approximately \$3.776 million. After selling expenses, these sales generated net cash proceeds of approximately \$6.4 million. In addition, the Company purchased its minority partners' interests in the Columbus, Georgia, shopping center by utilizing two notes payable totaling approximately \$400,000, which are recorded on the accompanying consolidated balance sheet as current maturities of mortgage notes and long-term debt payable. The cash proceeds are recorded on the accompanying consolidated balance sheet as restricted cash. In accordance with SFAS 144, the sale of the Company's leasehold interest in the shopping center located in Jacksonville, Florida, is included in rental income on the accompanying consolidated statements of operations. The sale of the Company's leasehold interest in the land and its owned shopping center building located in Columbus, Georgia, and the sale of the Company's owned shopping center located in Orange Park, Florida, are recorded in discontinued operations in the accompanying consolidated statements of operations. The Company originally intended to use the net proceeds from these sales to acquire a like-kind property in order to qualify the sales and potential acquisition under Internal Revenue Code Section 1031 for federal income tax deferral, and had placed the proceeds with a qualified third-party intermediary; however, in December 2007, the Company determined that it would not complete such acquisition. The Company's federal tax liability is approximately \$1.5 million related to the sales, which will be offset with the Company's net operating loss carry-forwards for tax purposes. In addition, the restricted cash of approximately \$6.5 million will be released to the Company in January 2008 and converted to cash and cash equivalents.

**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 located in Newnan, Georgia, with a permanent mortgage in the amount of \$3.2 million. The permanent mortgage bears interest at 5.96%, with interest-only payments required for the first twelve months of the mortgage term, after which the mortgage will be amortized using a 30-year amortization schedule until it matures on June 8, 2017.

On August 1, 2007, the Company refinanced its owned office park located in Marietta, Georgia, with a new mortgage in the amount of \$6.65 million. The new mortgage bore interest at LIBOR +1.75%, with monthly principal and interest payments required, and was scheduled to be amortized using a 20-year amortization schedule until it matured on July 1, 2010. However, this mortgage was paid off in full on December 13, 2007, in conjunction with the sale of the Company's owned office park. See Note 12 - Subsequent Events.

**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 EVENTS**

On December 13, 2007, the Company sold its owned office park located in Marietta, Georgia, for a sales price of \$10.3 million, resulting in a pre-tax gain on the sale of approximately \$2.085 million. After selling



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expenses and repayment of the mortgage loan (see Note 10- Mortgage Notes Payable) and associated costs the sale generated cash proceeds of approximately \$3.4 million. The sale will be included in the results of operations for the quarter ended January 31, 2008. The Company currently intends to use the net proceeds from this sale to acquire an additional income producing property, which would qualify the sale and proposed acquisition under Internal Revenue Code Section 1031 for federal income tax deferral, and has placed the proceeds with a qualified third party intermediary in connection therewith. There can be no assurance, however, that the Company will be able to successfully complete such acquisition.

**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 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 on April 30, 2008.

In the following charts, changes in revenues, changes in 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 refer to 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 that have been sold, as such amounts have been reclassified to discontinued operations. See Critical Accounting Policies Discontinued Operations later in this discussion and analysis section and Note 5 to the consolidated financial statements.

**Results of operations of the second quarter and the first six months of fiscal 2008, compared to the second quarter and the first six months of fiscal 2007.**

**REVENUES From Continuing Operations**

For the second quarter of fiscal 2008, consolidated revenues from continuing operations, net of intersegment eliminations, were \$5,261,082, compared to \$4,662,513 for the second quarter of fiscal 2007, an increase of approximately 13%. For the first six months of fiscal 2008, consolidated revenues from continuing operations were \$12,934,861, compared to \$8,576,943 for the first six months of fiscal 2007, an increase of approximately 51%.

