

SERVIDYNE, INC.
Form 10-Q
March 19, 2007

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM 10-Q
QUARTERLY REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the quarter ended January 31, 2007
Commission file number 0-10146
SERVIDYNE, INC.**

(Exact name of registrant as specified in its charter)

Georgia

58-0522129

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer identification No.)

1945 The Exchange, Suite 300, Atlanta, GA 30339-2029

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (770) 953-0304

Former name, former address, former fiscal year, if changed since last report: N/A

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

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated Filer ☐ Non-accelerated filer ☒

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

Yes ☐ No ☒

The number of shares of \$1.00 par value Common Stock of the Registrant outstanding as of February 28, 2007, was 3,527,170.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS**SERVIDYNE, INC.
CONSOLIDATED BALANCE SHEETS**

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

Total liabilities	33,978,136	31,463,508
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COMMITMENTS AND CONTINGENCIES (Note 11)

SHAREHOLDERS' EQUITY:

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

See accompanying notes to consolidated financial statements.

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SERVIDYNE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

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

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

See accompanying notes to consolidated financial statements.

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

	Common Shares	Stock Amount	Additional Paid-In Capital	Deferred Stock Compensation	Retained Earnings	Treasury Stock	Total
BALANCES at April 30, 2004	3,327,628	\$3,327,628	\$2,963,874	\$(26,855)	\$14,412,663	\$(679,783)	\$19,997,527
Net earnings					1,800,358		1,800,358
Common stock issued	29,973	29,973	104,108	(39,175)			94,906
Stock compensation expense				51,868		(5,159)	46,709
Cash dividends declared - \$.29 per share (adjusted for subsequent stock dividend)					(1,026,089)		(1,026,089)
BALANCES at April 30, 2005	3,357,601	3,357,601	3,067,982	(14,162)	15,186,932	(684,942)	20,913,411
Net earnings					525,766		525,766
Common stock issued	1,800	1,800	6,660	(8,460)			
Stock compensation expense				18,202		(1,871)	16,331
Stock option exercise	732	732	2,196				2,928
Cash dividends declared - \$.14 per share (adjusted for subsequent stock dividend)					(511,688)		(511,688)
Stock dividend declared - 10% at market value on date declared	335,203	335,203	1,726,295		(1,973,934)	(87,564)	
BALANCES at April 30, 2006	3,695,336	3,695,336	4,803,133	(4,420)	13,227,076	(774,377)	20,946,748

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Net earnings				1,007,539		1,007,539
Common stock acquired					(19,747)	(19,747)
Stock compensation expense	40,861	4,420			(495)	44,786
Cash dividends declared - \$.108 per share				(381,764)		(381,764)

**BALANCES at
January 31,**

2007	3,695,336	\$3,695,336	\$4,843,994	\$	\$13,852,851	\$(794,619)	\$21,597,562
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See accompanying notes to consolidated financial statements.

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

	FIRST NINE MONTHS ENDED JANUARY 31,	
	2007	2006
CONTINUING OPERATIONS:		
Cash flows from operating activities:		
Net earnings	\$ 1,007,539	\$ 133,590
Income from discontinued operations, net of tax	(1,974,640)	(789,491)
Adjustments to reconcile net earnings to net cash used in operating activities:		
Gain on sale of real estate	(1,545,437)	(726,156)
Depreciation and amortization	1,246,943	1,009,301
Deferred tax benefit	(592,737)	(134,236)
Provision for (recovery of) doubtful accounts, net	45,650	(57,100)
Stock compensation expense	44,786	
Cash surrender value	(68,626)	(66,110)
Straight-line rent adjustment	(42,584)	(34,484)
Changes in assets and liabilities:		
Receivables	641,026	(31,909)
Costs and earnings in excess of billings	(1,704,899)	60,169
Note receivables	674,034	(510,497)
Other current assets	(349,409)	87,427
Other assets	6,706	(33,711)
Trade and subcontractors payable	612,949	229,237
Accrued expenses	(239,571)	(107,809)
Accrued incentive compensation	112,797	(1,089,369)
Billings in excess of costs and earnings	(143,598)	(137,717)
Other liabilities	(34,512)	(67,136)
Net cash used in operating activities	(2,303,583)	(2,266,001)
Cash flows from investing activities:		
Release of restricted cash held in escrow	418,594	8,272,399
Deposit of cash proceeds from sale of real estate held in escrow	(3,706,357)	
Proceeds from sale of real estate	1,867,052	881,177
Additions to income-producing properties, net	(267,823)	(640,715)
Additions to property and equipment, net	(171,054)	(190,059)
Additions to intangible assets, net	(706,655)	(649,754)
Additions to real estate held for sale or future development	(28,546)	
Acquisition, net of cash released from escrow	(1,870,447)	
Net cash (used in) provided by investing activities	(4,465,236)	7,673,048
Cash flows from financing activities:		

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

See accompanying notes to consolidated financial statements.

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

NOTE 1. ORGANIZATION AND BUSINESS

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

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

NOTE 2. UNAUDITED STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations, although management believes that the accompanying disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals that are necessary for a fair statement of the results for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended April 30, 2006. Results of operations for interim periods are not necessarily indicative of annual results.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

On May 1, 2006, the Company adopted Statement of Financial Accounting Standard (SFAS) 123(R), *Share-Based Payment (revised 2004)*. SFAS 123(R) requires that all equity awards to employees be expensed by the Company over the requisite service period. The Company adopted this standard using the modified prospective method. Under this method, the Company records compensation expense for all awards it granted after the date it adopted the standard. In addition, as of the effective date, the Company was required to record compensation expense for any unvested portion of the previously granted awards that remained outstanding at the date of adoption. The adoption of SFAS 123(R) at that time did not have an impact on the Company's financial position or results of operations as there were no unvested equity awards that required an accounting change as of May 1, 2006.

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

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

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

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

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

Stock Options

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

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

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

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

Weighted
Average