SERVIDYNE, INC.
Form 10-Q
March 19, 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 January 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 February 28, 2007, was 3,527,170.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SERVIDYNE, INC.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) January 31, 2007	April 30, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 4,717,491**	$ 7,329,805
Restricted cash		418,594
Receivables (Note 4)	**1,659,362**	2,420,368
Less: Allowance for doubtful accounts	**(33,211)**	(11,061)
Costs and earnings in excess of billings	**1,991,723**	286,824
Deferred income taxes	**622,927**	622,927
Note receivables	**228,471**	902,505
Other	**1,315,863**	966,454
Total current assets	**10,502,626**	12,936,416
INCOME-PRODUCING PROPERTIES, net	**25,320,395**	20,724,917
PROPERTY AND EQUIPMENT, net	**871,091**	843,204
RESTRICTED CASH	**3,706,357**	3,241,310
OTHER ASSETS:		
Real estate held for future development or sale	**1,632,358**	1,925,427
Intangible assets, net (Note 8)	**3,684,090**	3,109,376
Goodwill (Note 8)	**5,458,717**	5,458,717
Other	**4,400,064**	4,170,889
	$ 55,575,698	$ 52,410,256
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade and subcontractors payables	**$ 1,318,596**	$ 705,647
Accrued expenses	**1,824,642**	2,028,196
Accrued incentive compensation	**584,416**	471,619
Billings in excess of costs and earnings	**68,078**	211,676
Current maturities of long-term debt	**1,005,626**	1,167,192
Total current liabilities	**4,801,358**	4,584,330
DEFERRED INCOME TAXES	**4,328,120**	3,710,599
OTHER LIABILITIES	**1,992,696**	1,879,037
MORTGAGE NOTES PAYABLE, less current maturities	**21,673,462**	19,806,542
OTHER LONG-TERM DEBT, less current maturities	**1,182,500**	1,483,000

Total liabilities	**33,978,136**		31,463,508
COMMITMENTS AND CONTINGENCIES (Note 11)			
SHAREHOLDERS EQUITY:			
Common stock, $1 par value; 5,000,000 shares authorized; 3,695,336 issued and 3,527,170 outstanding at January 31, 2007, 3,695,336 issued and 3,532,180 outstanding at April 30, 2006	**3,695,336**		3,695,336
Additional paid-in capital	**4,843,994**		4,803,133
Deferred stock compensation			(4,420)
Retained earnings	**13,852,851**		13,227,076
Treasury stock, common shares; 168,166 at January 31, 2007, and 163,156 at April 30, 2006	**(794,619)**		(774,377)
Total shareholders equity	**21,597,562**		20,946,748
	$ 55,575,698		$ 52,410,256

See accompanying notes to consolidated financial statements.

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SERVIDYNE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THIRD QUARTER ENDED JANUARY 31,		FIRST NINE MONTHS ENDED JANUARY 31,	
	2007	2006	**2007**	2006
REVENUES:				
Building performance experts	**$ 3,769,967**	$ 2,896,286	**$ 9,624,034**	$ 8,759,879
Rental income	**1,567,835**	1,424,227	**4,511,354**	4,236,636
	5,337,802	4,320,513	**14,135,388**	12,996,515
Interest	**151,457**	42,953	**327,247**	141,044
Other	**9,589**	64,958	**106,625**	318,830
	5,498,848	4,428,424	**14,569,260**	13,456,389
COSTS AND EXPENSES:				
Building performance experts	**2,636,382**	1,643,888	**6,465,766**	4,913,697
Rental property operating expenses, excluding interest	**980,653**	1,003,005	**2,939,324**	2,943,554
	3,617,035	2,646,893	**9,405,090**	7,857,251
Selling, general and administrative				
Building performance experts	**1,224,249**	1,130,420	**3,445,270**	3,303,643
Real estate	**188,821**	179,905	**635,387**	628,997
Parent	**1,113,491**	759,749	**2,913,528**	2,395,344
	2,526,561	2,070,074	**6,994,185**	6,327,984
Interest costs incurred	**492,746**	365,077	**1,275,260**	1,055,214
	6,636,342	5,082,044	**17,674,535**	15,240,449
GAIN ON SALE REAL ESTATE, net of costs of sale of $0, $85,707, $504,658, and $697,831, respectively		184,026	**1,545,437**	726,156
LOSS BEFORE INCOME TAXES FROM CONTINUING OPERATIONS	**(1,137,494)**	(469,594)	**(1,559,838)**	(1,057,904)
INCOME TAX BENEFIT	**(432,248)**	(178,446)	**(592,737)**	(402,003)

LOSS FROM CONTINUING OPERATIONS	**(705,246)**	(291,148)	**(967,101)**	(655,901)
DISCONTINUED OPERATIONS:				
Earnings (loss) from discontinued operations, adjusted for applicable income tax expense (benefit) of $0, ($40,298), $41,010, and ($37,348), respectively		(65,750)	**66,910**	(60,937)
Gain on sale of discontinued operations, adjusted for applicable income tax expense of $1,169,254, $521,230, $1,169,254, and $521,230, respectively	**1,907,730**	850,428	**1,907,730**	850,428
EARNINGS FROM DISCONTINUED OPERATIONS	**1,907,730**	784,678	**1,974,640**	789,491
NET EARNINGS	**$ 1,202,484**	$ 493,530	**$ 1,007,539**	$ 133,590
NET EARNINGS (LOSS) PER SHARE BASIC AND DILUTED:				
From continuing operations	**$ (.20)**	$ (.08)	**$ (.27)**	$ (.18)
From discontinued operations	**.54**	.22	**.56**	.22
NET EARNINGS PER SHARE BASIC AND DILUTED	**$ .34**	$ .14	**$ .29**	$ .04
DIVIDENDS PER SHARE	**$ .036**	$ .036	**$ .108**	$ .108
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	**3,530,290**	3,531,409	**3,527,170**	3,531,003