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**CHART A**  
**REVENUES FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT**  
(Dollars in Thousands)

	Second Quarter Ended		Amount Increase (Decrease)	Percent Increase (Decrease)	Six Months Ended		Amount Increase (Decrease)	Percent Increase (Decrease)
	October 31, 2007	October 31, 2006			October 31, 2007	October 31, 2006		
BPE (1)	\$3,987	\$3,239	\$ 748	23	\$ 8,754	\$5,854	\$2,900	50
Real Estate (2)	1,274	1,424	(150)	(11)	4,181	2,723	1,458	54
	\$5,261	\$4,663	\$ 598	13	\$12,935	\$8,577	\$4,358	51

**NOTES TO CHART A**

- (1) Building Performance Expert ( BPE ) Segment revenues increased by approximately \$748,000, or 23%, for the second quarter of fiscal 2008, compared to the same period in fiscal 2007, primarily due to:
- (a) an increase in revenues of approximately \$456,000, in infrastructure upgrades and energy savings projects;
  - (b) an increase of approximately \$97,000, in energy management services; and
  - (c) an increase of approximately \$98,000, in building productivity services.
- BPE Segment revenues increased by approximately \$2,900,000, or 50%, for the first six months of fiscal 2008, compared to the same period in fiscal 2007, primarily due to:
- (a) an increase in revenues of approximately \$2,262,000, in infrastructure upgrades and energy savings projects;
  - (b) an increase of approximately \$417,000, in energy management services; and
  - (c) an increase of approximately \$116,000, in building productivity services.
- (2) Real Estate Segment revenues decreased by approximately \$150,000, or 11%, for the second quarter of fiscal 2008, compared to the same period in fiscal 2007, primarily due to:
- (a) a decrease in leaseback income of approximately \$151,000 as a result of the sale of the Company's leaseback shopping center located in Jacksonville, Florida, which was sold in July 2007, and the sale of the Company's leaseback shopping center located in Richfield, Minnesota, which was sold in March 2007; and
  - (b) a decrease in leaseback income of approximately \$66,000 as a result of the sale of the Company's owned shopping center located in Orange Park, Florida, which was sold in July 2007 (see Note 5 to the consolidated financial statements);  
partially offset by:
    - (c) an increase in rental revenues of approximately \$106,000 from the Company's owned office building located in Newnan, Georgia, which was acquired in March 2007.
- Real Estate Segment revenues increased by approximately \$1,458,000, or 54%, for the first six months of fiscal 2008, compared to the same period of fiscal 2007, primarily due to:
- (a) one-time revenues of approximately \$1,553,000 related to the sale of the Company's leaseback shopping center located in Jacksonville, Florida, in July 2007; and
  - (b) an increase in rental revenues of approximately \$308,000 from the Company's shopping center located in Smyrna, Tennessee, which was acquired in July 2006, and from the Company's office building located in Newnan, Georgia, which was acquired in March 2007;  
partially offset by:



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- (c) a decrease in leaseback income of approximately \$227,000 as a result of the sale of the Company's leaseback shopping center located in Jacksonville, Florida, which was sold in July 2007, and the sale of the Company's leaseback shopping center located in Richfield, Minnesota, which was sold in March 2007; and
- (d) a decrease in leaseback income of approximately \$132,000 as a result of the sale of the Company's owned shopping center located in Orange Park, Florida, which was sold in July 2007 (see Note 5 to the consolidated financial statements).

The following table indicates the backlog of contracts and rental income for the next twelve months, by operating segment.

	October 31,		Increase (Decrease)	
	2007	2006	Amount	Percent
BPE (1)	\$ 6,892,000	\$ 6,038,000	\$ 854,000	14
Real Estate (2)	4,585,000	5,526,000	(941,000)	(17)
Less: Intersegment eliminations ( 3 )	(574,000)	(556,000)	(18,000)	3
<b>Total Backlog</b>	<b>\$ 10,903,000</b>	<b>\$ 11,008,000</b>	<b>\$ (105,000)</b>	<b>(1)</b>

(1) BPE backlog increased by approximately \$854,000, or 14%, primarily due to:

(a) an increase of approximately \$1,457,000 in energy management services; and

(b) an increase of approximately \$332,000 in building productivity services; partially offset by:

(c) a decrease of approximately \$954,000 in infrastructure upgrade and energy savings projects.

