

GENCOR INDUSTRIES INC  
Form 10-Q  
February 10, 2016  
Table of Contents

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

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2015**

**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**  
**(Address of principal executive offices)**

**32810**  
**(Zip Code)**

**(407) 290-6000**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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  No

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

Large accelerated filer  Accelerated Filer   
 Non-accelerated filer  (Do not check if a smaller reporting company) Smaller Reporting company   
 Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

Class	Outstanding at February 8, 2016
Common stock, \$.10 par value	8,028,882 shares
Class B stock, \$.10 par value	1,509,238 shares



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

<b>Index</b>	<b>Page</b>
<b>Part I. <u>Financial Information</u></b>	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets December 31, 2015 (Unaudited) and September 30, 2015</u>	3
<u>Condensed Consolidated Statements of Operations Quarters ended December 31, 2015 and 2014 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows Quarters ended December 31, 2015 and 2014 (Unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	15
Item 4. <u>Controls and Procedures</u>	15
<b>Part II. <u>Other Information</u></b>	
Item 6. <u>Exhibits</u>	16
<b><u>Signatures</u></b>	17
<b>Introductory Note: Caution Concerning Forward-Looking Statements</b>	

This Form 10-Q Report and the Company's other communications and statements may contain forward-looking statements, including statements about the Company's beliefs, plans, objectives, goals, expectations, estimates, projections and intentions. These statements are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond the Company's control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "goal," and similar expressions are intended to identify forward-looking statements. All forward-looking statements, by their nature, are subject to risks and uncertainties. The Company's actual future results may differ materially from those set forth in its forward-looking statements. For information concerning these factors and related matters, see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Report, and the following sections of the Company's Annual Report on Form 10-K for the year ended September 30, 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 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**

	<b>December 31, 2015</b>	<b>September 30, 2015</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,358,000	\$ 11,152,000
Marketable securities at fair value (cost \$87,158,000 at December 31, 2015 and \$87,123,000 at September 30, 2015)	85,335,000	84,357,000
Accounts receivable, less allowance for doubtful accounts of \$241,000 at December 31, 2015 and \$357,000 at September 30, 2015	1,019,000	874,000
Costs and estimated earnings in excess of billings	4,044,000	2,396,000
Inventories, net	15,071,000	12,770,000
Prepaid expenses & other current assets	942,000	817,000
Total Current Assets	116,769,000	112,366,000
Property and equipment, net of accumulated depreciation	6,058,000	6,388,000
Deferred and other income taxes	1,032,000	1,331,000
Other assets	56,000	59,000
Total Assets	\$ 123,915,000	\$ 120,144,000
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 1,868,000	\$ 1,529,000
Customer deposits	6,135,000	4,418,000
Accrued expenses	1,587,000	1,452,000
Total Current Liabilities	9,590,000	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; 8,028,882 shares issued and outstanding	803,000	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	10,958,000	10,953,000
Retained earnings	102,413,000	100,838,000
Total Shareholders' Equity	114,325,000	112,745,000

Total Liabilities and Shareholders Equity	\$ 123,915,000	\$ 120,144,000
---	----------------	----------------

*See accompanying Notes to Condensed Consolidated Financial Statements*

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

	<b>For the Quarters Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Net revenue	\$ 13,258,000	\$ 6,287,000
Costs and expenses:		
Production costs	9,976,000	5,942,000
Product engineering and development	382,000	329,000
Selling, general and administrative	1,785,000	1,650,000
	12,143,000	7,921,000
Operating income (loss)	1,115,000	(1,634,000)
Other income (expense), net:		
Interest and dividend income, net of fees	385,000	323,000
Realized and unrealized gains (losses) on marketable securities, net	593,000	(427,000)
Other	1,000	(1,000)
	979,000	(105,000)
Income (loss) before income tax expense (benefit)	2,094,000	(1,739,000)
Income tax expense (benefit)	519,000	(643,000)
Net Income (Loss)	\$ 1,575,000	\$ (1,096,000)
Basic Income (Loss) per Common Share:		
Net income (loss) per share	\$ 0.16	\$ (0.12)
Diluted Income (Loss) per Common Share:		
Net income (loss) per share	\$ 0.16	\$ (0.12)

