SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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PDG ENVIRONMENTAL INC

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UNITED STATES
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 period ended July 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 0-13667

PDG Environmental, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**22-2677298** (I.R.S. Employer Identification No.)
1386 Beulah Road, Building 801 **Pittsburgh, Pennsylvania** (Address of principal executive offices)	**15235** (Zip Code)

Registrant' s telephone number, including area code (412) 243-3200

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☑ No

As of September 9, 2008, there were 20,826,109 shares of the registrants Common Stock, par value $0.02 per share, outstanding.

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PDG Environmental, Inc. and Subsidiaries

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PART I – FINANCIAL INFORMATION

PDG ENVIRONMENTAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2008 (unaudited)	January 31, 2008
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 14,000	$ 90,000
Contracts Receivable, Net	23,102,000	22,154,000
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	4,404,000	3,325,000
Inventories	650,000	689,000
Deferred Income Tax Asset	1,124,000	1,111,000
Other Current Assets	667,000	94,000
Total Current Assets	29,961,000	27,463,000
Property, Plant and Equipment	12,342,000	12,201,000
Less: Accumulated Depreciation	(10,341,000)	(9,859,000)
	2,001,000	2,342,000
Intangible Assets	4,335,000	4,718,000
Goodwill	2,614,000	2,614,000
Deferred Income Tax Asset	3,631,000	2,804,000
Contracts Receivable, Non Current	677,000	677,000
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts, Non Current	3,327,000	3,327,000
Other Assets	297,000	300,000
Total Assets	$ 46,843,000	$ 44,245,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 11,241,000	$ 9,729,000
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	2,074,000	1,832,000
Accrued Income Taxes	218,000	255,000
Accrued Liabilities	6,104,000	4,921,000
Current Portion of Long-Term Debt	388,000	412,000
Mandatorily Redeemable Cumulative Convertible Series C Preferred Stock	3,954,000	–
Total Current Liabilities	23,979,000	17,149,000
Long-Term Debt	11,537,000	10,679,000
Mandatorily Redeemable Cumulative Convertible Series C Preferred Stock	–	3,446,000
Total Liabilities	35,516,000	31,274,000
Stockholders' Equity		
Common Stock	418,000	418,000
Common Stock Warrants	1,628,000	1,628,000
Paid-In Capital	19,959,000	19,728,000

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Accumulated Deficit	(10,640,000)	(8,765,000)
Treasury Stock, at Cost	(38,000)	(38,000)
Total Stockholders' Equity	11,327,000	12,971,000
Total Liabilities and Stockholders' Equity	$ 46,843,000	$ 44,245,000

See accompanying notes to consolidated financial statements.

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PDG ENVIRONMENTAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended July 31,	
	2008	2007
Contract Revenues	$ 23,207,000	$ 26,638,000
Contract Costs	20,153,000	22,597,000
Gross Margin	3,054,000	4,041,000
Loss on Sale of Fixed Assets	(4,000)	–
Selling, General and Administrative Expenses	3,614,000	2,991,000
Income (Loss) from Operations	(564,000)	1,050,000
Other Income (Expense):		
Interest Expense	(202,000)	(309,000)
Non-Cash Interest Expense for Preferred Dividends and Accretion of Discount	(260,000)	(219,000)
Interest and Other Income	16,000	147,000
	(446,000)	(381,000)
Income (Loss) Before Income Taxes	(1,010,000)	669,000
Income Tax (Benefit) Provision	(278,000)	164,000
Net Income (Loss)	$ (732,000)	$ 505,000
Earnings (Loss) Per Common Share − Basic:	$ (0.04)	$ 0.02
Earnings (Loss) Per Common Share − Dilutive:	$ (0.04)	$ 0.02
Average Common Shares Outstanding	20,823,000	20,588,000
Average Dilutive Common Stock Equivalents Outstanding	–	759,000
Average Common Shares and Dilutive Common Stock Equivalents Outstanding	20,823,000	21,347,000

See accompanying notes to consolidated financial statements.

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PDG ENVIRONMENTAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Six Months Ended July 31, 2008	2007
Contract Revenues	$ 40,922,000	$ 48,338,000
Contract Costs	35,635,000	40,604,000
Gross Margin	5,287,000	7,734,000
Loss on Sale of Fixed Assets	(6,000)	–
Selling, General and Administrative Expenses	7,075,000	5,805,000
Income (Loss) from Operations	(1,794,000)	1,929,000
Other Income (Expense):		
Interest Expense	(405,000)	(580,000)
Non-Cash Interest Expense for Preferred Dividends and Accretion of Discount	(508,000)	(429,000)
Interest and Other Income	37,000	152,000
	(876,000)	(857,000)
Income (Loss) Before Income Taxes	(2,670,000)	1,072,000
Income Tax (Benefit) Provision	(795,000)	253,000
Net Income (Loss)	$ (1,875,000)	$ 819,000
Earnings (Loss) Per Common Share – Basic:	$ (0.09)	$ 0.04
Earnings (Loss) Per Common Share – Dilutive:	$ (0.09)	$ 0.04
Average Common Shares Outstanding	20,819,000	20,546,000
Average Dilutive Common Stock Equivalents Outstanding	–	585,000
Average Common Shares and Dilutive Common Stock Equivalents Outstanding	20,819,000	21,131,000

See accompanying notes to consolidated financial statements.

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PDG ENVIRONMENTAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended July 31,	
	2008	2007
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (1,875,000)	$ 819,000
Adjustments to Reconcile Net Income (Loss) to Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	894,000	934,000
Deferred Income Tax Benefit	(840,000)	111,000
Interest Expense for Series C Preferred Stock Dividends and Accretion of Discount	508,000	429,000
Stock Based Compensation	229,000	149,000
Loss on Sale of Fixed Assets	6,000	–
Provision for Uncollectible Accounts	450,000	(39,000)
	(628,000)	2,403,000
Changes in Current Assets and Liabilities:		
Contracts Receivable	(1,398,000)	(6,812,000)
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	(1,079,000)	145,000
Inventories	39,000	(116,000)
Accrued Income Taxes	(37,000)	306,000
Other Current Assets (Prepaid Insurance)	740,000	878,000
Accounts Payable	1,512,000	1,689,000
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	242,000	972,000
Accrued Liabilities	629,000	795,000
Total Changes	648,000	(2,143,000)
Net Cash Provided by Operating Activities	20,000	260,000
Cash Flows From Investing Activities:		
Purchase of Property, Plant and Equipment	(153,000)	(365,000)
Proceeds from Sale of Fixed Assets	4,000	–
Changes in Other Assets	3,000	(58,000)
Net Cash Used in Investing Activities	(146,000)	(423,000)
Cash Flows From Financing Activities:		
Proceeds from Debt	1,005,000	960,000
Proceeds from Exercise of Stock Options and Warrants	2,000	69,000
Payment of Premium Financing Liability	(759,000)	(572,000)
Principal Payments on Debt	(198,000)	(185,000)
Net Cash Provided by Financing Activities	50,000	272,000
Net Increase (Decrease) in Cash and Cash Equivalents	(76,000)	109,000
Cash and Cash Equivalents, Beginning of Year	90,000	158,000
Cash and Cash Equivalents, End of Period	$ 14,000	$ 267,000
Supplementary Disclosure of Non-Cash Investing and Financing Activity:		
Decrease in Goodwill and Accrued Liabilities for Earnout Liability	$ –	$ (32,000)
Financing of Annual Insurance Premium	$ 1,313,000	$ 983,000
Non-Cash Purchase of Fixed Assets Financed Through Capital Leases	$ 27,000	$ 176,000

See accompanying notes to consolidated financial statements.

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PDG ENVIRONMENTAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX MONTHS ENDED JULY 31, 2008
(UNAUDITED)

NOTE 1 − BASIS OF PRESENTATION

The consolidated financial statements include PDG Environmental, Inc. and its wholly-owned subsidiaries (the “Corporation” or “Company”).

The condensed consolidated financial statements as of and for the three and six months ended July 31, 2008 and 2007, are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, these condensed consolidated financial statements should be read in conjunction with the Company’ s Annual Report on Form 10-K, for the year ended January 31, 2008. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments (which are of a recurring nature) necessary for the fair statement of the results for the interim periods.

Due to variations in the environmental and specialty contracting industry, the results of operations for any interim period are not necessarily indicative of the results expected for the full fiscal year.

NOTE 2 − CONTRACTS RECEIVABLE

At July 31, 2008 and January 31, 2008, contract receivables consist of the following:

	July 31, 2008	January 31, 2008
Billed completed contracts	$ 10,883,000	$ 14,326,000
Contracts in Progress	13,896,000	9,791,000
	24,779,000	24,117,000
Less allowance for Uncollectible Accounts	(1,000,000)	(1,286,000)
Net Contracts Receivables	$ 23,779,000	$ 22,831,000

Contracts receivable at July 31, 2008 and January 31, 2008, include $2.2 million and $2.4 million, respectively, of retainage receivables. At July 31, 2008 and January 31, 2008, a portion of the receivable balance, $0.7 million, has been classified as non-current because the Corporation does not anticipate realizing the amount within the normal operating cycle.

At July 31, 2008, the Corporation had approximately $7.7 million of costs and estimated earnings in excess of billings on uncompleted contracts. Included in this amount is approximately $4.2 million of costs related to contract claims and unapproved change orders. Of the $23.8 million in contracts receivable, approximately $2.0 million of contracts receivable represent disputed or litigated items. The Corporation expects to process change orders or pursue contract claims for at least the full amount of these costs relative to the aforementioned contracts.

NOTE 3 − INCOME TAXES

A deferred tax benefit of $840,000, a current state income tax provision of $45,000, and no current federal income tax provision was recorded for the six months ended July 31, 2008. A current federal income tax benefit of $17,000, a current state income tax provision of $159,000, and a deferred tax provision of $111,000 was recorded for the six months ended July 31, 2007.

At July 31, 2008, the Corporation has approximately $6.4 million of net operating loss carryforwards for federal income tax purposes expiring in 2028 and approximately $500,000 of federal credit carryforwards, primarily Research and Development Tax Credits, expiring from 2022 to 2028.

Income taxes paid by the Corporation for the six months ended July 31, 2008 and 2007 totaled approximately $83,000 and $52,000, respectively.

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NOTE 4 − TERM DEBT

The Corporation maintains a $15 million line of credit with Huntington Bank (formerly Sky Bank). The current interest rate on the line of credit is prime plus 1%.

On July 31, 2008, the balance on the line of credit was $11.1 million with an unused availability, based upon the asset based lending formula, of $2.4 million. The majority of the Corporation' s property and equipment are pledged as security for the above obligations. Effective September 2, 2008, the Company and Huntington Bank amended the line of credit facility which resulted in an extension of the maturity date from June 6, 2009 to June 30, 2010.

