

GENCOR INDUSTRIES INC  
Form 10-Q  
May 13, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED MARCH 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.

Class	Outstanding at May 13, 2011
Common stock, \$.10 par value	8,008,632 shares
Class B stock, \$.10 par value	1,509,238 shares

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<b><u>Introductory Note: Caution Concerning Forward-Looking Statements</u></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 in 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, 2010: (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**

	March 31,	September 30,
	2011 <i>(Unaudited)</i>	2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,018,000	\$ 3,004,000
Marketable securities at fair value (cost \$77,118,000 at March 31, 2011 and \$69,501,000 at September 30, 2010)	77,613,000	73,327,000
Account receivable, less allowance for doubtful accounts of \$1,049,000 at March 31, 2011 and \$1,803,000 at September 30, 2010	1,589,000	1,979,000
Costs and estimated earnings in excess of billings	2,719,000	580,000
Inventories, net	16,853,000	17,341,000
Deferred income taxes	1,301,000	660,000
Prepaid expenses	1,661,000	2,205,000
 Total Current Assets	 107,754,000	 99,096,000
Property and equipment, net	8,217,000	7,773,000
Other assets	353,000	358,000
 Total Assets	 \$ 116,324,000	 \$ 107,227,000
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 3,382,000	\$ 1,373,000
Customer deposits	5,920,000	1,478,000
Accrued expenses	4,136,000	3,323,000
 Total Current Liabilities	 13,438,000	 6,174,000
 Deferred and other income taxes	 802,000	 2,525,000
 Total Liabilities	 14,240,000	 8,699,000
 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; 8,103,632 shares issued and 8,008,632 shares outstanding at March 31, 2011, and at September 30, 2010	810,000	810,000
Class B Stock, par value \$.10 per share; 6,000,000 shares authorized; 1,509,238 shares issued and outstanding	151,000	151,000
Capital in excess of par value	10,542,000	10,542,000
Company shares held in treasury, at cost; 95,000 shares	(738,000)	(738,000)
Retained earnings	91,319,000	87,763,000

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Total Shareholders' Equity	102,084,000	98,528,000
Total Liabilities and Shareholders' Equity	\$ 116,324,000	\$ 107,227,000

*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 March 31,		For the Six Months Ended March 31,	
	2011	2010	2011	2010
Net revenue	\$ 16,727,000	\$ 24,042,000	\$ 24,512,000	\$ 35,112,000
Costs and expenses:				
Production costs	14,052,000	17,845,000	20,861,000	27,288,000
Product engineering and development	534,000	765,000	1,063,000	1,303,000
Selling, general and administrative	2,294,000	2,698,000	4,397,000	5,138,000
	16,880,000	21,308,000	26,321,000	33,729,000
Operating income (loss)	(153,000)	2,734,000	(1,809,000)	1,383,000
Other income (expenses):				
Interest and dividend income, net of fees	511,000	582,000	904,000	1,217,000
Income from investees				163,000
Net realized and unrealized gains on marketable securities	614,000	17,000	3,368,000	185,000
Other	6,000	(5,000)	25,000	24,000
	1,131,000	594,000	4,297,000	1,589,000
Income before income tax expense	978,000	3,328,000	2,488,000	2,972,000
Income tax expense (benefit)	(1,472,000)	632,000	(1,067,000)	500,000
Net Income	\$ 2,450,000	\$ 2,696,000	\$ 3,555,000	\$ 2,472,000
Basic Income per Common Share:				
Net income per share	\$ 0.26	\$ 0.28	\$ 0.37	\$ 0.26
Diluted Income per Common Share:				
Net income per share	\$ 0.26	\$ 0.28	\$ 0.37	\$ 0.26