*See accompanying Notes to Condensed Consolidated Financial Statements*



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

	<b>For the Quarters Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operations:</b>		
Net income (loss)	\$ 1,575,000	\$ (1,096,000)
<b>Adjustments to reconcile net income (loss) to cash used in operating activities:</b>		
Purchases of marketable securities	(51,115,000)	(134,896,000)
Proceeds from sale and maturity of marketable securities	50,619,000	134,567,000
Change in fair value of marketable securities	(482,000)	433,000
Deferred income taxes	299,000	(244,000)
Depreciation and amortization	362,000	325,000
Provision for doubtful accounts	5,000	
Stock-based compensation	5,000	63,000
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(150,000)	718,000
Costs and estimated earnings in excess of billings	(1,648,000)	(2,014,000)
Inventories	(2,301,000)	434,000
Prepaid expenses & other current assets	(125,000)	(670,000)
Accounts payable	339,000	(170,000)
Customer deposits	1,717,000	1,198,000
Accrued expenses	135,000	(212,000)
<b>Total adjustments</b>	<b>(2,340,000)</b>	<b>(468,000)</b>
Cash flows used in operating activities	(765,000)	(1,564,000)
<b>Cash flows used in investing activities:</b>		
Capital expenditures	(29,000)	
Cash flows used in investing activities	(29,000)	
Net decrease in cash and cash equivalents	(794,000)	(1,564,000)
<b>Cash and cash equivalents at:</b>		
Beginning of period	11,152,000	7,193,000
End of period	\$ 10,358,000	\$ 5,629,000

*See accompanying Notes to Condensed Consolidated Financial Statements*



**Table of Contents**

**GENCOR INDUSTRIES, INC.**

**Notes to Condensed Consolidated Financial Statements**

**For the Quarter Ended December 31, 2015**

*(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. Operating results for the quarter ended December 31, 2015 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 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, mutual funds, exchange-traded funds and government securities 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, and matrix pricing or other similar techniques. The inputs to these market standard valuation methodologies include, but are not limited to: interest rates, credit standing of the issuer or counterparty, industry sector of the issuer, coupon rate, call provisions, maturity, estimated duration and assumptions regarding liquidity and estimated future cash flows. In addition to bond

characteristics, the valuation methodologies incorporate market data, such as actual trades completed, bids and actual dealer quotes, where such information is available. Accordingly, the estimated fair values are based on available market information and judgments about financial instruments (Level 2). Fair values of the Level 2 investments are provided by the Company's professional investment management firm.

**Table of Contents**

The following table sets forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of December 31, 2015:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 21,938,000	\$	\$	\$ 21,938,000
Mutual Funds	8,312,000			8,312,000
Exchange-Traded Funds	6,793,000			6,793,000
Government Securities	45,868,000			45,868,000
Cash and Money Funds	2,424,000			2,424,000
Total	\$ 85,335,000	\$	\$	\$ 85,335,000

Net unrealized gains and (losses) recognized during the quarter ended December 31, 2015 on trading securities still held as of December 31, 2015 were \$943,000. There were no transfers of investments between Level 1 and Level 2 during the quarter ended December 31, 2015.

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			Total
	Level 1	Level 2	Level 3	
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 gains and (losses) recognized during the quarter ended December 31, 2014 on trading securities still held as of December 31, 2014 were \$(661,000). There were no transfers of investments between Level 1 and Level 2 during the quarter ended December 31, 2014.

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.

**Table of Contents**

Net inventories at December 31, 2015 and September 30, 2015 consist of the following:

	December 31, 2015	September 30, 2015
Raw materials	\$ 7,933,000	\$ 6,090,000
Work in process	2,554,000	1,849,000
Finished goods	4,305,000	4,563,000
Used equipment	279,000	268,000
	\$ 15,071,000	\$ 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 December 31, 2015 and September 30, 2015 consist of the following:

	December 31, 2015	September 30, 2015
Costs incurred on uncompleted contracts	\$ 9,669,000	\$ 4,547,000
Estimated earnings	3,184,000	1,114,000
	12,853,000	5,661,000
Billings to date	8,809,000	3,265,000
Costs and estimated earnings in excess of billings	\$ 4,044,000	\$ 2,396,000

**Note 5 Earnings per Share Data**

The following table sets forth the computation of basic and diluted earnings (loss) per share for the quarters ended December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Net income (loss)	\$ 1,575,000	\$ (1,096,000)
Common Shares:		
Weighted-average common shares outstanding	9,538,000	9,519,000
Effect of dilutive stock options	79,000	
Weighted-average diluted shares outstanding	9,617,000	9,519,000

Basic:

Edgar Filing: GENCOR INDUSTRIES INC - Form 10-Q

Net income (loss) per share	\$	0.16	\$	(0.12)
Diluted:				
Net income (loss) per share	\$	0.16	\$	(0.12)

Basic earnings per share is based on the weighted-average number of shares outstanding. Diluted earnings per share is 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 ended December 31, 2015 were 325,000, which equates to 79,000 dilutive common stock equivalents. For the quarter ended December 31, 2014, 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 (loss) per share calculations because they were anti-dilutive, were zero for the quarter ended December 31, 2015 and 344,000 for the quarter ended December 31, 2014.



**Table of Contents**

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

Approximately 2.7% of net revenues in the quarter ended December 31, 2015 and 14.0% of net revenues for the quarter ended December 31, 2014 were from entities owned by a global company.

---

**Table of Contents**

**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, Canadian infrastructure spending, 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 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 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.