On July 31, 2008, the Company was not in compliance with all of the financial covenants of the line of credit agreement however, as part of the amendment of the line of credit facility the Company obtained a waiver from Huntington Bank waiving the financial covenants as of July 31, 2008.

The Corporation paid interest costs totaling approximately $426,000 and $582,000 during the six months ended July 31, 2008 and 2007, respectively.

The Corporation' s mortgage on its Pittsburgh operating location is at an interest rate of 7.75% fixed until July 31, 2009 and is then adjusted to 2.75% above the 3-year Treasury Index every three years. On July 31, 2008, the balance on the mortgage was $241,000.

NOTE 5 − NET EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	For the Three Months Ended July 31,	
	2008	2007
Numerator:		
Net Income (loss) − Numerator for basic earnings per share−income available to common stockholders	$(732,000)	$505,000
Effect of dilutive securities:		
Preferred stock dividends and accretion of discount	−	−
Numerator for diluted earnings per share−income available to common stock after assumed conversions	$(732,000)	$505,000
Denominator:		
Denominator for basic earnings per share−weighted average shares	20,823,000	20,588,000
Effect of dilutive securities:		
Convertible Preferred Stock and related accrued dividends	−	−
Warrants	−	−
Employee Stock Options	−	759,000
Denominator for diluted earnings per share−adjusted weighted-average shares and assumed conversions	20,823,000	21,347,000
Basic earnings per share	$(0.04)	$0.02
Diluted earnings per share	$(0.04)	$0.02

For the three months ended July 31, 2008, diluted loss per share was the same as basic loss per share since the Company reported a net loss and therefore the effect of all potentially dilutive securities on the loss per share would have been antidilutive. For the three months ended July 31, 2007, 641,000 options and 5,689,000 warrants were not included in the calculation of diluted earnings per share as

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their inclusion would have been antidilutive. The conversion of the Series C Redeemable Convertible Preferred Stock was not included in the calculation of diluted earnings per share for the three months ended July 31, 2007, as their inclusion would have been antidilutive.

	For the Six Months Ended July 31,	
	2008	2007
Numerator:		
Net Income (loss) – Numerator for basic earnings per share–income available to common stockholders	$(1,875,000)	$819,000
Effect of dilutive securities:		
Preferred stock dividends and accretion of discount	–	–
Numerator for diluted earnings per share–income available to common stock after assumed conversions	$(1,875,000)	$819,000
Denominator:		
Denominator for basic earnings per share–weighted average shares	20,819,000	20,546,000
Effect of dilutive securities:		
Convertible Preferred Stock and related accrued dividends	–	–
Warrants	–	–
Employee Stock Options	–	585,000
Denominator for diluted earnings per share–adjusted weighted-average shares and assumed conversions	20,819,000	21,131,000
Basic earnings per share	$(0.09)	$0.04
Diluted earnings per share	$(0.09)	$0.04

For the six months ended July 31, 2008, diluted loss per share was the same as basic loss per share since the Company reported a net loss and therefore the effect of all potentially dilutive securities on the loss per share would have been antidilutive. For the six months ended July 31, 2007, 1,621,000 options and 5,689,000 warrants were not included in the calculation of diluted earnings per share as their inclusion would have been antidilutive. The conversion of the Series C Redeemable Convertible Preferred Stock was not included in the calculation of diluted earnings per share for the six months ended July 31, 2007, as their inclusion would have been antidilutive.

NOTE 6 – STOCK OPTIONS

On February 1, 2006, the Corporation changed its accounting method for its stock-based compensation plans and adopted the recognition and measurement principles of FASB Statement No. 123R, "Accounting for Stock-Based Compensation". In adopting FASB 123R, the Corporation utilized the modified prospective approach where by only the effect of granted but unvested options was recognized on a prospective basis. Prior to fiscal year 2007, the Corporation accounted for its stock-based compensation plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. During the three and six months ended July 31, 2008, the Company recognized $76,000 and $182,000 of stock-based employee compensation cost related to stock options. During the three and six months ended July 31, 2007, the Company recognized $56,000 and $97,000 of stock-based employee compensation cost related to stock options.

At July 31, 2008, the Corporation had 602,500 stock options subject to time vesting. During the six months ended July 31, 2008, 67,500 stock options were issued by the Corporation of which 7,500 options will vest equally over three years on the anniversary of the grant date and 60,000 options will vest immediately on the grant date. During the six months ended July 31, 2007, 505,000 stock options were issued by the Corporation of which 500,000 options will vest equally over five years on the anniversary of the grant date and 5,000 options will vest entirely in one year on the anniversary of the grant date.

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The Company utilizes a closed-form model (Black-Scholes) to estimate the fair value of stock option grants on the dates of grant. The following are the assumptions for the grant of 67,500 stock options during the six months ended July 31, 2008:

Risk free interest rate	3.78% - 3.84	%
Expected dividend yield	0.00	%
Expected life of options	6.0 - 10.0	yrs
Expected volatility rate	98.16% - 98.66%	

Weighted average fair value of options granted during the six months ended July 31, 2008	$	0.37

During the six months ended July 31, 2008 and 2007, 12,000 and 112,000 shares of the Corporation’ s common stock were issued due to the exercise of stock options.

NOTE 7 − PRIVATE PLACEMENT OF SECURITIES − JULY 2005

Common Private Placement

Securities Purchase Agreement

On July 1, 2005, the Corporation executed a securities purchase agreement (the “Common Purchase Agreement”) with various institutional and accredited investors (the “Common Investors”) pursuant to which it agreed to sell in a private placement transaction (the “Common Private Placement”) for an aggregate purchase price of $1,500,000 (a) 1,666,667 shares of the Corporation’ s Common Stock, par value $0.02 per share (the “Common Stock”), (b) warrants to purchase 416,667 shares of the Corporation’ s Common Stock at an exercise price of $1.11 per share (“First Common Offering Warrants”) and (c) warrants to purchase 416,667 shares of the Corporation’ s Common Stock at an exercise price of $1.33 per share (“Second Common Offering Warrants” and, together with the First Common Offering Warrants, the “Common Offering Warrants”). The $0.90 purchase price per share for the Common Stock represents approximately represents 80% of the average of the daily volume weighted average price of the Common Stock for the 20 day period prior to the execution of the Common Purchase Agreement. The Corporation closed the Common Private Placement on July 6, 2005. On November 21, 2005, the Corporation’ s registration statement covering the common stock to be received upon the conversion of the preferred stock and the common stock to be received upon the exercise of the warrants for common stock was declared effective by the SEC.

Common Warrants

The First Common Offering Warrants issued to each Common Investor provide such Common Investor the right to purchase shares of the Corporation’ s Common Stock, in aggregate, up to an additional 25% of the total number of Common Shares purchased by such Common Investor in the Common Private Placement at an exercise price of $1.11 per share. The First Common Offering Warrants contain a cashless exercise provision, whereby if at any time after one year from the date of issuance of the Warrant there is no effective Registration Statement registering, or no current prospectus available for, the resale of the shares subject to the Warrant (“Warrant Shares”) by the Warrant Holder, then the Warrant may also be exercised at such time by means of a “cashless exercise” in which the Warrant Holder shall be entitled to receive common shares for the number of Warrant Shares equal to the appreciation in the warrant above the exercise price at the time of the exercise. The First Common Offering Warrants expire five years from the date of issuance and contain adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassifications or similar events of the Corporation’ s capital stock, issuances of the Corporation’ s securities for consideration below the exercise price and pro rata distributions of cash, property, assets or securities to holders of the Corporation’ s Common Stock. If the First Common Offering Warrants are exercised in full in cash, the Corporation would receive upon such exercise aggregate proceeds of $462,500.

The Second Common Offering Warrants issued to each Common Investors provides such Common Investor the right to purchase shares of the Corporation’ s Common Stock, in aggregate, up to an additional 25% of the total number of Common Shares purchased by such Common Investor in the Common Private Placement at an exercise price of $1.33 per share. The Second Common Offering Warrants contain a cashless exercise provision, whereby if at any time after one year from the date of issuance of this Warrant there is no effective Registration Statement registering, or no current prospectus available for, the resale of the Warrant Shares by the Warrant Holder, then the Warrant may also be exercised at such time by means of a “cashless exercise” in which the Warrant Holder shall be entitled to receive common shares for the number of Warrant Shares equal to the appreciation in the warrant above the exercise price at the time of the

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exercise. The Second Common Offering Warrants expire five years from the date of issuance and contain adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassifications or similar events of the Corporation' s capital stock, issuances of Corporation' s securities for consideration below the exercise price and pro rata distributions of cash, property, assets or securities to holders of the Corporation' s common stock. If the Second Common Offering Warrants are exercised in full in cash, the Corporation would receive upon such exercise aggregate proceeds of $554,167.

The net proceeds to the Corporation from the offering, after costs associated with the Common Stock portion of the offering, of $1,349,000 have been allocated among common stock and warrants based upon their relative fair values. The Corporation used the Black-Scholes pricing model to determine the fair value of the warrants to be $360,000.

Preferred Private Placement

Securities Purchase Agreement

On July 1, 2005, the Corporation executed a securities purchase agreement ("Preferred Purchase Agreement") with various institutional and accredited investors (the "Preferred Investors") pursuant to which it agreed to sell in a private placement transaction (the "Preferred Private Placement") for an aggregate purchase price of $5,500,000 (a) 5,500 shares of the Corporation' s Series C Convertible Preferred Stock, stated value $1,000 per share (the "Preferred Shares"), (b) warrants to purchase 1,375,000 shares of the Corporation' s Common Stock at an exercise price of $1.11 per share ("First Preferred Offering Warrants"), (c) warrants to purchase 1,375,000 shares of the Corporation' s Common Stock at an exercise price of $1.33 per share ("Second Preferred Offering Warrants" and, together with the First Preferred Offering Warrants," the "Preferred Offering Warrants") and (d) warrants ("Over-Allotment Warrants") to purchase (1) up to 1,375 shares of Series C Preferred Stock (the "Additional Preferred Shares"), (2) warrants to purchase up to 343,750 shares of Common Stock at $1.11 per share ("First Additional Warrants") and (3) warrants to purchase up to 343,750 shares of Common Stock at $1.33 per share ("Second Additional Warrants" and, together with the First Additional Warrants, the "Additional Warrants"). The Preferred Private Placement closed on July 6, 2005.

