SERVIDYNE, INC.
Form 10-Q
March 17, 2010

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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, 2010
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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o 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.

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, 2010, was 3,676,083.

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SERVIDYNE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	January 31, 2010	April 30, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,299,200	$ 4,821,126
Receivables (Note 5):		
Trade accounts and notes, net of allowance for doubtful accounts of $88,718 and $121,463, respectively	1,209,192	1,277,508
Contracts, net of allowance for doubtful accounts of $4,294 and $4,294, respectively, including retained amounts of $487,706 and $219,385, respectively	1,820,248	1,764,327
Costs and earnings in excess of billings	486,201	408,950
Assets of discontinued operations (Note 10)		314,906
Deferred income taxes	463,745	529,708
Other current assets	1,254,446	1,485,599
Total current assets	7,533,032	10,602,124
INCOME-PRODUCING PROPERTIES, net	17,407,778	17,630,790
PROPERTY AND EQUIPMENT, net	702,544	797,556
ASSETS OF DISCONTINUED OPERATIONS (Note 10)		1,909,434
OTHER ASSETS:		
Real estate held for future development or sale	853,109	853,109
Intangible assets, net (Note 8)	2,900,141	2,832,286
Goodwill (Note 8)	6,354,002	6,354,002
Other assets	2,979,113	2,665,355
Total assets	$ 38,729,719	$ 43,644,656
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade and subcontractors payables	$ 1,137,791	$ 851,633
Accrued expenses	1,229,569	1,388,229
Deferred revenue	460,654	601,347
Billings in excess of costs and earnings	925,894	28,215
Liabilities of discontinued operations (Note 10)		175,541
Short-term debt and current maturities of long-term debt	608,452	526,287
Total current liabilities	4,362,360	3,571,252
DEFERRED INCOME TAXES	1,484,602	2,246,919
LIABILITIES OF DISCONTINUED OPERATIONS (Note 10)		3,370,826

OTHER LIABILITIES	**1,009,366**	824,877
MORTGAGE NOTES PAYABLE, less current maturities	**14,820,699**	15,092,252
OTHER LONG-TERM DEBT, less current maturities	**850,000**	1,000,000
Total liabilities	**22,527,027**	26,106,126
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS EQUITY:		
Common stock, $1 par value; 10,000,000 shares authorized; 3,919,473 issued and 3,676,083 outstanding at January 31, 2010; 3,917,778 issued and 3,691,369 outstanding at April 30, 2009	**3,919,473**	3,917,778
Additional paid-in capital	**6,161,710**	6,026,101
Retained earnings	**7,127,654**	8,569,451
Treasury stock (common shares) of 243,390 and 226,409, respectively	**(1,006,145)**	(974,800)
Total shareholders equity	**16,202,692**	17,538,530
Total liabilities and shareholders equity	**$ 38,729,719**	$ 43,644,656

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,	
	2010	2009	**2010**	2009
REVENUES:				
Building Performance Efficiency (BPE)	**$ 4,119,890**	$ 3,338,921	**$ 11,915,539**	$ 9,493,104
Real Estate	**717,899**	716,102	**2,080,802**	2,099,033
	4,837,789	4,055,023	**13,996,341**	11,592,137
COST OF REVENUES:				
BPE	**2,651,957**	2,098,300	**7,947,470**	6,018,788
Real Estate	**458,561**	444,588	**1,388,890**	1,334,150
	3,110,518	2,542,888	**9,336,360**	7,352,938
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:	**2,454,058**	2,469,754	**7,144,254**	7,567,681
OTHER (INCOME) AND EXPENSES:				
Other income	**(5,752)**	(281,323)	**(73,634)**	(316,907)
Interest income	**(25)**	(7,622)	**(7,650)**	(108,024)
Interest expense	**269,958**	269,956	**812,402**	835,860
	264,181	(18,989)	**731,118**	410,929
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**(990,968)**	(938,630)	**(3,215,391)**	(3,739,411)
INCOME TAX BENEFIT	**(452,064)**	(465,830)	**(1,313,781)**	(1,535,354)
LOSS FROM CONTINUING OPERATIONS	**(538,904)**	(472,800)	**(1,901,610)**	(2,204,057)
DISCONTINUED OPERATIONS (Note 10):				
Loss from discontinued operations, adjusted for applicable income tax benefit of $19,451, $11,377, $50,649 and $24,778, respectively	**(31,736)**	(18,562)	**(82,638)**	(40,428)
	690,622		**690,622**	