*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 March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operations:</b>		
Net income	\$ 3,555,000	\$ 2,472,000
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>		
Purchases of marketable securities (including money funds)	(45,195,000)	(37,502,000)
Proceeds from sale and maturity of marketable securities	42,706,000	36,444,000
Change in fair value of marketable securities	(1,797,000)	(186,000)
Deferred income taxes	(2,364,000)	(1,072,000)
Depreciation and amortization	407,000	461,000
Income from investees		(163,000)
Provision for doubtful accounts	100,000	240,000
<b>Change in assets and liabilities:</b>		
Accounts receivable	291,000	422,000
Costs and estimated earnings in excess of billings	(2,139,000)	(2,068,000)
Inventories	488,000	1,777,000
Prepaid expenses	544,000	(161,000)
Accounts payable	2,009,000	2,896,000
Customer deposits	4,442,000	1,479,000
Accrued expenses and other	818,000	2,495,000
<b>Total adjustments</b>	<b>310,000</b>	<b>5,062,000</b>
<b>Cash flows provided by operating activities</b>	<b>3,865,000</b>	<b>7,534,000</b>
<b>Cash flows provided (used) by investing activities:</b>		
Distributions from unconsolidated investees		163,000
Capital expenditures	(851,000)	(113,000)
<b>Cash flows provided (used) by investing activities</b>	<b>(851,000)</b>	<b>50,000</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,014,000</b>	<b>7,584,000</b>
<b>Cash and cash equivalents at:</b>		
Beginning of period	3,004,000	3,677,000
End of period	\$ 6,018,000	\$ 11,261,000

*See accompanying Notes to Condensed Consolidated Financial Statements*

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**GENCOR INDUSTRIES, INC.**

**Notes to Condensed Consolidated Financial Statements**

*(Unaudited)*

**Note 1 - Basis of Presentation**

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included in the interim financial information. Operating results for the quarter and six months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011.

The accompanying Condensed Consolidated Balance Sheet at September 30, 2010 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, 2010.

*Reclassifications* - Certain reclassifications have been made to the Consolidated Financial Statements. To maintain comparability among the periods presented, the Company has revised the presentation of certain prior period amounts reported within the Consolidated Financial Statements. These reclassifications had no impact on previously reported net income.

**Note 2 - Marketable Securities**

Marketable securities are categorized as trading securities 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 (see Note 3 below). 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 and represent the change in the fair value of investment holdings during the period.

**Note 3 - 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 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 will also 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).



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The following table sets forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of March 31, 2011:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 7,165,000	\$	\$	\$ 7,165,000
Corporate Bonds		7,536,000		7,536,000
Municipal Bonds		30,166,000		30,166,000
Cash & Money Funds	32,746,000			32,746,000
<b>Total</b>	<b>\$ 39,911,000</b>	<b>\$ 37,702,000</b>	<b>\$</b>	<b>\$ 77,613,000</b>

Unrealized gains as of March 31, 2011 were \$495,000. Estimated interest accrued on the corporate and municipal bond portfolio was \$498,000 at March 31, 2011.

The following table sets forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of September 30, 2010. The Company has revised its assessment of the fair value hierarchy level for which its investment in bonds are classified from Level 1 to Level 2. The accompanying table has been adjusted to reflect this reassessment:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 28,829,000	\$	\$	\$ 28,829,000
Corporate Bonds		7,677,000		7,677,000
Municipal Bonds		35,522,000		35,552,000
Cash & Money Funds	1,269,000			1,269,000
<b>Total</b>	<b>\$ 30,098,000</b>	<b>\$ 43,199,000</b>	<b>\$</b>	<b>\$ 73,327,000</b>

Unrealized gains as of September 30, 2010 were \$3,238,000. Estimated interest accrued on the corporate and municipal bond portfolio was \$588,000 at September 30, 2010.

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 4 - Inventories**

Net inventories at March 31, 2011 and September 30, 2010 consist of the following:

	March 31, 2011	September 30, 2010
Raw materials	\$ 10,761,000	\$ 11,349,000
Work in process	523,000	1,343,000
Finished goods	5,075,000	4,068,000
Used equipment	494,000	581,000
<b>Total</b>	<b>\$ 16,853,000</b>	<b>\$ 17,341,000</b>

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

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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 the lower of trade-in value or estimated net realizable value. Unless specific circumstances warrant different treatment regarding inventory obsolescence, the cost basis of inventories three to four years old are reduced by 50% while the cost basis of inventories four to five years old are reduced by 75% and the cost basis of inventories greater than five years old are reduced to zero. Inventory is typically reviewed for obsolescence on an annual basis computed as of September 30<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****Note 5 - Costs and Estimated Earnings in Excess of Billings**

Costs and estimated earnings in excess of billings on uncompleted contracts as of March 31, 2011 and September 30, 2010 consist of the following:

