

GENCOR INDUSTRIES INC
Form 10-Q
February 06, 2009
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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 QUARTERLY PERIOD ENDED DECEMBER 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 001-11703

GENCOR INDUSTRIES, INC.

Delaware
(State or other jurisdiction of
incorporated or organization)

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

5201 North Orange Blossom Trail, Orlando, Florida 32810

(Address of principal executive offices) (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 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 Smaller reporting company

Non-accelerated Filer (Do not check if a smaller reporting company)

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

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_____ Yes X No

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

<u>Class</u>	<u>Outstanding at January 30, 2009</u>
Common stock, \$.10 par value	8,079,872 shares
Class B stock, \$.10 par value	1,532,998 shares

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Introductory Note: Caution Concerning Forward-Looking Statements	

This Report and our other communications and statements may contain forward-looking statements, including statements about our 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 our 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. Our actual future results may differ materially from those set forth in our 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 our Annual Report on Form 10-K for the year ended September 30, 2008: (a) “Risk Factors” in Part I, Item 1A and (b) “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7. However, other factors besides those referenced could adversely affect our 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 us herein speak as of the date of this Report. We do not undertake to update any forward-looking statement, 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***(In thousands, except per share data)*

	December 31, 2008 (Unaudited)	September 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 240	\$ 4,068
Marketable securities at market value (Cost \$46,000 at December 31, 2008 and at September 30, 2008)	52,043	53,976
Accounts receivable, less allowance for doubtful accounts of \$1,872 (\$1,927 at September 30, 2008)	4,691	7,527
Other receivables		
Inventories, net	42,886	35,044
Prepaid expenses	1,160	1,007
Total current assets	101,020	101,622
Property and equipment, net	8,673	8,817
Other assets	182	184
Total assets	\$ 109,875	\$ 110,623
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,997	\$ 4,442
Customer deposits	3,208	1,712
Income and other taxes payable	1,500	1,678
Accrued expense	3,492	3,501
Total current liabilities	11,197	11,333
Long-term debt	-	-
Deferred income taxes	276	275
Total liabilities	11,473	11,608
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$.10 per share; authorized 300,000 shares; none issued	-	-
Common stock, par value \$.10 per shares; 15,000,000 shares authorized; 8,079,872 shares issued at December 31, 2008 and September 30, 2008	808	808
Class B stock, par value \$.10 per share; 1,532,998 shares authorized issued at December 31, 2008 and September 30, 2008	153	153
Capital in excess of par value	10,542	10,542
Retained earnings	87,010	87,383
Accumulated other comprehensive income (loss)	(111)	129
Total stockholders' equity	98,402	99,015
Total Liabilities and Stockholders' Equity	\$ 109,875	\$ 110,623

See accompanying notes to condensed consolidated financial statements.

Table of Contents**GENCOR INDUSTRIES, INC.****Unaudited Condensed Consolidated Statements of Operations***(In thousands, except per share data)*

	Three Months Ended	
	December 31,	
	2008	2007
Net revenue	\$ 19,260	\$ 18,323
Cost and expense:		
Production costs	14,118	13,949
Product engineering and development	702	604
Selling, general and administrative	3,037	2,498
	17,857	17,051
Operating income	1,403	1,272
Other income (expense):		
Interest income	13	49
Interest expense	(12)	(1)
Income from investees	48	15,625
Increase (decrease) in value of marketable securities	(1,933)	493
Miscellaneous	(50)	3,427
	(1,934)	19,593
Income (loss) before income taxes	(531)	20,865
Income taxes	(201)	7,755
Net (loss) income	\$ (330)	\$ 13,110
Basic and diluted earnings (loss) per common share:		
Basic earnings (loss) per share	\$ (0.03)	\$ 1.36
Diluted earnings (loss) per share	\$ (0.03)	\$ 1.36

See accompanying notes to condensed consolidated financial statements.

