GENCOR INDUSTRIES INC
Form 10-Q
August 05, 2014
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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 JUNE 30, 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	**59-0933147**
(State or other jurisdiction of incorporation or organization)	**(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 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 (§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 x 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 x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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 August 4, 2014
Common stock, $.10 par value	8,008,632 shares
Class B stock, $.10 par value	1,509,238 shares

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GENCOR INDUSTRIES, INC.

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 i 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 s words are to Gencor Industries, Inc. and its subsidiaries.

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Part I. Financial Information

GENCOR INDUSTRIES, INC.

Condensed Consolidated Balance Sheets

	June 30, 2014 *(Unaudited)*	September 30, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 9,737,000	$ 9,557,000
Marketable securities at fair value (cost $83,606,000 at June 30, 2014 and $81,165,000 at September 30, 2013)	87,592,000	83,113,000
Accounts receivable, less allowance for doubtful accounts of $247,000 at June 30, 2014 and $309,000 at September 30, 2013	1,149,000	1,200,000
Costs and estimated earnings in excess of billings	411,000	
Inventories, net	12,615,000	14,126,000
Prepaid expenses and other current assets	625,000	795,000
Total Current Assets	112,129,000	108,791,000
Property and equipment, net	7,391,000	8,079,000
Other assets	70,000	78,000
Total Assets	$ 119,590,000	$ 116,948,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,045,000	$ 1,283,000
Customer deposits	330,000	1,943,000
Accrued expenses and other current liabilities	2,226,000	2,810,000
Total Current Liabilities	3,601,000	6,036,000
Deferred and other income taxes	1,351,000	484,000
Total Liabilities	4,952,000	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	10,491,000	10,292,000
Retained earnings	103,195,000	99,184,000
Total Shareholders Equity	114,638,000	110,428,000
Total Liabilities and Shareholders Equity	$ 119,590,000	$ 116,948,000

See accompanying Notes to Condensed Consolidated Financial Statements

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GENCOR INDUSTRIES, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Quarters Ended June 30,		For the Nine Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net revenue	$ 10,547,000	$ 18,690,000	$ 35,107,000	$ 41,375,000
Costs and expenses:				
Production costs	8,266,000	13,720,000	27,604,000	31,662,000
Product engineering and development	352,000	420,000	1,083,000	1,322,000
Selling, general and administrative	1,557,000	1,867,000	4,810,000	5,810,000
	10,175,000	16,007,000	33,497,000	38,794,000
Operating income	372,000	2,683,000	1,610,000	2,581,000
Other income (expense), net:				
Interest and dividend income, net of fees	168,000	516,000	1,598,000	1,759,000
Net realized and unrealized gains on marketable securities	1,658,000	145,000	2,881,000	888,000
Other	442,000	18,000	434,000	33,000
	2,268,000	679,000	4,913,000	2,680,000
Income before income tax expense	2,640,000	3,362,000	6,523,000	5,261,000
Income tax expense	977,000	873,000	2,513,000	771,000
Net Income	$ 1,663,000	$ 2,489,000	$ 4,010,000	$ 4,490,000
Basic Income per Common Share:				
Net income per share	$ 0.17	$ 0.26	$ 0.42	$ 0.47
Diluted Income per Common Share:				
Net income per share	$ 0.17	$ 0.26	$ 0.42	$ 0.47

