SERVIDYNE, INC.
Form 10-Q
March 17, 2009

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the quarter ended January 31, 2009
Commission file number 0-10146
SERVIDYNE, INC.
(Exact name of registrant as specified in its charter)

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

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

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

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 o Accelerated Filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller Reporting Company þ

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

Yes o No þ

The number of shares of $1.00 par value Common Stock of the Registrant outstanding as of February 28, 2009, was 3,691,569.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SERVIDYNE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	January 31, 2009	April 30, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 5,730,561**	$ 8,382,947
Restricted cash		3,470,700
Receivables (Note 5)	**3,528,902**	3,735,930
Less: Allowance for doubtful accounts	**(110,845)**	(127,007)
Costs and earnings in excess of billings	**386,506**	275,754
Deferred income taxes	**521,036**	750,488
Other current assets	**1,608,824**	1,011,304
Total current assets	**11,664,984**	17,500,116
INCOME-PRODUCING PROPERTIES, net	**21,519,183**	21,773,409
PROPERTY AND EQUIPMENT, net	**845,978**	811,900
OTHER ASSETS:		
Real estate held for future development or sale	**853,109**	853,109
Intangible assets, net (Note 9)	**3,173,252**	3,222,125
Goodwill (Note 9)	**6,354,003**	5,458,717
Other assets	**2,697,137**	2,696,174
Total assets	**$ 47,107,646**	$ 52,315,550
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade and subcontractors payables	**$ 869,247**	$ 550,360
Accrued expenses	**1,363,768**	1,143,794
Deferred revenue	**640,089**	848,197
Accrued incentive compensation		494,000
Billings in excess of costs and earnings	**170,737**	62,559
Current maturities of mortgage notes and other long-term debt	**556,461**	631,736
Total current liabilities	**3,600,302**	3,730,646
DEFERRED INCOME TAXES	**3,465,955**	5,271,441
OTHER LIABILITIES	**814,103**	1,138,316
MORTGAGE NOTES PAYABLE, less current maturities	**18,324,190**	18,603,769
OTHER LONG-TERM DEBT, less current maturities	**1,000,000**	1,105,000

Total liabilities		**27,204,550**		29,849,172
COMMITMENTS AND CONTINGENCIES (Note 13)				
SHAREHOLDERS EQUITY:				
Common stock, $1 par value; 10,000,000 shares authorized; 3,918,078 issued and 3,691,569 outstanding at January 31, 2009, 3,708,836 issued and 3,539,770 outstanding at April 30, 2008		**3,918,078**		3,708,836
Additional paid-in capital		**5,972,610**		5,045,100
Retained earnings		**10,987,208**		14,511,159
Treasury stock (common shares) 226,509 at January 31, 2009, and 169,066 at April 30, 2008		**(974,800)**		(798,717)
Total shareholders equity		**19,903,096**		22,466,378
Total liabilities and shareholders equity	**$**	**47,107,646**	$	52,315,550

See accompanying notes to condensed consolidated financial statements.

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

	THIRD QUARTER ENDED JANUARY 31,		NINE MONTHS ENDED JANUARY 31,	
	2009	2008	**2009**	2008
REVENUES:				
Building Performance Efficiency (BPE)	**$ 3,338,921**	$ 3,220,444	**$ 9,493,104**	$ 11,973,959
Real Estate	**818,893**	895,264	**2,407,713**	4,335,446
	4,157,814	4,115,708	**11,900,817**	16,309,405
COST OF REVENUES:				
BPE	**2,098,300**	2,158,725	**6,018,788**	8,104,705
Real Estate	**527,710**	515,624	**1,562,375**	1,671,702
	2,626,010	2,674,349	**7,581,163**	9,776,407
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:	**2,471,359**	2,319,813	**7,572,496**	6,982,322
OTHER (INCOME) AND EXPENSES:				
Other income (Note 12)	**(280,510)**	(9,899)	**(317,454)**	(77,045)
Interest income	**(8,560)**	(83,289)	**(111,618)**	(195,046)
Interest expense	**318,083**	345,516	**980,847**	1,032,875
	29,013	252,328	**551,775**	760,784
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**(968,568)**	(1,130,782)	**(3,804,617)**	(1,210,108)
INCOME TAX BENEFIT	**(477,206)**	(423,501)	**(1,560,132)**	(505,719)
LOSS FROM CONTINUING OPERATIONS	**(491,362)**	(707,281)	**(2,244,485)**	(704,389)
DISCONTINUED OPERATIONS:				
(Loss) earnings from discontinued operations, adjusted for applicable income tax expense (benefit) of $0, ($1,832), $0 and $11,219, respectively		(2,988)		18,305
		1,292,567		2,481,914