The Company estimates that the BPE backlog at October 31, 2007, will be recognized prior to October 31, 2008, with the exception of approximately \$867,000 in energy management services from contracts that extend longer than one year.

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 \$281,000, or 2.6%.

(2) The decrease in Real Estate backlog of approximately \$941,000, or 17%, was primarily due to:

(a) the inclusion in the fiscal 2007 backlog of rental revenues of approximately \$604,000 related to the Company's former leaseback shopping centers located in Jacksonville, Florida, and Richfield, Minnesota, which properties were both subsequently sold;

(b) the inclusion in fiscal 2007 backlog of rental revenues of approximately \$264,000 related to the Company's former leaseback interest in the shopping center located in Orange Park, Florida, which were not reclassified to discontinued operations upon the sale of the shopping center (see Note 5 to the consolidated financial statements); and

(c) lower rental revenues of approximately \$608,000 related to the pending expiration in January 2008 of a third-party lease at the Company's headquarters building in Atlanta, Georgia;

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partially offset by:

(d) higher rental revenues of approximately \$375,000 related to the Company's office building located in Newnan, Georgia, which was acquired in March 2007; and

(e) higher rental revenues of approximately \$142,000 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 over the next twelve months 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 68% and 67% for the second quarters of fiscal 2008 and 2007, respectively, and 60% and 67% for the first six months 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 BY SEGMENT**

(Dollars in Thousands)

	Second Quarter Ended		Percent of Segment Revenues for the Second Quarter		Six Months Ended		Percent of Segment Revenues for the Six Months Ended	
	October 31, 2007	October 31, 2006	Ended October 31, 2007	Ended October 31, 2006	October 31, 2007	October 31, 2006	October 31, 2007	October 31, 2006
BPE (1)	\$2,760	\$2,113	69	65	\$5,946	\$3,829	68	65
Real Estate (2)	825	1,020	65	72	1,795	1,922	43	71
	\$3,585	\$3,133	68	67	\$7,741	\$5,751	60	67

**NOTES TO CHART B**

1) On a dollar basis, BPE costs and expenses increased by approximately \$647,000, or 31%, for the second quarter of fiscal 2008, and approximately \$2,117,000, or 55%, for the first six months of fiscal 2008, compared to the same periods of fiscal 2007, primarily as a result of the corresponding increase in revenues.

BPE costs and expenses as a percentage of revenues increased by approximately 4% and 3% for the second quarter and first six months of fiscal 2008, respectively, compared to the same periods of fiscal 2007, primarily due to changes in the mix of services and products.

2) On a dollar basis, Real Estate costs and expenses decreased by approximately \$195,000, or 19%, for the second quarter of fiscal 2008, compared to the same period of fiscal 2007, primarily due to the absence of lease costs of approximately \$201,000 as a result of the sale of the Company's leaseback

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shopping center located in Jacksonville, Florida, which was sold in July 2007, the sale of the Company's leaseback shopping center located in Richfield, Minnesota, which was sold in March 2007, and the sale of the Company's owned shopping center located in Orange Park, Florida, which was sold in July 2007.

On a dollar basis, Real Estate costs and expenses decreased by approximately \$127,000, or 7%, for the first six months of fiscal 2008, compared to the same period of fiscal 2007, primarily due to:

- (a) the absence of lease costs of approximately \$358,000 as a result of the sale of the Company's leaseback shopping center located in Jacksonville, Florida, which was sold in July 2007, the sale of the Company's leaseback shopping center located in Richfield, Minnesota, which was sold in March 2007, and the sale of the Company's owned shopping center located in Orange Park, Florida, which was sold in July 2007; partially offset by:
- (b) costs of approximately \$95,000 from the sale of the Company's leaseback shopping center located in Jacksonville, Florida; and
- (c) an increase in rental operating costs of approximately \$140,000 from the Company's owned office building located in Newnan, Georgia, which was acquired in March 2007, and from its owned shopping center located in Smyrna, Tennessee, which was acquired in July 2006.