See accompanying Notes to Condensed Consolidated Financial Statements

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GENCOR INDUSTRIES, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended June 30, 2014	2013
Cash flows from operations:		
Net income	$ 4,010,000	$ 4,490,000
Adjustments to reconcile net income to cash provided by operating activities:		
Purchases of marketable securities	(220,103,000)	(52,657,000)
Proceeds from sale and maturity of marketable securities	218,082,000	52,762,000
Change in fair value of marketable securities	(2,458,000)	(753,000)
Deferred income taxes	867,000	1,694,000
Depreciation and amortization	1,029,000	881,000
Net gains on disposal of property and equipment	(417,000)	
Provision for doubtful accounts	40,000	40,000
Stock-based compensation	199,000	184,000
Changes in assets and liabilities:		
Accounts receivable	11,000	24,000
Costs and estimated earnings in excess of billings	(411,000)	783,000
Inventories	1,511,000	24,000
Prepaid expenses and other current assets	170,000	(1,475,000)
Accounts payable	(238,000)	(186,000)
Customer deposits	(1,613,000)	1,089,000
Accrued expenses and other	(583,000)	(663,000)
Total adjustments	(3,914,000)	1,747,000
Cash flows provided by operating activities	96,000	6,237,000
Cash flows provided by (used in) investing activities:		
Capital expenditures	(601,000)	(1,107,000)
Proceeds from sale of property and equipment	685,000	
Cash flows provided by (used in) investing activities	84,000	(1,107,000)
Net increase in cash	180,000	5,130,000
Cash at:		
Beginning of period	9,557,000	3,361,000
End of period	$ 9,737,000	$ 8,491,000

See accompanying Notes to Condensed Consolidated Financial Statements

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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 nine months ended June 30, 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 consolidated statements of operations. Net unrealized gains and losses are reported in the consolidated 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.

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The following table sets forth, by level, within the fair value hierarchy, the Company s marketable securities measured at fair value as of June 30, 2014:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Equities	$ 18,944,000	$	$	$ 18,944,000
Mutual Funds	24,608,000			24,608,000
Exchange Traded Funds	2,010,000			2,010,000
United States Treasury Bills	40,000,000			40,000,000
Cash	2,030,000			2,030,000
Total	$ 87,592,000	$	$	$ 87,592,000

Net unrealized gains included in the consolidated statement of operations for the quarter and nine months ended June 30, 2014, on trading securities still held as of June 30, 2014, were $1,334,000 and $2,038,000, respectively. There were no transfers of investments between Level 1 and Level 2 during the nine months ended June 30, 2014.

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

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
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	2,122,000			2,122,000
Total	$ 50,182,000	$ 32,931,000	$	$ 83,113,000

Net unrealized gains and (losses) included in the consolidated statement of operations for the quarter and nine months ended June 30, 2013, on trading securities still held as of June 30, 2013, were $(832,000) and $475,000, 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 nine months ended June 30, 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 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 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 and nine months ended June 30, 2014.

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

	June 30, 2014	September 30, 2013
Raw materials	$ 6,002,000	$ 6,238,000
Work in process	2,218,000	3,307,000
Finished goods	4,121,000	4,054,000
Used equipment	274,000	527,000
	$ 12,615,000	$ 14,126,000

Note 4 Costs and Estimated Earnings in Excess of Billings

There were no costs and estimated earnings in excess of billings on uncompleted contracts as of September 30, 2013. Costs and estimated earnings in excess of billings on uncompleted contracts as of June 30, 2014 consist of the following:

	June 30, 2014
Costs incurred on uncompleted contracts	$ 2,667,000
Estimated earnings	1,240,000
	3,907,000
Billings to date	3,496,000
Costs and estimated earnings in excess of billings	$ 411,000

Note 5 Earnings per Share Data

The following table sets forth the computation of basic and diluted earnings per share for the quarters and nine months ended June 30, 2014 and 2013:

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Net Income	$ 1,663,000	$ 2,489,000	$ 4,010,000	$ 4,490,000
Common Shares:				
Weighted average common shares outstanding	9,518,000	9,518,000	9,518,000	9,518,000
Effect of dilutive stock options	84,000		66,000	

Diluted shares outstanding		9,602,000		9,518,000		9,584,000		9,518,000
Basic:								
Net earnings per share	$	0.17	$	0.26	$	0.42	$	0.47
Diluted:								
Net earnings per share	$	0.17	$	0.26	$	0.42	$	0.47

Basic earnings per share are based on the weighted average number of shares outstanding. Diluted earnings per share are based on the sum of the weighted average number of shares outstanding plus common stock equivalents. Weighted-average shares issuable upon the exercise of stock options included in the diluted earnings per share calculation for the quarter and nine months ended June 30, 2014 were 346,000 and 335,000, respectively, which equates to 84,000 and 66,000 dilutive common stock equivalents, respectively. For the quarter and nine months ended June 30, 2013, there were no common stock equivalents included in the diluted earnings per share calculations, as to do so would have been anti-dilutive. Weighted-average shares issuable upon the exercise of stock options, which were not included in the diluted earnings per share calculation because they were anti-dilutive, were zero and 11,000, respectively, for the quarter and nine months ended June 30, 2014, and 346,000 for the quarter and nine months ended June 30, 2013.