Gain on sale of income-producing real estate, adjusted for applicable income tax expense of $0, $792,218, $0, and $1,521,172, respectively				
EARNINGS FROM DISCONTINUED OPERATIONS		1,289,579		2,500,219
NET (LOSS) EARNINGS	**$ (491,362)**	$ 582,298	**$ (2,244,485)**	$ 1,795,830
NET (LOSS) EARNINGS PER SHARE BASIC				
From continuing operations	**$ (0.13)**	$ (0.19)	**$ (0.60)**	$ (0.19)
From discontinued operations		0.35		0.67
NET (LOSS) EARNINGS PER SHARE BASIC	**$ (0.13)**	$ 0.16	**$ (0.60)**	$ 0.48
NET (LOSS) EARNINGS PER SHARE DILUTED				
From continuing operations	**$ (0.13)**	$ (0.19)	**$ (0.60)**	$ (0.19)
From discontinued operations		0.35		0.67
NET (LOSS) EARNINGS PER SHARE DILUTED	**$ (0.13)**	$ 0.16	**$ (0.60)**	$ 0.48
DIVIDENDS PER SHARE	**$ 0.038**	$ 0.034	**$ 0.114**	$ 0.103
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	**3,711,559**	3,714,245	**3,726,066**	3,708,588
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	**3,711,559**	3,714,245	**3,726,066**	3,708,588

See accompanying notes to condensed consolidated financial statements.

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

	NINE MONTHS ENDED JANUARY 31,	
	2009	2008
CONTINUING OPERATIONS:		
Cash flows from operating activities:		
Net (loss) earnings	**$ (2,244,485)**	$ 1,795,830
Earnings from discontinued operations, net of tax		(2,500,219)
Adjustments to reconcile net (loss) earnings to net cash used in operating activities:		
Loss on sale of real estate		89,179
Loss on disposal of assets	**11,654**	14,330
Depreciation and amortization	**1,208,196**	1,122,288
Amortization of mortgage discount	**(20,000)**	(22,500)
Deferred tax benefit	**(1,560,132)**	(505,719)
Stock compensation expense	**151,927**	97,210
Adjustment to cash surrender value of life insurance	**(103,614)**	(45,453)
Straight-line rent	**(57,344)**	24,640
Provision for doubtful accounts, net	**(16,162)**	100,812
Changes in assets and liabilities:		
Receivables	**325,550**	(1,301,180)
Costs and earnings in excess of billings	**(110,752)**	(736,081)
Other current assets	**(263,603)**	283,178
Trade and subcontractors payable	**(120,649)**	205,069
Accrued expenses and deferred revenue	**(32,535)**	181,324
Accrued incentive compensation	**(494,000)**	(196,516)
Billings in excess of costs and earnings	**108,178**	(113,110)
Other liabilities	**(14,224)**	175,537
Net cash used in operating activities	**(3,247,895)**	(1,331,381)
Cash flows from investing activities:		
Purchase of available-for-sale security		(2,900,000)
Deposit of cash proceeds from sale of real estate held in escrow		(3,436,200)
Release of restricted cash held in escrow	**3,470,700**	
Deposit of restricted cash	**(139,833)**	
Purchase of held to maturity investment	**(150,000)**	
Additions to income-producing properties	**(170,238)**	(644,898)
Additions to property and equipment	**(147,631)**	(164,426)
Additions to intangible assets	**(263,005)**	(212,513)
Acquisition, net of cash acquired	**(902,657)**	
Net cash provided by (used in) investing activities	**1,697,336**	(7,358,037)

Cash flows from financing activities:		
Real estate loan proceeds		3,200,000
Mortgage repayments	**(258,978)**	(2,500,000)
Debt repayments	**(280,875)**	(479,714)
Repurchase of common stock	**(135,507)**	
Deferred loan costs paid		(57,346)
Exercise of stock options		51,000
Cash dividends paid to shareholders	**(426,467)**	(381,746)
Net cash used in financing activities	**(1,101,827)**	(167,806)
DISCONTINUED OPERATIONS:		
Operating activities		319,230
Investing activities		14,616,120
Financing activities		(6,187,504)
Net cash provided by discontinued operations		8,747,846
Net decrease in cash and cash equivalents	**(2,652,386)**	(109,378)
Cash at beginning of period	**8,382,947**	5,662,894
Cash at end of period	**$ 5,730,561**	$ 5,553,516

See accompanying notes to condensed consolidated financial statements.