As a percentage of revenues, Real Estate costs and expenses were lower for the second quarter of fiscal 2008, compared to fiscal 2007, primarily due to the one-time revenues of approximately \$1,553,000 in the current year that resulted from the sale of the Company's leaseback 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 second quarters of fiscal 2008 and 2007, total selling, general and administrative expenses ( SG&A ) from continuing operations, net of intersegment eliminations, were \$1,866,852 and \$2,334,026, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 35% and 50%, respectively. For the first six months of fiscal 2008 and 2007, total SG&A expenses from continuing operations, net of intersegment eliminations, were \$4,662,509 and \$4,467,623, respectively. As a percentage of consolidated revenues from continuing operations, these expenses were 36% and 52%, 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.

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

	Second Quarter Ended		Percent of Segment Revenues for		Six Months Ended		Percent of Segment Revenues for	
	October 31, 2007	October 31, 2006	Second Quarter Ended October 31, 2007	Second Quarter Ended October 31, 2006	October 31, 2007	October 31, 2006	Six Months Ended October 31, 2007	Six Months Ended October 31, 2006
BPE (1)	\$ 1,336	\$ 1,066	34	33	\$ 2,660	\$ 2,221	30	38
Real Estate (2)	190	240	15	17	385	447	9	16
Parent (3)	341	1,028	6	22	1,618	1,800	13	21
	\$ 1,867	\$ 2,334	35	50	\$ 4,663	\$ 4,468	36	52

**NOTES TO CHART C**

- (1) BPE SG&A expenses as a percentage of revenues decreased by 8% for the first six months 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 for the second quarter of fiscal 2008 increased by approximately \$270,000, or 25%, compared to the same period of fiscal 2007, primarily due to higher sales and marketing expenses.

On a dollar basis, BPE SG&A expenses for the first six months of fiscal 2008 increased by approximately \$439,000, or 20%, compared to the same period of fiscal 2007, primarily due to higher sales and marketing expenses.

- (2) On a dollar basis, Real Estate SG&A expenses in the second quarter of fiscal 2008 decreased by approximately \$50,000, or 21%, compared to the same period of fiscal 2007, primarily due to:

(a) a decrease in legal and professional fees of approximately \$30,000 related to transaction activity; and

(b) a decrease in personnel costs of approximately \$23,000.

On a dollar basis, Real Estate SG&A expenses in the first six months of fiscal 2008 decreased by \$62,000, or 14%, compared to the same period of fiscal 2007, primarily due to:

(a) a decrease in legal and professional fees of approximately \$31,000 related to transaction activity; and

(b) a decrease of approximately \$16,000 related to real estate held for sale or future development.

- (3) On a dollar basis and as a percentage of revenues, Parent SG&A expenses decreased by approximately \$687,000, or 67%, in the second quarter of fiscal 2008, compared to the same period of fiscal 2007, primarily due to:

(a) a decrease in incentive compensation accruals of approximately \$593,000, pursuant to the Company's cash incentive compensation plan; and

(b) a decrease in consulting fees of approximately \$109,000.

On a dollar basis and as a percentage of revenues, Parent SG&A expenses





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decreased approximately \$182,000, or 10%, in the first six months of fiscal 2008, compared to the same period of fiscal 2007, primarily due to a decrease in consulting fees of approximately \$176,000.

**Gain on sale of asset**

On August 29, 2006, the Company sold its former manufacturing and warehouse facility located in downtown Atlanta, Georgia, for a sale price of \$2,050,000, resulting in a pre-tax gain on the sale of approximately \$1,545,000. After selling expenses, the sale generated cash proceeds of approximately \$1,867,000. This sale is recorded in continuing operations on the accompanying consolidated statements of operations as gain on sale of real estate, net of the costs of sale.