Gain on disposition of income-producing properties, adjusted for applicable income tax expense of $498,017, $0, $498,017 and $0, respectively				
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS	**658,886**	(18,562)	**607,984**	(40,428)
NET EARNINGS (LOSS)	**$ 119,982**	$ (491,362)	**$ (1,293,626)**	$ (2,244,485)
NET EARNINGS (LOSS) PER SHARE (Note 7):				
From continuing operations basic and diluted	**$ (0.15)**	$ (0.12)	**$ (0.52)**	$ (0.59)
From discontinued operations basic and diluted	**.18**	(.01)	**.16**	(.01)
NET EARNINGS (LOSS) PER SHARE BASIC AND DILUTED	**$ 0.03**	$ (0.13)	**$ (0.36)**	$ (0.60)
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	**3,685,268**	3,711,559	**3,688,952**	3,726,066

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,	
	2010	2009
Cash flows from operating activities:		
Net loss	**$ (1,293,626)**	$ (2,244,485)
Adjustments to reconcile net loss to net cash used in operating activities:		
Earnings from discontinued operations, net of tax	**(607,984)**	40,428
Loss on disposal of assets	**1,378**	9,683
Depreciation and amortization	**1,022,030**	1,081,000
Amortization of mortgage discount		(20,000)
Deferred tax benefit	**(1,336,445)**	(1,560,134)
Stock compensation expense	**137,711**	151,927
Adjustment to cash surrender value of life insurance	**(75,122)**	(76,150)
Straight-line rent	**(23,108)**	(27,160)
Provision for doubtful accounts, net	**(32,745)**	(16,162)
Changes in assets and liabilities:		
Receivables	**45,140**	313,161
Costs and earnings in excess of billings	**(77,251)**	(110,752)
Other current and long-term assets	**98,847**	(111,825)
Trade and subcontractors payable	**286,158**	(120,163)
Accrued expenses and deferred revenue	**(299,353)**	(201,097)
Accrued incentive compensation		(494,000)
Billings in excess of costs and earnings	**897,679**	108,178
Other liabilities	**(4,000)**	(14,222)
Net cash used in operating activities	**(1,260,691)**	(3,291,773)
Cash flows from investing activities:		
Acquisition, net of cash acquired		(902,657)
Premiums paid on officers life insurance policies	**(27,464)**	(27,464)
Release of restricted cash held in escrow		3,470,700
Deposit of restricted cash		(139,833)
Purchase of held to maturity investments		(150,000)
Additions to income-producing properties	**(135,523)**	(163,462)
Additions to property and equipment	**(74,617)**	(147,631)
Additions to intangible assets	**(432,368)**	(263,005)
Proceeds from sale of property and equipment	**2,000**	
Net cash (used in) provided by investing activities	**(667,972)**	1,676,648
Cash flows from financing activities:		
Short-term loan proceeds	**100,000**	
Mortgage repayments	**(254,389)**	(237,926)

Debt repayments	**(185,000)**	(280,875)
Repurchase of common stock	**(31,345)**	(135,507)
Cash dividends paid to shareholders	**(148,578)**	(426,467)
Net cash used in financing activities	**(519,312)**	(1,080,775)
DISCONTINUED OPERATIONS:		
Operating activities	**(13,319)**	71,344
Investing activities	**(1,021)**	(6,776)
Financing activities	**(59,611)**	(21,054)
Net cash (used in) provided by discontinued operations	**(73,951)**	43,514
Net decrease in cash and cash equivalents	**(2,521,926)**	(2,652,386)
Cash at beginning of period	**4,821,126**	8,382,947
Cash at end of period	**$ 2,299,200**	$ 5,730,561

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**

On January 29, 2010, the Company transferred its interest in an income-producing property and related assets to the note holder, which satisfied in full the Company s liability for the related mortgage note payable.