On September 30, 2005, the Corporation' s shareholders approved to the Corporation' s Certificate of Incorporation to increase by 30 million the number of authorized shares of $0.02 par value common stock to a total of 60 million common shares. Subject to certain permitted issuances under the Preferred Purchase Agreement, the Corporation is also restricted from issuing additional securities for a period of six (6) months following the effective date of the Preferred Registration Statement without the prior written consent from the holders of the Preferred Shares.

All shares of the Series C Preferred Stock shall rank superior to the Corporation' s Common Stock and any class or series of capital stock of the Corporation hereafter creates.

Preferred Warrants

The First Preferred Offering Warrants issued to each Preferred Investor provide such Preferred Investor the right to purchase shares of the Corporation' s Common Stock, in aggregate, up to an additional 25% of the total number of shares of Common Stock issuable upon the conversion of the Preferred Stock purchased by such Preferred Investor in the Preferred Private Placement at an exercise price of $1.11 per share. The First Preferred Offering Warrants contain a cashless exercise provision, whereby at any time the Warrant may also be exercised at such time by means of a "cashless exercise" in which the Warrant Holder shall be entitled to receive common shares for the number of Warrant Shares equal to the appreciation in the warrant above the exercise price at the time of the exercise. The First Preferred Offering Warrants expire five years from the date of issuance and contain adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassifications or similar events of the Corporation' s capital stock, issuances of Common Stock for consideration below the exercise price and pro rata distributions of cash, property, assets or securities to holders of the Corporation' s common stock. If the First Preferred Offering Warrants are exercised in full in cash, the Corporation would receive upon such exercise aggregate proceeds of $1,526,250.

The Second Preferred Offering Warrants issued to each Preferred Investor provide such Preferred Investor the right to purchase shares of the Corporation' s Common Stock, in aggregate, up to an additional 25% of the total number of shares of Common Stock issuable upon the conversion of the Preferred Stock purchased by such Preferred Investor in the Preferred Private Placement at an exercise price of $1.33 per share. The Second Preferred Offering Warrants contain a cashless exercise provision, whereby at any time the Warrant may also be exercised at such time by means of a "cashless exercise" in which the Warrant Holder shall be entitled to receive common shares for the number of Warrant Shares equal to the appreciation in the warrant above the exercise price at the time of the exercise. The Second Preferred Offering Warrants expire five years from the date of issuance and contain adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassifications or similar events of the Corporation' s capital stock, issuances of the Corporation' s securities for consideration below the exercise price as well as pro rata distributions of cash, property, assets or securities to holders of the

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Corporation' s common stock. If the Second Preferred Offering Warrants are exercised in full in cash, the Corporation would receive upon such exercise aggregate proceeds of $1,828,750.

The net proceeds to the Corporation from the offering, after costs associated with the Preferred Stock portion of the offering, of $4,877,000 have been allocated among common stock and warrants based upon their relative fair values. The Corporation used the Black-Scholes pricing model to determine the fair value of the warrants to be $1,204,000.

Terms of the Preferred Stock

The rights and preferences of the Preferred Shares are set forth in the Certificate of Designation, Preferences and Rights of Series C Preferred Stock (the "Certificate of Designation"). The Preferred Shares have a face value of $1,000 per share and are convertible at any time at the option of the holder into shares of Common Stock ("Conversion Shares") at the initial conversion price of $1.00 per share (the "Conversion Price"), subject to certain adjustments including (a) stock splits, stock dividends, combinations, reclassifications, mergers, consolidations, sales or transfers of the assets of the Corporation, share exchanges or other similar events, (b) certain anti-dilution adjustments. For a complete description of the terms of the Preferred Shares please see the Certificate of Designation.

Outstanding shares of preferred stock that have not been converted to common stock at the maturity date of July 1, 2009 are payable in cash along with the related 8% per annum dividend. Thus, the preferred shares and the related amounts for accrued dividends have been classified in current liabilities as of July 31, 2008. The availability of resources to make the payments due on July 1, 2009, will depend on the Corporation' s future earnings, cash flow and its ability to secure additional financing.

Beginning 120 days following effectiveness of the registration statement, the Corporation may mandatorily convert the Preferred Shares into shares of Common Stock, if certain conditions are satisfied including, among other things: (a) if the average closing bid price of the Corporation' s Common Stock during any 20 consecutive trading day period is greater than 150% of the conversion price, (b) the Preferred Registration Statement is currently effective, (c) the maximum number of shares of Common Stock issued upon such mandatory conversion does not exceed 100% of the total 5 day trading volume of our Common Stock for the 5 trading day period preceding the mandatory conversion date and (d) no mandatory conversions have occurred in the previous 30 trading days.

The Corporation consulted FAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", FAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Corporation' s Own Stock" in accounting for the transaction. The preferred stock has been recorded as a liability after consulting FAS No. 150. Although the preferred includes conversion provisions, they were deemed to be non-substantive at the issuance date. Subsequent to the issuance, the Corporation' s stock price rose in part to Hurricane Katrina and the acquisition of the former Flagship operations, and a number of preferred shares were converted to common. Per FAS No. 150, there is to be no reassessment of the non-substantive feature.

After valuing the warrants for the purchase of the Corporation' s common stock issued with the convertible Preferred Shares ($1,204,000), the beneficial conversion contained in the Preferred Shares ($1,645,000) and the costs associated with the Preferred Stock portion of the financing ($623,000) the convertible preferred stock was valued at $2,028,000. The difference between this initial value and the face value of the Preferred Stock of $3,429,000 will be accreted back to the Preferred Stock as preferred dividends utilizing an effective interest rate of 25.2%. The accretion period is the shorter of the four-year term of the preferred or until the conversion of the preferred stock. For the three months ended July 31, 2008 and 2007, the accretion of the aforementioned discount was $147,000 and $114,000, respectively. For the six months ended July 31, 2008 and 2007, the accretion of the aforementioned discount was $285,000 and $221,000, respectively. In accordance with FAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," the accretion of the discount on the preferred stock is classified as interest expense in the Statement of Consolidated Operations.

A cumulative premium (dividend) accrues and is payable with respect to each of the Preferred Shares equal to 8% of the stated value per annum. The premium is payable upon the earlier of: (a) the time of conversion in such number of shares of Common Stock determined by dividing the accrued premium by the Conversion Price or (b) the time of redemption in cash by wire transfer of immediately available funds. For the three months ended July 31, 2008 and 2007, the accrued dividend was $76,000 and $76,000, respectively, for both the initial private placement in July 2005 and the subsequent exercise of the over-allotment option for additional shares of Preferred Stock. For the six months ended July 31, 2008 and 2007, the accrued dividend was $152,000 and $152,000, respectively. At July 31, 2008 and 2007, total accrued dividends were $920,000 and $615,000, respectively. In accordance with FAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," the preferred stock dividend is classified as interest expense in the Statement of Consolidated Operations.

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Over-Allotment Warrants

The Over-Allotment Warrants issued to each Preferred Investor provides such Preferred Investor the right to purchase at an exercise price of $1,000 per share (a) Additional Preferred Shares, in aggregate, up to 25% of the total number of shares of Series C Preferred Stock purchased by such Preferred Investor in the Preferred Private Placement, (b) First Additional Warrants exercisable for a number of shares of Common Stock in an amount, in aggregate, up to 6.25% of the total number of shares of Common Stock issuable upon conversion of the Series C Preferred Stock purchased by such Preferred Investor in the Preferred Private Placement at an exercise price of $1.11 per share and (c) Second Additional Warrants exercisable for a number of shares of Common Stock in an amount, in aggregate, up to 6.25% of the total number of shares of the Common Stock issuable upon conversion of the Series C Preferred purchased by such Purchaser in the Preferred Private Placement at an exercise price of $1.33 per share.

From late October 2005 through mid December 2005, all holders of shares of our Series C Preferred exercised their over-allotment warrants resulting in the issuance of (i) 1,375 shares of Series C Preferred, (ii) warrants to purchase 343,750 shares of the Corporation' s Common Stock at an exercise price of $1.11 per shares and (iii) warrants to purchase 343,750 shares of the Corporation' s Common Stock at an exercise price of $1.33 per share. The warrants expire five years from the date of issuance. The exercise of the over-allotment warrants resulted in proceeds of $1,375,000 to the Corporation.

After valuing the warrants for the purchase of the Corporation' s common stock issued with the convertible Preferred Shares ($322,000), the beneficial conversion contained in the Preferred Shares ($432,000) and the costs associated with the exercise of the over-allotment ($69,000) the convertible preferred stock, issued in October 2005 from the exercise of the over-allotment option, will initially be valued at $552,000. The difference between this initial value and the face value of the Preferred Stock of $1,375,000 will be accreted back to the Preferred Stock as preferred dividends utilizing an effective interest rate of 25%. The accretion of the discount related to the over-allotment option was $37,000 and $29,000 for the three months ended July 31, 2008 and 2007, respectively, and was classified as interest expense in the Consolidated Statement of Operations. The accretion of the discount related to the over-allotment option was $71,000 and $56,000 for the six months ended July 31, 2008 and 2007, respectively

Registration Rights Agreements

In connection with the private placements in July 2005, the Corporation entered into registration rights agreements with the Common Stockholders and Preferred Stockholders. Under these registration rights agreements, the Corporation agreed to file a registration statement for the purpose of registering the resale of the common stock and the shares of common stock underlying the convertible securities we issued in the private placements. The registration rights agreements require the Corporation to keep the registration statement effective for a specified period of time. In the event that the registration statement is not filed or declared effective within the specified deadlines or is not effective for any period exceeding a permitted Black-Out Period (45 consecutive Trading Days but no more than an aggregate of 75 Trading Days during any 12-month period), then the Corporation will be obligated to pay the Preferred and Common Stockholders up to 12% of their purchase price per annum. On November 21, 2005 the Corporation' s Registration Statement was declared effective by the SEC. As of July 31, 2008 the Corporation has utilized forty-five of the permitted aggregate Black-Out days. Other than the aforementioned monetary penalty, there are no provisions requiring cash payments or settlements if registered shares cannot be provided upon conversion / exercise or the shareholders cannot sell their shares due to a blackout event.

Warrant Derivative Liability

Both the preferred and Common Stock portions of the July 2005 private placement included registration rights agreements that imposed liquidating damages in the form of a monetary remuneration should the holders be subject to blackout days (i.e. days when the holders of the Corporation' s Common Stock may not trade the stock) in excess of the number permitted in the registration rights agreements. On November 21, 2005 the Corporation' s Registration Statement on Form S-2 was declared effective by the SEC. Other than the aforementioned monetary penalty, there are no provisions requiring cash payments or settlements if registered shares cannot be provided upon conversion / exercise or the shareholders cannot sell their shares due to a blackout event. After assessing the provisions of the registration rights agreements and the related authoritative guidance a $20,000 warrant derivative liability was provided. No gain or loss on the derivative was recorded in the six months ended July 31, 2008 and 2007 and the liability was recorded in accrued liabilities.

