GENCOR INDUSTRIES INC
Form 10-Q
August 09, 2016

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, 2016

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	**(I.R.S. Employer**
incorporation or organization)	**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 July 29, 2016
Common stock, $.10 par value	8,048,132 shares
Class B stock, $.10 par value	1,509,238 shares

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, 2015: (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.

Part I. Financial Information

GENCOR INDUSTRIES, INC.

Condensed Consolidated Balance Sheets

	June 30, 2016 *(Unaudited)*	September 30, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,888,000	$ 11,152,000
Marketable securities at fair value (cost $86,090,000 at June 30, 2016 and $87,123,000 at September 30, 2015)	85,612,000	84,357,000
Accounts receivable, less allowance for doubtful accounts of $203,000 at June 30, 2016 and $357,000 at September 30, 2015	1,499,000	874,000
Costs and estimated earnings in excess of billings	9,737,000	2,396,000
Inventories, net	11,557,000	12,770,000
Prepaid expenses and other current assets	511,000	817,000
Total Current Assets	119,804,000	112,366,000
Property and equipment, net	5,502,000	6,388,000
Deferred and other income taxes	535,000	1,331,000
Other assets	53,000	59,000
Total Assets	$ 125,894,000	$ 120,144,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,193,000	$ 1,529,000
Customer deposits	3,608,000	4,418,000
Accrued expenses and other current liabilities	2,840,000	1,452,000
Total Current Liabilities	7,641,000	7,399,000
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; 8,048,132 shares and 8,028,882 shares issued and outstanding at June 30, 2016 and September 30, 2015, respectively	805,000	803,000
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	11,140,000	10,953,000
Retained earnings	106,157,000	100,838,000

Total Shareholders Equity	118,253,000	112,745,000
Total Liabilities and Shareholders Equity	$ 125,894,000	$ 120,144,000

See accompanying Notes to Condensed Consolidated Financial Statements

GENCOR INDUSTRIES, INC.

Condensed Consolidated Statements of Income

(Unaudited)

	For the Quarters Ended June 30,		For the Nine Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net revenue	$ 19,863,000	$ 10,940,000	$ 55,199,000	$ 30,981,000
Costs and expenses:				
Production costs	14,712,000	8,541,000	41,325,000	24,603,000
Product engineering and development	379,000	351,000	1,140,000	1,038,000
Selling, general and administrative	1,979,000	1,703,000	5,954,000	5,130,000
	17,070,000	10,595,000	48,419,000	30,771,000
Operating income	2,793,000	345,000	6,780,000	210,000
Other income (expense), net:				
Interest and dividend income, net of fees	99,000	152,000	688,000	672,000
Net realized and unrealized gains (losses) on marketable securities	464,000	(77,000)	567,000	(309,000)
Other		2,000	2,000	2,000
	563,000	77,000	1,257,000	365,000
Income before income tax expense	3,356,000	422,000	8,037,000	575,000
Income tax expense	1,242,000	156,000	2,718,000	221,000
Net income	$ 2,114,000	$ 266,000	$ 5,319,000	$ 354,000
Basic Income per Common Share:				
Net income per share	$ 0.22	$ 0.03	$ 0.56	$ 0.04
Diluted Income per Common Share:				
Net income per share	$ 0.22	$ 0.03	$ 0.55	$ 0.04

See accompanying Notes to Condensed Consolidated Financial Statements

GENCOR INDUSTRIES, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended June 30,	
	2016	**2015**
Cash flows from operations:		
Net income	$ 5,319,000	$ 354,000
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Purchases of marketable securities	(335,848,000)	(318,647,000)
Proceeds from sale and maturity of marketable securities	334,844,000	317,965,000
Change in fair value of marketable securities	(251,000)	319,000
Deferred income taxes	796,000	(543,000)
Depreciation and amortization	1,050,000	1,008,000
Net losses on disposal of property and equipment		1,000
Provision for doubtful accounts	55,000	35,000
Stock-based compensation	25,000	190,000
Changes in assets and liabilities:		
Accounts receivable	(680,000)	164,000
Costs and estimated earnings in excess of billings	(7,341,000)	(182,000)
Inventories	1,213,000	586,000
Prepaid expenses and other current assets	306,000	456,000
Accounts payable	(336,000)	339,000
Customer deposits	(810,000)	1,187,000
Accrued expenses and other current liabilities	1,388,000	(299,000)
Total adjustments	(5,589,000)	2,579,000
Cash flows (used in) provided by operating activities	(270,000)	2,933,000
Cash flows used in investing activities:		
Capital expenditures	(158,000)	(587,000)
Cash flows used in investing activities	(158,000)	(587,000)
Cash flows from financing activities:		
Proceeds from stock option exercises	164,000	29,000
Cash flows provided by financing activities	164,000	29,000
Net increase (decrease) in cash	(264,000)	2,375,000
Cash at:		
Beginning of period	11,152,000	7,193,000

End of period	$ 10,888,000	$ 9,568,000

See accompanying Notes to Condensed Consolidated Financial Statements

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, 2016 are not necessarily indicative of the results that may be expected for the year ending September 30, 2016.