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Stock Compensation	Retained Earnings	Treasury Stock	Total
BALANCES at April 30, 2004	3,327,628	$3,327,628	$2,963,874	$(26,855)	$14,412,663	$(679,783)	$19,997,527
Net earnings					1,800,358		1,800,358
Common stock issued	29,973	29,973	104,108	(39,175)			94,906
Stock compensation expense				51,868		(5,159)	46,709
Cash dividends declared - $.29 per share (adjusted for subsequent stock dividend)					(1,026,089)		(1,026,089)
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 - $.14 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					1,007,539		1,007,539
Common stock acquired						(19,747)	(19,747)
Stock compensation expense			40,861	4,420		(495)	44,786
Cash dividends declared - $.108 per share					(381,764)		(381,764)
BALANCES at January 31, 2007	**3,695,336**	**$3,695,336**	**$4,843,994**	**$**	**$13,852,851**	**$(794,619)**	**$21,597,562**

See accompanying notes to consolidated financial statements.

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

	FIRST NINE MONTHS ENDED JANUARY 31,	
	2007	2006
CONTINUING OPERATIONS:		
Cash flows from operating activities:		
Net earnings	**$ 1,007,539**	$ 133,590
Income from discontinued operations, net of tax	**(1,974,640)**	(789,491)
Adjustments to reconcile net earnings to net cash used in operating activities:		
Gain on sale of real estate	**(1,545,437)**	(726,156)
Depreciation and amortization	**1,246,943**	1,009,301
Deferred tax benefit	**(592,737)**	(134,236)
Provision for (recovery of) doubtful accounts, net	**45,650**	(57,100)
Stock compensation expense	**44,786**	
Cash surrender value	**(68,626)**	(66,110)
Straight-line rent adjustment	**(42,584)**	(34,484)
Changes in assets and liabilities:		
Receivables	**641,026**	(31,909)
Costs and earnings in excess of billings	**(1,704,899)**	60,169
Note receivables	**674,034**	(510,497)
Other current assets	**(349,409)**	87,427
Other assets	**6,706**	(33,711)
Trade and subcontractors payable	**612,949**	229,237
Accrued expenses	**(239,571)**	(107,809)
Accrued incentive compensation	**112,797**	(1,089,369)
Billings in excess of costs and earnings	**(143,598)**	(137,717)
Other liabilities	**(34,512)**	(67,136)
Net cash used in operating activities	**(2,303,583)**	(2,266,001)
Cash flows from investing activities:		
Release of restricted cash held in escrow	**418,594**	8,272,399
Deposit of cash proceeds from sale of real estate held in escrow	**(3,706,357)**	
Proceeds from sale of real estate	**1,867,052**	881,177
Additions to income-producing properties, net	**(267,823)**	(640,715)
Additions to property and equipment, net	**(171,054)**	(190,059)
Additions to intangible assets, net	**(706,655)**	(649,754)
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) provided by investing activities	**(4,465,236)**	7,673,048
Cash flows from financing activities:		

Debt proceeds	**6,700,000**	
Debt repayments	**(749,916)**	(771,174)
Mortgage repayment	**(2,600,000)**	
Repurchase of Common Stock	**(19,747)**	
Deferred loan costs paid	**(113,696)**	
Cash received on stock option exercise		2,928
Cash dividends	**(381,764)**	(384,560)
Net cash provided by (used in) financing activities	**2,834,877**	(1,152,806)
DISCONTINUED OPERATIONS:		
Operating activities	**111,531**	(445,701)
Investing activities	**3,134,785**	2,048,866
Financing activities	**(1,924,688)**	(3,011,321)
Net cash provided by (used in) discontinued operations	**1,321,628**	(1,408,156)
Net (decrease) increase in cash and cash equivalents	**(2,612,314)**	2,846,085
Cash and cash equivalents at beginning of period	**7,329,805**	1,402,645
Cash and cash equivalents at end of period	**$ 4,717,491**	$ 4,248,730

See accompanying notes to consolidated financial statements.

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SERVIDYNE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 2007, AND APRIL 30, 2006
(UNAUDITED)

NOTE 1. ORGANIZATION AND BUSINESS

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

Prior to this fiscal year, the Company reported on three segments: Energy Facilities and Solutions, Energy Services, and Real Estate. In the first quarter of fiscal 2007, the Company combined the operations of the Energy Facilities and Solutions and Energy Services Segment into one integrated segment, Building Performance Experts. This segment provides comprehensive energy, infrastructure and productivity management services to owners and operators of commercial real estate.

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, 2006. Results of operations for interim periods are not necessarily indicative of annual results.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

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. In addition, as of the effective date, the Company was required to record compensation expense for any unvested portion of the previously granted awards that remained outstanding at the date of adoption. The adoption of SFAS 123(R) at that time did not have an impact on the Company s financial position or results of operations as there were no unvested equity awards that required an accounting change as of May 1, 2006.