Conversion of Preferred Stock to Common Stock

During the six months ended July 31, 2008 and 2007, there were no conversions of preferred stock to common stock.

Exercise of Warrants for Common Stock

During the six months ended July 31, 2008 and 2007, there were no warrants exercised for common stock.

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NOTE 8 − GOODWILL AND OTHER INTANGIBLE ASSETS

At July 31, 2008 and January 31, 2008, the Corporation' s goodwill was $2,614,000 and $2,614,000, respectively.

At July 31, 2008 and January 31, 2008, the Corporation' s intangible assets, net of amortization expense, was $4,335,000 and $4,718,000, respectively. For the three months ended July 31, 2008 and 2007, amortization expense of the intangible assets was $190,000 and $195,000, respectively. For the six month ended July 31, 2008 and 2007, amortization expense of the intangible assets was $383,000 and $384,000, respectively.

SFAS No. 142 "Goodwill and Other Intangible Assets" prescribes a two-phase process for impairment testing of goodwill, which is performed annually, absent any indicators of impairment. The first phase screens for impairment, while the second phase (if necessary) measures impairment. The Corporation has elected to perform its annual analysis during the fourth quarter of each year based upon goodwill balances as of the end of the year. Although no indicators of impairment have been identified during the six months ended July 31, 2008, there can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

NOTE 9 − NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities and expands required information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. Implementation of SFAS No. 157 is required for the fiscal years beginning after November 15, 2007. The standard, which was adopted effective February 1, 2008, did not have a significant impact on the Company' s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans* − an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires an employer that sponsors one or more single-employer defined benefit plans to recognize the over-funded or under-funded status of a benefit plan in its statement of financial position, recognize as a component of other comprehensive income, net of tax, gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit costs pursuant to SFAS No. 87, *Employers Accounting for Pension,* or SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, measure defined benefit plan assets and obligations as of the date of the employer' s fiscal year-end, and disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligations. The recognition and disclosure provisions required by SFAS No. 158 are effective for the Corporation' s fiscal year ending January 31, 2007. The measurement date provisions are effective for fiscal years ending after December 15, 2008. The standard, which was adopted effective February 1, 2008, did not have a significant impact on the Company' s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities − Including an Amendment of FASB Statement No. 115*, which permits entities to choose fair value measurement for many financial instruments and certain other items as of specified election dates. Business entities will thereafter report in earnings the unrealized gains and losses on items for which the fair value option has been chosen. The fair value option may be applied instrument by instrument, may not be applied to portions of instruments and is irrevocable unless a new election date occurs. SFAS No. 159 is effective for an entity' s first fiscal year beginning after November 15, 2007. The standard, which was adopted effective February 1, 2008, did not have a significant impact on the Company' s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations*, which will change accounting guidance for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at their estimated acquisition date fair values, including noncontrolling interests, accrued contingent liabilities and in-process research and development. Acquired contingent liabilities will subsequently be measured at the higher of the acquisition date fair value or the amount determined under existing guidance for non-acquired contingencies. SFAS No. 141R also provides that acquisition costs will be expenses as incurred, restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date, and that changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141R is effective as of the beginning of an entity' s first fiscal year after December 15, 2008, and will be applied prospectively for business combinations occurring on or after the date of adoption. Early adoption of SFAS No. 141R is prohibited. The Corporation expects to adopt SFAS No. 141R on February 1, 2009.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which establishes new accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 requires recognition of a noncontrolling interest as equity in the consolidated financial statements separate from the parent' s equity. Net income attributable to the noncontrolling interest is to be included in consolidated net income on the consolidated income statement. SFAS No. 160 also clarifies that changes in a parent' s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. SFAS No. 160 requires that a gain or loss be recognized in net income upon deconsolidation of a subsidiary based on the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS No. 160 is effective as of the beginning of an entity' s first fiscal year after December 15, 2008. The adoption of the standard, effective February 1, 2009, is not expected to have a significant impact on the Corporation' s consolidated financial statements.

On March 19, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities − an Amendment of FASB Statement No. 133*. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities; and (c) derivative instruments and related hedged items affect an entity' s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. The adoption of the standard, effective February 1, 2009, is not expected to have a significant impact on the Corporation' s consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. SFAS No. 162 is effective 60 days following the SEC' s approval of the PCAOB amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.* The adoption of the standard is not expected to have a significant impact on the Corporation' s consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts - An Interpretation of FASB Statement No. 60.* SFAS No. 163 applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. SFAS No. 163 is effective for fiscal years and interim periods beginning after December 15, 2008, except for the disclosure requirements, which are effective the first period (including interim periods) beginning after May 23, 2008. The adoption of the standard, effective February 1, 2009, is not expected to have a significant impact on the Corporation' s consolidated financial statements.

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

The statements contained in this Management' s Discussion and Analysis of the Consolidated Condensed Financial Statements and other sections of this Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including without limitation, statements regarding the Corporation' s or Corporation management' s expectations, hopes, beliefs, intentions or strategies regarding the future. These forward-looking statements are based on the Corporation' s current expectations, estimates and projections about our industry, management' s beliefs and certain assumptions made by management. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," and similar expressions are intended to identify forward-looking statements. There can be no assurance that future developments and actual actions or results affecting the Corporation will be those that the Corporation has anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond the Corporation' s control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the continuing validity of the underlying assumptions and estimates of total forecasted project revenues, costs and profits and project schedules; the outcomes of pending or future litigation, arbitration or other dispute resolution proceedings; the availability of borrowed funds on terms acceptable to the Corporation; the Corporation' s ability to remain in compliance with the covenants in its credit agreement; the ability to retain certain members of management; the ability to obtain surety bonds to secure the Corporation' s performance under certain construction contracts; possible labor disputes or work stoppages within the construction industry; changes in federal and state appropriations for infrastructure projects; possible changes or developments in worldwide or domestic political, social, economic, business, industry, market and regulatory conditions or circumstances; and actions taken or not taken by third parties including the Corporation' s customers, suppliers, business partners, and competitors and legislative, regulatory, judicial and other governmental authorities and officials; and other risks and uncertainties discussed under the heading "Risk Factors" in the Corporation' s Form 10-K filed with the SEC for the fiscal year ended January 31, 2008 (the "2008 Form 10-K"). The Corporation undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

OVERVIEW

We provide environmental and specialty contracting services including asbestos and lead abatement, microbial remediation, disaster response, loss mitigation and reconstruction, demolition and related services throughout the United States. During the six months ended July 31, 2008, revenues from disaster response, loss mitigation and reconstruction were 39.5% of total revenues vs. 60.5% of revenues from abatement of asbestos. The Company has broadened its offering of services in recent years to include a number of complementary services which utilize its existing infrastructure and personnel. Cash flows from contracting services are primarily generated from periodic progress billings on large contracts under which the Corporation performs services and single project billings on small short duration projects.

The Corporation operates in a complex environment due to the nature of our customers and our projects. Due to the size and nature of many of our contracts, the estimation of overall risk, revenue and cost at completion is complicated and subject to many variables. Depending on the contract, this poses challenges to the Corporation' s executive management team in overseeing contract performance and in evaluating the timing of the recognition of revenues and project costs, both initially and when there is a change in project status. Thus, the Corporation' s management team spends considerable time in evaluating and structuring key contracts, in monitoring project performance, and in assessing the financial status of our major contracts. Due to the complexity in the revenue recognition for the Corporation' s projects, executive financial management is attentive to developments in individual contracts that may affect the timing and measurement of contract costs and related revenues.

The Corporation continues to manage its projects to minimize risk and the negative financial impact upon the Corporation. More information on risks and the Corporation' s efforts to manage risks is available in Item 1A under the caption "Risk Factors" in the Corporation' s 2008 Form 10-K and supplemented elsewhere in this report. Additionally, please refer to the Corporation' s 2008 Form 10-K for a discussion of the components of the significant categories in the Corporation' s consolidated Statement of Operations.

CRITICAL ACCOUNTING POLICIES

In general, there have been no significant changes in the Corporation' s critical accounting policies since January 31, 2008. For a detailed discussion of these policies, please see Item 7 of the Corporation' s 2008 Form 10-K.

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RESULTS OF OPERATIONS

Three Months Ended July 31, 2008 Compared to Three Months Ended July 31, 2007

During the three months ended July 31, 2008, the Corporation' s contract revenues decreased by 12.9% to $23.2 million compared to $26.6 million in the three months ended July 31, 2007. The decrease was primarily due to lower revenues of approximately $1.3 million generated from asbestos abatement projects and $2.0 million for non-asbestos projects during the three months ended July 31, 2008, as compared to the same period last year. The Corporation' s gross margin decreased to $3.1 million in the second quarter of fiscal 2009 as compared to $4.0 million in the second quarter of fiscal 2008 largely due to the lower revenues and field margin generated during the three months ended July 31, 2008. Gross margin as a percentage of revenue decreased to 13.2% for the current quarter from 15.2% for the prior year quarter. Field margins, which are defined as the difference between contract revenues and direct field costs, decreased to 23.7% of revenue for the current quarter, from 25.6% in the prior year fiscal quarter. The decrease in the field margin percentage is due to increased costs on one significant contract resulting in a lower profit margin than originally estimated. Other direct costs decreased to $2.4 million or 10.5% of revenue for the current quarter as compared to $2.8 million or 10.4% of revenue for the prior year quarter. The dollar decrease is due to the closure of certain offices formerly maintained by the Company since the end of the prior year period as well as the reduced level of revenues.

Selling, general and administrative expenses increased to $3.6 million in the three months ended July 31, 2008, as compared to $3.0 million in the three months ended July 31, 2007. The increase is primarily due to a one time charge of $0.3 million to bad debt expense for the settlement of contract claims and a higher level of sales and marketing costs. As a percentage of contract revenues, selling, general and administrative expense in the current fiscal quarter increased by 4.4% to 15.6% from 11.2% in the prior year fiscal quarter as a result of the above and a lower revenue base.

The Corporation reported a loss from operations of ($564,000) for the three months ended July 31, 2008, compared to income from operations of $1,050,000 for the three months ended July 31, 2007, as a direct result of the factors discussed above.

Interest expense decreased to $202,000 in the current quarter as compared to $309,000 in the same quarter of a year ago as a result lower borrowings outstanding and lower interest rates during the three months ended July 31, 2008.

