GENCOR INDUSTRIES INC
Form 10-Q
August 05, 2015
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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, 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	**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 August 3, 2015
Common stock, $.10 par value	8,013,882 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, 2014: (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, 2015 (Unaudited)	September 30, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 9,568,000	$ 7,193,000
Marketable securities at fair value (cost $86,826,000 at June 30, 2015 and $84,997,000 at September 30, 2014)	87,475,000	87,112,000
Accounts receivable, less allowance for doubtful accounts of $337,000 at June 30, 2015 and $244,000 at September 30, 2014	1,249,000	1,448,000
Costs and estimated earnings in excess of billings	526,000	344,000
Inventories, net	13,152,000	13,673,000
Prepaid expenses and other current assets	393,000	849,000
Total Current Assets	112,363,000	110,619,000
Property and equipment, net	6,661,000	7,141,000
Other assets	61,000	68,000
Total Assets	$ 119,085,000	$ 117,828,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,286,000	$ 947,000
Customer deposits	1,511,000	324,000
Accrued expenses and other current liabilities	1,389,000	1,689,000
Total Current Liabilities	4,186,000	2,960,000
Deferred and other income taxes	150,000	693,000
Total Liabilities	4,336,000	3,653,000
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; 8,013,882 shares and 8,010,132 shares issued and outstanding at June 30, 2015	801,000	801,000

and September 30, 2014, respectively		
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	10,785,000	10,566,000
Retained earnings	103,012,000	102,657,000
Total Shareholders Equity	114,749,000	114,175,000
Total Liabilities and Shareholders Equity	$ 119,085,000	$ 117,828,000

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,	
	2015	**2014**	**2015**	**2014**
Net revenue	$ 10,940,000	$ 10,547,000	$ 30,981,000	$ 35,107,000
Costs and expenses:				
Production costs	8,541,000	8,266,000	24,603,000	27,604,000
Product engineering and development	351,000	352,000	1,038,000	1,083,000
Selling, general and administrative	1,703,000	1,557,000	5,130,000	4,810,000
	10,595,000	10,175,000	30,771,000	33,497,000
Operating income	345,000	372,000	210,000	1,610,000
Other income (expense), net:				
Interest and dividend income, net of fees	152,000	168,000	672,000	1,598,000
Net realized and unrealized gains (losses) on marketable securities	(77,000)	1,658,000	(309,000)	2,881,000
Other	2,000	442,000	2,000	434,000
	77,000	2,268,000	365,000	4,913,000
Income before income tax expense	422,000	2,640,000	575,000	6,523,000
Income tax expense	156,000	977,000	221,000	2,513,000
Net Income	$ 266,000	$ 1,663,000	$ 354,000	$ 4,010,000
Basic Income per Common Share:				
Net income per share	$ 0.03	$ 0.17	$ 0.04	$ 0.42
Diluted Income per Common Share:				
Net income per share	$ 0.03	$ 0.17	$ 0.04	$ 0.42

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, 2015	For the Nine Months Ended June 30, 2014
Cash flows from operations:		
Net income	$ 354,000	$ 4,010,000
Adjustments to reconcile net income to cash provided by operating activities:		
Purchases of marketable securities	(318,647,000)	(220,103,000)
Proceeds from sale and maturity of marketable securities	317,965,000	218,082,000
Change in fair value of marketable securities	319,000	(2,458,000)
Deferred income taxes	(543,000)	867,000
Depreciation and amortization	1,008,000	1,029,000
Net (gains) losses on disposal of property and equipment	1,000	(417,000)
Provision for doubtful accounts	35,000	40,000
Stock-based compensation	190,000	199,000
Changes in assets and liabilities:		
Accounts receivable	164,000	11,000
Costs and estimated earnings in excess of billings	(182,000)	(411,000)
Inventories	586,000	1,511,000
Prepaid expenses and other current assets	456,000	170,000
Accounts payable	339,000	(238,000)
Customer deposits	1,187,000	(1,613,000)
Accrued expenses and other	(299,000)	(583,000)
Total adjustments	2,579,000	(3,914,000)
Cash flows provided by operating activities	2,933,000	96,000
Cash flows provided by (used in) investing activities:		
Capital expenditures	(587,000)	(601,000)
Proceeds from sale of property and equipment		685,000
Cash flows provided by (used in) investing activities	(587,000)	84,000
Cash flows from financing activities:		
Proceeds from stock option exercises	29,000	

Cash flows provided by financing activities		29,000		
Net increase in cash		2,375,000		180,000
Cash at:				
Beginning of period		7,193,000		9,557,000
End of period	$	9,568,000	$	9,737,000

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, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015.