Note 6 Customers with 10% (or greater) of Net Revenues

Approximately 6% of net revenues in the June 30, 2014 quarter and 2% of net revenues for the June 30, 2013 quarter were from entities owned by a global company. For the nine months ended June 30, 2014 and June 30, 2013, this company represented 17% and 13% of net revenues, respectively.

Note 7 Disposal of Property in the United Kingdom

In May 2014, the Company sold its property in the United Kingdom which had been used as an operating facility through June 2009. Net proceeds from the sale of the property were $685,000. The Company recognized a gain on the sale of this property of $442,000 which is included as other income in the accompanying Condensed Consolidated Statement of Operations for the quarter and nine months ended June 30, 2014.

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

Overview

Gencor Industries, Inc. (the Company) is a leading manufacturer of heavy machinery used in the production of highway construction materials, synthetic fuels, and environmental control equipment. The Company s core products include asphalt plants, combustion systems and fluid heat transfer systems. The Company s products are manufactured in two facilities in the United States.

Because the Company s products are sold primarily to the highway construction industry, the business is seasonal in nature. Traditionally, the Company s 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. The majority of orders for the Company s products are thus received between October and February, with a significant volume of shipments occurring prior to June. The principal factors driving demand for the Company s products are the overall economic conditions, the level of government funding for domestic highway construction and repair, infrastructure development in emerging economies, the need for spare parts, fluctuations in the price of crude oil (liquid asphalt, as well as fuel costs), and a trend towards larger plants, resulting from industry consolidation.

On July 6, 2012, President Obama signed a $118 billion transportation bill, Moving Ahead for Progress in the 21st Century Act (MAP-21). MAP-21 included a final three-month extension of the previous SAFETEA-LU bill at then current spending levels combined with a new two-year, $105 billion authorization of the federal highway, transit, and safety programs effective October 1, 2012. The bill provided states with two years of funding to build roads, bridges, and transit systems. On July 31, 2014 Senate approved the House version of a $10.8 billion short-term bill to fund Federal highway and Mass-transit programs through May 31, 2015. The bill will go to President Obama for signature. The level of future domestic highway construction funding is uncertain. Future funding may be at lower levels than in the past.

The Canadian government enacted major infrastructure stimulus programs, which benefitted the Company in prior years. In 2007, the Building Canada Plan provided $33 billion in infrastructure funding through 2014. As part of the Building Canada Plan, the Gas Tax Fund was approved in 2009, providing $2 billion in annual infrastructure spending.

Nominal domestic economic growth and the lack of a fully funded, multi-year federal highway bill have resulted in reduced capital equipment purchases within the Company s served markets. This continues to have an adverse impact on sales and pricing pressures on the Company s products, resulting in lower revenues and margins.

In addition to government funding and the overall economic conditions, fluctuations in the price of oil, which is a major cost of asphalt mix, may affect the Company s financial performance. An increase in the price of oil increases the cost of liquid asphalt and could, therefore, decrease demand for hot mix asphalt paving materials and certain of the Company s products. Increases in oil prices also drive up the cost of gasoline, which results in increased freight costs. Where possible, the Company will pass increased freight costs on to its customers. However, the Company may not be able to recapture all of the increased costs and thus could have a negative impact on the Company s financial performance.

Steel is a major component used in manufacturing the Company s equipment. Fluctuations in the price of steel can have a significant impact on the Company s financial results. Where possible, the Company will pass on increased steel costs to its customers. However, the Company may not be able to recapture all of the increased steel costs and thus its financial results could be negatively affected.