Non-cash interest expense for preferred dividends and accretion of the discount relates to the private placement in July 2005 of $5.5 million of redeemable convertible preferred stock and the subsequent issuance of $1.375 million of redeemable convertible preferred stock from the exercise of the over-allotment option. As the preferred shares are mandatorily redeemable, the actual dividend and the accretion of the discount associated with the preferred stock are required to be reflected as interest expense. The current fiscal period had a $260,000 expense, which includes the actual dividend of $76,000 and the accretion of the discount associated with the preferred stock of $184,000. The prior fiscal period had a $219,000 expense, which included the actual dividend of $76,000, and the accretion of the discount associated with the preferred stock of $143,000.

During the quarter ended July 31, 2008, the Corporation recorded a $45,000 state income tax provision and $323,000 deferred tax benefit.

During the quarter ended July 31, 2007, the Corporation recorded a $54,000 current federal tax provision, a $127,000 state income tax provision and $17,000 deferred tax benefit.

Six Months Ended July 31, 2008 Compared to Six Months Ended July 31, 2007

During the six months ended July 31, 2008, the Corporation' s contract revenues decreased by 15.3% to $40.9 million compared to $48.3 million in the six months ended July 31, 2007. The decrease was primarily due to lower revenues of $7.0 million generated from asbestos abatement projects during the six months ended July 31, 2008, as compared to the same period last year. In addition, one asbestos abatement project accounted for approximately 12.4% of total revenues for the six months ended July 31, 2007, as compared to the largest project generating only 9.5% of total revenues during the six months ended July 31, 2008. The Corporation' s gross margin decreased to $5.3 million in the current six month period as compared to $7.7 million in the prior year six month period largely due to the lower revenues and field margin generated during the six months ended July 31, 2008. Gross margin as a percentage of revenue decreased to 12.9% for the current six month period from 16.0% for the prior year six month period. Field margins decreased to 24.9% of revenue for the current six month period, from 27.5% in the prior year six month period. The decrease in the field margin percentage is due to increased costs on one significant contract resulting in a lower profit margin than originally estimated. Other direct costs decreased to $4.9 million or 12.0% of revenue for the current six month period as compared to $5.6 million or 11.5% of revenue for the prior year six month period. The dollar decrease is due to the closure of certain offices formerly maintained by the Company since the end of the prior year period as well as the reduced level of revenues.

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Selling, general and administrative expenses increased to $7.1 million in the six months ended July 31, 2008, as compared to $5.8 million in the six months ended July 31, 2007. The increase is principally due to higher sales & marketing costs, compensation costs for the new chief financial officer hired May 23, 2007, costs related to the Corporation' s rebranding, higher legal costs and bad debt expense. As a percentage of contract revenues, selling, general and administrative expense in the current six month period increased by 5.3% to 17.3% from 12.0% in the prior year six month period as a result of the above and a lower revenue base.

The Corporation reported a loss from operations of ($1,794,000) for the six months ended July 31, 2008, compared to income from operations of $1,929,000 for the six months ended July 31, 2007, as a direct result of the factors discussed above.

Interest expense decreased to $405,000 in the current six month period as compared to $580,000 in the same six month period of a year ago as a result lower borrowings outstanding and lower interest rates during the six months ended July 31, 2008.

Non-cash interest expense for preferred dividends and accretion of the discount relates to the private placement in July 2005 of $5.5 million of redeemable convertible preferred stock and the subsequent issuance of $1.375 million of redeemable convertible preferred stock from the exercise of the over-allotment option. As the preferred shares are mandatorily redeemable, the actual dividend and the accretion of the discount associated with the preferred stock are required to be reflected as interest expense. The current six month period had a $508,000 expense, which includes the actual dividend of $152,000 and the accretion of the discount associated with the preferred stock of $356,000. The prior six month period had a $429,000 expense, which included the actual dividend of $152,000, and the accretion of the discount associated with the preferred stock of $277,000.

During the six months ended July 31, 2008, the Corporation recorded a $45,000 state income tax provision and $840,000 deferred tax benefit.

During the six months ended July 31, 2007, the Corporation recorded a $17,000 current federal tax benefit, a $159,000 state income tax provision and $111,000 deferred tax provision.

FINANCIAL CONDITION

Liquidity and Capital Resources

During the six months ended July 31, 2008, the Corporation' s cash and cash equivalents decreased by $76,000 to $14,000. The decrease in cash during the period is attributable to inflows from operating activities of $20,000 and inflows from financing activities of $50,000 offset by outflows of $146,000 from investing activities.

Cash generated by operating activities totaled $20,000 in the six months ended July 31, 2008. The bulk of the inflow was due to non-cash expenses of $1,247,000 offset by the net loss of $1,875,000, further offset by a decrease in working capital of $648,000. The change in working capital is primarily due to the increases in contracts receivable of $1,398,000 and costs in excess of billings of $1,079,000 offset by the increases in accounts payable of $1,512,000 and accrued liabilities of $629,000 and the decrease in other current assets of $740,000. The increase in contracts receivable, costs in excess of billings and accounts payable is due to increased revenues from the first quarter of fiscal 2009 to the second quarter of fiscal 2009.

Investing activities cash outflows included $153,000 primarily for the purchase of property, plant and equipment.

Financing activities cash inflows consisted of $807,000 net proceeds from the line of credit offset by the payment for the insurance premium financing of $759,000. On July 31, 2008, the Company was not in compliance with all of the financial covenants of the line of credit agreement however, as part of the amendment of the line of credit facility the Company obtained a waiver from Huntington Bank waiving the financial covenants as of July 31, 2008.

At July 31, 2008, the Corporation' s backlog totaled $47.3 million ($30.6 million on fixed fee contracts and $16.7 million on time and materials or unit price contracts). At July 31, 2008, our backlog consisted of $32.9 million of booked orders and an additional $14.4 million of open ended purchase orders or orders in final negotiation stage which will likely become booked orders in either the third or fourth quarter of fiscal 2009.

At July 31, 2008, the Corporation had approximately $7.7 million of costs and estimated earnings in excess of billings on uncompleted contracts. Included in this amount is approximately $4.2 million of costs related to contract claims and unapproved change orders. Of the $23.8 million in contracts receivable, approximately $2.0 million of contracts receivable represent disputed or litigated items. The Corporation expects to process change orders or pursue contract claims for at least the full amount of these costs relative to the aforementioned contracts.

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In connection with the private placements in July 2005, the Company entered into registration rights agreements with the Common Stockholders and Preferred Stockholders. Under these registration rights agreements, the Company agreed to file a registration statement for the purpose of registering the resale of the common stock and the shares of common stock underlying the convertible securities we issued in the private placements. The registration rights agreements require the Company to keep the registration statement effective for a specified period of time. In the event that the registration statement is not filed or declared effective within the specified deadlines or is not effective for any period exceeding a permitted Black-Out Period (45 consecutive Trading Days but no more than an aggregate of 75 Trading Days during any 12-month period), then the Company will be obligated to pay the Preferred and Common Stockholders up to 12% of their purchase price per annum. On November 21, 2005 the Company Registration Statement was declared effective by the SEC. As of July 31, 2008, the Company has utilized forty-five of the permitted aggregate Black-Out days. Other than the aforementioned monetary penalty, there are no provisions requiring cash payments or settlements if registered shares cannot be provided upon conversion/exercise or the shareholders cannot sell their shares due to a blackout event.

Outstanding shares of preferred stock that have not been converted to common stock at the maturity date of July 1, 2009 are payable in cash along with the related 8% per annum dividend. Thus, the preferred shares and the related amounts for accrued dividends have been classified in current liabilities as of July 31, 2008. The availability of resources to make the payments due on July 1, 2009, will depend on the Corporation' s future earnings, cash flow and its ability to secure additional financing.

Subject to securing funds for the redemption obligation, the Corporation believes funds generated by operations and amounts available under its existing credit facility will be sufficient to finance its current operations and other ordinary course commitments for the foreseeable future. However, there can be no assurance that such funding will be available, as our ability to generate cash flows from operations and our ability to access funding under the revolving credit facilities may be impacted by a variety of business, economic, legislative, financial and other factors which may be outside the Corporation' s control. Additionally, while the Corporation currently has significant, uncommitted bonding facilities, primarily to support various commercial provisions in the Corporation' s contracts, a termination or reduction of these bonding facilities could result in the utilization of letters of credit in lieu of performance bonds, thereby reducing the Corporation' s available capacity under the revolving credit facilities. There can be no assurance that such facilities will be available at reasonable terms to service the Corporation' s ordinary course obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, the Company has elected scaled disclosure reporting obligations and therefore is not required to provide the information in this Item 3.

ITEM 4. CONTROLS AND PROCEDURES

Prior to the filing of this Report on Form 10-Q, an evaluation was performed under the supervision of and with the participation of the Company' s management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company' s disclosure controls and procedures. Based on the evaluation, the CEO and CFO have concluded that, as of the end of the period covered by this Report on Form 10-Q, the Company' s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company' s management, as appropriate, to allow timely decisions regarding required disclosure.

During the fiscal quarter ended July 31, 2008, there were no changes in the Company' s internal control procedures with respect to financial reporting that have materially affected, or are reasonably likely to materially affect, the Company' s internal control over financial reporting.

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PART II − OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to dispute and litigation in the ordinary course of business. None of these matters, in the opinion of management, is likely to result in a material effect on the Registrant based upon information available at this time.

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

On July 15, 2008, the Annual Meeting of the Stockholders of PDG Environmental, Inc was held in Pittsburgh, PA. There were 20,826,109 shares of common stock issued and outstanding as of June 9, 2008, the record date for the meeting.

At the meeting, all of the management' s nominees were elected to the Board of Directors for 1-year terms expiring at the Annual Meeting of the Stockholders in 2009. The results of the voting were as follows:

	Total Votes Cast	For	Against	Withheld
John C. Regan	15,171,069	13,997,796	0	1,173,273
James D. Chiafullo	15,171,069	13,929,454	0	1,241,615
Richard A. Bendis	15,171,069	13,996,446	0	1,174,623
Edwin J. Kilpela	15,171,069	13,999,141	0	1,171,928
Edgar Berkey	15,171,069	13,996,266	0	1,174,803

The final matter presented at the meeting was the ratification of the selection of Malin Bergquist & Company, LLP as the Corporation' s independent registered public accounting firm for fiscal year 2009. On this matter, the results of the voting were as follows:

Votes For	14,483,500
Votes Against	332,922
Abstained	354,647

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ITEM 6. EXHIBITS

(a) The following exhibits are being filed with this report:

Exhibits Number	Description
10.8.2	Third Amendment to Amended and Restated Loan Agreement
31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of The Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of The Sarbanes-Oxley Act of 2002
32	Certification Pursuant to 18 U.S.C. Section 1350, as amended Pursuant to Section 906 of The Sarbanes-Oxley Act of 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.