The accompanying Condensed Consolidated Balance Sheet at September 30, 2014 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, 2014.

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 operations. Net unrealized gains and losses are reported in the condensed 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 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, 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, 2015:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Equities	$ 19,642,000	$	$	$ 19,642,000
Mutual Funds	12,408,000			12,408,000
Exchange-Traded Funds	4,008,000			4,008,000
Government Securities	29,587,000			29,587,000
Cash and Money Funds	21,830,000			21,830,000
Total	$ 87,475,000	$	$	$ 87,475,000

Net unrealized losses included in the consolidated statement of operations 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 following table sets forth, by level, within the fair value hierarchy, the Company s marketable securities measured at fair value as of September 30, 2014:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Equities	$ 17,102,000	$	$	$ 17,102,000
Mutual Funds	19,088,000			19,088,000
Exchange-Traded Funds	1,764,000			1,764,000
Government Securities	43,999,000			43,999,000
Cash and Money Funds	5,159,000			5,159,000
Total	$ 87,112,000	$	$	$ 87,112,000

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 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, 2015.

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Net inventories at June 30, 2015 and September 30, 2014 consist of the following:

	June 30, 2015	September 30, 2014
Raw materials	$ 6,374,000	$ 6,097,000
Work in process	1,682,000	2,414,000
Finished goods	4,828,000	4,988,000
Used equipment	268,000	174,000
	$ 13,152,000	$ 13,673,000

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, 2015 and September 30, 2014 consist of the following:

	June 30, 2015	September 30, 2014
Costs incurred on uncompleted contracts	$ 1,892,000	$ 846,000
Estimated earnings	800,000	279,000
	2,692,000	1,125,000
Billings to date	2,166,000	781,000
Costs and estimated earnings in excess of billings	$ 526,000	$ 344,000

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, 2015 and 2014:

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Net Income	$ 266,000	$ 1,663,000	$ 354,000	$ 4,010,000
Common Shares:				
Weighted average common shares outstanding	9,521,000	9,518,000	9,521,000	9,518,000
Effect of dilutive stock options	66,000	84,000	67,000	66,000
Diluted shares outstanding	9,587,000	9,602,000	9,588,000	9,584,000

Basic:								
Net earnings per share	$	0.03	$	0.17	$	0.04	$	0.42
Diluted:								
Net earnings per share	$	0.03	$	0.17	$	0.04	$	0.42

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, 2015 were 342,000 and 343,000, respectively, which equates to 66,000 and 67,000 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, 2014 were 346,000 and 335,000, respectively, which equates to 84,000 and 66,000 dilutive common stock equivalents, respectively. 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. There were no anti-dilutive shares for the quarter and nine months ended June 30, 2015.

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

During the quarter ended June 30, 2015, 18.8% of net revenues were from entities owned by one global company versus 5.9% for the quarter ended June 30, 2014. For the nine months ended June 30, 2015, 10.2% of net revenues were from entities owned by one global company versus 17.4% for the nine months ended June 30, 2014.

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 and was to expire on 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 provides $8 billion in funding for the Highway Trust Fund from August 1, 2015 through October 29, 2015. The House and Senate continue to be at odds on the mechanisms for funding of a long-term highway bill.

The lack of a multi-year federal highway bill and a funding shortfall in the Highway Trust Fund has resulted in reduced capital equipment purchases within the Company s served markets. This had an adverse impact on sales and pricing pressures on the Company s products, resulting in lower revenues, margins, and profits.

In addition to government funding and the 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, 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 a high-quality product and superior service will strengthen the Company s market position when demand for its products rebound. In response to the short-term outlook, the Company has taken aggressive actions to conserve cash, right-size its operations and cost structure, and will continue to do so based on its forecast. 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.

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Results of Operations

Quarter Ended June 30, 2015 versus June 30, 2014

Net revenue for the quarter ended June 30, 2015 was $10,940,000, as compared to $10,547,000 for the quarter ended June 30, 2014, an increase of 3.7%. As a percent of net revenue, gross profit margins increased from 21.6% in the quarter ended June 30, 2014 to 21.9% in the quarter ended June 30, 2015.

Product engineering and development expenses were $351,000 in the quarter ended June 30, 2015, as compared to $352,000 for the quarter ended June 30, 2014. Selling, general and administrative expenses increased $146,000 to $1,703,000 in the quarter ended June 30, 2015, compared to $1,557,000 in the quarter ended June 30, 2014. The increase was primarily due to higher selling expenses.