For the long term, the Company believes the strategy of continuing to invest in product engineering and development and its focus on delivering a high-quality product and superior service will strengthen the Company s market position when demand for its products rebound. In response to the current outlook, the Company continues to take actions to conserve cash, right-size its operations and cost structure, and will continue to do so until conditions in the industry improve. These actions included adjustments to workforce, reduced purchasing and reductions in selling, general, and administrative expenses. The Company continues to review its internal processes to identify inefficiencies and cost reduction opportunities. The Company will continue to scrutinize its relationships with external suppliers to ensure it is achieving the highest quality materials and services at the most competitive cost.

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Results of Operations

Quarter Ended June 30, 2014 versus June 30, 2013

Net revenue for the quarter ended June 30, 2014 was $10,547,000, as compared to $18,690,000 for the quarter ended June 30, 2013, a decrease of 43.6%. Net revenues declined from the prior year, as the domestic highway construction industry continues to remain cautious due to the shortfall in Federal funding of the Highway Trust Fund and the lack of an approved multi-year highway bill after September 30, 2014.

As a percent of net revenue, gross profit margins decreased from 26.6% in the quarter ended June 30, 2013 to 21.6% in the quarter ended June 30, 2014. Gross margins decreased in the quarter on lower production volumes.

Product engineering and development expenses decreased $68,000 to $352,000 in the quarter ended June 30, 2014, as compared to the quarter ended June 30, 2013, on reduced headcount. Selling, general and administrative expenses decreased $310,000 to $1,557,000 in the quarter ended June 30, 2014, compared to $1,867,000 in the quarter ended June 30, 2013. The decrease was primarily due to reduced commissions on lower revenues and the timing of certain professional fees.

The Company had operating income of $372,000 for the quarter ended June 30, 2014 versus operating income of $2,683,000 for the quarter ended June 30, 2013. The reduced operating income was due to lower revenues and gross margins.

For the quarter ended June 30, 2014, investment interest and dividend income, net of fees, from the investment portfolio was $168,000, as compared to $516,000 in the quarter ended June 30, 2013. The lower interest and dividend income was due to the sale of the corporate and municipal bonds in March 2014. The resulting proceeds from sale of these investments were reinvested in United States treasury bills. The net realized and unrealized gains on marketable securities were $1,658,000 for the quarter ended June 30, 2014 versus net realized and unrealized gains of $145,000 for the quarter ended June 30, 2013. During the quarter ended June 30, 2014, the Company recognized in other income a gain of $442,000 on the disposal of property in the Untied Kingdom which was previously used as an operating facility.

The effective income tax rate for the quarter ended June 30, 2014 was 37.0% versus 26.0% for the quarter ended June 30, 2013. The effective income tax rate in 2013 was positively impacted by a $350,000 research and development tax credit on amended returns filed for the Company s 2009 tax year. In addition to the positive impact of the research and development tax credits on the fiscal 2013 tax expense, the effective income tax rate for fiscal 2013 also decreased by the impact of tax-exempt interest income and premium amortization on municipal bonds.

Net income for the quarter ended June 30, 2014 was $1,663,000 versus $2,489,000 for the quarter ended June 30, 2013. The reduced net income in 2014 was primarily due to lower revenues and gross margins partially offset by higher realized and unrealized gains on marketable securities, and the positive impact of the tax credits on the 2013 results.

Nine Months Ended June 30, 2014 versus June 30, 2013

Net revenue for the nine months ended June 30, 2014 and 2013 were $35,107,000 and $41,375,000, respectively, a decrease of 15.1%. Net revenues declined from the prior year, as the domestic highway construction industry continues to remain cautious due to the shortfall in Federal funding of the Highway Trust Fund and the lack of an approved multi-year highway bill after September 30, 2014.

As a percent of net revenue, gross profit margins decreased to 21.4% in the nine months ended June 30, 2014 from 23.5% in the nine months ended June 30, 2013. The lower gross margins resulted from the lower production volumes.

Product engineering and development expenses decreased $239,000, on reduced headcount. Selling, general and administrative expenses decreased $1,000,000 in the nine months ended June 30, 2014, compared to the nine months ended June 30, 2013, due primarily to the $393,000 second fiscal quarter recovery of a previously reserved receivable, reduced commission on reduced sales, reduced advertising and travel expenses related to construction industry events and the timing of professional fees.