PDG ENVIRONMENTAL, INC.

By /s/ John C. Regan
John C. Regan
Chairman and Chief Executive Officer

By /s/ Nicola Battaglia
Nicola Battaglia
Chief Financial Officer

Date: September 12, 2008

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EXHIBIT INDEX
Exhibit No. and Description

Exhibit 10.8.2	Third Amendment to Amended and Restated Loan Agreement
Exhibit 31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of The Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of The Sarbanes-Oxley Act of 2002
Exhibit 32	Certification Pursuant to 18 U.S.C. Section 1350, as amended Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

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THIRD AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT

THIS THIRD AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT is made and entered into as of September 2, 2008 ("**Amendment**") by and among PDG Environmental, Inc., a Delaware corporation ("Parent"), Project Development Group, Inc., a Pennsylvania corporation ("Project"), Enviro-Tech Abatement Services, Co., a North Carolina corporation ("Enviro-Tech"), and PDG, Inc., a Pennsylvania corporation ("PDG"), (Parent, Project, Enviro-Tech and PDG collectively, the "Initial Borrowers"), Flagship Restoration, Inc., a Delaware corporation ("Flagship"), and Servestec, Inc., a Florida corporation (Initial Borrowers, Flagship and Servestec, collectively, the "**Borrowers**") and The Huntington National Bank, successor in interest to Sky Bank ("**Bank**").

WHEREAS, the Bank has provided certain loans to Borrowers pursuant to the terms of a an Amended and Restated Credit Agreement dated as of June 9, 2006, as amended by a Waiver and First Amendment to Amended and Restated Loan Agreement dated as of May 15, 2007, and Second Amendment to Amended and Restated Loan Agreement dated as of July 31, 2007 between the Borrowers and the Bank (together with all prior and future amendments, extensions, modifications and restatements thereof, the "**Credit Agreement**"); and

WHEREAS, the loans made in accordance with the Credit Agreement ("**Loans**") are evidenced by (i) the Facility A Note in the original principal amount of $400,000, (ii) the Facility D Note in the maximum aggregate amount of $15,000,000, and (iii) the Facility F Loans in the original principal amount of $400,000 executed by Borrowers in favor of the Bank; and

WHEREAS, the indebtedness and obligations evidenced by the Notes are secured by, among other things, Borrowers' accounts, accounts receivable, the proceeds and products of the foregoing, and all other property identified in the Security Agreements executed by Borrowers in favor of the Bank (together with all prior and future amendments, extensions, modifications and restatements thereof, collectively the "**Security Agreements**") and Borrowers' real property and all other property identified in the Open-End Mortgage and Security Agreement executed by Project in favor of the Bank (together with all prior and future amendments, extensions, modifications and restatements thereof, collectively, the "Mortgage"); and

WHEREAS, the Credit Agreement, the Notes, the Security Agreements, the Mortgage and this Amendment, and any and all other documents, agreements, and instruments entered into in connection with any of the foregoing are collectively referred to as the "**Loan Documents**"; and

WHEREAS, the Borrowers have requested the Bank to amend certain provisions of the Loan Documents, including the Facility D Expiry Date, as defined in the Credit Agreement; and

WHEREAS, the Bank is willing to amend certain provisions of the Loan Documents subject to the terms and conditions set forth in this Amendment; and

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NOW THEREFORE, the parties hereto for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, covenant and agree as follows:

1. **Affirmation of Recitals.** The recitals set forth above are true and correct and incorporated herein by reference.

2. **Definitions.** All capitalized terms used herein, but not otherwise defined, shall have the meaning ascribed to such terms in the Loan Documents.

3. **Amendments to Certain Definitions in Section 1.01 of the Credit Agreement.** Effective from and after the date hereof, the following provisions of Section 1.01 of the Credit Agreement shall be amended as follows:

(i) The following defined term "Bonded Receivables" shall be inserted into Section 1.01 of the Credit Agreement in the appropriate alphabetical order:

"Bonded Receivables" shall mean any accounts receivable arising from any work, jobs or projects for which a payment and/or performance bond has been issued or is otherwise subject to surety bonds.

(ii) The following defined term "Borrowing Base Reduction Event" shall be inserted into Section 1.01 of the Credit Agreement in the appropriate alphabetical order:

"Borrowing Base Reduction Event" shall mean any period during which 25% or more of the accounts receivable are more than one hundred twenty (120) days from the date of the invoice therefor.

(iii) The defined term "Facility D Expiry Date" shall mean June 30, 2010.

(iv) The following defined term "Facility D Loan Amount" shall be inserted into Section 1.01 of the Credit Agreement in appropriate alphabetical order:

"Facility D Loan Amount" shall mean:

(a) For the period commencing on the Third Amendment Date through and including May 30, 2009, the Facility D Loan Amount shall be an amount not to exceed $15,000,000;

(b) For the period commencing May 31, 2009 and continuing through November 29, 2009, the Facility D Loan Amount shall be an amount not to exceed $14,500,000; and

(c) For the period commencing November 30, 2009 and continuing through the Facility D Expiry Date, the Facility D Loan Amount shall be an amount not to exceed $14,000,000.

(v) The following defined term "Maximum Bonded Receivables" shall be inserted into Section 1.01 of the Credit Agreement in appropriate alphabetical order:

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"Maximum Bonded Receivables shall mean:

(a) For the period commencing on the Third Amendment Date through and including May 30, 2009, the Maximum Bonded Receivables shall be one hundred percent (100%) of Bonded Receivables for such period;

(b) On May 31, 2009, the Maximum Bonded Receivables shall be not more than ninety percent (90%) of Bonded Receivables; and

(c) On June 30, 2009 and on the last day of each successive calendar month thereafter, the Maximum Bonded Receivables shall be reduced by ten percent (10%) from the amount of Maximum Bonded Receivables permitted for the preceding calendar month.

(v) Subsection (b) of the definition of "Qualified Accounts" in Section 1.01 of the Credit Agreement is hereby amended and restated as follows:

"(b) The account arose from the performance of services or an outright sale of goods by such Borrower in the ordinary course of such Borrower' s business and such goods have been shipped, or services provided, to the account debtor and such Borrower has possession of, or has delivered to Bank, in the case of goods, shipping and delivery receipts evidencing such shipment. For the avoidance of doubt, in no event shall billings for work not yet performed in full by such Borrower nor any amount of retention or retainage more than sixty (60) days from the invoice date thereof, be considered a "Qualified Account."

(vi) Subsection (c) of the definition of "Qualified Accounts" in Section 1.01 of the Credit Agreement is hereby amended and restated as follows:

"(c) The account is not subject to any prior assignment, claim, lien, or security interest, and such Borrower will not make any further assignment of the account or create any further security interest in the account, nor permit its rights in the account to be reached by attachment, levy, garnishment or other judicial process; provided, however, that Qualified Accounts may include Bonded Receivables; provided further, however, that in no event shall Bonded Receivables at any time exceed the then Maximum Bonded Receivables."

(vii) Subsection (g) of the definition of "Qualified Accounts" in Section 1.01 of the Credit Agreement is hereby amended and restated as follows:

"(g) The account does not arise with respect to any one project of an account debtor from which more than 15% of accounts are more than ninety (90) days from the due date thereof or one hundred twenty (120) days from the date of the invoice therefor; provided, however, that in the event that Borrowers provide evidence acceptable to the Bank, in its sole discretion, that any accounts that would have otherwise been ineligible as Qualified Accounts based on the immediately preceding Accounts Aging Report (as defined in Section 5.01(e) of this Agreement) have been paid prior to the date of the Borrowing Base Certificate ("Subsequently Paid Accounts"), then such Subsequently Paid Accounts may be included in such

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Borrowing Base Certificate as Qualified Accounts, subject to the other terms and conditions of this Agreement."

(viii) The following defined term "Third Amendment Date" shall be inserted into Section 1.01 of the Credit Agreement in appropriate alphabetical order:

"Third Amendment Date" shall mean September 2, 2008."

4. **Amendment to Section 2.02(c) of the Credit Agreement**. Section 2.02(c) entitled "Borrowing Base" is hereby amended and restated in its entirety as follows:

"(c) Subject to the terms and conditions of this Agreement, the maximum borrowing availability under this Agreement applicable to the Facility D Loans shall be equal to the lesser of (i) the Facility D Loan Amount then in effect or (ii) eighty percent (80%) of the aggregate gross amount of Qualified Accounts (the lesser of the amounts described in clauses (i) and (ii) of this sentence is sometimes referred to in this Agreement as the "Borrowing Base"): provided, however that in no event shall the Borrowing Base exceed sixty percent (60%) of Borrowers' total accounts receivable at any time that a Borrowing Base Reduction Event is in effect."

5. **Amendment to Section 2.05(b) of the Credit Agreement**. Section 2.05(b) entitled "Interest on Facilities D and F" shall be amended and restated as follows:

"(b) Interest on Facilities D and F. The aggregate outstanding principal balance of the Facility D Loan, (i) for the period commencing on the Third Amendment Date and continuing through and including June 29, 2009, shall bear interest at the rate per annum equal to the Prime Rate plus one and one-half percent (1.5%), and (ii) for the period commencing June 30, 2009 and continuing through and including the Facility D Expiry Date, shall bear interest at a rate per annum equal to the Prime Rate plus two percent (2%). The aggregate outstanding principal balance of the Facility F Loans shall bear interest at a rate per annum equal to seven and twenty-five hundredths percent (7.25%)"

6. **Amendment to Section 2.08 of the Credit Agreement**. Section 2.08 of the Credit Agreement shall be amended and restated as follows:

"Borrowers shall pay to Bank a commitment fee for Facility D payable in advance on the Third Amendment Date of $75,000 (the "Commitment Fee"). On June 30, 2009 and on each June 30 thereafter but excluding the Facility D Expiry Date, Borrowers shall pay the Bank a commitment fee in advance in the amount of 1% of the Facility D Loan Amount."

7. **Amendment to Section 2.14 of the Credit Agreement**. Section 2.14 entitled "Interest Rate Incentive Pricing" shall be amended and restated as follows:

"Section 2.14 Interest Rate Incentive Pricing. Provided no Event of Default exists, if, based on the 10-Q filed by Parent with the Securities and Exchange Commission, the Debt Service Coverage Ratio at the end of each fiscal quarter beginning with the fiscal quarter ended October 31, 2008 is equal to or greater than 1.5 to 1.0, then, during the subsequent fiscal

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quarter (and only the subsequent fiscal quarter unless the foregoing condition is satisfied again), interest rate applicable to the Facility D Loans shall be reduced by one-half of one percent (.5%); provided, however, in no event shall the interest rate applicable to the Facility D Loans be less than the Prime Rate plus one percent (1%) per annum."