Table of Contents**GENCOR INDUSTRIES, INC.****Unaudited Condensed Consolidated Statements of Cash Flows***In Thousands*

	Three Months Ended December 31,	
	2008	2007
Cash flows from operations:		
Net (loss) income	\$ (330)	\$ 13,110
Adjustments to reconcile net income to cash provided (used) by operations:		
Increase in Marketable securities	-	(15,000)
Decrease (Increase) in market value of Marketable securities	1,933	(493)
Depreciation and amortization	236	222
Income from investees	(48)	(15,625)
Change in assets and liabilities:		
Inventories	(7,842)	(4,613)
Customer deposits	1,496	4,986
Income and other taxes payable	(179)	6,885
Other	1,229	(1,659)
Total adjustments	(3,175)	(25,297)
Cash provided (used) by operations	(3,505)	(12,187)
Cash flows from (used for) investing activities:		
Distribution from unconsolidated investees	48	15,625
Capital expenditures	(90)	(458)
Cash from (used for) investing activities	(42)	15,167
Effect of exchange rate changes on cash	(281)	(41)
Net increase (decrease) in cash	(3,828)	2,939
Cash and cash equivalents at:		
Beginning of quarter	4,068	3,707
End of quarter	\$ 240	\$ 6,646

See accompanying notes to condensed consolidated financial statements.

Table of Contents**GENCOR INDUSTRIES, INC.****Notes to Condensed Consolidated Financial Statements***All amounts in thousands, except per share amounts***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 footnotes 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. Operating results for the three months ended December 31, 2008 are not necessarily indicative of the results that may be expected for the year ended September 30, 2009.

The balance sheet at September 30, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Gencor Industries, Inc. Annual Report on Form 10-K for the year ended September 30, 2008.

Note 2- Marketable Securities

Marketable securities are categorized as trading securities and stated at market value. Market value is determined using the quoted closing or latest bid prices. Realized gains and losses on investment transactions are determined by specific identification and are recognized as incurred in the statement of income. Net unrealized gains and losses are reported in the statement of operations and represent the change in the market value of investment holdings during the period. At December 31, 2008, marketable securities consisted of \$45,500 in municipal bonds and \$6,543 in equity stocks. At September 30, 2008, marketable securities consisted of \$44,764 in municipal bonds and \$9,212 in equity stocks.

Note 3 Inventories

The components of inventory consist of the following:

	December 31, 2008	September 30, 2008
Raw materials	\$ 17,258	\$ 18,943
Work in process	11,439	7,387
Finished goods	13,069	7,594
Used equipment	1,120	1,120
	\$ 42,886	\$ 35,044

Table of Contents**Note 4 Earnings Per Share Data**

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated.

	Three Month Ended	
	December 31,	
	2008	2007
Net income (loss)	\$ (330)	\$ 13,110
Denominator (shares in thousands):		
Weighted average shares outstanding	9,613	9,610
Effect of dilutive stock options		1
Denominator for diluted EPS computation	9,613	9,611
Per common share:		
Net income (loss)	\$ (.03)	\$ 1.36
Diluted:		
Net income (loss)	\$ (.03)	\$ 1.36

Note 5 Comprehensive Income

The total comprehensive income (loss) for the three-months ended December 31, 2008 and 2007 was \$(611) and \$13,069, respectively. Total comprehensive income differs from net income due to gains and losses resulting from foreign currency translation, which are reflected separately in the shareholders' equity section of the balance sheet under the caption Accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions are included in income.

Note 6 Income From Investees

The Company owns a 45% interest in Carbontronics LLC and a 25% interest in Carbontronics Fuels LLC and Carbontronics II, LLC. These interests were earned as part of value of risk on contracts to build four synthetic fuel production plants during 1998. The Company has no basis in these equity investments or requirement to provide future funding. The operations of Carbontronics LLC consist of the receipt of contingent payments from the sales of the plants and the distribution thereof to its members. Carbontronics LLC has no other significant operations or assets. The operations of Carbontronics II, LLC consist of the receipt of royalty payments from the plants and the distribution thereof to its members. Carbontronics II, LLC has no other significant operations or assets. Any income arising from these investments is dependent upon tax credits (adjusted for operating losses at the fuel plants) being generated as a result of synthetic fuel production, which will be recorded as received. The Company received \$48 in the three months ended December 31, 2008 and \$15,625 in the three months ended December 31, 2007. These distributions are subject to state and Federal income taxes.

The existing tax credit legislation expired at the end of calendar year 2007. Consequently, the four synthetic fuel plants were decommissioned. They were sold or transferred to site owners in exchange for a release of all contracted liabilities related to the removal of plants from the sites. The administrative partner has informed the Company that there were no operations in calendar 2008 and almost all of the partnership affairs are finalized. It is not possible to predict the amount, if any, of final distributions from the partnerships upon the final disposition and winding-up of operations.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net sales for the three months ended December 31, 2008 and 2007 were \$19,260 and \$18,323, respectively. Domestic sales during the three months ended December 31, 2008 were \$18,468 reflecting an increase of \$693 from the first quarter of fiscal 2008. Domestic sales were higher than the prior year's quarter primarily due to completion of orders in the backlog. Foreign sales increased \$244 in the three months ended December 31, 2008 compared to the three months ended December 31, 2007. Our revenues are concentrated in the asphalt-related business and subject to a seasonal slow-down during the third and fourth quarters of the calendar year. We cannot predict what impact the recession and tightening of the credit markets in the last half of calendar 2008, will have on future earnings.

