

GENCOR INDUSTRIES INC
Form 10-Q
February 13, 2012
[Table of Contents](#)

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 DECEMBER 31, 2011

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.

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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.

<u>Class</u>	<u>Outstanding at February 10, 2012</u>
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.****Index**

	Page
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets – December 31, 2011 (Unaudited) and September 30, 2011</u>	3
<u>Condensed Consolidated Statements of Operations – Quarters ended December 31, 2011 and 2010 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows – Quarters ended December 31, 2011 and 2010 (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
Part II. <u>Other Information</u>	
Item 6. <u>Exhibits</u>	15
<u>Signatures</u>	16
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 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**

	December 31, 2011 <i>(Unaudited)</i>	September 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,292,000	\$ 1,715,000
Marketable securities at fair value (cost \$74,491,000 at December 31, 2011 and \$76,275,000 at September 30, 2011)	73,782,000	72,486,000
Account receivable, less allowance for doubtful accounts of \$653,000 at December 31, 2011 and \$582,000 at September 30, 2011	1,246,000	1,573,000
Costs and estimated earnings in excess of billings	2,076,000	4,450,000
Inventories, net	15,524,000	12,878,000
Deferred income taxes	365,000	690,000
Prepaid expenses	1,501,000	1,632,000
Total Current Assets	98,786,000	95,424,000
Property and equipment, net of accumulated depreciation	8,111,000	8,349,000
Other assets	600,000	602,000
Total Assets	\$ 107,497,000	\$ 104,375,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Account payable	\$ 2,253,000	\$ 1,978,000
Customer deposits	3,120,000	756,000
Accrued expenses	2,403,000	2,842,000
Total Current Liabilities	7,776,000	5,576,000
Total Liabilities	7,776,000	5,576,000
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; 8,008,632 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	9,907,000	9,860,000
Retained earnings	88,862,000	87,987,000
Total Shareholders' Equity	99,721,000	98,799,000
Total Liabilities and Shareholders' Equity	\$ 107,497,000	\$ 104,375,000

See accompanying Notes to Condensed Consolidated Financial Statements

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

	For the Quarters Ended December 31,	
	2011	2010
Net revenue	\$ 6,864,000	\$ 7,785,000
Costs and expenses:		
Production costs	6,141,000	6,809,000
Product engineering and development	539,000	529,000
Selling, general and administrative	1,797,000	2,103,000
	8,477,000	9,441,000
Operating loss	(1,613,000)	(1,656,000)
Other income:		
Interest and dividend income, net of fees	570,000	609,000
Realized and unrealized gains on marketable securities	2,227,000	2,538,000
Other	16,000	19,000
	2,813,000	3,166,000
Income before income tax expense	1,200,000	1,510,000
Income tax expense	325,000	405,000
Net Income	\$ 875,000	\$ 1,105,000
Basic Income per Common Share:		
Net income per share	\$ 0.09	\$ 0.12
Diluted Income per Common Share:		
Net income per share	\$ 0.09	\$ 0.12

See accompanying Notes to Condensed Consolidated Financial Statements

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

	For the Quarter Ended December 31,	
	2011	2010
Cash flows from operations:		
Net income	\$ 875,000	\$ 1,105,000
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Purchases of marketable securities	(5,898,000)	(5,047,000)
Proceeds from sale and maturity of marketable securities	6,695,000	4,768,000
Change in fair value of marketable securities	(2,093,000)	(2,868,000)
Deferred income taxes	325,000	860,000
Depreciation and amortization	261,000	191,000
Provision for doubtful accounts	90,000	90,000
Stock-based compensation	46,000	
Change in assets and liabilities:		
Accounts receivable	237,000	403,000
Costs and estimated earnings in excess of billings	2,374,000	(1,899,000)
Inventories	(2,646,000)	(681,000)
Prepaid expenses	131,000	37,000
Account payable	275,000	712,000
Customer deposits	2,364,000	1,419,000
Accrued expenses and other	(438,000)	(90,000)
Total adjustments	1,723,000	(2,105,000)
Cash flows provided (used) by operating activities	2,598,000	(1,000,000)
Cash flows used in investing activities:		
Capital expenditures	(21,000)	(135,000)
Cash flows used in investing activities	(21,000)	(135,000)
Net increase (decrease) in cash and cash equivalents	2,577,000	(1,135,000)
Cash and cash equivalents at:		
Beginning of period	1,715,000	3,004,000
End of period	\$ 4,292,000	\$ 1,869,000

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

GENCOR INDUSTRIES, INC.