8. **Amendment to Section 5.01 of the Credit Agreement**.

(i) Effective from and after the date hereof, Section 5.01(e) of the Credit Agreement entitled "Borrowing Base Certificates and Other Reports" shall be amended and restated as follows:

"(e) Borrowing Base Certificates and Other Reports. Borrowers shall furnish to Bank a Borrowing Base Certificate within fifteen (15) days after the end of each calendar month. In addition, within fifteen (15) days after the end of each calendar month, Borrowers will deliver to Bank a schedule of all of their accounts receivable, identifying all accounts, and the aging thereof by open invoice for each project of each Borrower (the "Accounts Aging Report"), and the aging thereof by open invoice for each customer of each Borrower, and such other reports concerning the accounts receivable as Bank shall require, all certified as to accuracy by the President or any Vice President of Parent and all in such form as Bank shall require. Borrowers shall also promptly provide Bank with all information requested by Bank with respect to any account debtor. In addition, within thirty (30) days after the end of each calendar month, Borrowers shall provide Bank with a schedule of accounts payable and monthly back-log reports and monthly job status reports, including an explanation of any significant variances, all certified as to accuracy by the appropriate officer of Parent and all in such form as Bank shall require."

(ii) The following language shall be inserted as Section 5.01(k) of the Credit Agreement:

"(k) Redemption Pro Formas and Compliance Certificates:

On or before April 30, 2009, Parent shall deliver to Bank a pro forma calculating the redemption payment to be made on June 30, 2009 on account of the Series C Preferred Stock or any other capital stock of Parent, together with a compliance certificate executed by the President or any Vice President of Borrowers, stating that no Event of Default or Potential Default exists or will exist after the making of the projected redemption payment, and that the Borrowers are in compliance with the financial covenants contained in the Credit Agreement, and will continue to be in compliance after giving effect to such redemption payment (a "Redemption Compliance Certificate"). In addition, Borrowers shall deliver a Redemption Compliance Certificate to the Bank with any copy of any notice or request for redemption which Borrowers, or any of them, are required to deliver to the Bank pursuant to Section 6.05 or any other provision of the Credit Agreement."

9. **Financial Covenants.**

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(i) Section 5.13 Debt Service Coverage Ratio is hereby amended and restated in its entirety to read as follows:

"Borrowers shall maintain a Debt Service Coverage Ratio after the date hereof in the following amounts, which shall be tested at the end of each fiscal quarter on a rolling four quarter basis:

For October 31, 2008	.75 to 1
For January 31, 2009 and each fiscal quarter thereafter	1.3 to 1.0

(ii) Section 5.14 Debt to Worth Ratio is hereby amended and restated in its entirety to read as follows:

"Borrowers shall maintain a Debt to Worth Ratio of not greater than 2.75 to 1.0 on October 31, 2008; and 2.25 to 1.0 on January 31, 2009, and at the end of each fiscal quarter thereafter. This Ratio shall be tested at the end of each fiscal quarter.

(iii) Section 5.15 Net Worth is hereby amended and restated in its entirety to read as follows:

"Borrowers shall maintain a Net Worth at all times, to be tested at the end of each fiscal quarter, in the amount of at least (a) $11,000,000 at October 31, 2008, and (b) $11,500,000 at the end of each quarter thereafter, which amount shall increase quarterly by an amount equal to seventy-five percent (75%) of Net Income, until Net Worth equals $15,000,000."

10. Waiver. Borrowers have provided Bank with financial projections for the period ended July 31, 2008, which show actual operating results through May 30, 2008 (collectively, the "Projections"). The Projections contemplate violations of the Debt Service Coverage Ratio covenant; (ii) the Debt to Worth Ratio covenant, and (iii) the Net Worth covenant, in the amounts set forth in the Projections (the "Projected Defaults"). Subject to the terms and conditions set forth in this Agreement, the Bank hereby waives the Projected Defaults. This waiver does not, either implicitly or explicitly, alter, waive or amend any other provisions of the Loan Documents, nor indicate an agreement on the part of the Bank to grant any additional future waivers for covenant defaults or other defaults of the Loan Documents, or any defaults of financial covenants in excess of the Projected Defaults as contemplated in the Projections.

11. **Appraisal, Environmental Assessment, Title Searches and Lien Searches.**

(i) Borrowers hereby acknowledge and agree that the Bank will order an updated real estate appraisal of the real property encumbered by the Mortgage and an environmental assessment from third party professionals, acceptable to the Bank in all respects. The costs of such reports and investigations shall be borne by Borrowers in accordance with Section 18 of this Amendment. The appraisal and environmental assessment may be completed after the Third Amendment Date but

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no later than August 31, 2009. Any environmental issues identified must be remediated or remedied to the sole satisfaction of the Bank;

(ii) No later than September 30, 2008, Borrowers shall provide a title search performed by a title company acceptable to the Bank in all respects which will confirm that the Bank' s first mortgage position is intact, subject only to liens permitted under the Credit Agreement. Any modification of the Mortgage will, at the Bank' s option, be insured under the existing title policy, and Borrowers shall pay the cost of such title insurance, including any endorsements in accordance with Section 18 of this Amendment. In addition, no later than September 30, 2008, Borrowers shall provide lien searches satisfactory to the Bank in all respects on each of the Borrowers , which lien searches shall confirm that the Bank has a first lien security interest in all the assets of the Borrowers, subject only to liens permitted under the Loan Agreement. The cost of such searches shall be borne by the Borrowers in accordance with Section 18 of this Amendment.

12. **Representations and Warranties.**

(i) Each Borrower has and will continue to have corporate power and authority to execute, deliver and perform the provisions of this Amendment, the other Loan Documents, and the Credit Agreement as amended hereby and to execute and deliver the instruments required by the provisions of the Credit Agreement as amended hereby to be executed and delivered by it; and all such action has been duly and validly authorized by all necessary corporate proceedings on the part of each Borrower.

(ii) The execution and delivery of this Amendment and the carrying out of this Amendment, the other Loan Documents, and the Credit Agreement as amended hereby will not violate any provisions of law or the articles of incorporation or bylaws of any Borrower or of any agreement or other instrument to which any Borrower is a party or by which it is bound or to which it is subject.

(iii) This Amendment and the other Loan Documents, which have been duly and validly executed and delivered by Borrowers, and the Credit Agreement as amended hereby, constitute legal, valid and binding obligations of each Borrower enforceable in accordance with the terms hereof and thereof.

(iv) The representations and warranties by the Borrowers contained in the Credit Agreement and the other Loan Documents are correct and accurate on and as of the date hereof.

(v) No event has occurred and is continuing and no condition exists which constitutes an Event of Default or Potential Default.

13. **Collateral.** The Obligations shall continue to be secured by a first priority security interest in and lien upon all of the Borrowers' inventory, accounts, accounts receivable, and the

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proceeds and products thereof, and all of the other property that may be identified in the Security Agreement and the Mortgage. In no event shall the Borrowers suffer or permit any payment or performance bonds to encumber any accounts receivable arising from any work, jobs or project other than those accounts receivable directly arising from the specific bonded work, jobs or projects.

14. **Conditions to this Amendment.** The obligation of the Bank to enter into this Amendment and to continue to make any loan or advance under the Credit Agreement is subject to the satisfaction of the following further conditions:

(a) This Amendment shall have been duly executed by the Borrowers and delivered to the Bank.

(b) The Mortgage Modification attached hereto as Exhibit A has been duly executed by Project, appropriately acknowledged by a notary public and delivered to the Bank

(c) Corporate resolutions and other certifications by or on behalf of the Borrowers, in form and substance required by the Bank in its sole and absolute discretion and such resolutions and certifications shall have been delivered to the Bank on the date of this Amendment;

(d) The Borrowers shall pay to the Bank the Commitment Fee and all fees provided for in Section 18 hereof on the date of this Amendment; and

(e) The Borrowers shall provide an opinion of counsel in form and substance satisfactory to the Bank.

15. **Acknowledgment of No Claims.** Each of the Borrowers acknowledges and agrees that it (a) has no claims, counterclaims, setoffs, actions or causes of action of any kind or nature whatsoever against the Bank or any of its directors, officers, employees, agents, attorneys, legal representatives, successor or assigns, that directly or indirectly arise out of or are based upon or in any manner connected with any Prior Related Event, (b) certifies that there is no impairment of the validity or enforceability of this Amendment or any of the Loan Documents to which it is a party, and (c) hereby waives and releases the same. As used herein the term "**Prior Related Event**" means any transaction, event, circumstance, action, failure to act or occurrence of any sort or type, whether known or unknown, which occurred, existed, was taken, was permitted or begun prior to the execution of this Amendment and occurred, existed, was taken, was permitted or begun in accordance with, pursuant to or by virtue of any of the terms of this Amendment or any of the Loan Documents (or prior iterations thereof), or which was related or connected in any manner, directly or indirectly, to the loans made or secured pursuant thereto or evidenced thereby.

16. **No Bankruptcy Intent**. Each of the Borrowers represents and warrants that it has no present intent (i) to file any voluntary petition under any chapter of the Bankruptcy Code, title 11 U.S.C., or in any manner seek relief, protection, reorganization, liquidation or dissolution, or similar relief for borrowers under any other state, local, federal or other insolvency laws, either at the present time, or at any time hereafter, or (ii) directly or indirectly to cause any involuntary petition to be filed against any Borrower, or directly or indirectly to cause any Borrower to

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become the subject of any proceedings pursuant to any other state, federal or other insolvency law providing for the relief of borrowers, either at the present time, or at any time hereafter, or (iii) directly or indirectly to cause any interest of any Borrower to become the property of any bankrupt estate or the subject of any state, federal or other bankruptcy, dissolution, liquidation or insolvency proceedings.

17. **No Fraudulent Intent**. Neither the execution and delivery of this Amendment, nor the performance of any actions required hereunder or described herein is being consummated by any Borrower with or as a result of any actual intent by such Borrower to hinder, delay or defraud any entity to which such Borrower is not or will hereafter become indebted.

18. **Reimbursement of Expenses.**

The Borrowers, jointly and severally, agree to pay or cause to be paid and save the Bank harmless against liability for the payment of all out-of-pocket expenses incurred by the Bank, including without limitation, appraisals, environmental consultants, accountants and other professional experts or independent contractor fees, costs and expenses and fees and expenses of legal counsel (including inside counsel) (a) arising in connection with the development, preparation, printing, execution, administration, interpretation and performance of this Amendment and any of the Loan Documents, (b) relating to any requested amendments, waivers or consents pursuant to the provisions hereof or thereof whether or not such are implemented, and (c) arising in connection with the enforcement of this Amendment or any Loan Documents, including the proof and allowability of any claim arising thereunder, whether in bankruptcy or receivership proceedings or otherwise and monitoring and otherwise participating in any bankruptcy, receivership or similar proceeding involving or affecting the Borrower or any other person or entity which may have any liability for any of the obligations of the Borrower under this Amendment and the Loan Documents.

