

GENCOR INDUSTRIES INC  
Form 10-Q  
May 14, 2012  
[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 MARCH 31, 2012**

**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.**

Edgar Filing: GENCOR INDUSTRIES INC - Form 10-Q

**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 May 11, 2012 |
|--------------------------------|-----------------------------|
| Common stock, \$.10 par value  | 8,008,632 shares            |
| Class B stock, \$.10 par value | 1,509,238 shares            |

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

|  | <b>Page</b> |
|--|-------------|
| <b>Index</b>   |             |
| <b>Part I. <u>Financial Information</u></b>  |             |
| Item 1. Financial Statements   |             |
| <u>Condensed Consolidated Balance Sheets – March 31, 2012 (Unaudited) and September 30, 2011</u>                           | 3           |
| <u>Condensed Consolidated Statements of Operations – Quarters and Six Months Ended March 31, 2012 and 2011 (Unaudited)</u> | 4           |
| <u>Condensed Consolidated Statements of Cash Flows – Six Months Ended March 31, 2012 and 2011 (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>                       | 9           |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 14          |
| Item 4. <u>Controls and Procedures</u>   | 14          |
| <b>Part II. <u>Other Information</u></b>   |             |
| Item 6. <u>Exhibits</u>  | 15          |
| <b><u>Signatures</u></b>   | 16          |
| <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 used 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, 2011: (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>March 31,<br/>2012</b> | <b>September 30,<br/>2011</b> |
|---|---------------------------|-------------------------------|
|   | <i>(Unaudited)</i>        |                               |
| <b>ASSETS</b>   |                           |                               |
| Current assets:   |                           |                               |
| Cash  | \$ 13,502,000             | \$ 1,715,000                  |
| Marketable securities at fair value (cost \$76,141,000 at March 31, 2012 and \$76,275,000 at September 30, 2011)            | 76,947,000                | 72,486,000                    |
| Account receivable, less allowance for doubtful accounts of \$784,000 at March 31, 2012 and \$582,000 at September 30, 2011 | 1,535,000                 | 1,573,000                     |
| Costs and estimated earnings in excess of billings  | 379,000                   | 4,450,000                     |
| Inventories, net  | 14,657,000                | 12,878,000                    |
| Deferred income taxes   |                           | 690,000                       |
| Prepaid expenses  | 1,265,000                 | 1,632,000                     |
| <b>Total Current Assets</b>   | <b>108,285,000</b>        | <b>95,424,000</b>             |
| Property and equipment, net   | 8,570,000                 | 8,349,000                     |
| Other assets  | 99,000                    | 602,000                       |
| <b>Total Assets</b>   | <b>\$ 116,954,000</b>     | <b>\$ 104,375,000</b>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                           |                               |
| Current Liabilities:  |                           |                               |
| Accounts payable  | \$ 2,769,000              | \$ 1,978,000                  |
| Customer deposits   | 8,136,000                 | 756,000                       |
| Accrued expenses  | 3,004,000                 | 2,842,000                     |
| <b>Total Current Liabilities</b>  | <b>13,909,000</b>         | <b>5,576,000</b>              |
| Deferred and other income taxes   | 512,000                   |                               |
| <b>Total Liabilities</b>  | <b>14,421,000</b>         | <b>5,576,000</b>              |
| Commitments and contingencies   |                           |                               |
| Shareholders' equity:   |                           |                               |
| Preferred stock, par value \$.10 per share; authorized 300,000 shares; none issued  |                           |                               |
| Common stock, par value \$.10 per share; 15,000,000 shares authorized; 8,008,632 shares issued and outstanding              | 801,000                   | 801,000                       |
| Class B Stock, par value \$.10 per share; 6,000,000 shares authorized; 1,509,238 shares issued and outstanding              | 151,000                   | 151,000                       |
| Capital in excess of par value  | 9,953,000                 | 9,860,000                     |
| Retained earnings   | 91,628,000                | 87,987,000                    |
| <b>Total Shareholders' Equity</b>   | <b>102,533,000</b>        | <b>98,799,000</b>             |