Gross profit percentage increased from 24% in the three months ended December 31, 2007 to 27% in three months ended December 31, 2008. Gross margins as a percent of net sales increased in the three months ended December 31, 2008 as steel prices and energy costs have stabilized compared to the large price increases in the prior years

Selling and administrative expense increased \$636 in the three months ended December 31, 2008 compared to the three months ended December 31, 2007 due mainly to increases in personnel in the Sales and Engineering departments for the quarter ended December 31, 2008.

We recognized income from investees of \$48 in the three months ended December 31, 2008 and \$15,625 in the three months ended December 31, 2007. The operations of Carbontronics LLC consist of the receipt of contingent payments from the sales from the plants and the distribution thereof to its members. Carbontronics LLC has no other significant operations or assets. The operations of Carbontronics II, LLC consist of the receipt of royalty payments from the plants and the distribution thereof to its members. Carbontronics II, LLC has no other significant operations or assets. Any income arising from these investments is dependent upon tax credits (adjusted for operating losses at the fuel plants) being generated as a result of synthetic fuel production, which are recorded as received. These distributions are subject to state and Federal income taxes. Distributions from these entities depend upon the production of these operations qualifying for tax credits under Section 29 of the Internal Revenue Code and the ability to economically produce and market synthetic fuel produced by the plants.

The existing tax credit legislation expired at the end of calendar year 2007. Consequently, the four synthetic fuel plants were decommissioned. The plants were sold or transferred to site owners in exchange for a release of all contracted liabilities related to the removal of plants from the sites. The administrative partner has informed us that there were no operations in calendar 2008 and almost all of the partnership affairs were finalized in 2008. It is not possible to predict the amount, if any, of final distributions from the partnerships upon the final disposition and winding-up of operations.

For the three months ended December 31, 2008, the decrease of \$1,933 in our marketable securities is a result of a decrease in the market value of the securities held in the portfolio. For the three months ended December 31, 2007, the increase in value of our marketable securities was a result of additional net cash invested of \$15,000 and an increase of \$493 in the market value of the securities held in the portfolio. Included in other income for the three months ended December 31, 2007 was the receipt of \$4,100 in resolution of an outstanding claim against a former service provider less related legal costs of \$700. The terms of the settlement are confidential and we do not expect any further collections or expenses related to this matter.

Income tax expense decreased by \$7,956 for the three months ended December 31, 2008 compared to the three months ended December 31, 2007, reflecting the decrease in pre-tax income.

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Liquidity and Capital Resources

We generate our capital resources primarily through operations. We entered into a Revolving Credit and Security Agreement with PNC Bank, N.A. The Agreement established a three year revolving \$20 million credit facility and was renewed through July 31, 2009. The facility provides for advances based on accounts receivable, inventory and real estate. The facility includes a \$2 million limit on letters of credit. At December 31, 2008, we had \$.8 million of letters of credit outstanding. The interest rate at December 31, 2008, is at LIBOR plus 2.00% and subject to change based upon the Fixed Charge Coverage Ratio. We are required to maintain a Fixed Charge Coverage Ratio of 1.1:1. There are no required repayments as long as there are no defaults and there is adequate eligible collateral. Substantially all of our assets are pledged as security under the Agreement. We had no long term debt outstanding at December 31, 2008 or 2007.

As of December 31, 2008, we had \$240 in cash and cash equivalents, and \$52 million in marketable securities. The marketable securities are invested in stocks and bonds through a professional investment advisor. The securities may be liquidated at any time into cash and cash equivalents.

Our backlog is at \$8 million for the three months ended December 31, 2008 versus \$24.5 million in the three months ended December 31, 2007. Orders have reduced significantly as a result of the recession and credit tightening in the last half of calendar 2008.

Seasonality

We are concentrated in the asphalt-related business and subject to a seasonal slow-down during the third and fourth quarters of the calendar year. Traditionally, our customers do not purchase new equipment for shipment during the summer and fall months to avoid disrupting their peak season for highway construction and repair work. This slow-down often results in lower reported sales and earnings and/or losses during the first and fourth quarters of our fiscal year ended September 30.