Prior to the adoption of SFAS 123(R), the Company accounted for equity-based compensation under the provisions and related interpretations of Accounting Principles Board (APB) 25, *Accounting for Stock Issued to Employees*. Accordingly, the Company was not required to record compensation expense when stock options were granted to employees as long as the exercise price was no less than the fair value of the stock at the grant date. Under SFAS 123, *Accounting for Stock-Based Compensation*, as amended by SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the

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Company continued to follow the guidance of APB 25, but provided pro forma disclosures of net earnings and net earnings per share as if the Company had adopted the provisions of SFAS 123. The Company computed the value of all stock option awards granted for the quarter ended January 31, 2006, using the Black-Scholes option pricing model. If the Company had accounted for its stock-based compensation awards in accordance with SFAS 123, pro forma results for the quarter and nine month periods ended January 31, 2006, would have been as follows:

	Quarter Ended January 31, 2006	Nine Months Ended January 31, 2006
Net earnings, as reported	$ 493,530	$ 133,590
Add: Stock-based compensation	4,913	21,000
Deduct: Total stock-based compensation expense as determined under fair value based method for all awards, net of related tax effects	(20,184)	(78,869)
Add: Forfeitures, net of related tax effects		9,659
Pro forma net earnings	$ 478,259	$ 85,380
Net earnings per share:		
Basic and diluted as reported	$ 0.14	$ 0.04
Basic and diluted pro forma	$ 0.14	$ 0.02

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

For the third quarter and first nine months ended January 31, 2007, the Company s net earnings includes $22,150 and $44,786, respectively, of total equity-based compensation expense, and $8,417 and $17,019, respectively, of related income tax benefits. All of this expense was included in selling, general and administrative expense in the consolidated statements of operations for both periods.

Stock Options

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

	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding at April 30, 2006	757,390	$ 4.68
Granted		
Exercised		
Forfeited	(171,993)	4.71
Outstanding at January 31, 2007	585,397	$ 4.67
Vested at January 31, 2007	585,397	$ 4.67

None of the stock options were in-the-money as of January 31, 2007.

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

Exercise Price	Number of Outstanding and Exercisable Options	Weighted Average Remaining Contractual Life (Years)
$4.64	508,008	5.55
$4.77	4,400	8.39
$4.82	63,800	8.15
$5.45	9,189	7.38

Stock Appreciation Rights

The Company awarded 312,000 stock appreciation rights (SARs) on June 26, 2006, and 249,000 SARs on December 6, 2006. Before the current fiscal year, the Company had not previously awarded SARs. The SARs will vest over a five-year period in which 30% of the SARs will vest at the end of year three, 30% will vest at the end of year four and 40% will vest at the end of year five, with an early vesting provision through which 100% of the SARs would vest if the Company s stock price closes at or above $20 per share for ten consecutive business days. A summary of SARs activity for the nine months ended January 31, 2007, is as follows:

	SARs to Purchase Shares	Weighted Average Exercise Price
Outstanding at April 30, 2006		$
Granted	561,000	4.07
Exercised		
Forfeited	(96,000)	4.13
Outstanding at January 31, 2007	465,000	$ 4.06
Vested at January 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 stock price. The SARs granted had the following weighted average assumptions and fair value:

Expected life (years)	5
Dividend yield	3.19%
Expected stock price volatility	36.17%
Risk free interest rate	4.81%
Fair value of SARs granted	$ 0.77

The Company s net earnings for the third quarter and nine months ended January 31, 2007, includes $21,149 and $42,316, respectively, of equity-based compensation expense related to the vesting of SARs. Related income tax benefits were $8,037 and $16,080 for the third quarter and nine months ended January 31, 2007, respectively. All of this expense was included in selling, general and administrative expenses in the consolidated statement of operations.

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Shares of Restricted Stock

Periodically, the Company has awarded shares of restricted stock to employees, non-employees, directors and outside consultants. The awards were previously accounted for under APB No. 25, recorded at fair market value on the date of grant as deferred compensation expense, and compensation expense was recognized over the vesting period on a straight-line basis, net of forfeitures. Upon adoption of SFAS 123(R), $4,420 of deferred compensation expense related to the Company s shares of restricted stock was reclassified to additional paid in capital. As of January 31, 2007, there was a total of $1,001 of unrecognized compensation cost related to shares of restricted stock which will be recognized over the ensuing three months. For the quarters ended January 31, 2007, and January 31, 2006, restricted stock equity-based compensation expense related to the vesting of shares of restricted stock was $1,001 and $1,849, respectively. In the nine months ended January 31, 2007, and January 31, 2006, equity-based compensation expense related to the vesting of shares of restricted stock was $2,990 and $14,418, respectively. The following table summarizes restricted stock activity for the nine months ended January 31, 2007:

	Number of Restricted Shares of Stock	Weighted Weighted Average Grant Date Fair Value
Non-vested restricted stock at April 30, 2006	3,430	$ 4.68
Granted		
Vested	(2,420)	4.95
Forfeited	(110)	4.95
Non-vested restricted stock at January 31, 2007	900	$ 4.45

NOTE 4. RECEIVABLES

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

NOTE 5. DISCONTINUED OPERATIONS

Construction Segment

During fiscal 2004, the Company made the decision to curtail its operations as a general contractor, and pursuant to this decision, all operating activities ceased. The former Construction Segment has been classified as a discontinued operation.

Real Estate 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 January 31, 2007, the Company had no income-producing properties that were classified as held for sale.

On January 30, 2006, the Company sold its professional medical office building located in Douglasville, Georgia, and recognized a pre-tax gain of approximately $1.37 million.