The Company had operating income of $345,000 for the quarter ended June 30, 2015 versus operating income of $372,000 for the quarter ended June 30, 2014. The reduced operating income was due to higher selling, general and administrative expenses.

For the quarter ended June 30, 2015, investment interest and dividend income, net of fees, from the investment portfolio was $152,000, as compared to $168,000 in the quarter ended June 30, 2014. The net realized and unrealized losses on marketable securities were $(77,000) for the quarter ended June 30, 2015 versus net realized and unrealized gains of $1,658,000 for the quarter ended June 30, 2014. 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 United Kingdom, which was previously used as an operating facility.

The effective income tax rate for both quarters ended June 30, 2015 and June 30, 2014 was 37.0%.

Net income for the quarter ended June 30, 2015 was $266,000 versus $1,663,000 for the quarter ended June 30, 2014. The higher net income in 2014 was primarily due to the realized and unrealized gains on marketable securities and the $442,000 gain on disposal of property in the United Kingdom.

Nine Months Ended June 30, 2015 versus June 30, 2014

Net revenue for the nine months ended June 30, 2015 and 2014 were $30,981,000 and $35,107,000, respectively, a decrease of 11.8%. 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 20.6% in the nine months ended June 30, 2015 from 21.4% in the nine months ended June 30, 2014. The lower gross margins resulted from the lower production volumes in the first half of fiscal 2015.

Product engineering and development expenses decreased $45,000 in the nine months ended June 30, 2015, as compared to the nine months ended June 30, 2014. Selling, general and administrative expenses increased $320,000 in the nine months ended June 30, 2015, compared to the nine months ended June 30, 2014. The 2014 expenses were reduced by a $393,000 recovery of a previously reserved receivable.

The Company had operating income of $210,000 for the nine months ended June 30, 2015 versus operating income of $1,610,000 for the nine months ended June 30, 2014. The reduced operating results were primarily due to lower net revenues and gross margins, and higher selling, general and administrative expenses.

For the nine months ended June 30, 2015, investment interest and dividend income, net of fees, from the investment portfolio was $672,000, as compared to $1,598,000 in the 2014 comparable period. The net realized and unrealized losses on marketable securities were $(309,000) for the nine months ended June 30, 2015 versus net realized and unrealized gains of $2,881,000 for the nine months ended June 30, 2014. During the nine months ended June 30, 2014, the Company recognized in other income a gain of $442,000 on the disposal 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, 2015 was 38.4% versus 38.5% for the nine months ended June 30, 2014. 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 for 2014 was also impacted by tax-exempt interest income and premium amortization on municipal bonds.

Net income for the nine months ended June 30, 2015 was $354,000 versus $4,010,000 for the nine months ended June 30, 2014.

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, 2015 or September 30, 2014. As of June 30, 2015, the Company has funded $135,000 in cash deposits at insurance companies to cover related collateral needs.

As of June 30, 2015, the Company had $9,568,000 in cash and cash equivalents, and $87,475,000 in its investment portfolio, including $19,642,000 in equities, $12,408,000 in mutual funds, $4,008,000 in exchange-traded funds, $29,587,000 in government securities and $21,830,000 in cash and money funds. These 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 working capital (defined as current assets less current liabilities) was $108.2 million at June 30, 2015 and $107.7 million at September 30, 2014. Cash provided by operations during the nine months ended June 30, 2015 was $2,933,000. Inventories decreased as the stock build from fiscal 2014 was used to satisfy sales demands in fiscal 2015. Customer deposits increased $1.2 million with the increase in the number of open percentage-of-completion jobs compared to September 30, 2014.

Cash flows used in investing activities for the nine months ended June 30, 2015 of $587,000 related to capital expenditures on manufacturing equipment. Cash provided by financing activities of $29,000 related to proceeds from the exercise of stock options.

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

During the quarter ended June 30, 2015, 18.8% of net revenues were from entities owned by one global company versus 5.9% for the quarter ended June 30, 2014. For the nine months ended June 30, 2015, 10.2% of net revenues were from entities owned by one global company versus 17.4% for the nine months ended June 30, 2014.

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

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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, 2014: (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, 2014, 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, 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. 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.

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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 operations. Net unrealized gains and losses are reported in the condensed 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

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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, 2015 and September 30, 2014, 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 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, 2015 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

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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, 2015

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

August 5, 2015

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