Edgar Filing: GENCOR INDUSTRIES INC - Form 10-Q

|                                    |        |                |                |
|------------------------------------|--------|----------------|----------------|
| Total Liabilities and Shareholders | Equity | \$ 116,954,000 | \$ 104,375,000 |
|------------------------------------|--------|----------------|----------------|

*See accompanying Notes to Condensed Consolidated Financial Statements*

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

|  | For the Quarters Ended<br>March 31, |               | For the Six Months Ended<br>March 31, |               |
|--|-------------------------------------|---------------|---------------------------------------|---------------|
|  | 2012                                | 2011          | 2012                                  | 2011          |
| Net revenue  | \$ 19,339,000                       | \$ 16,727,000 | \$ 26,203,000                         | \$ 24,512,000 |
| Costs and expenses:  |                                     |               |                                       |               |
| Production costs   | 15,273,000                          | 14,052,000    | 21,414,000                            | 20,861,000    |
| Product engineering and development                        | 556,000                             | 534,000       | 1,095,000                             | 1,063,000     |
| Selling, general and administrative                        | 2,523,000                           | 2,294,000     | 4,320,000                             | 4,397,000     |
|  | 18,352,000                          | 16,880,000    | 26,829,000                            | 26,321,000    |
| Operating income (loss)                                    | 987,000                             | (153,000)     | (626,000)                             | (1,809,000)   |
| Other income (expenses):                                   |                                     |               |                                       |               |
| Interest and dividend income, net of fees                  | 553,000                             | 511,000       | 1,123,000                             | 904,000       |
| Net realized and unrealized gains on marketable securities | 2,611,000                           | 614,000       | 4,838,000                             | 3,368,000     |
| Other  | 20,000                              | 6,000         | 36,000                                | 25,000        |
|  | 3,184,000                           | 1,131,000     | 5,997,000                             | 4,297,000     |
| Income before income tax expense (benefit)                 | 4,171,000                           | 978,000       | 5,371,000                             | 2,488,000     |
| Income tax expense (benefit)                               | 1,405,000                           | (1,472,000)   | 1,730,000                             | (1,067,000)   |
| Net Income   | \$ 2,766,000                        | \$ 2,450,000  | \$ 3,641,000                          | \$ 3,555,000  |
| Basic Income per Common Share:                             |                                     |               |                                       |               |
| Net income per share                                       | \$ 0.29                             | \$ 0.26       | \$ 0.38                               | \$ 0.37       |
| Diluted Income per Common Share:                           |                                     |               |                                       |               |
| Net income per share                                       | \$ 0.29                             | \$ 0.26       | \$ 0.38                               | \$ 0.37       |

*See accompanying Notes to Condensed Consolidated Financial Statements*

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

|  | <b>For the Six Months Ended<br/>March 31,</b> |                     |
|--|---|---------------------|
|  | <b>2012</b>                                   | <b>2011</b>         |
| <b>Cash flows from operations:</b>   |   |                     |
| Net income   | \$ 3,641,000                                  | \$ 3,555,000        |
| <b>Adjustments to reconcile net income to cash provided by operating activities:</b> |   |                     |
| Purchases of marketable securities (including money funds)                           | (22,965,000)                                  | (45,195,000)        |
| Proceeds from sale and maturity of marketable securities                             | 23,339,000                                    | 42,706,000          |
| Change in fair value of marketable securities  | (4,835,000)                                   | (1,797,000)         |
| Deferred income taxes  | 1,699,000                                     | (2,364,000)         |
| Depreciation and amortization  | 514,000                                       | 407,000             |
| Provision for doubtful accounts  | 240,000                                       | 100,000             |
| Stock-based compensation   | 92,000  |                     |
| <b>Change in assets and liabilities:</b>   |   |                     |
| Accounts receivable  | (202,000)                                     | 291,000             |
| Costs and estimated earnings in excess of billings                                   | 4,071,000                                     | (2,139,000)         |
| Inventories  | (1,779,000)                                   | 488,000             |
| Prepaid expenses   | 367,000                                       | 544,000             |
| Accounts payable   | 791,000                                       | 2,009,000           |
| Customer deposits  | 7,380,000                                     | 4,442,000           |
| Accrued expenses and other   | 164,000                                       | 818,000             |
| <b>Total adjustments</b>   | <b>8,876,000</b>                              | <b>310,000</b>      |
| <b>Cash flows provided by operating activities</b>                                   | <b>12,517,000</b>                             | <b>3,865,000</b>    |
| <b>Cash flows used in investing activities:</b>                                      |   |                     |
| Capital expenditures   | (730,000)                                     | (851,000)           |
| <b>Cash flows used in investing activities</b>                                       | <b>(730,000)</b>                              | <b>(851,000)</b>    |
| <b>Net increase in cash</b>  | <b>11,787,000</b>                             | <b>3,014,000</b>    |
| <b>Cash at:</b>  |   |                     |
| Beginning of period  | 1,715,000                                     | 3,004,000           |
| <b>End of period</b>   | <b>\$ 13,502,000</b>                          | <b>\$ 6,018,000</b> |