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On November 1, 2006, the Company sold its owned shopping center located in Morton, Illinois, and recognized a pre-tax gain of approximately $3.1 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 third quarter and nine month periods ended January 31, 2007, and January 31, 2006, is as follows:

	Third Quarter Ended January 31,		**Nine Months Ended January 31,**	
	2007	2006	**2007**	2006
REVENUES:				
Construction	**$**	$	**$**	$
Rental properties		292,287	**231,613**	859,284
Interest Income & Other		(18,771)		1,277
Total revenues		273,516	**231,613**	860,561
COSTS AND EXPENSES:				
Construction cost and expenses				(25,964)
Rental properties operating expenses, including depreciation		76,489	**23,599**	250,521
Interest expense		247,616	**85,893**	462,449
Depreciation		56,842		170,525
Selling, general & administrative		(1,383)	**14,201**	101,315
Total costs and expenses		379,564	**123,693**	958,846
Earnings (loss) from discontinued operations		(106,048)	**107,920**	(98,285)
Income tax expense (benefit)		(40,298)	**41,010**	(37,348)
Earnings (loss) from discontinued operations, net of tax		(65,750)	**66,910**	(60,937)
Gain on sale of real estate	**3,076,984**	1,371,658	**3,076,984**	1,371,658
Income tax expense	**1,169,254**	521,230	**1,169,254**	521,230
Gain on sale of real estate, net of tax	**1,907,730**	850,428	**1,907,730**	850,428
Earnings from discontinued operations, net of tax	**$1,907,730**	$ 784,678	**$1,974,640**	$ 789,491

NOTE 6. OPERATING SEGMENTS

In the prior fiscal year, the Company reported operating results in three segments: Energy Facilities and Solutions, Energy Services and Real Estate. As of the beginning of the current fiscal year, the Company has combined the operations of the former Energy and Facilities Solutions Segment and the former Energy Services Segment into one

integrated segment, Building Performance Experts. All prior year amounts in the accompanying financial statements reflect the restatement of the two former segments so that they are consistent with the current year presentation. 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 shown in the Segments.

For the Quarter Ended January 31, 2007	Building Performance Experts	Real Estate (1)	Parent	Eliminations	Consolidated
Revenues from unaffiliated customers	$3,769,967	$1,567,835	$	$	$5,337,802
Interest and other income (expense)	(1,022)	297,672	26,622	(162,226)	161,046
Intersegment revenue		127,119		(127,119)	
Total revenues from continuing operations	$3,768,945	$1,992,626	$ 26,622	$(289,345)	$5,498,848
Net earnings (loss)	$ (227,509)	$2,209,558	$(783,061)	$ 3,496	$1,202,484

For the Quarter Ended January 31, 2006	Building Performance Experts	Real Estate (1)	Parent	Eliminations	Consolidated
Revenues from unaffiliated customers	$2,896,286	$1,693,960	$	$	$4,590,246
Interest and other income	24,545	254,810	10,948	(182,392)	107,911
Intersegment revenue		134,613		(134,613)	
Total revenues from continuing operations	$2,920,831	$2,083,383	$ 10,948	$(317,005)	$4,698,157
Net earnings (loss)	$ (70,919)	$1,106,749	$(547,322)	$ 3,497	$ 492,005

For the Nine Months Ended January 31, 2007	Building Performance Experts	Real Estate (1)	Parent	Eliminations	Consolidated
Revenues from unaffiliated customers	$9,624,034	$6,561,354	$	$	$16,185,388
Interest and other income	53,827	942,030	79,139	(641,124)	433,872
Intersegment revenue		377,858		(377,858)	
Total revenues from continuing operations	$9,677,861	$7,881,242	$ 79,139	$(1,018,982)	$16,619,260
Net earnings (loss)	$ (646,419)	$3,739,946	$(2,096,478)	$ 10,490	$ 1,007,539

For the Nine Months Ended	Building Performance	Real Estate

January 31, 2006	Experts	(1)	Parent	Eliminations	Consolidated
Revenues from unaffiliated customers	$8,759,879	$5,660,623	$	$	$14,420,502
Interest and other income	35,808	827,428	24,588	(427,950)	459,874
Intersegment revenue		396,506		(396,506)	
Total revenues from continuing operations	$8,795,687	$6,884,557	$ 24,588	$(824,456)	$14,880,376
Net earnings (loss)	$ (92,130)	$1,901,083	$(1,631,518)	$ (3,838)	$ 173,597

(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 gain on sale of certain 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 quarters and nine month periods ended January 31, 2007, and January 31, 2006:

	Quarter Ended January 31,		Nine Months Ended January 31,	
	2007	2006	2007	2006
Consolidated Segment revenues	$5,498,848	$4,698,157	$16,619,260	$14,880,376
Revenues on sales of real estate held for sale		(269,733)	(2,050,000)	(1,423,987)
Total consolidated revenues	$5,498,848	$4,428,424	$14,569,260	$13,456,389

The following is a reconciliation of segment net earnings shown in the table on the previous page to consolidated net earnings on the statements of operations for the quarters and nine month periods ended January 31, 2007, and

January 31, 2006:

	Quarter Ended January 31,		Nine Months Ended January 31,	
	2007	2006	2007	2006
Consolidated Segment net earnings	$1,202,484	$492,005	$1,007,539	$173,597
Discontinued Construction Segment net earnings (loss)		1,525		(40,007)
Consolidated net earnings	$1,202,484	$493,530	$1,007,539	$133,590

NOTE 7. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings 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 third quarter of fiscal 2007 and fiscal 2006 was 9,438 and 626 shares, respectively. The dilutive effect on the number of common shares for the first nine months of fiscal 2007 and fiscal 2006 was 837 and 67,541 shares, respectively. Because the Company had a loss from continuing operations for all periods presented, all stock equivalents were anti-dilutive, and therefore, are excluded when determining the diluted weighted average number of shares outstanding.