Elimination of mortgage note payable	**$ (3,159,348)**
Disposition of income-producing property, net	**1,727,165**
Disposition of other related assets and liabilities, net	**193,545**

See accompanying notes to condensed consolidated financial statements.

SERVIDYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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 comprehensive energy efficiency and demand response solutions, sustainability programs, and other building performance-enhancing products and services to owners and operators of existing buildings, energy services companies, and public and private utilities. The Company s Real Estate Segment engages in the asset management of its portfolio of commercial real estate income-producing properties and undeveloped land.

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, which 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, 2009. Results of operations for interim periods are not necessarily indicative of annual results.

The Company has made reclassifications related to certain income-producing properties that have been sold in accordance with the guidance now codified as Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360-35, *Property, Plant and Equipment* (ASC 360-35). In addition, the Company has made certain reclassifications in the prior year to conform with the current year presentation.

NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued guidance now codified as FASB ASC topic 105-10, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASC 105-10 or the Codification), which became effective for interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current U.S. generally accepted accounting principles (GAAP), the Codification does not change GAAP, but rather is intended to make it easier to find and research GAAP applicable to particular transactions or specific accounting issues. The Codification organizes previous accounting pronouncements into approximately 90 accounting topics and is now considered to be the single source of authoritative U.S. GAAP. The Company adopted ASC 105-10 in the second quarter of fiscal 2010. Adoption had no impact on the determination or reporting of the Company s financial results. All references to specific authoritative guidance have been updated within this report to reflect the new Accounting Standards Codification structure.

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In May 2009, the FASB issued guidance now codified as FASB ASC topic 855, *Subsequent Events* (ASC 855). ASC 855 modifies the names of the two types of subsequent events and, for public entities, modifies the definition of subsequent events to refer to events or transactions that occur after the balance sheet date but before the financial statements are issued. Also, ASC 855 requires that entities disclose the date through which subsequent events have been evaluated and the basis for that date. ASC 855 was effective for all interim and annual periods ending after June 15, 2009. The Company adopted ASC 855 in the first quarter of fiscal 2010.

In February 2010, the FASB issued new guidance codified as FASB Accounting Standards Update (ASU) 2010-09, *Subsequent Events* (ASU 2010-09). ASU 2010-09 updates FASB ASC 855. ASU 2010-09 removes the requirement to disclose the date through which an entity has evaluated subsequent events. The Company adopted the previously issued guidance included in ASC 855 in the first quarter of fiscal 2010. The Company adopted ASU 2010-09 in the third quarter of fiscal 2010. The Company has determined that adoption did not have a significant impact on the determination or reporting of the Company s financial results.

In April 2009, the FASB issued new guidance now codified within FASB ASC topic 825, *Financial Instruments* (ASC 825). Following this new guidance, ASC 825 requires disclosure about the fair value of financial instruments for publicly traded companies in interim reporting periods, as well as in annual reporting periods. The Company adopted the new provisions of ASC 825 in the first quarter of fiscal 2010. See Note 11 for fair value disclosure of the Company s financial instruments.

In April 2008, the FASB issued guidance now codified as FASB ASC Subtopic 350-30, *Intangibles Goodwill and Other; General Intangibles Other than Goodwill* (ASC 350-30) and ASC topic 275, *Risks and Uncertainties* (ASC 275). This new guidance was designed to improve the consistency between the useful life of a recognized intangible asset under ASC 350, *Intangibles Goodwill and Other*, and the period of expected cash flows used to measure the fair value of the asset under ASC 805, *Business Combinations*, and other guidance under GAAP. The Company adopted ASC 350-30 and ASC 275 in the first quarter of fiscal 2010. The Company has determined that adoption did not have a significant impact on the determination or reporting of the Company s financial results.

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. Most of these equity-based instruments have been granted under the terms of the Company s 2000 Stock Award Plan (the 2000 Award Plan). The total number of shares that can be granted under the 2000 Award Plan is 1,155,000 shares. The Company typically uses authorized, unissued shares to provide shares for these equity-based instruments.