*See accompanying Notes to Condensed Consolidated Financial Statements*

**Table of Contents**

**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 six months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012.

The accompanying Condensed Consolidated Balance Sheet at September 30, 2011 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, 2011.

**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 determined by using quoted closing prices in active markets is categorized as Level 1 of the fair value hierarchy. Market standard valuation methodologies used to determine fair value is categorized as Level 2 of the fair value hierarchy. Realized gains and losses on investment transactions are determined by specific identification and are recognized as incurred in the statements of operations. Net unrealized gains and losses are reported in the 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 and mutual 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 investments categorized as Level 2 of the fair value hierarchy are provided by the Company's professional investment management firm.



**Table of Contents**

The following tables set forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of March 31, 2012:

|                      | Fair Value Measurements |               |         | Total         |
|----------------------|-------------------------|---------------|---------|---------------|
|                      | Level 1                 | Level 2       | Level 3 |               |
| Equities             | \$ 17,425,000           | \$            | \$      | \$ 17,425,000 |
| Mutual Funds         | 2,505,000               |               |         | 2,505,000     |
| Corporate Bonds      |                         | 11,112,000    |         | 11,112,000    |
| Municipal Bonds      |                         | 32,151,000    |         | 32,151,000    |
| Cash and Money Funds | 13,754,000              |               |         | 13,754,000    |
| Total                | \$ 33,684,000           | \$ 43,263,000 | \$      | \$ 76,947,000 |

Net unrealized gains as of March 31, 2012 were \$806,000. Estimated interest accrued on the corporate and municipal bond portfolio was \$565,000 at March 31, 2012.

The following tables set forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of September 30, 2011:

|                      | Fair Value Measurements |               |         | Total         |
|----------------------|-------------------------|---------------|---------|---------------|
|                      | Level 1                 | Level 2       | Level 3 |               |
| Equities             | \$ 24,213,000           | \$            | \$      | \$ 24,213,000 |
| Mutual Funds         | 2,566,000               |               |         | 2,566,000     |
| Corporate Bonds      |                         | 7,845,000     |         | 7,845,000     |
| Municipal Bonds      |                         | 35,844,000    |         | 35,844,000    |
| Cash and Money Funds | 2,018,000               |               |         | 2,018,000     |
| Total                | \$ 28,797,000           | \$ 43,689,000 | \$      | \$ 72,486,000 |

Net unrealized losses as of September 30, 2011 were \$3,789,000. Estimated interest accrued on the corporate and municipal bond portfolio was \$568,000 at September 30, 2011.