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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 January 31, 2007, are as follows:

	Gross Carrying Amount	Accumulated Amortization
Intangible assets, subject to amortization:		
Proprietary building performance expert software applications	$ 3,084,696	$ 1,165,744
Acquired computer software	451,428	425,674
Real estate lease costs	1,553,405	830,256
Customer relationships	218,000	134,493
Deferred loan costs	490,630	278,787
Non-compete agreements	23,948	23,948
Other	28,660	16,482
	$ 5,850,767	$ 2,875,384
Intangible assets, not subject to amortization:		
Trademark	$ 708,707	$
Goodwill	$ 5,458,717	$

Aggregate amortization expense for all amortized intangible assets	
For the three months ended January 31, 2007	$217,746
For the three months ended January 31, 2006	143,259
For the nine months ended January 31, 2007	543,246
For the nine months ended January 31, 2006	389,406

The Company performed the annual impairment analysis of goodwill and indefinite lived intangible assets for the Building Performance Experts Segment during the quarter as required by SFAS 142. Additionally, the Company performed a sensitivity analysis assuming the discount rate was 100 basis points higher and the growth rate was 30% lower than those used in the initial analysis. The analyses did not result in an impairment for fiscal 2007. As of January 31, 2007, the Company does not believe that any of its goodwill or other intangible assets are impaired.

NOTE 9. ACQUISITIONS

On July 14, 2006, Stewartsboro Crossing, LLC, a newly-formed wholly-owned subsidiary of the Company, acquired a shopping center located in Smyrna, Tennessee. The Company used the net cash proceeds from the sale of its former medical office building, which proceeds had been held in escrow by a qualified third party intermediary, as well as interim bank financing, to purchase the income-producing property for approximately $5.27 million, including the costs associated with completing the transaction. A permanent mortgage, replacing the interim bank financing, was subsequently put in place as discussed below. The acquisition was structured in order to qualify the sale and acquisition as a tax deferred exchange under Internal Revenue Code Section 1031.

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The following table summarizes estimated fair values of the assets acquired at the date of acquisition as follows:

	Purchase of Stewartsboro	Estimated Useful Life
Land	$ 1,300,140	Indefinite
Land improvements	240,684	15 years
Building	3,385,911	39 years
Intangible assets	341,020	Over remaining lives of leases
Total assets acquired	$ 5,267,755	

The assets and results of operations have been included in the Company s financial statements since the date of acquisition.

On September 8, 2006, the Company replaced its interim bank loan of $2.6 million with a permanent loan in the amount of $4.1 million. The loan bears interest at 6.26% with interest only payments for the first twelve months, and then the loan will be amortized using a 30-year amortization schedule until it matures on October 1, 2016.

NOTE 10. DISPOSITIONS

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 costs of sale. The Company used the net proceeds from this sale to acquire an additional income producing property, in order to qualify the sale and acquisition under Internal Revenue Code Section 1031 for federal income tax deferral. See Note 12 Subsequent Events.

On November 1, 2006, the Company sold its owned shopping center located in Morton, Illinois, for a sales price of $3,550,000, resulting in a pre-tax gain on the sale of approximately $3,076,000. After selling expenses, repayment of the mortgage loan and associated costs, the sale generated cash net proceeds of approximately $1,313,000. This sale is recorded in discontinued operations on the accompanying consolidated statements of operations. The Company used the net cash proceeds from this sale to acquire an additional income producing property, in order to qualify the sale and acquisition under Internal Revenue Code Section 1031 for federal income tax deferral 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, 2006.

NOTE 12. SUBSEQUENT EVENTS

On February 12, 2007, Abrams Orange Park, LLC, a newly-formed wholly-owned subsidiary of the Company, acquired the land and building associated with the Company s leaseback shopping center

located in Orange Park, Florida. The Company s lease with the owner of the land and building was terminated in connection therewith. The Company used net cash proceeds of approximately $1.83 million from the sale of its former manufacturing and warehouse facility, which proceeds had been held in escrow by a qualified third party intermediary, and approximately $970,000 of the Company s own cash, to purchase the income-producing property for approximately $2.8 million. The acquisition was structured in order to qualify the sale and acquisition as a tax deferred exchange under Internal Revenue Code Section 1031.

On March 12, 2007, the Company closed on the sale of its former leaseback interest in a shopping center located in Richfield, Minnesota, for a sales price of $150,000, resulting in a pre-tax gain and net cash proceeds of approximately $145,000, excluding the costs associated with completing the transaction. The proceeds were placed with a qualified third party intermediary and used to acquire an additional income producing property, in order to qualify the sale and acquisition under Internal Revenue Code Section 1031 for federal income tax deferral.

On March 12, 2007, Newnan Office Plaza, LLC, a newly-formed wholly-owned subsidiary of the Company, acquired an office building located in Newnan, Georgia. The Company used the net cash proceeds from the sale of its former shopping center located in Morton, Illinois, and the sale of its former leaseback interest in a shopping center located in Richfield, Minnesota, which proceeds had been held in escrow by a qualified third party intermediary, as well as interim bank financing, to purchase the income-producing property for approximately $4.2 million, excluding the costs associated with completing the transaction. The acquisition was structured in order to qualify the sale and acquisition as a tax deferred exchange under Internal Revenue Code Section 1031.

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, 2006.

The Company s fiscal year 2007 will end April 30, 2007.

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.