The Company had operating income of $1,610,000 for the nine months ended June 30, 2014 versus operating income of $2,581,000 for the nine months ended June 30, 2013. The reduced operating results were primarily due to lower net revenues and gross margins.

For the nine months ended June 30, 2014, investment interest and dividend income, net of fees, from the investment portfolio was $1,598,000, as compared to $1,759,000 in the 2013 comparable period. The net realized and unrealized gains on marketable securities were $2,881,000 for the nine months ended June 30, 2014 versus net realized and unrealized gains of $888,000 for the nine months ended June 30, 2013. During the nine months ended June 30, 2014, the Company recognized in other income a gain of $442,000 on the disposal of property in the United Kingdom which was previously used as an operating facility.

The effective income tax rate for the nine months ended June 30, 2014 was 38.5% versus 14.7% for the nine months ended June 30, 2013. The effective income tax rate in 2014 was impacted by a $129,000 increase in the prior year federal tax provision estimate. The effective income tax rate in 2013 was positively impacted by $1,100,000 in research and development tax credits on amended returns filed for tax years 2006 through 2009. In addition to the positive impact of the research and development tax credits on the fiscal 2013 tax expense, the effective income tax rates for both years were impacted by tax-exempt interest income and premium amortization on municipal bonds.

Net income for the nine months ended June 30, 2014 was $4,010,000 versus $4,490,000 for the nine months ended June 30, 2013.

Liquidity and Capital Resources

The Company does not currently require a credit facility but continues to review and evaluate its needs and options for such a facility.

The Company had no long-term or short-term interest bearing debt outstanding at June 30, 2014 or September 30, 2013. As of June 30, 2014, the Company has funded $135,000 in cash deposits at insurance companies to cover related collateral needs.

As of June 30, 2014, the Company had $9,737,000 in operating cash and cash equivalents, and $87,592,000 in its investment portfolio, including $18,944,000 in equities, $24,608,000 in mutual funds, $40,000,000 in United States treasury bills, $2,010,000 in exchange traded funds and $2,030,000 in cash. The investment portfolio is managed by a global professional investment management firm. The securities in the portfolio may be liquidated into cash at any time.

The Company s working capital (defined as current assets less current liabilities) was $108.5 million at June 30, 2014 and $102.8 million at September 30, 2013. Cash provided by operations during the nine months ended June 30, 2014 was $96,000. The significant purchases, sales and maturities of marketable securities shown on the condensed consolidated statement of cash flows in 2014 reflects the sale of all corporate and municipal bonds in March 2014 and subsequent recurring purchase and sale of United States treasury bills with 30 day maturities. The net gains on disposal of property and equipment primarily relates to the sale of the UK property. For the nine months ended

June 30, 2014, inventories decreased $1.5 million as prior stock build was used to satisfy current sales demands. Accrued expenses and other decreased $583,000, as the Company paid out estimated taxes related to fiscal 2013. Customer deposits decreased, as down payments were applied to completed projects.

Cash flows provided by investing activities for the nine months ended June 30, 2014 of $84,000 included $685,000 of proceeds related to the sale of the UK property and $(601,000) related to capital expenditures on manufacturing equipment. There were no cash disbursements or receipts related to financing activities during the nine months ended June 30, 2014.

Seasonality

The Company s operations are concentrated in the asphalt-related business and are typically subject to a seasonal slow-down during the third and fourth quarters of the calendar year. This slow-down often results in lower revenues, and earnings or losses during the first and fourth quarters of each fiscal year ended September 30.

Customers with 10% (or greater) of Net Revenues

Approximately 6% of net revenues in the June 30, 2014 quarter and 2% of net revenues for the June 30, 2013 quarter were from entities owned by a global company. For the nine months ended June 30, 2014 and June 30, 2013, this company represented 17% and 13% of total net revenue, respectively.

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 the Company s expectations and beliefs, including, but not limited to, statements concerning gross margins, sales of the Company s products and future financing plans. These statements by their nature involve substantial risks and uncertainties, some of which are beyond the Company s control. Actual results may differ materially depending on a variety of important factors, including the financial condition of the Company s customers, changes in the economic and competitive environments and demand for the Company s products.