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 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<sup>th</sup>, 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 March 31, 2012 and September 30, 2011 consist of the following:

|                 | March 31, 2012 | September 30, 2011 |
|-----------------|----------------|--------------------|
| Raw materials   | \$ 8,084,000   | \$ 8,846,000       |
| Work in process | 2,459,000      | 2,017,000          |
| Finished goods  | 3,956,000      | 1,726,000          |
| Used equipment  | 158,000        | 289,000            |
|                 | \$ 14,657,000  | \$ 12,878,000      |

**Note 4 Costs and Estimated Earnings in Excess of Billings**

Costs and estimated earnings in excess of billings on uncompleted contracts as of March 31, 2012 and September 30, 2011 consist of the following:

|  | March 31, 2012 | September 30, 2011 |
|--|----------------|--------------------|
| Costs incurred on uncompleted contracts            | \$ 8,118,000   | \$ 7,039,000       |
| Estimated earnings                                 | 2,382,000      | 2,059,000          |
|  | 10,500,000     | 9,098,000          |
| Billings to date                                   | 10,121,000     | 4,648,000          |
| Costs and estimated earnings in excess of billings | \$ 379,000     | \$ 4,450,000       |

**Note 5 Earnings per Share Data**

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended March 31, 2012 and 2011:

|  | Quarter Ended March 31, |              | Six Months Ended March 31, |              |
|--|-------------------------|--------------|----------------------------|--------------|
|  | 2012                    | 2011         | 2012                       | 2011         |
| Net income                                 | \$ 2,766,000            | \$ 2,450,000 | \$ 3,641,000               | \$ 3,555,000 |
| Common Shares:                             |                         |              |                            |              |
| Weighted average common shares outstanding | 9,518,000               | 9,518,000    | 9,518,000                  | 9,518,000    |
| Effect of dilutive stock options           |                         |              |                            |              |
| Diluted shares outstanding                 | 9,518,000               | 9,518,000    | 9,518,000                  | 9,518,000    |
| Basic:                                     |                         |              |                            |              |
| Net earnings per share                     | \$ 0.29                 | \$ 0.26      | \$ 0.38                    | \$ 0.37      |
| Diluted:                                   |                         |              |                            |              |
| Net earnings per share                     | \$ 0.29                 | \$ 0.26      | \$ 0.38                    | \$ 0.37      |

## Edgar Filing: GENCOR INDUSTRIES INC - Form 10-Q

The number of potentially anti-dilutive common stock equivalents (stock options) excluded from the fully diluted calculation above was 325,500 for the three and six months ended March 31, 2012 and 27,500 for the three and six months ended March 31, 2011.

### **Note 6 Income Taxes**

The primary reason for the tax benefits during the quarter and six months ended March 31, 2011, was decreases of approximately \$1.7 million in unrecognized tax benefits following the conclusion of examinations by a state taxing authority.

---

**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 May. 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.

In August 2005, the federal government passed the Safe, Accountable, Flexible and Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU). This bill appropriated a multi-year guaranteed funding of \$286.5 billion for federal highway, transit and safety programs that expired on September 30, 2009. On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA), which included approximately \$27.5 billion for highway and bridge construction activities. The ARRA and any future legislation approved by Congress could reduce infrastructure funding levels. In addition, funding restrictions can be imposed on states that do not comply with certain federal policies. On March 18, 2010, President Obama signed into law the Hiring Incentives to Restore Employment (HIRE) Act. This law extended authorization of the surface transportation programs previously funded under SAFETEA-LU through December 31, 2010 at 2009 levels. In addition, the HIRE Act authorized a one-time transfer of \$19.5 billion from the general fund to the highway trust fund related to previously foregone interest payments. On December 22, 2010, President Obama signed into law the Continuing Appropriations and Surface Transportation Extensions Act, 2011 extending funding for federal surface transportation programs authorized under SAFETEA-LU through March 4, 2011. On March 4, 2011, President Obama signed into law the Surface Transportation Extension Act of 2011 providing an extension of Federal-aid highway, transit and other programs funded out of the Highway Trust Fund through September 30, 2011. On September 17, 2011, Obama signed an eighth extension of SAFETEA-LU which authorizes funding at 2011 levels through March 31, 2012, pending enactment of a multi-year law reauthorizing such programs.