Notes to Condensed Consolidated Financial Statements

For the Quarter Ended December 31, 2011

(Unaudited)

Note 1 Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the quarter ended December 31, 2011 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 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 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 the Level 2 investments 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 December 31, 2011:

	\$00,000,000	\$00,000,000		\$00,000,000
	Level 1	Fair Value Measurements		Total
		Level 2	Level 3	
Equities	\$ 25,630,000	\$	\$	\$ 25,630,000
Mutual Funds	2,903,000			2,903,000
Corporate Bonds		10,254,000		10,254,000
Municipal Bonds		33,282,000		33,282,000
Cash and Money Funds	1,713,000			1,713,000
Total	\$ 30,246,000	\$ 43,536,000	\$	\$ 73,782,000

Net unrealized losses as of December 31, 2011 were \$709,000. Estimated interest accrued on the corporate and municipal bond portfolio was \$441,000 at December 31, 2011.

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:

	\$00,000,000	\$00,000,000		\$00,000,000
	Level 1	Fair Value Measurements		Total
		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 30th, the Company's fiscal year end. If significant known changes in trends, technology or other specific circumstances that warrant consideration occur during the year, then the impact on obsolescence is considered at that time.

Table of Contents

Net inventories at December 31, 2011 and September 30, 2011 consist of the following:

	December 31, 2011	September 30, 2011
Raw materials	\$ 9,374,000	\$ 8,846,000
Work in process	1,557,000	2,017,000
Finished goods	4,330,000	1,726,000
Used equipment	263,000	289,000
	\$ 15,524,000	\$ 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 December 31, 2011 and September 30, 2011 consist of the following:

	December 31, 2011	September 30, 2011
Costs incurred on uncompleted contracts	\$ 6,946,000	\$ 7,039,000
Estimated earnings	2,259,000	2,059,000
	9,205,000	9,098,000
Billings to date	7,129,000	4,648,000
Costs and estimated earnings in excess of billings	\$ 2,076,000	\$ 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 ended December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Net income	\$ 875,000	\$ 1,105,000
Common Shares:		
Weighted average common shares outstanding	9,518,000	9,518,000
Effect of dilutive stock options		
Diluted shares outstanding	9,518,000	9,518,000
Basic:		
Net income per share	\$ 0.09	\$ 0.12
Diluted:		
Net income per share	\$ 0.09	\$ 0.12

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. 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. The Company's financial performance over the past two years has benefited from programs 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 pricing 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.

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.

Table of Contents

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 2011 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 December 31, 2011 versus December 31, 2010

Net revenues for the quarters ended December 31, 2011 and December 31, 2010 were \$6,864,000 and \$7,785,000, respectively. Revenues were down from prior year as bookings in the current period were placed later in the quarter as compared to 2010. 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.

As a percent of sales, gross profit margins decreased from 12.5% in the quarter ended December 30, 2010 to 10.5% in the quarter ended December 30, 2011. Gross margins decreased in 2011 due to the reduced revenues and absorption related to the decrease in production volumes.

Product engineering and development expenses increased \$10,000 in the quarter ended December 31, 2011 as compared to the quarter ended December 31, 2010. Selling, general and administrative expenses decreased \$306,000 in the quarter ended December 31, 2011 compared to the quarter ended December 31, 2010 due primarily to cost cutting measures implemented in prior quarters.