**Liquidity and capital resources**

Between April 30, 2007, and October 31, 2007, working capital decreased by approximately \$634,000.

Operating activities provided cash of approximately \$417,000, primarily due to:

- (a) earnings from continuing operations, net of all non-cash items, of approximately \$932,000.
  - (b) a decrease in other current assets of approximately \$584,000, primarily related to the payment of the cash surrender value of a life insurance policy of a former executive officer of the Company in fiscal 2007;
  - (c) an increase in other liabilities of approximately \$312,000, primarily related to notes payable to the minority interest owners of the leasehold interest in the land and the owned shopping center building located in Columbus, Georgia, which were sold in the first quarter of fiscal 2008; and
  - (d) a net increase in BPE trade accounts payable, accrued expenses, and billings in excess of costs and earnings of approximately \$86,000, due to the timing and submission of payments;
- partially offset by:
- (e) a net increase in BPE Segment accounts receivable and costs and earnings in excess of billings of approximately \$1,497,000, primarily due to the higher level of revenues, the timing of billings and the receipt of payments.

Investing activities used cash of approximately \$7,344,000, primarily due to:

- (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 potential federal income tax deferral under internal Revenue Code Section 1031;
- (b) additions to income-producing properties of approximately \$635,000, primarily related to tenant and building improvements;
- (c) additions to intangible assets of approximately \$119,000, primarily related to the development of BPE's proprietary building productivity software solutions; and
- (d) additions to property and equipment of approximately \$54,000, primarily related to the purchase of computer equipment.

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Financing activities provided cash of approximately \$1,043,000, primarily due to:

- (a) net proceeds of approximately \$700,000 from the permanent mortgage loan of \$3,200,000 on the Company's office building located in Newnan, Georgia, which replaced the interim loan of \$2,500,000; and
  - (b) net proceeds of approximately \$871,000 from the new mortgage loan of approximately \$6,650,000 on the Company's owned office park located in Marietta, Georgia, which replaced the original mortgage loan of approximately \$5,779,000. The new mortgage was paid off in full on December 13, 2007, in conjunction with the sale of the Company's owned office park (See Note 12 - Subsequent Events);
- offset by:
- (c) scheduled principal payments on mortgage notes and other long-term mortgages of approximately \$150,000;
  - (d) costs of approximately \$123,000 related to the refinancing of long term mortgages in the Real Estate Segment; and
  - (e) payments of regular quarterly cash dividends to shareholders of approximately \$254,000.

Discontinued operations provided cash of approximately \$4,552,000 from the sale of the Company's 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.

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 productivity software solutions on an application service provider (ASP) basis follow the provisions of Securities and Exchange Commission Staff Accounting Bulletin (SAB) 104, *Revenue Recognition and Emerging Issues Task Force, or EITF, Issue No. 00-21, Revenue Arrangements with Multiple Deliverables*. 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

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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 and consulting services are accounted for separately and are recognized as the services are rendered in accordance with SAB 104. Hardware products are recognized when sold.

Energy savings and infrastructure upgrade project revenues are reported on the percentage-of-completion method, using costs incurred to date in relation to the 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 determine whether the Company or the tenant 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

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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.

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 their estimated fair value less the 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

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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 a reasonable assurance that the objectives of the disclosure controls and procedures are met.

Based on management's evaluation, the Chief Executive Officer and the 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 the disclosure controls and procedures were met.

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

At the Company's Annual Meeting of Shareholders, held on August 29, 2007, the shareholders voted upon and approved the nominees for the Board of Directors. The voting was as follows:

DIRECTORS	VOTES FOR	VOTES WITHHELD
Alan R. Abrams	2,246,932	55,120
J. Andrew Abrams	2,245,646	56,406
Samuel E. Allen	2,246,486	55,566
Gilbert L. Danielson	2,246,386	55,666
Robert T. McWhinney, Jr.	2,247,772	54,280

**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: December 17, 2007

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

Date: December 17, 2007

/s/ Rick A. Paternostro  
Rick A. Paternostro  
Chief Financial Officer