Forward-Looking Information

This Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which represent our expectations and beliefs, including, but not limited to, statements concerning gross margins, sales of our products and future financing plans. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond our control. Actual results may differ materially depending on a variety of important factors, including the financial condition of our customers, changes in the economic and competitive environments and demand for our products.

For information concerning these factors and related matters, see the following sections of our Annual Report on Form 10-K for the year ended September 30, 2008: (a) Risk Factors in Part I, Item 1A and (b) Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7. However, other factors besides those referenced could adversely affect our 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 us herein speak as of the date of this Report. We do not undertake to update any forward-looking statement, except as required by law.

Critical Accounting Policies, Estimates and Assumptions

We believe the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Accounting policies, in addition to the critical accounting policies referenced below, are presented in Note 1 to our consolidated financial statement included in our Annual Report on form 10-K for the year ended September 30, 2008, Accounting Policies.

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Estimates and Assumptions

In preparing the consolidated financial statements, we use certain estimates and assumptions that may affect reported amounts and disclosures. Estimates and assumptions are used, among other places, when accounting for certain revenue (e.g. contract accounting), expense, and asset and liability valuations. We believe that the estimates and assumptions made in preparing the consolidated financial statements are reasonable, but are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate and unanticipated events may occur. We are subject to risks and uncertainties that may cause actual results to differ from estimated results.

Revenues

Revenues from contracts for the design and manufacture of certain custom equipment are recognized under the percentage-of-completion method. Revenues from all other sales are recorded as the products are shipped or service is performed.

The percentage-of-completion method of accounting for long term contracts recognizes revenue in proportion to actual labor costs incurred as compared with total estimated labor costs expected to be incurred during the entire contract. All selling, general and administrative expenses are charged to operations as incurred. Provision is made for any anticipated contract losses in the period that the loss becomes evident.

Investment in Unconsolidated Investees

We own a 45% interest in Carbontronics LLC and a 25% interest in Carbontronics Fuels LLC and Carbontronics II LLC. These interests were obtained as part of contracts to build four synthetic fuel production plants during 1998. We have no basis in these equity investments or requirement to provide future funding. Any income arising from these investments is dependent upon tax credits (adjusted for operating losses at the fuel plants) being generated as a result of synthetic fuel production, which will be recorded as received. The synthetic fuel tax credit legislation expired at the end of calendar year 2007.

Off-Balance Sheet Arrangements

None

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company operates manufacturing facilities and sales offices principally located in the United States and the United Kingdom. The Company is subject to business risks inherent in non-U.S. activities, including political and economic uncertainty, import and export limitations, and market risk related to changes in interest rates and foreign currency exchange rates. The Company's principal currency exposure against the U.S. dollar is the British pound. Periodically, the Company will use derivative financial instruments consisting primarily of interest rate hedge agreements to manage exposures to interest rate changes. The Company's objective in managing its exposure to changes in interest rates on its variable rate debt is to limit its impact on earnings and cash flow and reduce its overall borrowing costs.

At December 31, 2008 and 2007, the Company had no debt outstanding. Under the Revolving Credit and Security Agreement, substantially all of the Company's borrowings will bear interest at variable rates based upon the prime rate or LIBOR.

The Company's marketable securities are invested in stocks and bonds through a professional investment advisor. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of securities, it is possible that changes in these risk factors could have an adverse material impact on the Company's results of operations or equity.

The Company's sensitivity analysis for interest rate risk excludes accounts receivable, accounts payable and accrued liabilities because of the short-term maturity of such instruments. The analysis does not consider the effect on other variables such as changes in sales volumes or management's actions with respect to levels of capital expenditures, future acquisitions or planned divestures, all of which could be significantly influenced by changes in interest rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective.

Because of inherent limitations, our disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of such disclosure controls and procedures are met and no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company has been detected.

Changes in Internal Control over Financial Reporting

Our management, including the Chief Executive Officer and Chief Financial Officer, has reviewed our internal control, over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). There were no changes in our internal control over financial reporting during the quarter ended December 31, 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 6. Exhibits

(a) Exhibits

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a 14(a) of the Securities Exchange Act of 1934, as amended
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a 14(a) of the Securities Exchange Act of 1934, as amended
- 32 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U. S. C. Section 1350.

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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.

February 6, 2009

GENCOR INDUSTRIES, INC.

By: /s/ E.J. Elliott

E.J. Elliott, Chairman and Chief Executive
Officer

February 6, 2009

By: /s/ Scott W. Runkel

Scott W. Runkel, Chief Financial Officer (Principal

Financial and Accounting Officer)