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 equipment. 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.

For the long term, the Company believes the strategy of continuing to invest in product engineering and development and its focus on delivering high-quality products and superior service will strengthen the Company's market position. The Company took aggressive actions to conserve cash, right-size its operations and cost structure.

## Table of Contents

These actions included adjustments to workforce, reduced purchases of raw materials 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.

## Results of Operations

### *Quarter Ended December 31, 2015 versus December 31, 2014*

Net revenues for the quarters ended December 31, 2015 and December 31, 2014 were \$13,258,000 and \$6,287,000, respectively, an increase of \$6,971,000 or 110.9%. During the latter part of the fourth quarter of 2015, the Company's quoting activity and order input picked up significantly and has continued to be robust. Numerous customers who had previously deferred equipment purchases are showing a renewed optimism.

As a percent of sales, gross profit margins increased to 24.8% in the quarter ended December 31, 2015 from 5.5% in the quarter ended December 31, 2014, due to process improvements, lower commodity prices and increased revenues and cost absorption.

Product engineering and development expenses increased \$53,000 in the quarter ended December 31, 2015 as compared to the quarter ended December 31, 2014. Selling, general and administrative expenses increased \$135,000 or 8.2% in the quarter ended December 31, 2015 compared to the quarter ended December 31, 2014. Sales commissions and other controllable operating expenses increased due to the higher revenues.

As a result of the improved revenues and cost controls, the Company had operating income of \$1,115,000 for the quarter ended December 31, 2015 versus an operating loss of \$(1,634,000) for the quarter ended December 31, 2014.

For the quarter ended December 31, 2015, net investment interest and dividend income, net of fees, from the investment portfolio was \$385,000 as compared to \$323,000 in the quarter ended December 31, 2014. The net realized and unrealized gains on marketable securities were \$593,000 for the quarter ended December 31, 2015 versus net realized and unrealized losses of \$(427,000) for the quarter ended December 31, 2014.

The effective income tax rate for the quarter ended December 31, 2015 was 24.8%, which was positively impacted by a \$256,000 increase in the prior year federal tax benefit estimate. The effective income tax rate for the quarter ended December 31, 2014 was a benefit of 37.0%.

Net income for the quarter ended December 31, 2015 was \$1,575,000 or \$0.16 diluted earnings per share versus a net loss of \$(1,096,000) or \$(0.12) diluted loss per share for the quarter ended December 31, 2014.

## Liquidity and Capital Resources

The Company generates capital resources through operations and returns on its investments.

The Company had no long-term debt outstanding at December 31, 2015 or September 30, 2015. The Company does not currently require a credit facility. As of December 31, 2015, the Company had funded \$135,000 in cash deposits at insurance companies to cover collateral needs.

As of December 31, 2015, the Company had \$10,358,000 in cash and cash equivalents, and \$85,335,000 in marketable securities, including \$45,868,000 in government securities, \$21,938,000 in equities, \$8,312,000 in mutual

funds, \$6,793,000 in exchange-traded funds and \$2,424,000 in cash and money funds. The marketable securities are invested through a global professional investment management firm. These securities may be liquidated at any time into cash and cash equivalents.

The Company's backlog was \$31.2 million at December 31, 2015 versus \$18.7 million at September 30, 2015. The Company's working capital (defined as current assets less current liabilities) was equal to \$107.2 million at

## Table of Contents

December 31, 2015 and \$105.0 million at September 30, 2015. The significant purchases, sales and maturities of marketable securities shown on the consolidated statements of cash flows reflect the recurring purchase and sale of United States treasury bills. Cash used in operations during the quarter ended December 31, 2015 was \$765,000. Costs and estimated earnings in excess of billings increased \$1,648,000 and inventories increased \$2,301,000 reflecting an increase in jobs-in-progress at December 31, 2015 compared to September 30, 2015. Customer deposits increased \$1,717,000 with the increase in production activity during the first quarter of fiscal 2016.

Cash used in investing activities for the quarter ended December 31, 2015 of \$29,000 related to capital expenditures. There were no cash disbursements or receipts related to financing activities during the quarter ended December 31, 2015.

## Seasonality

The Company's operations are concentrated in the asphalt-related business and are subject to a seasonal slow-down during the third and fourth quarters of the calendar year. This slow-down often results in lower reported sales and earnings during the first and fourth quarters of each 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 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, certain 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.

## **Table of Contents**

### *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 December 31, 2015 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. Provisions for 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 category. 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*

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

**Table of Contents**

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.

*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

**Table of Contents**

**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 exposures 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 December 31, 2015 and September 30, 2015, the Company had no debt outstanding. The Company's marketable securities are invested primarily in money funds, mutual funds, exchange-traded funds, government securities and stocks 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 has 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 ended December 31, 2015 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**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

**Table of Contents**

**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

February 10, 2016

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

February 10, 2016