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Supplementary Disclosures of Noncash Investing and Financing Activities:
On June 6, 2008, the Company purchased substantially all of the assets and certain liabilities of Atlantic Lighting & Supply Co., Inc. for $902,657 in cash (net of cash received and including acquisition costs) and 17,381 shares of Servidyne common stock. The related assets and liabilities at the date of acquisition were as follows:

Total assets acquired, net of cash	**$ 1,577,844**
Total liabilities assumed	**(583,937)**
Net assets acquired, net of cash	**993,907**
Less value of shares issued for acquisition	**(91,250)**
Total cash paid (including acquisition costs)	**$ 902,657**

See accompanying notes to condensed consolidated financial statements.

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SERVIDYNE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 2009, AND APRIL 30, 2008
(UNAUDITED)

NOTE 1. ORGANIZATION AND BUSINESS

Servidyne, Inc. (together with its subsidiaries, the Company) was organized under Delaware law in 1960. In 1984, the Company changed its state of incorporation from Delaware to Georgia. The Company s Building Performance Efficiency (BPE) Segment provides energy efficiency solutions, sustainability programs, and other building performance enhancing products and services to owners and operators of buildings. The Company s Real Estate Segment engages in commercial real estate investment and development.

NOTE 2. UNAUDITED STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations, although management believes that the accompanying disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals that are necessary for a fair statement of the results for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended April 30, 2008. Results of operations for interim periods are not necessarily indicative of annual results.

Restatement of Previously Issued Condensed Consolidated Financial Statements

Subsequent to the issuance of the October 31, 2008, condensed consolidated financial statements, the Company determined that interest income and certain components of other income were not presented in accordance with SEC Regulation S-X, Article 5, Rule 5-03, Income Statement. In periods prior to the quarter ended January 31, 2009, the Company included interest income and certain components of other income in the determination of total revenues. Beginning in the quarter ended January 31, 2009, the Company revised its presentation of interest income and certain components of other income to other (income) and expenses in the condensed consolidated statement of operations. Prior period amounts have been restated to conform to this new presentation. The Company does not believe that these restatements are material to the Company s condensed consolidated financial statements for the quarter ended January 31, 2009, or for the consolidated financial statements for any prior quarterly or annual periods.

Reclassification of Previously Issued Condensed Consolidated Financial Statements

In periods prior to the quarter ended January 31, 2009, the Company included interest expense together with cost of revenues and selling, general and administrative expenses in the determination of total operating expenses. Beginning in the quarter ended January 31, 2009, the Company reclassified interest expense to other (income) and expenses in the condensed consolidated statement of operations. Prior period amounts have been reclassified to conform to this new presentation.

NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 141

(revised 2007), Business Combinations (SFAS 141(R)), which replaces SFAS No. 141, Business Combinations. SFAS 141(R) retains the underlying concepts of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but SFAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; non-controlling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS 141(R) will be effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would also apply the provisions of SFAS 141(R). Early adoption is not permitted. The Company is currently evaluating the effects, if any, that SFAS 141(R) may have on the Company s financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 applies where other accounting pronouncements require or permit fair value measurements; it does not require any new fair value measurements under GAAP. The effects of adoption are determined by the types of instruments carried at fair value in the Company s financial statements at the time of adoption, as well as the method utilized to determine their fair values prior to adoption. SFAS 157 was effective for financial assets and liabilities on May 1, 2008. SFAS 157 will be effective for non-financial assets and liabilities, including assets measured at fair value due to impairments, on May 1, 2009. The Company has determined that this statement did not have a significant impact on the determination or reporting of the Company s financial results for the fiscal year ended April 30, 2009, and will not have a significant impact for the fiscal year ended April 30, 2010.

