

GENCOR INDUSTRIES INC  
Form 10-Q  
August 13, 2010  
[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 JUNE 30, 2010**

**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

<b>Delaware</b> (State or other jurisdiction of  incorporated or organization)	<b>59-0933147</b> (I.R.S. Employer  Identification No.)
<b>5201 North Orange Blossom Trail, Orlando, Florida</b> (Address of principal executive offices)	<b>32810</b> (Zip Code)
<b>(407) 290-6000</b>  (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 <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company <input checked="" type="checkbox"/>

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 August 12, 2010
Common stock, \$.10 par value	7,984,872 shares
Class B stock, \$.10 par value	1,532,998 shares

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

Index	Page
<b>Part I. Financial Information</b>	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets – June 30, 2010 (Unaudited) and September 30, 2009</u>	3
<u>Condensed Consolidated Statements of Operations – Quarters and Nine Months Ended June 30, 2010 and 2009 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended June 30, 2010 and 2009 (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>	10
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	15
Item 4. <u>Controls and Procedures</u>	15
<b>Part II. Other Information</b>	
Item 6. <u>Exhibits</u>	16
<b><u>Signatures</u></b>	17
<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 in this Report 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, 2009: (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***(In thousands except per share data)*

	<b>June 30</b>	<b>September 30</b>
	<b>2010</b>	<b>2009</b>
	<i>(Unaudited)</i>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,456	\$ 3,677
Marketable securities at fair value (cost \$69,189 at June 30, 2010 and \$56,651 at September 30, 2009)	68,953	57,530
Account receivable, less allowance for doubtful accounts of \$2,946 at June 30, 2010 and \$2,458 at September 30, 2009	3,625	5,681
Costs and estimated earnings in excess of billings	427	4,530
Inventories, net	18,478	22,240
Prepaid expenses	1,706	1,554
<b>Total Current Assets</b>	<b>95,645</b>	<b>95,212</b>
Property and equipment, net	7,635	8,207
Other assets	360	444
<b>Total Assets</b>	<b>\$ 103,640</b>	<b>\$ 103,863</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Account payable	\$ 1,618	\$ 2,342
Customer deposits	899	786
Deferred income taxes	1,007	1,144
Accrued expenses	3,661	2,579
<b>Total Current Liabilities</b>	<b>7,185</b>	<b>6,851</b>
Deferred income taxes		715
<b>Total Liabilities</b>	<b>7,185</b>	<b>7,566</b>
Commitments and contingencies		
Shareholder's equity:		
Preferred stock, par value \$.10 per share; authorized 300 shares, none issued		
Common stock, par value \$.10 per share; 15,000 shares authorized; 8,080 shares issued and 7,985 shares outstanding at June 30, 2010, 8,080 shares issued and outstanding at September 30, 2009	808	808
Class B Stock, par value \$.10 per share; 6,000 shares authorized; 1,533 shares issued and outstanding	153	153
Capital in excess of par value	10,542	10,542
Company shares held in treasury, at cost; 95 shares	(738)	
Retained earnings	85,690	84,794

Edgar Filing: GENCOR INDUSTRIES INC - Form 10-Q

Total Shareholders' Equity	96,455	96,297
Total Liabilities and Shareholders' Equity	\$ 103,640	\$ 103,863

*See accompanying Notes to Condensed Consolidated Financial Statements*

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

(Unaudited)

*(In thousands except per share data)*

	For the Quarters		For the Nine Months Ended	
	Ended June 30, 2010	2009	June 30, 2010	2009
Net revenue	\$ 12,684	\$ 11,674	\$ 47,796	\$ 46,350
Costs and expenses:				
Production costs	11,176	9,724	38,464	37,205
Product engineering and development	607	538	1,910	1,747
Selling, general and administrative	2,419	2,024	7,557	7,635
Loss on sale of assets		560		560
	14,202	12,846	47,931	47,147
Operating loss	(1,518)	(1,172)	(135)	(797)
Other income (expenses):				
Interest and dividend income, net of fees	695	473	1,912	1,525
Interest expense		(18)		(50)
Income from investees			163	48
Realized and unrealized gains (losses) on marketable securities	(2,058)	(289)	(1,873)	(2,781)
Other	754	105	778	73
	(609)	271	980	(1,185)
Income (loss) before income taxes (benefit)	(2,127)	(901)	845	(1,982)
Income taxes (benefit)	(551)	(173)	(51)	(582)
Net income (loss)	\$ (1,576)	\$ (728)	\$ 896	\$ (1,400)
Basic income (loss) per common share:				
Net income (loss) per share	\$ (0.16)	\$ (0.08)	\$ 0.09	\$ (0.15)
Diluted income (loss) per common share:				
Net income (loss) per share	\$ (0.16)	\$ (0.08)	\$ 0.09	\$ (0.15)

*See accompanying Notes to Condensed Consolidated Financial Statements*

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

(Unaudited)