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Results of operations of the third quarter and first nine months of fiscal 2007, compared to the third quarter and first nine months of fiscal 2006

REVENUES From Continuing Operations

For the third quarter of fiscal 2007, consolidated revenues from continuing operations, including interest income and other income, and net of intersegment eliminations, were $5,498,848, compared to $4,428,424 for the third quarter of fiscal 2006, an increase of approximately 24%. For the first nine months of fiscal 2007, consolidated revenues from continuing operations were $14,569,260, compared to $13,456,389 for the first nine months of fiscal 2006, an increase of approximately 8%.

The figures in Chart A are segment revenues from continuing operations, net of intersegment eliminations, and do not include interest income or other income.

CHART A

REVENUES FROM CONTINUING OPERATIONS SUMMARY BY SEGMENT

(Dollars in Thousands)

	Third Quarter Ended January 31,				Nine Months Ended January 31,			
	2007	2006	Amount Increase	Percent Increase	2007	2006	Amount Increase	Percent Increase
Building Performance Experts (1)	$ 3,770	$ 2,896	$ 874	30	$ 9,624	$ 8,760	$ 864	10
Real Estate (2)	1,568	1,424	144	10	4,511	4,237	274	6
	$ 5,338	$ 4,320	$ 1,018	24	$ 14,135	$ 12,997	$ 1,138	9

NOTES TO CHART A

(1) Building Performance Experts Segment revenues from continuing operations increased $874,000, or 30%, for the third quarter of fiscal 2007, compared to the same period in fiscal 2006, primarily due to:

(a) an increase in revenues of approximately $764,000 related to lighting projects; and

(b) an increase of approximately $47,000 related to energy engineering services.

Building Performance Experts Segment revenues from continuing operations increased $864,000, or 10%, for the first nine months of fiscal 2007, compared to the same period in fiscal 2006, primarily due to:

(a) an increase in fiscal 2007 in revenues of approximately $1,097,000 related to lighting projects;

(b) an increase in fiscal 2007 in revenues of approximately $355,000 related to energy engineering services;

offset by:

(c) the absence of one-time revenues in the current year unlike the prior period, when of approximately $656,000 which were recognized in last year s first quarter of fiscal 2006 from a consulting services contract that was substantially performed in prior periods and did not have any associated costs and expenses incurred in the period (see Chart B)

(2) Real estate revenues from continuing operations increased $144,000 or 10% for the third quarter of fiscal 2007, and $274,000 or 6% for the first nine months of fiscal 2007, compared to the same periods in fiscal 2006, primarily due to:

(a) an increase in rental income related to (1) successful leasing activities that led to higher rental revenues of $60,000 and $180,000 for the third quarter and first nine months of fiscal 2007, respectively; and (2) rental revenues of $162,000 and $329,000 for the third quarter and first nine months of fiscal 2007, respectively, as the result of the acquisition of a shopping center in Smyrna, Tennessee, in July 2006.

offset by:

(b) a decrease in leaseback income of approximately $78,000 and $235,000 for the third quarter and first nine months of fiscal 2007, respectively, resulting from the sale in fiscal 2006 of the Company s former leaseback shopping center located in Bayonet Point, Florida.

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

	January 31,	
	2007	2006
Building Performance Experts (a)	$ 5,866,000	$ 5,260,000
Real Estate (b)	6,027,000	5,401,000
Less: Intersegment eliminations (c)	(560,000)	(544,000)
Total Backlog	$ 11,333,000	$ 10,117,000

The Company estimates that the backlog at January 31, 2007, will be completed prior to January 31, 2008, except for approximately $488,000 of Building Performance Expert backlog relating to revenues to be recognized over a contract period of longer than one year.

(a) The increase in Building Performance Experts backlog is primarily due to an increase of approximately $347,000 in energy engineering contracts and approximately $864,000 of revenues from customers upgrading to the Company s new proprietary Web/wireless building performance software offerings offset by lower revenues from lighting upgrade projects of approximately $605,000. Backlog includes some contracts that can be cancelled with less than one year s notice, and assumes cancellation provisions will not be invoked. The cancellation rate for such contracts in the previous twelve months was approximately 8.4% ($452,697). Backlog also includes an awarded lighting job of $1 million in which a signed contract has not been received from a previous customer.

(b) Real Estate backlog increased primarily as the result of approximately $469,000 of rental revenues related to the shopping center located in Smyrna, Tennessee, acquired by the Company in July 2006, and an increase in net rental revenues of $260,000 related to successful leasing activities at other properties. These increases are offset by a decrease of approximately $103,000 in rental revenues resulting from the sale of the Company s former leaseback shopping center located in Bayonet Point, Florida, in April 2006. Also, included in Real Estate backlog as of January 31, 2007, is approximately $300,000 related to the Company s interest in a shopping center located in Richfield, Minnesota, that was sold on March 12, 2007. In addition, the Company acquired an office building located in Newnan, Georgia, on March 12, 2007, that will add approximately $378,000 in backlog that is not included as of January 31, 2007. (See Note 12 Subsequent Events).

(c) Represents rental income at the Company s headquarters building to be paid to the Real Estate Segment by the Parent Company and the Company s other operating 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 61% for the third quarters of fiscal 2007 and 2006, respectively, and 67% and 60% for the first nine months of fiscal 2007 and 2006, respectively. In

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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)

	Third Quarter Ended January 31,		Percent of Segment Revenues for Third Quarter Ended January 31,		Nine Months Ended January 31,		Percent of Segment Revenues for Nine Months Ended January 31,	
	2007	2006	2007	2006	2007	2006	2007	2006
Building Performance Experts (1)	$ 2,636	$ 1,644	70	57	$ 6,466	$ 4,914	67	56
Real Estate (2)	981	1,003	63	70	2,939	2,943	65	69
	$ 3,617	$ 2,647	68	61	$ 9,405	$ 7,857	67	60

NOTES TO CHART B

1) On a dollar basis, Building Performance Experts costs and expenses from continuing operations increased $992,000, or 60%, for the third quarter of fiscal 2007, and $1,552,000 or 32% for the first nine months of fiscal 2007, compared to the same periods of fiscal 2006, primarily as a result of the increase in revenues.