The accompanying condensed consolidated balance sheet at September 30, 2015 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, 2015.

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 condensed consolidated statements of income. Net unrealized gains and losses are reported in the condensed consolidated statements of income 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 the Company s Level 1 investments, including marketable equity securities, exchange-traded funds, mutual funds and government securities are substantially based on quoted market prices. The Company does not currently have any Level 2 or Level 3 investments.

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, 2016:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Equities	$ 7,908,000	$	$	$ 7,908,000
Mutual Funds	6,689,000			6,689,000
Exchange-Traded Funds	1,060,000			1,060,000
Government Securities	42,539,000			42,539,000
Cash and Money Funds	27,416,000			27,416,000
Total	$ 85,612,000	$	$	$ 85,612,000

Net unrealized gains included in the consolidated statements of income for the quarter and nine months ended June 30, 2016, on trading securities still held as of June 30, 2016, were $698,000 and $2,288,000, respectively. There were no transfers of investments between Level 1 and Level 2 during the nine months ended June 30, 2016.

The following table sets forth by level, within the fair value hierarchy, the Company s assets measured at fair value as of September 30, 2015:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Equities	$ 20,915,000	$	$	$ 20,915,000
Mutual Funds	11,885,000			11,885,000
Exchange-Traded Funds	4,086,000			4,086,000
Government Securities	43,883,000			43,883,000
Cash and Money Funds	3,588,000			3,588,000
Total	$ 84,357,000	$	$	$ 84,357,000

Net unrealized losses included in the consolidated statements of income for the quarter and nine months ended June 30, 2015, on trading securities still held as of June 30, 2015, were $(647,000) and $(1,466,000), respectively. There were no transfers of investments between Level 1 and Level 2 during the nine months ended June 30, 2015.

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, 2016.

Net inventories at June 30, 2016 and September 30, 2015 consist of the following:

	June 30, 2016	September 30, 2015
Raw materials	$ 7,116,000	$ 6,090,000
Work in process	1,304,000	1,849,000
Finished goods	3,076,000	4,563,000
Used equipment	61,000	268,000
	$ 11,557,000	$ 12,770,000

Note 4 Costs and Estimated Earnings in Excess of Billings

Costs and estimated earnings in excess of billings on uncompleted contracts as of June 30, 2016 and September 30, 2015 consist of the following:

	June 30, 2016	September 30, 2015
Costs incurred on uncompleted contracts	$ 11,259,000	$ 4,547,000
Estimated earnings	4,008,000	1,114,000
	15,267,000	5,661,000
Billings to date	5,530,000	3,265,000
Costs and estimated earnings in excess of billings	$ 9,737,000	$ 2,396,000

Costs and estimated earnings in excess of billings of $9,737,000 is due to several large percentage-of-completion jobs which were near completion at June 30, 2016. A significant portion of this amount was billed and collected subsequent to quarter-end as the products shipped.

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, 2016 and 2015:

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Net Income	$ 2,114,000	$ 266,000	$ 5,319,000	$ 354,000
Common Shares:				
Weighted average common shares outstanding	9,555,000	9,521,000	9,547,000	9,521,000

Effect of dilutive stock options	139,000	66,000	111,000	67,000
Diluted shares outstanding	9,694,000	9,587,000	9,658,000	9,588,000
Basic:				
Net earnings per share	$ 0.22	$ 0.03	$ 0.56	$ 0.04
Diluted:				
Net earnings per share	$ 0.22	$ 0.03	$ 0.55	$ 0.04

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, 2016 were 331,000 and 325,000, respectively, which equates to 139,000 and 111,000 dilutive common stock equivalents, respectively. 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, 2015 were 342,000 and 343,000, respectively, which equates to 66,000 and 67,000 dilutive common stock equivalents, respectively. There were no anti-dilutive shares for the quarters and nine months ended June 30, 2016 and June 30, 2015.

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

During the quarter ended June 30, 2016, 30.6% of net revenues were from entities owned by one global company versus 18.8% for the quarter ended June 30, 2015. For the nine months ended June 30, 2016, 14.6% of net revenues were from entities owned by one global company versus 10.2% for the nine months ended June 30, 2015.