The Company had an operating loss of \$1,613,000 for the quarter ended December 31, 2011 versus an operating loss of \$1,656,000 for the quarter ended December 31, 2010. The reduced operating loss was primarily due to the lower selling, general and administrative expenses.

For the quarter ended December 31, 2011, net investment interest and dividend income, net of fees, from the investment portfolio was \$570,000 as compared to \$609,000 in the quarter ended December 31, 2010. The net realized and unrealized gains on marketable securities were \$2,227,000 for the quarter ended December 31, 2011 versus net realized and unrealized gains of \$2,538,000 for the quarter ended December 31, 2010.

The effective income tax rate for the quarters ended December 31, 2011 and December 31, 2010 was 27.1% and 26.8%, respectively. The tax rate in both quarters was impacted by the operating losses along with the tax exempt interest income.

Net income for the quarter ended December 31, 2011 was \$875,000 or \$.09 diluted earnings per share versus \$1,105,000 or \$.12 diluted earnings per share for the quarter ended December 31, 2010.

Table of Contents

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

As of December 31, 2011, the Company had \$4,292,000 in cash and cash equivalents, and \$73,782,000 in marketable securities. 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 \$91.0 million at December 31, 2011 and \$89.8 million at September 30, 2011. For the quarter ended December 31, 2011, inventory and customer deposits increased as the Company received orders for several asphalt plants during the quarter ended December 31, 2011 and began manufacturing for delivery during the first and second quarters of calendar 2012. Costs and estimated earnings in excess of billings was down due to the timing of production and revenue recognition for projects under the percentage-of-completion contracts which were booked late in the current quarter as compared to projects in progress at September 30, 2011. Accounts payable increased due to an increase in inventories.

Cash provided by operations during the quarter ended December 31, 2011 was \$2,597,000 primarily from net income, customer deposits on new bookings and reduction of costs and estimated earnings in excess of billings. Cash flows used in investing activities during the quarter ended December 31, 2011 were related to capital expenditures. There were no cash disbursements or receipts related to financing activities during the quarter ended December 31, 2011.

Seasonality

The Company's operations are concentrated in the asphalt-related business and are subject to a seasonal slow-down during the third and fourth quarters of the calendar year. This slow-down often results in lower reported sales and earnings during the first and fourth quarters of each fiscal year ended September 30.

Forward-Looking Information

This Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which represent the Company's expectations and beliefs, including, but not limited to, statements concerning gross margins, sales of the Company's products and future financing plans. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond the Company's control. Actual results may differ materially depending on a variety of important factors, including the financial condition of the Company's customers, changes in the economic and competitive environments and demand for the Company's products.

For information concerning these factors and related matters, see the following sections of the Company's Annual Report on Form 10-K for the year ended September 30, 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

Table of Contents

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 December 31, 2011 will be billed and collected within one year.

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

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

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

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

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

Investments

The Company marks to market all trading securities and records any unrealized gains or losses as income or loss in the current period.

Table of Contents

Long Lived Asset Impairment

Property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess over its fair value of the asset's carrying value. Fair value is generally determined using a discounted cash flow analysis.

Off-Balance Sheet Arrangements

None

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company operates manufacturing facilities and sales offices principally located in the United States. The Company is subject to business risks inherent in non-U.S. activities, including political and economic uncertainty, import and export limitations, and market risk related to changes in interest rates and foreign currency exchange rates. The Company may use derivative financial instruments consisting primarily of interest rate hedge agreements to manage exposures to interest rate changes. The Company's objective in managing its exposure to changes in interest rates on any future variable rate debt is to limit the impact on earnings and cash flow and reduce overall borrowing costs.

At December 31, 2011 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 Acting Chief Financial Officer concluded that, as of the end of the period covered by this Report, the Company's disclosure controls and procedures are effective.

Because of inherent limitations, the Company's disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of such disclosure controls and procedures are met and no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company has been detected.

Changes in Internal Control over Financial Reporting

The Company's management, including the Chief Executive Officer and 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 ended December 31, 2011 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

February 13, 2012

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

February 13, 2012