

GENCOR INDUSTRIES INC
Form 10-Q
May 09, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014**
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: 001-11703

GENCOR INDUSTRIES, INC.

Delaware
(State or other jurisdiction of
incorporation or organization)

59-0933147
(I.R.S. Employer
Identification No.)

5201 North Orange Blossom Trail, Orlando, Florida
(Address of principal executive offices)

32810
(Zip Code)

(407) 290-6000

(Registrant's telephone number, including area code)

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 and 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 x No ..

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

Edgar Filing: GENCOR INDUSTRIES INC - Form 10-Q

(§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 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.

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 Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 9, 2014
Common stock, \$.10 par value	8,008,632 shares
Class B stock, \$.10 par value	1,509,238 shares

Table of Contents**GENCOR INDUSTRIES, INC.**

Index	Page
<u>Part I.</u> Financial Information	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets March 31, 2014 (Unaudited) and September 30, 2013</u>	3
<u>Condensed Consolidated Statements of Operations Quarters and Six Months Ended March 31, 2014 and 2013 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows Six Months Ended March 31, 2014 and 2013 (Unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	15
Item 4. <u>Controls and Procedures</u>	15
<u>Part II.</u> Other Information	
Item 6. <u>Exhibits</u>	16
<u>Signatures</u>	17

Introductory Note: Caution Concerning Forward-Looking Statements

This Form 10-Q Report and the Company's other communications and statements may contain forward-looking statements, including statements about the Company's beliefs, plans, objectives, goals, expectations, estimates, projections and intentions. These statements are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond the Company's control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, target, goal, and similar expressions are intended to identify forward-looking statements. All forward-looking statements, by their nature, are subject to risks and uncertainties. The Company's actual future results may differ materially from those set forth in its forward-looking statements. For information concerning these factors and related matters, see Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, in this Report, and the following sections of the Company's Annual Report on Form 10-K for the year ended September 30, 2013: (a) Risk Factors in Part I, and (b) Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II. However, other factors besides those referenced could adversely affect the Company's results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by the Company herein speak as of the date of this Report. The Company does not undertake to update any forward-looking statements, except as required by law.

Unless the context otherwise indicates, all references in this Report to the Company, Gencor, we, us, or our, or similar words are to Gencor Industries, Inc. and its subsidiaries.

Table of Contents**Part I. Financial Information****GENCOR INDUSTRIES, INC.****Condensed Consolidated Balance Sheets**

	March 31, 2014	September 30, 2013
ASSETS	<i>(Unaudited)</i>	
Current Assets:		
Cash and cash equivalents	\$ 5,652,000	\$ 9,557,000
Marketable securities at fair value (cost \$83,114,000 at March 31, 2014 and \$81,165,000 at September 30, 2013)	85,766,000	83,113,000
Accounts receivable, less allowance for doubtful accounts of \$239,000 at March 31, 2014 and \$309,000 at September 30, 2013	1,189,000	1,200,000
Costs and estimated earnings in excess of billings	5,473,000	
Inventories, net	12,747,000	14,126,000
Prepaid expenses and other current assets	399,000	795,000
Total Current Assets	111,226,000	108,791,000
Property and equipment, net	7,981,000	8,079,000
Other assets	73,000	78,000
Total Assets	\$ 119,280,000	\$ 116,948,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,524,000	\$ 1,283,000
Customer deposits	1,941,000	1,943,000
Accrued expenses	1,845,000	2,810,000
Total Current Liabilities	5,310,000	6,036,000
Deferred and other income taxes	1,058,000	484,000
Total Liabilities	6,368,000	6,520,000
Commitments and contingencies		

Shareholders' Equity:

Preferred stock, par value \$.10 per share; authorized 300,000 shares; none issued		
Common stock, par value \$.10 per share; 15,000,000 shares authorized; 8,008,632 shares issued and outstanding	801,000	801,000
Class B Stock, par value \$.10 per share; 6,000,000 shares authorized; 1,509,238 shares issued and outstanding	151,000	151,000
Capital in excess of par value	10,428,000	10,292,000
Retained earnings	101,532,000	99,184,000
 Total Shareholders' Equity	 112,912,000	 110,428,000
 Total Liabilities and Shareholders' Equity	 \$ 119,280,000	 \$ 116,948,000