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 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 typically seasonal. 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, the need for replacement parts, fluctuations in the price of crude oil (liquid asphalt, as well as fuel costs), and a trend towards larger plants, resulting from economies of scale.

The manufacture of an asphalt plant typically has a lead time from order to shipment of 90 to 150 days. The lead time can be impacted by the timing and scope of the order, as well as the customer s delivery requirements. Therefore, the size of the Company s backlog should not be viewed as an indicator of its revenues for the upcoming quarter or annual period. The Company s backlog was $21.4 million at June 30, 2016.

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 August 8, 2014, President Obama signed a $10.8 billion ten-month bill to fund federal highway and mass-transit programs through May 31, 2015. On May 29, 2015, MAP-21 was extended through July 31, 2015. On July 31, 2015, President Obama signed a three-month extension of MAP-21, which provided $8 billion in funding for the Highway Trust Fund from August 1, 2015 through October 29, 2015. Two additional short-term extensions were approved between October 29, 2015 and December 4, 2015.

On December 4, 2015, President Obama signed into law a five-year, $305 billion transportation bill, Fixing America s Surface Transportation (FAST) Act. The FAST Act reauthorizes the collection of the 18.4 cents per gallon gas tax that is typically used to pay for transportation projects. It also includes $70 billion from other areas of the federal budget to close a $16 billion annual funding deficit. The bill includes spending of more than $205 billion on roads and highways over the next five years. The 2016 funding levels are approximately 5% above 2015 projected funding, with annual increases between 2.0% and 2.5% from 2016 through 2020.

The Canadian government has also enacted major infrastructure stimulus programs. In 2007, the Building Canada Plan provided $33 billion in infrastructure funding through 2014. The 2014 New Building Canada Fund is one component within the $53 billion 2014 New Building Canada Plan. The 2014 New Building Canada Fund provided funding for infrastructure projects at the national, provincial and local levels.

In addition to government funding and overall economic conditions, fluctuations in the price of oil, which is a major component 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 and diesel, 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 products. The Company is subject to fluctuations in market prices for raw materials such as steel. If the Company is unable to purchase materials it requires or is unable to pass on price increases to its customers or otherwise reduce its cost of goods sold, its business results of operations and financial condition may be adversely affected.

The Company believes its strategy of continuing to invest in product engineering and development and its focus on delivering the highest quality products and superior service will strengthen the Company s market position. 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.

Results of Operations

Quarter Ended June 30, 2016 versus June 30, 2015

Net revenue for the quarter ended June 30, 2016 was $19,863,000, as compared to $10,940,000 for the quarter ended June 30, 2015, an increase of $8,923,000 or 81.6%. Sales of asphalt plants and related components continued to be strong as a result of the FAST Act and the renewed optimism of our customers.

As a percent of net revenue, gross profit margins increased to 25.9% in the quarter ended June 30, 2016 from 21.9% in the quarter ended June 30, 2015. The improved gross margin was primarily from higher net revenues and better cost absorption.

Product engineering and development expenses were $379,000 in the quarter ended June 30, 2016, as compared to $351,000 for the quarter ended June 30, 2015. Selling, general and administrative (SG&A) expenses increased $276,000 to $1,979,000 in the quarter ended June 30, 2016, compared to $1,703,000 in the quarter ended June 30, 2015. Sales commissions increased due to the higher revenues and trade show expenses increased to capitalize on the renewed optimism within the highway construction industry. As a percentage of net revenues, SG&A expenses declined to 10.0%, compared to 15.6% in the prior year quarter.

The Company had operating income of $2,793,000 for the quarter ended June 30, 2016 versus operating income of $345,000 for the quarter ended June 30, 2015. Operating margins improved to 14.1%, compared to 3.2% in the prior year quarter. The increase in operating income was due to significantly higher net revenues, resulting in improved cost absorption.

For the quarter ended June 30, 2016, investment interest and dividend income, net of fees, from the investment portfolio was $99,000, as compared to $152,000 in the quarter ended June 30, 2015. The net realized and unrealized gains on marketable securities were $464,000 for the quarter ended June 30, 2016 versus net realized and unrealized losses of $(77,000) for the quarter ended June 30, 2015.

The effective income tax rate for both quarters ended June 30, 2016 and June 30, 2015 was 37.0%.

Net income for the quarter ended June 30, 2016 was $2,114,000, or $0.22 per diluted share, versus $266,000, or $0.03 per diluted share, for the quarter ended June 30, 2015. The increase in net income was due to improved net revenues, higher gross margins and flat year-to-year general and administrative expenses.

Nine Months Ended June 30, 2016 versus June 30, 2015

Net revenue for the nine months ended June 30, 2016 and 2015 were $55,199,000 and $30,981,000, respectively, an increase of $24,218,000 or 78.2%. The increased net revenues reflect the significantly improved order input due to the passing of the FAST Act.