   Building Performance Experts costs and expenses as a percentage of revenue from continuing operations increased for the third quarter of fiscal 2007, compared to the same period of fiscal 2006, primarily due to the changes in the mix of services and products.

   Building Performance Experts costs and expenses as a percentage of revenue from continuing operations increased for the first nine months of fiscal 2007, compared to the same period in fiscal 2006, primarily due to:

   (a) the absence of any associated costs and expenses for the one-time revenue from a consulting services contract in the first quarter of fiscal 2006; and

   (b) changes in the mix of services and products.

2) On a dollar basis, Real Estate costs and expenses from continuing operations decreased $22,000, or 2%, for the third quarter of fiscal 2007, compared to the same period of fiscal 2006, primarily due to:

   (a) the absence of lease costs of approximately $74,000 in the current year as a result of the sale in April 2006 of the Company s former leaseback shopping center located in Bayonet Point, Florida;

   (b) the absence of common area and maintenance expenses of approximately $54,000 in the current year primarily related to periodic repairs and maintenance performed in fiscal 2006 at one of the Company s shopping centers; and

   (c) the scheduled reduction of lease costs of approximately $26,000 pursuant to a lease agreement provision at one of the Company s current leaseback shopping centers located in Davenport, Iowa;

offset by:

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(d) an increase in rental operating costs and expenses of approximately $140,000 related to the shopping center located in Smyrna, Tennessee, acquired in July 2006.

On a dollar basis, Real Estate costs and expenses from continuing operations decreased $4,000, less than 1%, for the first nine months of fiscal 2007, compared to the same period of fiscal 2006, primarily due to:

(a) the absence of lease costs of approximately $219,000 in the current year as a result of the sale in April 2006 of the Company s former leaseback shopping center located in Bayonet Point, Florida; and

(b) the scheduled reduction of lease costs of approximately $72,000 pursuant to a lease agreement provision at the Company s leaseback shopping center located in Davenport, Iowa;

offset by:

(c) an increase in rental operating costs and expenses of approximately $240,000 related to the shopping center located in Smyrna, Tennessee, acquired in July 2006; and

(d) an increase in operating expenses of approximately $38,000 primarily for marketing and leasing expenses at two of the Company s income-producing properties.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
From Continuing Operations

For the third quarters of fiscal 2007 and 2006, total selling, general and administrative expenses (SG&A) from continuing operations, net of intersegment eliminations, were $2,526,561 and $2,070,074 respectively; as a percentage of consolidated revenues from continuing operations, these expenses were 47% and 48%, respectively. For the first nine months of fiscal 2007 and 2006, total SG&A expenses from continuing operations, net of intersegment eliminations, were $6,994,185 and $6,327,984, respectively, and as a percentage of consolidated revenues from continuing operations, these expenses were 49% for both periods. 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)

	Third Quarter Ended January 31,		Percent of Segment Revenues for Third Quarter Ended January 31,		Nine Months Ended January 31,		Percent of Segment Revenues for Nine Months Ended January 31,	
	2007	2006	2007	2006	2007	2006	2007	2006
Building Performance Experts (1)	$ 1,224	$ 1,130	32	39	$ 3,445	$ 3,304	36	38
Real Estate (2)	189	180	12	13	635	629	14	15
Parent (3)	1,113	760	22	18	2,914	2,395	21	18
	$ 2,526	$ 2,070	47	48	$ 6,994	$ 6,328	49	49

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NOTES TO CHART C

(1) Building Performance Experts SG&A expenses as a percentage of revenues from continuing operations decreased for the third quarter of fiscal 2007, compared to the same period of fiscal 2006, primarily because the increase in revenues that did not cause a proportional increase in SG&A expenses.

On a dollar basis, Building Performance Experts SG&A expenses from continuing operations for the third quarter and first nine months of fiscal 2007, increased $94,000 or 8% and $141,000 or 4%, respectively, compared to the same periods of fiscal 2006, primarily due to an increase in sales and marketing efforts.

(2) On a dollar basis, Real Estate SG&A expenses from continuing operations in the third quarter of fiscal 2007 increased $9,000 or 5%, compared to the same period of fiscal 2006, primarily due to an increase in professional fees of approximately $29,000 offset by a decrease of approximately $19,000 related to operating expenses for the Company s real estate held for future development or sale.

On a dollar basis, Real Estate SG&A expenses from continuing operations for the first nine months of fiscal 2007 increased $6,000 or 1%, compared to the same period of fiscal 2006, primarily due to an increase in professional fees of $50,000 offset by a decrease of approximately $40,000 related to operating expenses for the Company s real estate held for future development.

(3) On a dollar basis and as a percentage of revenue from continuing operations, Parent SG&A expenses in the third quarter of fiscal 2007 increased $353,000 or 46% and for the first nine months of fiscal 2007 increased $519,000 or 22%, compared to the same periods of fiscal 2006, primarily due to:

(a) an increase in consulting fees of approximately $67,000 and $109,000 primarily related to the sales and marketing efforts for the Company in the third quarter and first nine months of fiscal 2007, respectively; and

(b) an increase in compensation related costs of approximately $302,000 and $381,000 for the third quarter and first nine months of fiscal 2007, respectively.