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**GENCOR INDUSTRIES, INC.****Condensed Consolidated Statements of Operations***(Unaudited)*

	For the Quarters Ended March 31,		For the Six Months Ended March 31,	
	2014	2013	2014	2013
Net revenue	\$ 14,541,000	\$ 17,737,000	\$ 24,560,000	\$ 22,685,000
Costs and expenses:				
Production costs	10,851,000	13,411,000	19,338,000	17,942,000
Product engineering and development	351,000	454,000	731,000	902,000
Selling, general and administrative	1,519,000	1,984,000	3,253,000	3,943,000
	12,721,000	15,849,000	23,322,000	22,787,000
Operating income (loss)	1,820,000	1,888,000	1,238,000	(102,000)
Other income (expense), net:				
Interest and dividend income, net of fees	490,000	553,000	1,430,000	1,243,000
Net realized and unrealized gains on marketable securities	685,000	1,269,000	1,223,000	743,000
Other	6,000		(8,000)	15,000
	1,181,000	1,822,000	2,645,000	2,001,000
Income before income tax expense (benefit)	3,001,000	3,710,000	3,883,000	1,899,000
Income tax expense (benefit)	1,100,000	733,000	1,536,000	(102,000)
Net income	\$ 1,901,000	\$ 2,977,000	\$ 2,347,000	\$ 2,001,000
Basic Income per Common Share:				
Net income per share	\$ 0.20	\$ 0.31	\$ 0.25	\$ 0.21
Diluted Income per Common Share:				
Net income per share	\$ 0.20	\$ 0.31	\$ 0.25	\$ 0.21

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**GENCOR INDUSTRIES, INC.****Condensed Consolidated Statements of Cash Flows***(Unaudited)*

	For the Six Months Ended March 31,	
	2014	2013
Cash flows from operations:		
Net income	\$ 2,347,000	\$ 2,001,000
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Purchases of marketable securities	(67,849,000)	(27,606,000)
Proceeds from sale and maturity of marketable securities	66,005,000	28,264,000
Change in fair value of marketable securities	(809,000)	(644,000)
Deferred income taxes	574,000	648,000
Depreciation and amortization	676,000	578,000
Provision for doubtful accounts	15,000	40,000
Stock-based compensation	136,000	124,000
Changes in assets and liabilities:		
Accounts receivable	(4,000)	(122,000)
Costs and estimated earnings in excess of billings	(5,473,000)	(121,000)
Inventories	1,379,000	(1,597,000)
Prepaid expenses and other current assets	396,000	(948,000)
Accounts payable	241,000	384,000
Customer deposits	(2,000)	2,713,000
Accrued expenses and other	(940,000)	(40,000)
Total adjustments	(5,655,000)	1,673,000
Cash flows provided by (used in) operating activities	(3,308,000)	3,674,000
Cash flows used in investing activities:		
Capital expenditures	(597,000)	(637,000)
Cash flows used in investing activities	(597,000)	(637,000)
Net increase (decrease) in cash	(3,905,000)	3,037,000
Cash and cash equivalents at:		
Beginning of period	9,557,000	3,361,000
End of period	\$ 5,652,000	\$ 6,398,000

Table of Contents

GENCOR INDUSTRIES, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included in the interim financial information. Operating results for the quarter and six months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending September 30, 2014.

The accompanying Condensed Consolidated Balance Sheet at September 30, 2013 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in the Gencor Industries, Inc. Annual Report on Form 10-K for the year ended September 30, 2013.

Note 2 Marketable Securities

Marketable debt and equity securities are categorized as trading securities and are thus marked to market and stated at fair value. Fair value is determined using the quoted closing or latest bid prices for Level 1 investments and market standard valuation methodologies for Level 2 investments. Realized gains and losses on investment transactions are determined by specific identification and are recognized as incurred in the statements of operations. Net unrealized gains and losses are reported in the statements of operations in the current period and represent the change in the fair value of investment holdings during the period.