For information concerning these factors and related matters, see 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.

Critical Accounting Policies, Estimates and Assumptions

The Company believes the following discussion addresses its most critical accounting policies, which are those that are most important to the portrayal of the 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 the Company s Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended September 30, 2013, Accounting Policies.

Estimates and Assumptions

In preparing the Consolidated Financial Statements, the Company uses 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. The Company believes that the estimates and assumptions made in preparing the Consolidated Financial Statements are reasonable, but are inherently uncertain. Assumptions may be incomplete or inaccurate and unanticipated events may occur. The Company is subject to risks and uncertainties that may cause actual results to differ from estimated results.

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Revenues & Expenses

Revenues from contracts for the design, manufacture and sale of asphalt plants are recognized under the percentage-of-completion method. The percentage-of-completion method of accounting for these contracts recognizes revenue, net of any promotional discounts, and costs in proportion to actual labor costs incurred, as compared with total estimated labor costs expected to be incurred during the entire contract. Pre-contract costs are expensed as incurred. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined. Revenue recognized in excess of amounts billed is classified as current assets under costs and estimated earnings in excess of billings. The Company anticipates that all incurred costs associated with these contracts at June 30, 2014 will be billed and collected within one year.

Revenues from all other contracts for the design and manufacture of custom equipment, for service and for parts sales, net of any discounts and return allowances, are recorded when the following four revenue recognition criteria are met: product is delivered or service is performed, persuasive evidence of an arrangement exists, the selling price is fixed or determinable, and collectability is reasonably assured.

Return allowances, which reduce product revenue, are estimated using historical experience. The Company s customers may qualify for certain cash rebates generally based on the level of sales attained during a twelve-month period. Provisions for these rebates, as well as estimated returns and allowances and other adjustments, are provided for in the same period the related sales are recorded.

Product warranty costs are estimated using historical experience and known issues and are charged to production costs as revenue is recognized.

All product engineering and development costs, and 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.

The allowance for doubtful accounts is determined by performing a specific review of all account balances greater than 90 days past due and other higher risk amounts to determine collectability and also adjusting for any known customer payment issues with account balances in the less-than-90-day past due aging buckets. Account balances are charged off against the allowance for doubtful accounts when they are determined to be uncollectable. Any recoveries of account balances previously considered in the allowance for doubtful accounts reduce future additions to the allowance for doubtful accounts.

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 adjustments 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 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 are reduced by 50%, while the cost basis of inventories four to five years old are reduced by 75%, and the cost basis of inventories greater than five years old are 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 circumstances that warrant consideration occur during the year, then the impact on obsolescence is considered at that time.

Investments

The Company marks to market all trading securities and records unrealized gains or losses as income or loss in the current period.

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Long-Lived Asset Impairment

Property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess over its fair value of the asset s carrying value. Fair value is generally determined using a discounted cash flow analysis.

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. 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 may use derivative financial instruments consisting primarily of interest rate hedge agreements to manage exposure to interest rate changes. The Company s objective in managing its exposure to changes in interest rates on any future variable rate debt is to limit the impact on earnings and cash flow and reduce overall borrowing costs.

At June 30, 2014 and September 30, 2013, the Company had no interest-bearing debt outstanding. The Company s marketable securities are invested primarily in stocks, U.S. treasury bills, mutual funds and exchange traded funds through a professional investment management firm. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with investment 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) 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, the Company s 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 have been detected.

Changes in Internal Control over Financial Reporting

The Company s management, including the Chief Executive Officer and Chief Financial Officer, has reviewed the Company s internal control over financial reporting. There were no changes in the Company s internal control over financial reporting during the quarter and nine months ended June 30, 2014 that materially affected, or are reasonably likely to materially affect, the Company s 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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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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.

GENCOR INDUSTRIES, INC.

/s/ E. J. Elliott
E. J. Elliott
Chairman and Chief Executive Officer

August 5, 2014

/s/ Eric E. Mellen
Eric E. Mellen
Chief Financial Officer
(Principal Financial and Accounting Officer)

August 5, 2014