

GENCOR INDUSTRIES INC
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017**
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

59-0933147
(I.R.S. Employer

incorporation or organization)

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 28, 2017
Common stock, \$.10 par value	12,137,829 shares
Class B stock, \$.10 par value	2,263,857 shares

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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 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, 2016: (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 similar words are to Gencor Industries, Inc. and its subsidiaries.

Table of Contents**Part I. Financial Information****GENCOR INDUSTRIES, INC.****Condensed Consolidated Balance Sheets**

	June 30, 2017	September 30, 2016
	<i>(Unaudited)</i>	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 25,219,000	\$ 18,219,000
Marketable securities at fair value (cost \$87,273,000 at June 30, 2017 and \$86,203,000 at September 30, 2016)	87,132,000	85,938,000
Accounts receivable, less allowance for doubtful accounts of \$186,000 at June 30, 2017 and \$195,000 at September 30, 2016	1,383,000	1,110,000
Costs and estimated earnings in excess of billings	4,897,000	4,921,000
Inventories, net	15,321,000	11,634,000
Prepaid expenses and other current assets	1,707,000	1,598,000
Total Current Assets	135,659,000	123,420,000
Property and equipment, net	5,231,000	5,239,000
Other assets	53,000	53,000
Total Assets	\$ 140,943,000	\$ 128,712,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,246,000	\$ 1,443,000
Customer deposits	7,224,000	4,484,000
Accrued expenses and other current liabilities	3,359,000	2,264,000
Total Current Liabilities	12,829,000	8,191,000
Deferred and other income taxes	322,000	316,000
Total Liabilities	13,151,000	8,507,000
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; 12,137,829 and 12,111,079 shares issued and outstanding at June 30, 2017 and September 30, 2016, respectively	1,214,000	1,211,000
	226,000	226,000

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Class B Stock, par value \$.10 per share; 6,000,000 shares authorized; 2,263,857 shares issued and outstanding			
Capital in excess of par value		11,074,000	10,887,000
Retained earnings		115,278,000	107,881,000
Total Shareholders	Equity	127,792,000	120,205,000
Total Liabilities and Shareholders	Equity	\$ 140,943,000	\$ 128,712,000

See accompanying Notes to Condensed Consolidated Financial Statements

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

	For the Quarters Ended		For the Nine Months	
	June 30,		Ended	
	2017	2016	2017	2016
Net revenue	\$ 23,743,000	\$ 19,863,000	\$ 62,052,000	\$ 55,199,000
Costs and expenses:				
Production costs	17,053,000	14,712,000	44,555,000	41,325,000
Product engineering and development	637,000	379,000	1,523,000	1,140,000
Selling, general and administrative	2,259,000	1,979,000	6,576,000	5,954,000
	19,949,000	17,070,000	52,654,000	48,419,000
Operating income	3,794,000	2,793,000	9,398,000	6,780,000
Other income (expense), net:				
Interest and dividend income, net of fees	181,000	99,000	384,000	688,000
Net realized and unrealized gains (losses) on marketable securities	(253,000)	464,000	810,000	567,000
Other				2,000
	(72,000)	563,000	1,194,000	1,257,000
Income before income tax expense	3,722,000	3,356,000	10,592,000	8,037,000
Income tax expense	1,134,000	1,242,000	3,195,000	2,718,000
Net income	\$ 2,588,000	\$ 2,114,000	\$ 7,397,000	\$ 5,319,000
Basic Income per Common Share:				
Net income per share *	\$ 0.18	\$ 0.15	\$ 0.51	\$ 0.37
Diluted Income per Common Share:				
Net income per share *	\$ 0.18	\$ 0.15	\$ 0.50	\$ 0.37

See accompanying Notes to Condensed Consolidated Financial Statements

*Prior year adjusted for three-for-two stock split

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

	For the Nine Months Ended June 30,	
	2017	2016
Cash flows from operations:		
Net income	\$ 7,397,000	\$ 5,319,000
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Purchases of marketable securities	(413,993,000)	(335,848,000)
Proceeds from sale and maturity of marketable securities	413,491,000	334,844,000
Change in fair value of marketable securities	(692,000)	(251,000)
Deferred income taxes	6,000	796,000
Depreciation and amortization	862,000	1,050,000
Provision for doubtful accounts	65,000	55,000
Stock-based compensation	54,000	25,000
Changes in assets and liabilities:		
Accounts receivable	(338,000)	(680,000)
Costs and estimated earnings in excess of billings	24,000	(7,341,000)
Inventories	(3,687,000)	1,213,000
Prepaid expenses and other current assets	(109,000)	306,000
Accounts payable	803,000	(336,000)
Customer deposits	2,740,000	(810,000)
Accrued expenses and other current liabilities	1,095,000	1,388,000
Total adjustments	321,000	(5,589,000)
Cash flows provided by (used in) provided by operating activities	7,718,000	(270,000)
Cash flows used in investing activities:		
Capital expenditures	(854,000)	(158,000)
Cash flows used in investing activities	(854,000)	(158,000)
Cash flows from financing activities:		
Proceeds from stock option exercises	136,000	164,000
Cash flows provided by financing activities	136,000	164,000
Net increase (decrease) in cash	7,000,000	(264,000)
Cash at:		
Beginning of period	18,219,000	11,152,000

End of period	\$ 25,219,000	\$ 10,888,000
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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, 2017 are not necessarily indicative of the results that may be expected for the year ending September 30, 2017.

The accompanying condensed consolidated balance sheet at September 30, 2016 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, 2016.

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Improvements to Employee Share-Based Payment Accounting, which is a part of FASB's Simplification initiative. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment awards issued by entities to their employees, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted the provisions of ASU 2016-09 during the quarter ended March 31, 2017 with no material impact on the Company's financial position, results of operations or cash flows.

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. Changes in 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 marketable equity securities, mutual funds, exchange-traded funds, government securities, and cash and money funds 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, if any, 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, 2017:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Equities	\$ 11,037,000	\$	\$	\$ 11,037,000
Mutual Funds	6,013,000			6,013,000
Exchange-Traded Funds	1,440,000			1,440,000
Government Securities	66,090,000			66,090,000
Cash and Money Funds	2,552,000			2,552,000
Total	\$ 87,132,000	\$	\$	\$ 87,132,000

Changes in net unrealized gains and (losses) included in the consolidated statements of income for the quarter and nine months ended June 30, 2017, on trading securities still held as of June 30, 2017, were \$(341,000) and \$123,000, respectively. There were no transfers of investments between Level 1 and Level 2 during the nine months ended June 30, 2017.

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, 2016:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Equities	\$ 2,408,000	\$	\$	\$ 2,408,000
Mutual Funds	5,212,000			5,212,000
Exchange-Traded Funds	510,000			510,000
Government Securities	69,583,000			69,583,000
Cash and Money Funds	8,225,000			8,225,000
Total	\$ 85,938,000	\$	\$	\$ 85,938,000