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 (SFAS 159). SFAS 159 was effective for the Company on May 1, 2008. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option is elected will be reported in earnings. The Company elected not to apply the fair value option to its existing financial assets and liabilities on SFAS 159 s effective date. Thus, this statement did not have an impact on the determination or reporting of the Company s financial results.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determining the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 was designed to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007), Business Combinations , and other guidance under GAAP. FSP 142-3 will be effective for the

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Company on May 1, 2009. Early adoption is prohibited. The Company is currently evaluating the effects, if any, that FSP 142-3 may have on the Company s financial statements.

NOTE 4. EQUITY-BASED COMPENSATION

The Company has three (3) outstanding types of equity-based incentive compensation instruments in effect with employees, non-employee directors, and certain outside service providers: stock options, stock appreciation rights, and restricted stock.

For the third quarter and the nine months ended January 31, 2009, total equity-based compensation expenses were $53,992 and $151,927, respectively, and the related income tax benefits were $20,517 and $57,925, respectively. Comparatively, for the third quarter and the nine months ended January 31, 2008, total equity-based compensation expenses were $35,749 and $97,210, respectively, and the related income tax benefits were $13,585 and $36,940, respectively. All of these expenses are included in selling, general and administrative expenses in the condensed consolidated statements of operations.

Stock Options

A summary of stock options activity for the nine months ended January 31, 2009, is as follows:

	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding at April 30, 2008	483,536	$ 4.45
Granted	10,500	5.24
Exercised		
Forfeited / Expired	(11,550)	4.59
Outstanding at January 31, 2009	482,486	$ 4.46
Vested at January 31, 2009	471,986	$ 4.44

As of January 31, 2009, 471,986, or 98%, of the outstanding stock options were exercisable, but none of the outstanding stock options were in the money.

A summary of information about all stock options outstanding as of January 31, 2009, is as follows:

Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Life (Years)
$4.42	415,629	3.77
$4.59	55,440	6.15
$5.19	917	5.38
$5.24	10,500	4.37

The Company estimates the fair value of each stock option award on the date of grant using the Black-

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Scholes option-pricing model. The risk-free interest rate utilized in the Black-Scholes calculation is the interest rate of the U.S. Treasury Bill having the same maturity period as the expected life of the stock option awards. The expected life of the stock options granted is based on the estimated holding period of the awarded stock options. The expected volatility of the stock options granted is based on the historical volatility of the Company s stock over the preceding five-year period using the month-end closing stock price. The fair value of the stock options granted in the nine months ended January 31, 2009, was estimated on the respective grant dates using the following weighted average assumptions in the Black-Scholes option-pricing model:

Expected life (years)	5
Dividend yield	2.55%
Expected stock price volatility	37.11%
Risk-free interest rate	3.73%
Fair value of options granted	$ 1.16

Compensation expenses related to the vesting of options for the third quarter and the nine months ended January 31, 2009, were $8,039 and $15,195, respectively, and the related income tax benefits were $3,055 and $5,968, respectively, related to the vesting of options. Comparatively, there were no compensation expenses or related tax benefits related to the vesting of options in the third quarter or the nine months ended January 31, 2008.

Stock Appreciation Rights (SARs)

A summary of SARs activity for the nine months ended January 31, 2009, is as follows:

	SAR Units	Weighted Average Exercise Price
Outstanding at April 30, 2008	411,600	$ 4.26
Granted	184,000	4.57
Exercised		
Forfeited	(5,250)	3.88
Outstanding at January 31, 2009	590,350	$ 4.36
Vested at January 31, 2009		$

The Company estimates the fair value of each award of SARs on the date of grant using the Black-Scholes option-pricing model. The risk-free interest rate utilized in the Black-Scholes calculation is the interest rate on the U.S. Treasury Bill having the same maturity as the expected life of the Company s SARs awards. The expected life of the SARs granted is based on the estimated holding period of the awards. The expected volatility of the SARs granted is based on the historical volatility of the Company s stock over the preceding five-year period using the month-end closing stock price. The fair value of the SARs granted in the nine months ended January 31, 2009, was estimated on the respective grant dates using the following weighted average assumptions in the Black-Scholes option-pricing model:

Expected life (years)	5
Dividend yield	2.59%
Expected stock price volatility	37.25%
Risk-free interest rate	3.45%
Fair value of SARs granted	$ 0.91

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Compensation