On Friday, March 30, 2012, the president signed into law the Surface Transportation Extension Act of 2012, a 90-day extension of the current federal transportation reauthorization. The measure had been passed by the U.S. Senate and the U.S. House of Representatives on March 29. The bill contains no policy changes and extends current programs and funding levels through June 30, 2012. While the Senate passed Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21), a 1.5-year, \$109 billion reauthorization bill on March 14, 2012 the House rejected it in a procedural vote on March 21, 2012. This is the ninth extension to the SAFETEA-LU, which originally expired on September, 30 2009. Although these extensions help stabilize the federal highway program, the Company believes a new multiyear highway program would have the greatest positive impact on the road construction industry and allow its customers to plan and execute longer term projects.

In January 2009, the Canadian government announced its economic action plan to stimulate economic growth which included a \$12 billion two year investment in new infrastructure including roads, bridges and other infrastructure. This infrastructure stimulus program was completed towards the end of 2011. The Company's financial performance has continued to benefit from infrastructure spend associated with this funding.

The economic downturn over the past several years and the lack of a multiyear federal highway bill have resulted in reduced purchasing within the Company's served markets and thus have had a direct impact on sales and pricing pressures on the Company's products, resulting in lower revenues and margins. The Company's typical sales of asphalt plants are in the \$2 to \$4 million range and may require the Company's customers to obtain financing. On the positive side, the reduced value of the US dollar has resulted in more interest and continued sales from international markets.

---

**Table of Contents**

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 asphalt and certain of the Company's products. The increase in oil prices over the past year has also driven up the cost of gasoline which has resulted in increased freight costs. Where possible, the Company will pass these increased freight costs onto 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. The magnitude of that impact cannot be determined.

Steel is a major component used in manufacturing the Company's equipment. During the past year the Company experienced increases in prices for the steel beam and plate used in its products. Where possible, the Company will pass on increased steel costs to its customers. However, the Company may not be able to recapture all of the increased steel costs and thus its financial results could be negatively affected.

For the long term, the Company believes the strategy of continuing to invest in product engineering and development and its focus on delivering a high-quality product and superior service will strengthen the Company's market position when demand for its products rebound. In response to the 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 forecasts. These actions included adjustments to workforce and staffing, 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 reductions and will continue scrutinizing its relationships with external suppliers to ensure the Company is achieving the highest-quality products and services at the most competitive cost.

**Results of Operations**

*Quarter Ended March 31, 2012 versus March 31, 2011*

Net revenues for the quarters ended March 31, 2012 and 2011 were \$19,339,000 and \$16,727,000, respectively, an increase of 13.5%. The increase is attributable to the timing of orders which generally were placed later in the year in fiscal 2011. The Company's operations are concentrated in the asphalt-related business and typically subject to a seasonal slow-down during the third and fourth quarters of the calendar year.

As a percent of sales, gross profit margins increased from 16.0% in the quarter ended March 31, 2011 to 21.0% in the quarter ended March 31, 2012. Gross margins improved in 2012 primarily due to increased revenues and related overhead absorption.

Product engineering and development expenses increased \$22,000 to \$556,000 in the quarter ended March 31, 2012 as compared to the quarter ended March 31, 2011. Selling, general and administrative expenses increased \$229,000 in the quarter ended March 31, 2012 compared to the quarter ended March 31, 2011 due to higher professional fees.

The Company had an operating income of \$987,000 for the quarter ended March 31, 2012 versus an operating loss of \$(153,000) for the quarter ended March 31, 2011. The improvement in operating income was primarily due to the increased revenues of \$2,612,000 and related gross margin increases.

For the quarter ended March 31, 2012, investment interest and dividend income, net of fees, from the investment portfolio was \$553,000 as compared to \$511,000 in the quarter ended March 31, 2011. The net realized and unrealized gains on marketable securities were \$2,611,000 for the quarter ended March 31, 2012 versus net realized and unrealized gains of \$614,000 for the quarter ended March 31, 2011.

The effective income tax rate for the quarter ended March 31, 2012 was 33.7% versus a benefit of 150.5% for the quarter ended March 31, 2011. The tax benefit in the quarter ended March 31, 2011 was due to decreases of approximately \$1.7 million in unrecognized tax benefits following the conclusion of examinations by a state taxing authority. The effective income tax rates for both years were also impacted by tax exempt interest income on municipal bonds as well as net unrealized gains and losses on investments.