For the third quarter and the nine (9) months ended January 31, 2010, total equity-based compensation expenses were $45,012 and $137,711, respectively, and the related income tax benefits were $17,105 and $52,330, respectively. Comparatively, for the third quarter and the nine (9) 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. All of these expenses are included in selling, general and administrative expenses in the condensed consolidated statements of operations. At January 31, 2010, there were total unrecognized equity-based compensation expenses of $314,682 that are expected to be recognized over a weighted average period of approximately 1.7 years.

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Stock Options

A summary of stock options activity for the nine (9) months ended January 31, 2010, is as follows:

	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding at April 30, 2009	482,486	$ 4.46
Granted		
Forfeited		
Expired		
Exercised		
Outstanding at January 31, 2010	482,486	$ 4.46
Vested at January 31, 2010	471,986	$ 4.44
Non-vested at January 31, 2010, that are expected to vest	10,500	$ 5.24

Stock options typically vest over a period of two (2) years. The maximum contractual term of the stock options is ten (10) years. As of January 31, 2010, none of the outstanding stock options, vested or non-vested, were in the money.

A summary of information about all stock options outstanding as of January 31, 2010, is as follows:

Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Term (Years)
$4.42	415,629	2.77
$4.59	55,440	5.15
$5.19	917	4.38
$5.24	10,500	3.37

The Company estimates the fair value of each stock option award 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 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.

Compensation expenses related to the vesting of options for the third quarter and the nine (9) months ended January 31, 2010, were $725 and $3,142, respectively, and the related income tax benefits were $276 and $1,194, respectively. Comparatively, related compensation expenses for the third quarter and the nine (9) 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.

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Stock Appreciation Rights (SARs)

A summary of SARs activity for the nine (9) months ended January 31, 2010, is as follows:

	SARs	Weighted Average Exercise Price
Outstanding at April 30, 2009	565,350	$ 4.37
Granted	250,000	3.65
Exercised		
Forfeited	(10,500)	4.09
Outstanding at January 31, 2010	804,850	$ 4.15
Vested at January 31, 2010	88,200	$ 3.88
Non-vested at January 31, 2010, that are expected to vest	468,618	$ 4.20

All SARs have a five-year vesting period. Typically, thirty percent (30%) of the SARs will vest on the third (3rd) year anniversary of the date of grant, thirty percent (30%) will vest on the fourth (4th) year anniversary of the date of grant, and forty percent (40%) will vest on the fifth (5th) year anniversary of the date of grant. All SARs have early vesting provisions by which one hundred percent (100%) of the SARs would vest immediately (1) on the date of a change in control of the Company; or (2) if the Company s stock price were to close at or above a certain price for ten (10) consecutive trading days. For SARs granted prior to the stock dividend that occurred in the first quarter of fiscal 2009, the triggering price for early vesting is $19.05 per share. For SARs granted subsequent to the stock dividend that occurred in the first quarter of fiscal 2009, the triggering price for early vesting for SARs issued under the 2000 Award Plan is $20.00 per share, and the triggering price for early vesting for SARs not issued under the 2000 Award Plan is $19.05 per share. The maximum contractual term of all SARs is ten (10) years. As of January 31, 2010, none of the outstanding SARs, vested or non-vested, were in the money.

A summary of information about all SARs outstanding as of January 31, 2010, is as follows:

Exercise Price	Outstanding SARs	Vested SARs	Weighted Average Remaining Contractual Term (Years)
$3.94	182,700	88,200	6.41
$3.79	111,300	0	6.85
$4.19	10,500	0	7.36
$6.19	38,850	0	7.66
$5.00	52,500	0	8.23
$4.76	136,500	0	8.37
$4.00	22,500	0	8.63
$2.30	30,000	0	9.36
$4.00	200,000	0	9.79
$2.12	20,000	0	9.85

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.

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The fair value of the SARs granted in the nine (9) months ended January 31, 2010, 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	4.25%
Expected stock price volatility	55.59%
Risk-free interest rate	2.35%
Fair value of SARs granted	$ 0.33

Compensation expenses related to the vesting of SARs for the third quarter and the nine (9) months ended January 31, 2010, were $42,402 and $127,785, respectively, and the related income tax benefits were $16,113 and $48,558, respectively. Comparatively, related compensation expenses for the third quarter and the nine (9) months ended January 31, 2009, were $40,537 and $1