	March 31, 2011	September 30, 2010
Costs incurred on uncompleted contracts	\$ 9,872,000	\$ 357,000
Estimated earnings	2,206,000	387,000
	12,078,000	744,000
Billings to date	9,359,000	164,000
Costs and estimated earnings in excess of billings	\$ 2,719,000	\$ 580,000

**Note 6 - 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, 2011 and 2010:

	Quarter Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Net income	\$ 2,450,000	\$ 2,696,000	\$ 3,555,000	\$ 2,472,000
Common Shares:				
Weighted average common shares outstanding	9,518,000	9,613,000	9,518,000	9,613,000
Effect of dilutive stock options				
Diluted shares outstanding	9,518,000	9,613,000	9,518,000	9,613,000
Basic:				
Net earnings per share	\$ 0.26	\$ 0.28	\$ 0.37	\$ 0.26
Diluted:				
Net earnings per share	\$ 0.26	\$ 0.28	\$ 0.37	\$ 0.26

**Note 7 - 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.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

Gencor Industries, Inc., (the Company) is a leading manufacturer of heavy machinery used in the production of highway construction materials, synthetic fuels, and environmental control equipment. The Company's core products include asphalt plants, combustion systems and fluid heat transfer systems. The Company's products are manufactured in two facilities in the United States.

Because the Company's products are sold primarily to the highway construction industry, the business is seasonal in nature. Traditionally, the Company's customers do not purchase new equipment for shipment during the summer and fall months to avoid disrupting their peak season for highway construction and repair work. The majority of orders for the Company's products are thus received between October and February, with a significant volume of shipments occurring prior to 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 pending enactment of a multiyear law reauthorizing such programs. This is the seventh extension of SAFETEA-LU, which expired September 30, 2009. The extension authorizes funding for surface transportation programs at fiscal year 2010 levels through September 30, 2011. Although this helped 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. The Company believes that its customers are waiting on the states to move forward with potential projects as their purchasing decisions are significantly influenced by the federal government's legislation on federal road building funding. The Company believes the new funding, although limited by the current federal budget crisis, will have a positive impact on the Company's financial performance. The magnitude of that improvement cannot be determined.

The recent economic downturn 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 several months 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 which could have a negative impact on the Company's financial performance. The magnitude of that impact cannot be determined.

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Steel is a major component used in manufacturing the Company's equipment. During the first six months of fiscal 2011, the Company has experienced increases in prices for the steel beam and plate used in its products. In the current economy and competitive environment, the Company does not expect to be able to raise prices to cover the current and possible future steel cost increases in the current year. Thus, 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, 2011 versus March 31, 2010*

Net revenues for the quarters ended March 31, 2011 and 2010 were \$16,727,000 and \$24,042,000, respectively. During the first quarter ended December 31, 2010, the Company noted that the historical timing of asphalt equipment orders had been pushed back as its customers awaited the outcome of the mid-term elections. This impacted the Company's production schedule and resulted in lower revenues in the first and second quarters of fiscal 2011 as compared to fiscal 2010. 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. However, order input has picked up in 2011 and revenues for the third fiscal quarter ended June 30, 2011 are expected to be improved over the second quarter of fiscal 2011 and the third quarter of fiscal 2010.

As a percent of sales, gross profit margins decreased from 25.8% in the quarter ended March 31, 2010 to 16.0% in the quarter ended March 31, 2011. Gross margins decreased in 2011 primarily due to reduced revenues and related overhead absorption and increased manufacturing costs related to the increased costs of steel.

Product engineering and development expenses decreased \$231,000 in the quarter ended March 31, 2011 as compared to the quarter ended March 31, 2010 as engineering costs related to specific R&D projects were reduced. Selling, general and administrative expenses decreased \$404,000 in the quarter ended March 31, 2011 compared to the quarter ended March 31, 2010 due to reduced headcount and lower commission expenses related to decreased revenues.

The Company had an operating loss of \$(153,000) for the quarter ended March 31, 2011 versus operating income of \$2,734,000 for the quarter ended March 31, 2010. The decrease in operating income was primarily due to the reduced revenues of \$7,315,000 and decrease in gross margin percentage partially offset by lower product engineering and selling, general and administrative expenses.

For the quarter ended March 31, 2011, investment interest and dividend income, net of fees, from the investment portfolio was \$511,000 as compared to \$582,000 in the quarter ended March 31, 2010. The net realized and unrealized gains on marketable securities were \$614,000 for the quarter ended March 31, 2011 versus net realized and unrealized gains of \$17,000 for the quarter ended March 31, 2010.