---

**Table of Contents**

*Six Months Ended March 31, 2012 versus March 31, 2011*

Net sales for the six months ended March 31, 2012 and 2011 were \$26,203,000 and \$24,512,000, respectively, an increase of 6.5%, which was generally attributable to the timing of orders which occurred later in the year in fiscal 2011.

As a percent of sales, gross profit margins increased to 18.3% in the six months ended March 31, 2012 from 14.9% in the six months ended March 31, 2011. The improved gross margins in 2012 resulted primarily from increased revenues and related overhead absorption.

Product engineering and development expenses increased \$32,000. Selling, general and administrative expenses decreased \$77,000 in the six months ended March 31, 2012 compared to the six months ended March 31, 2011.

The Company had operating losses of \$(626,000) for the six months ended March 31, 2012 versus losses of \$(1,809,000) for the six months ended March 31, 2011. The improvement in operating results was primarily due to the increased sales and related margins.

For the six months ended March 31, 2012, investment interest and dividend income, net of fees, from the investment portfolio was \$1,123,000 as compared to \$904,000 in the 2011 comparable period. The net realized and unrealized gains on marketable securities were \$4,838,000 for the six months ended March 31, 2012 versus net realized and unrealized gains of \$3,368,000 for the six months ended March 31, 2011.

The effective income tax rate for the six months ended March 31, 2011 was a benefit of 42.9% versus expense of 32.2% for the six months ended March 31, 2012. The tax benefit in the six months ended March 31, 2011 was primarily due to decreases of approximately \$1.7 million in unrecognized tax benefits following the conclusion of examinations by a state taxing authority. The effective income tax rates in both years were also impacted by tax exempt interest income on municipal bonds as well as net unrealized gains and losses on investments.

**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 debt outstanding at March 31, 2012 or September 30, 2011. The Company has funded \$975,000 in cash deposits at insurance companies to cover related collateral needs.

As of March 31, 2012, the Company had \$13,502,000 in operating cash, and \$76,947,000 in its investment portfolio including \$17,425,000 in equities, \$2,505,000 in mutual funds, \$32,151,000 in municipal bonds, \$11,112,000 in corporate bonds and \$13,754,000 in cash and money funds (see Note 2 above). The marketable securities are invested through a professional investment advisor. The 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 equal to \$94.4 million at March 31, 2012 and \$89.8 million at September 30, 2011. For the six months ended March 31, 2012, costs and estimated earnings in excess of billings decreased as several percentage-of-completion jobs were paid for and shipped. Customer deposits increased as down payments were made in the current quarter on several large jobs. Accounts payable increased with the increased production.

Cash provided by operations during the six months ended March 31, 2012 was \$12,517,000 primarily from net income, customer deposits on new bookings and reduction of costs and estimated earnings in excess of billings as percentage-of-completion jobs were closed out. Cash flows used in investing activities during the six months ended March 31, 2012 were related to capital expenditures. There were no cash disbursements or receipts related to financing activities during the six months ended March 31, 2012.

## **Table of Contents**

### **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 reported sales, and earnings or losses 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, 2011: (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, 2011, 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 March 31, 2012 will be billed and collected within one year.

## **Table of Contents**

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

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

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

All product engineering and development costs, and selling, general and administrative expenses are charged to operations as incurred. Provision is made for any anticipated contract losses in the period that the loss becomes evident.

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

### *Investments*

The Company marks to market all trading securities and records any unrealized gains or losses as income or loss in the current 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 March 31, 2012 and September 30, 2011 the Company had no debt outstanding. The Company's marketable securities are invested primarily in stocks and corporate and municipal bonds through a professional investment advisor. Investment securities are exposed to various risks such as interest rate, market and credit. 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 Principal Financial and Accounting 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 Principal Financial and Accounting 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 Principal Financial and Accounting 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 six months ended March 31, 2012 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 President and Principal Financial and Accounting Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended |
| 32      | Certifications of Chief Executive Officer and Principal Financial and Accounting 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

May 14, 2012

/s/ Marc G. Elliott  
Marc G. Elliott  
President and Principal Financial and Accounting Officer

May 14, 2012