As a percent of net revenue, gross profit margins increased to 25.1% in the nine months ended June 30, 2016 from 20.6% in the nine months ended June 30, 2015. The improved gross profit margin resulted from increased net revenues and cost absorption.

Product engineering and development expenses increased $102,000 in the nine months ended June 30, 2016, as compared to the nine months ended June 30, 2015. SG&A expenses increased $824,000 in the nine months ended June 30, 2016, compared to the nine months ended June 30, 2015. The higher expenses in 2016 were due to increased sales force, increased sales commissions due to the higher revenues, and increased trade show expenses to capitalize on the renewed optimism within the highway construction industry. As a percentage of net revenues, SG&A expenses decreased to 10.8%, compared to 16.6% in the prior year nine months.

The Company had operating income of $6,780,000 for the nine months ended June 30, 2016 versus operating income of $210,000 for the nine months ended June 30, 2015. The improved operating results were due to increased net revenues and cost absorption. Operating margins improved to 12.3%, compared to 0.7% in the prior year nine months.

For the nine months ended June 30, 2016, investment interest and dividend income, net of fees, from the investment portfolio was $688,000, as compared to $672,000 in 2015. The net realized and unrealized gains on marketable securities were $567,000 for the nine months ended June 30, 2016 versus net realized and unrealized losses of $(309,000) for the nine months ended June 30, 2015.

The effective income tax rate for the nine months ended June 30, 2016 was 33.8% versus 38.4% for the nine months ended June 30, 2015. The effective income tax rate for the nine months ended June 30, 2016 was positively impacted by a $256,000 increase in the prior year federal tax benefit estimate.

Net income for the nine months ended June 30, 2016 was $5,319,000, or $0.55 per diluted share, versus $354,000, or $0.04 per diluted share, for the nine months ended June 30, 2015. The increase in net income was due to the improved net revenues, higher gross margins and flat year-to-year general and administrative expenses.

Liquidity and Capital Resources

The Company does not currently require a credit facility.

The Company had no long-term or short-term interest-bearing debt outstanding at June 30, 2016 or September 30, 2015. As of June 30, 2016, the Company has funded $135,000 in cash deposits at insurance companies to cover related collateral needs.

As of June 30, 2016, the Company had $10,888,000 in cash and cash equivalents, and $85,612,000 in its investment portfolio, including $7,908,000 in equities, $6,689,000 in mutual funds, $1,060,000 in exchange-traded funds, $42,539,000 in government securities and $27,416,000 in cash and money funds. These securities may be liquidated at any time into cash and cash equivalents.

The Company s backlog was $21.4 million at June 30, 2016. The Company s working capital (defined as current assets less current liabilities) was $112.2 million at June 30, 2016 and $105.0 million at September 30, 2015. Cash used in operations during the nine months ended June 30, 2016 was $270,000.

The significant purchases, sales and maturities of marketable securities shown on the condensed consolidated statements of cash flows reflect the recurring purchase and sale of United States treasury bills. Accounts receivable increased with the increased sales.

Costs and estimated earnings in excess of billings increased $7,341,000 as several large percentage-of-completion jobs neared completion. A significant portion of this amount was billed and collected subsequent to quarter-end.

Inventories decreased as the stock build from fiscal 2015 was used to satisfy sales demands in fiscal 2016.

Customer deposits decreased $810,000 as deposits were applied to percentage-of-completion jobs earning revenues.

Cash flows used in investing activities for the nine months ended June 30, 2016 of $158,000 were related to capital expenditures. Cash flows provided by financing activities of $164,000 during the nine months ended June 30, 2016 reflect the proceeds received from stock option exercises.

Seasonality

The Company s operations are concentrated in the application of asphalt for highway construction and are typically subject to a seasonal slow-down during the third and fourth quarters of the calendar year. This slow-down has historically resulted 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

During the quarter ended June 30, 2016, 30.6% of net revenues were from entities owned by one global company versus 18.8% for the quarter ended June 30, 2015. For the nine months ended June 30, 2016, 14.6% of net revenues were from entities owned by one global company versus 10.2% for the nine months ended June 30, 2015.

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, 2015: (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, 2015, 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.

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, 2016 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 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.

Investments

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 condensed consolidated statements of income. Net unrealized gains and losses are reported in the condensed consolidated statements of income in the current period and represent the change in the fair value of investment holdings during the period.

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

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, 2016 and September 30, 2015, the Company had no interest-bearing debt outstanding. The Company s marketable securities are invested primarily in stocks, government securities, mutual funds and exchange-traded funds. 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, 2016 that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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

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 9, 2016

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

August 9, 2016