The effective income tax rate for the quarter ended March 31, 2011 was a benefit of 150.5% versus expense of 19.0% for the quarter ended March 31, 2010. 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 rate was also impacted by tax exempt interest income on municipal bonds in both years, as well as net unrealized gains and losses on investments in 2010 and net realized and unrealized gains and losses in 2011.

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*Six Months Ended March 31, 2011 versus March 31, 2010*

Net sales for the six months ended March 31, 2011 and 2010 were \$24,512,000 and \$35,112,000, respectively. During the first quarter ended December 31, 2010, the Company noted that it believes the historical timing of asphalt equipment orders had been pushed back as its customers awaited the outcome of the mid-term elections. This impacted the Company's production schedule and resulted in lower revenues in the first and second quarters of fiscal 2011 as compared to fiscal 2010.

As a percent of sales, gross profit margins decreased from 22.3% in the six months ended March 31, 2010 to 14.9% in the six months ended March 31, 2011. Gross margins decreased in 2011 primarily due to reduced revenues and related overhead absorption, and increased manufacturing costs related to the increased costs of steel.

Product engineering and development expenses decreased \$240,000 as engineering costs related to specific R&D projects were reduced. Selling, general and administrative expenses decreased \$741,000 in the six months ended March 31, 2011 compared to the six months ended March 31, 2010. Reduced headcount and lower commission expenses related to decreased revenues were the primary reasons for the decrease.

The Company had operating income of \$1,383,000 for the six months ended March 31, 2010 versus losses of \$(1,809,000) for the six months ended March 31, 2011 on \$10,600,000 lower sales.

For the six months ended March 31, 2011, investment interest and dividend income, net of fees, from the investment portfolio was \$904,000 as compared to \$1,217,000 in the 2010 comparable period. The net realized and unrealized gains on marketable securities were \$3,368,000 for the six months ended March 31, 2011 versus net realized and unrealized gains of \$185,000 for the six months ended March 31, 2010.

The effective income tax rate for the six months ended March 31, 2011 was a benefit of 42.9% versus expense of 16.8% for the six months ended March 31, 2010. The tax benefit in the six months 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 rate was also impacted by tax exempt interest income on municipal bonds in both years, as well as net unrealized gains and losses on investments in 2010 and net realized gains and losses in 2011.

**Liquidity and Capital Resources**

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

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, 2011 or September 30, 2010. In March 2010 the Company replaced its outstanding letters of credit by funding \$975,000 in cash deposits at insurance companies to cover related collateral needs.

As of March 31, 2011, the Company had \$6,018,000 in cash and cash equivalents, and \$77,613,000 in the investment portfolio, including \$32,746,000 in cash and money funds. 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 \$94.3 million at March 31, 2011 and \$92.9 million at September 30, 2010. For the six months ended March 31, 2011, costs and estimated earnings in excess of billings and customer deposits increased as the Company received orders for several asphalt plants during the quarter ended March 31, 2011 and began manufacturing for delivery during the second and third quarters of calendar 2011. Accounts payable increased with the increased production.

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Cash provided by operations during the six months ended March 31, 2011 was \$3,865,000. Cash flows used in investing activities during the six months ended March 31, 2011 of \$851,000 were related to capital expenditures. These capital expenditures were primarily for building and manufacturing equipment improvements. There were no cash flows related to financing activities during the six months ended March 31, 2011.

### 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, 2010: (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, 2010, 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 and unpredictable. 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, 2011, will be billed and collected within one year.

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

Equipment and parts sales and shipping revenues, net of any discounts and return allowances, are recorded when the products are shipped and title passes to the customer. 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



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### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company operates manufacturing facilities and sales offices principally located in the United States. The Company is subject to business risks inherent in non-U.S. activities, including political and economic uncertainty, import and export limitations, and market risk related to changes in interest rates and foreign currency exchange rates. The Company may use derivative financial instruments consisting primarily of interest rate hedge agreements to manage 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, 2011 and September 30, 2010 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 certain investment securities and the level of uncertainty related to changes in the value of 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 Exchange Act 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, 2011 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**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.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

GENCOR INDUSTRIES, INC.

/s/ E. J. Elliott  
E. J. Elliott  
Chairman and Chief Executive Officer

May 13, 2011

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

May 13, 2011