Liquidity and capital resources

Between April 30, 2006, and January 31, 2007, working capital decreased by approximately $2,651,000. Operating activities used cash of approximately $2,304,000 primarily for:

(a) a net increase in accounts receivable, notes receivable, costs and earnings in excess of billings and other current assets of approximately $739,000, primarily due to the timing of billing and receipt of payments;

(b) cash payments of $484,000 related to the incentive compensation generated by the successful achievement of Company-wide earnings and performance goals in fiscal 2006; and

(c) current year losses from continuing operations;

offset by:

(d) a net increase in trade and subcontractors payables, accrued expenses, billings in excess of costs, and other liabilities of approximately $195,000, primarily due to the timing and submission of payments

Investing activities used cash of approximately $4,465,000 primarily for:

(a) the purchase of the shopping center located in Smyrna, Tennessee, for approximately $5,270,000, completing the Company s tax deferred exchange under Internal Revenue Code Section 1031. The acquisition used the proceeds of approximately $3,241,000 from the sale of the Company s former medical office building, which proceeds had been held in escrow by a qualified third party intermediary at April 30, 2006, and interim bank financing for the balance of $2.6 million (see financing activities below);

(b) the deposit with a qualified intermediary of cash proceeds of approximately $1,720,000 from the sale of the Company s owned shopping center in Morton, Illinois, in order to qualify the sale for federal income tax deferral under Internal Revenue Code Section 1031;

(c) additions to income-producing properties of $268,000, primarily related to tenant and building improvements; and

(d) additions to intangible assets of $707,000, primarily related to new software development efforts for the Company s proprietary Web/wireless building performance experts software applications;

offset by:

(e) the release of approximately $419,000 previously held in escrow for the intended purpose of purchasing a replacement property as part of an Internal Revenue Code Section 1031 federal tax deferred exchange for the Company s former leaseback shopping center located in Bayonet Point, Florida, which was sold in April 2006, as the Company did not use these funds to purchase a replacement property.

Financing activities provided cash of approximately $2,835,000 primarily from:

(a) net proceeds of $1,500,000 from the permanent loan of $4,100,000 on the Company s shopping center located in Smyrna, Tennessee, which replaced the interim bank loan of $2,600,000;

offset by:

(b) scheduled principal payments on mortgage notes and other long-term debt of approximately $750,000; and

(c) payment of three regular quarterly cash dividends to shareholders totaling approximately $382,000.

Discontinued operations provided cash of $1,322,000 primarily from the sale of the Company s owned shopping center located in Morton, Illinois.

On September 8, 2006, the Company replaced its interim bank loan of $2.6 million used to purchase its shopping center in Smyrna, Tennessee, with a permanent loan in the amount of $4.1 million. The permanent loan bears interest at 6.26% with interest only payments for the first twelve months, and then the loan will be amortized using a 30-year amortization schedule until it matures on October 1, 2016. The new loan provided additional cash to the Company of approximately $1.527 million.

Effective February 22, 2007, the Company s retirement agreement with a former officer and director of the Company terminated early due to the death of the retiree. In addition, the Company had a split dollar life insurance policy with a total death benefit of approximately $1,059,000 that insured the former officer and director. The insurance contract calls for the Company to receive the greater of the total premiums paid by the Company during the life of the contract or the amount of the death benefit payable in excess of $600,000. The Company had approximately $672,000 recorded as a long-term other asset on the accompanying balance sheet as of January 31, 2007, in connection with this contract.

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 engineering and consulting services are accounted for separately and are recognized as the services are rendered in accordance with SAB 104. Sales of proprietary client services computer software solutions and hardware products are recognized when products are sold.

Lighting 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.

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. The most significant assumptions in the impairment analysis are estimated future revenue growth, estimated future profit margins and discount rate. The Company estimates future revenue growth by utilizing several factors, which include revenue currently in backlog, commitments from long standing customers, targeted revenue from qualified prospects, and revenues expected to be generated from new sales or marketing initiatives. The discount rate is determined by an average cost of the Company s equity and debt. The Company performed the annual impairment analysis of goodwill and indefinite lived intangible

assets for the Building Performance Experts Segment in the quarter ended January 31, 2007, as required by SFAS 142. Additionally, the Company performed a sensitivity analysis assuming the discount rate was 100 basis points higher and the growth rate was 30% lower than those used in the initial analysis. The analyses did not result in an impairment for fiscal 2007. As of January 31, 2007, the Company does not believe that any of its goodwill or other intangible assets are impaired.

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, 2006. Refer to the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2006, 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.

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.

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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, 2006, 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On December 6, 2006, the Company granted Mr. Joel K. Lowery 75,000 stock appreciation rights (SARs) as a material inducement for him to join the Company s subsidiary, Servidyne Systems, LLC, as its Executive Vice President of Sales and Marketing. These SARs are exercisable for shares of the Company s Common Stock, have an exercise price of $3.98 per share, and have the same 5-year vesting provisions as the recent SARs grants described in Note 3 to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. The SARs were not issued in a sale to Mr. Lowery within the meaning of the Securities Act of 1933, as amended, but such issuance would have been exempt from registration in any event pursuant to Section 4(2) of such Act.

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: March 19, 2007	/s/ Alan R. Abrams
	Alan R. Abrams Chief Executive Officer
Date: March 19, 2007	/s/ Mark J. Thomas
	Mark J. Thomas Chief Financial Officer