Fair Value Measurements

The fair value of financial instruments is presented based upon a hierarchy of levels that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value of marketable equity securities, exchange traded funds, mutual funds and U.S. treasury bills are substantially based on quoted market prices (Level 1). Corporate and municipal bonds are valued using market standard valuation methodologies, including: discounted cash flow methodologies, matrix pricing or other similar techniques. The inputs to these market standard valuation methodologies include, but are not limited to: interest rates, credit standing of the issuer or counterparty, industry sector of the issuer, coupon rate, call provisions, maturity, estimated duration and assumptions regarding liquidity and estimated future cash flows. In addition to bond characteristics, the valuation methodologies incorporate market data, such as actual trades completed, bids and actual dealer quotes, where such information is available. Accordingly, the estimated fair values are based on available

market information and judgments about financial instruments (Level 2). Fair values of the Level 2 investments are provided by the Company's professional investment management firm.

Table of Contents

The following table sets forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of March 31, 2014:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 16,262,000	\$	\$	\$ 16,262,000
Mutual Funds	24,017,000			24,017,000
Exchange Traded Funds	1,694,000			1,694,000
United States Treasury Bills	41,999,000			41,999,000
Cash and Money Funds	1,794,000			1,794,000
Total	\$ 85,766,000	\$	\$	\$ 85,766,000

Net unrealized gains included in the consolidated statement of operations for the quarter and six months ended March 31, 2014, on trading securities still held as of March 31, 2014, were \$210,000 and \$704,000, respectively. There were no transfers of investments between Level 1 and Level 2 during the six months ended March 31, 2014.

The following table sets forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of September 30, 2013:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 12,634,000	\$	\$	\$ 12,634,000
Mutual Funds	28,264,000			28,264,000
Exchange Traded Funds	5,162,000			5,162,000
Corporate Bonds		17,376,000		17,376,000
Municipal Bonds		15,555,000		15,555,000
United States Treasury Bills	2,000,000			2,000,000
Cash and Money Funds	2,122,000			2,122,000
Total	\$ 50,182,000	\$ 32,931,000	\$	\$ 83,113,000

Net unrealized gains included in the consolidated statement of operations for the quarter and six months ended March 31, 2013, on trading securities still held as of March 31, 2013, were \$1,470,000 and \$1,307,000, respectively. Estimated interest accrued on the corporate and municipal bond portfolio was \$399,000 at September 30, 2013. There were no transfers of investments between Level 1 and Level 2 during the six months ended March 31, 2013.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term nature of these items.

Note 3 Inventories

Inventories are valued at the lower of cost or market, with cost being determined principally by using the last-in, first-out (LIFO) method and market defined as replacement cost for raw materials and net realizable value for work in

process and finished goods. Appropriate consideration is given to obsolescence, excessive levels, deterioration, possible alternative uses and other factors in determining net realizable value. The cost of work in process and finished goods includes materials, direct labor, variable costs and overhead. The Company evaluates the need to record inventory allowances on all inventories, including raw material, work in process, finished goods, spare parts and used equipment. Used equipment acquired by the Company on trade-in from customers is included in inventory and carried at estimated net realizable value. Unless specific circumstances warrant different treatment regarding inventory obsolescence, the cost basis of inventories three to four years old is reduced by 50%, while the cost basis of inventories four to five years old is reduced by 75%, and the cost basis of inventories greater than five years old is reduced to zero. Inventory is typically reviewed for obsolescence on an annual basis computed as of September 30, the Company's fiscal year end. If significant known changes in trends, technology or other specific

Table of Contents

circumstances that warrant consideration occur during the year, then the impact on obsolescence is considered at that time. No such provisions were made during the quarter ended March 31, 2014.

Net inventories at March 31, 2014 and September 30, 2013 consist of the following:

	March 31, 2014	September 30, 2013
Raw materials	\$ 6,836,000	\$ 6,238,000
Work in process	1,464,000	3,307,000
Finished goods	4,045,000	4,054,000
Used equipment	402,000	527,000