19. **Notices.** Any notice or other written communication required hereunder shall be in writing and shall be deemed to have been validly delivered (a) upon deposit in the United States mail, with proper postage prepaid, (b) by hand delivery, or (c) by overnight express mail courier, and addressed to the party to be notified at the following address or to such other address as each party may designate for himself or herself in writing by like notice:

To the Borrowers or any of them:

PDG Environmental, Inc.
1386 Beulah Road, Building 801
Pittsburgh, PA 15235
Attention: John C. Regan

with a copy to:

James D. Chiafullo, Esq.

To the Bank:

The Huntington National Bank
Pitt Times Building
336 Fourth Avenue, Suite 2
Pittsburgh , PA 15222
Attention: Richard M. Collins
Vice President

with a copy to:

Suzanne Ewing, Esq.

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Cohen & Grigsby, P.C.
11 Stanwix Street
Pittsburgh, PA 15222

Buchanan Ingersoll & Rooney
20th Floor, One Oxford Centre
Pittsburgh, PA 15219

20. **Due Authority; Valid and Binding.** Each of the Borrowers represents that its execution and delivery of this Amendment and the carrying out of this Amendment and the Loan Documents to which it is a party, as amended hereby, will not violate any provisions of the law, its articles of incorporation or bylaws, or of any agreement or other instrument to which it is a party or by which it is bound or to which it is subject. Each of the Borrowers further represent that this Amendment has been duly authorized by all necessary action and this Amendment and the Loan Documents to which it is a party, as amended, constitute legal, valid and binding obligations of such party, enforceable in accordance with the terms hereof.

21. **Entire Agreement; Governing Law.** This Amendment sets forth the entire agreement relating to the subject matter hereof and supersedes all prior statements, agreements and understandings, whether written or oral, relating thereto. None of the provisions hereof may be waived, changed or terminated, except by a writing signed by the parties hereto. This Amendment and the respective rights and obligations created hereby shall be interpreted in accordance with and governed by the laws of the Commonwealth of Pennsylvania applicable to contracts made and to be wholly performed within such Commonwealth. The paragraph titles contained in this Amendment are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement to the parties hereto.

22. **Jurisdiction and Venue.** The parties hereto agree that the United States District Court for the Western District of Pennsylvania and the Court of Common Pleas of Allegheny County, Pennsylvania, may have jurisdiction to hear and determine any claims or disputes as to matters pertaining to this Amendment or any matter arising therefrom. The parties hereto hereby expressly submit and consent in advance to such jurisdiction and venue in any proceeding commenced against the parties in either of such courts. Notwithstanding the foregoing, the parties hereto reserve to themselves the right to assert federal court jurisdiction based upon diversity of citizenship or any other basis upon which such federal jurisdiction may be properly claimed and asserted and, to such end, reserve to themselves the right to remove any action commenced in the Court of Common Pleas of Allegheny County, Pennsylvania, to the United States District Court for the Western District of Pennsylvania if such removal be authorized by law.

23. **WAIVER OF JURY TRIAL.** THE PARTIES HERETO EACH WAIVE THEIR RIGHT TO TRIAL BY JURY IN ANY CONTROVERSY ARISING OUT OF OR RELATING TO THIS AMENDMENT.

24. ACKNOWLEDGMENT OF DISCLOSURE AND WAIVER OF CONFESSION OF JUDGMENT RIGHTS. **(a) EACH OF THE BORROWERS HEREBY ACKNOWLEDGES AND AGREES THAT THE NOTE CONTAINS PROVISIONS UNDER WHICH THE BANK MAY ENTER JUDGMENT BY CONFESSION AGAINST THE BORROWERS. EACH OF THE BORROWERS BEING FULLY AWARE OF ITS RIGHTS TO PRIOR NOTICE AND A HEARING ON THE VALIDITY OF ANY**

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JUDGMENT OR OTHER CLAIMS THAT MAY BE ASSERTED AGAINST IT BY THE BANK HEREUNDER BEFORE JUDGMENT IS ENTERED, IT HEREBY FREELY AND KNOWINGLY WAIVES THESE RIGHTS AND EXPRESSLY AGREES AND CONSENTS TO THE BANK ENTERING JUDGMENT AGAINST IT BY CONFESSION PURSUANT TO THE TERMS THEREOF.

(b) EACH OF THE BORROWERS ALSO ACKNOWLEDGES AND AGREES THAT THE NOTE CONTAINS PROVISIONS UNDER WHICH THE BANK, TO THE EXTENT PERMITTED BY APPLICABLE LAW MAY, AFTER ENTRY OF JUDGMENT AND WITHOUT EITHER NOTICE OR A HEARING, ATTACH, LEVY OR OTHERWISE SEIZE PROPERTY OF THE BORROWERS IN FULL OR PARTIAL PAYMENT OF THE JUDGMENT, BEING FULLY AWARE OF ITS RIGHTS AFTER JUDGMENT IS ENTERED (INCLUDING, WITHOUT LIMITATION, THE RIGHT TO MOVE TO OPEN OR STRIKE THE JUDGMENT), EACH OF THE BORROWERS HEREBY FREELY, KNOWINGLY AND INTELLIGENTLY WAIVES THESE RIGHTS AND EXPRESSLY AGREES AND CONSENTS TO THE BANK' S TAKING SUCH ACTIONS AS MAY BE PERMITTED UNDER APPLICABLE STATE AND FEDERAL LAW WITHOUT PRIOR NOTICE TO IT.

25. **Time is of the Essence.** Time shall be of the strictest essence in the performance of each and every one of the Borrowers' obligations hereunder including, without limitation, the obligations to make payments to the Bank, to furnish information to the Bank and to comply with all reporting information.

26. **No Waiver of Rights under the Loan Documents.** The Bank expressly reserves any and all rights and remedies available to it under this Amendment, the Loan Documents, any other agreement or at law or in equity or otherwise. No failure to exercise, or delay by the Bank in exercising any right, power or privilege hereunder or under any of the Loan Documents shall preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in this Amendment and the Loan Documents are cumulative and not exhaustive of each other or of any right or remedy provided by law or equity or otherwise. No notice to or demand upon any Borrower in any instance shall, in itself, entitle any Borrower to constitute a waiver of any right of the Bank to take any other or further action in any circumstance without notice or demand.

27. **No Commitment.** This Amendment is not intended as a commitment by the Bank to modify the Loan Documents in any respect or otherwise, except to the extent expressly set forth herein, and the Bank hereby specifically confirms that it makes no such commitment and specifically advises that no action should be taken by any Borrower based upon any understanding that such a commitment exists or on any expectation that any such commitment will be made in the future.

28. **No Third Party Beneficiaries.** This Amendment is made for the sole benefit and protection of the Bank and the Borrowers and their respective successors and permitted assigns. By execution of this Amendment, the Bank does not intend to assume and is not hereby

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assuming any obligation to any third party. No third party shall be or shall be deemed a beneficiary of this Amendment.

29. **Marshalling; Payments Set Aside.** The Bank shall not be under any obligation to marshall any assets in favor of any Borrower or any other person or against or in payment of any or all of the Obligations. To the extent that a payment or payments are made to the Bank or the Bank enforces any of its liens, and such payment or payments or the proceeds of such enforcement or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Borrowers, or any of them, a trustee, receiver or any other person under any law including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of any such restoration, the obligation or part thereof and any lien relating thereto originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement had not occurred.

30. **Voluntary Agreement.** Each of the Borrowers represents and warrants that it is represented by legal counsel of its choice and that it has consulted with counsel regarding this Amendment, that it is fully aware of the terms contained herein and that it has voluntarily and without coercion or duress of any kind entered into this Amendment.

31. **Severability.** In case any one or more of the provisions of this Amendment should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby, and such invalid, illegal or unenforceable provision shall be deemed modified to the extent necessary to render it valid while most nearly preserving its original intent.

32. **Counterparts.** This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

33. **Binding Agreement.** This Amendment shall be binding upon and shall inure to the benefit of the Borrowers and the Bank and their respective heirs, successors and assigns; provided, however, that the Borrowers may not assign any of their rights or duties hereunder without the prior written consent of the Bank.

[SIGNATURES APPEAR ON THE NEXT PAGE.]

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WITNESS the due execution hereof with the intent to be legally bound.

ATTEST:	**PDG ENVIRONMENTAL, INC.**
By: ______________________	By: /s/ John C. Regan
ATTEST:	**PROJECT DEVELOPMENT GROUP, INC.**
By: ______________________	By: /s/ John C. Regan
ATTEST:	**ENVIRO-TECH ABATEMENT SERVICES, CO.**
By: ______________________	By: /s/ John C. Regan
ATTEST:	**PDG, INC.**
By: ______________________	By: /s/ John C. Regan
ATTEST:	**FLAGSHIP RESTORATION, INC.**

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By: ______________________

ATTEST:

By: ______________________

ATTEST:

By: ______________________

By: /s/ John C. Regan

SERVESTEC, INC.

By: /s/ John C. Regan

THE HUNTINGTON NATIONAL BANK

By: /s/ Richard M. Collins
Richard M. Collins, Vice President

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EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, John C. Regan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PDG Environmental, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Registrant' s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Registrant' s internal control over financial reporting that occurred during the Registrant' s most recent fiscal quarter (the Registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Registrant' s auditors and the audit committee of the Registrant' s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant' s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant' s internal control over financial reporting.

By: /s/ John C. Regan
John C. Regan
Chief Executive Officer

Dated: September 12, 2008

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EXHIBIT 31.2

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Nicola Battaglia, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PDG Environmental, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Registrant' s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Registrant' s internal control over financial reporting that occurred during the Registrant' s most recent fiscal quarter (the Registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Registrant' s auditors and the audit committee of the Registrant' s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant' s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant' s internal control over financial reporting.

By: /s/ Nicola Battaglia
Nicola Battaglia
Chief Financial Officer

Dated: September 12, 2008

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EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF SARBANES-OXLEY ACT

Pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of PDG Environmental, Inc. herby certify that the Quarterly Report of PDG Environmental, Inc. on Form 10-Q for the quarterly period ended July 31, 2008 (the "Report), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of PDG Environmental, Inc.

By: /s/ John C. Regan
John C. Regan
Chief Executive Officer

Dated: September 12, 2008

By: /s/ Nicola Battaglia
Nicola Battaglia
Chief Financial Officer

Dated: September 12, 2008

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