*(In thousands)*

	<b>For the Nine Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operations:</b>		
Net income (loss)	\$ 896	\$ (1,400)
<b>Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:</b>		
Purchases of marketable securities	(70,910)	(47,213)
Proceeds from sale and maturity of marketable securities	57,802	39,709
Change in fair value of marketable securities	1,744	2,792
Deferred income taxes	(852)	
Depreciation and amortization	671	680
Income from investees	(163)	(48)
Provision for doubtful accounts	570	350
Loss on sale of assets		560
Gain on shareholder legal settlement	(738)	
<b>Change in assets and liabilities:</b>		
Accounts receivable	1,495	2,039
Costs and estimated earnings in excess of billings	4,103	6,728
Inventories	3,825	(152)
Prepaid expenses	(152)	2
Account payable	(724)	(2,021)
Customer deposits	113	(829)
Accrued expenses and other	1,109	(606)
<b>Total adjustments</b>	<b>(2,107)</b>	<b>1,991</b>
Cash flows (used in) provided by operating activities	(1,211)	591
<b>Cash flows provided (used) by investing activities:</b>		
Distributions from unconsolidated investees	163	48
Capital expenditures	(173)	(208)
Proceeds from sale of UK operations, net of cash disposed		(345)
Cash flows (used in) investing activities	(10)	(505)
Effect of exchange rate changes on cash and cash equivalents		(333)
Net decrease in cash and cash equivalents	(1,221)	(247)
<b>Cash and cash equivalents at:</b>		
Beginning of period	3,677	4,068
End of period	\$ 2,456	\$ 3,821

*See accompanying Notes to Condensed Consolidated Financial Statements*





**Table of Contents**

**GENCOR INDUSTRIES, INC.**

**Notes to Condensed Consolidated Financial Statements**

(Unaudited)

*(All amounts in thousands, except per share data)*

**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 and nine months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2010.

The accompanying Condensed Consolidated Balance Sheet at September 30, 2009 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, 2009.

**Note 2 Legal Settlement**

During June 2010, the Company was the recipient of ninety-five thousand shares of Gencor common stock as a result of a settlement and release agreement on a lawsuit against Gencor shareholders related to alleged short-swing profits arising from purchases and sales of Gencor common stock by the defendants to the suit. The parties to the suit entered into the agreement for the sole purpose of resolving contested claims and disputes and avoiding the substantial costs associated with litigating the claims and disputes. No wrongdoing or liability was admitted to by the defendants. Other non-operating income includes \$738 related to the market value based on closing bid price of the Gencor common stock upon receipt. The market value of the shares upon receipt is included in treasury stock in the accompanying condensed consolidated balance sheet as of June 30, 2010.

**Note 3 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. 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. At June 30, 2010, marketable securities consisted of \$42,457 in corporate and municipal bonds, \$25,207 in equity stocks and \$1,289 in cash equivalents, and are included in the accompanying Condensed Consolidated Balance Sheets. At September 30, 2009, marketable securities consisted of \$49,432 in corporate and municipal bonds, \$7,148 in equity stocks and \$950 in cash equivalents.

**Note 4 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.

**Table of Contents**

If available, quoted market prices are used to value investments. Municipal bonds are valued at the closing price reported by the most active market on which the individual securities are traded (Level 1).

The following tables set forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of June 30, 2010:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 25,207	\$	\$	\$ 25,207
Corporate & Municipal Bonds	42,457			42,457
Cash Equivalents	1,289			1,289
	\$ 68,953	\$	\$	\$ 68,953

The following tables set forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of September 30, 2009:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 7,148	\$	\$	\$ 7,148
Corporate & Municipal Bonds	49,432			49,432
Cash Equivalents	950			950
	\$ 57,530	\$	\$	\$ 57,530

**Note 5 Inventories**

The components of inventory consist of the following:

	June 30, 2010	September 30, 2009
Raw materials	\$ 12,517	\$ 13,063
Work in process	758	2,829
Finished goods	4,864	5,858
Used equipment	339	490
	\$ 18,478	\$ 22,240

**Table of Contents****Note 6 Costs and Estimated Earnings in Excess of Billings**

The components of costs and estimated earnings in excess of billings on uncompleted contracts include the following:

	June 30, 2010	September 30, 2009
Costs incurred on uncompleted contracts	\$ 5,855	\$ 7,316
Estimated earnings	1,818	1,839
	7,673	9,155
Billings to date	7,246	4,625
	\$ 427	\$ 4,530

**Note 7 Earnings per Share Data**

The following table sets forth the computation of basic and diluted earnings per share for the quarters and nine month periods ended June 30, 2010 and 2009:

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss)	\$ (1,576)	\$ (728)	\$ 896	\$ (1,400)
Common Shares:				
Weighted average common shares outstanding	9,581	9,613	9,602	9,613
Effect of dilutive stock options				
Diluted shares outstanding	9,581	9,613	9,602	9,613
Basic:				
Net income (loss) per share	\$ (0.16)	\$ (0.08)	\$ 0.09	\$ (0.15)
Diluted:				
Net income (loss) per share	\$ (0.16)	\$ (0.08)	\$ 0.09	\$ (0.15)

**Note 8 Comprehensive Income**

The total comprehensive income (loss) for the quarter and nine month period ended June 30, 2010 were \$(1,576) and \$896, respectively. The total comprehensive loss for the quarter and nine month period ended June 30, 2009 was (\$570) and (\$1,529), respectively. Total comprehensive loss for the fiscal 2009 periods differs from net loss due to gains and losses resulting from foreign currency translation. Due to the disposal of its foreign operations in June 2009, the Accumulated Other Comprehensive Income was reduced to zero during 2009.

**Note 9 Income from Investees**

The Company owns a 45% interest in Carbontronics LLC and a 25% interest in Carbontronics Fuels LLC and Carbontronics II, LLC ( Investees ). These interests were earned as part of value of risk on contracts to build four synthetic fuel production plants during 1998. The Company has no basis in these equity investments or requirement to provide future funding. The operations of Carbontronics LLC consist of the receipt of contingent payments from the sales of the plants and the distribution thereof to its members. Carbontronics LLC has no other



**Table of Contents**

significant operations or assets. The operations of Carbontronics II, LLC consist of the receipt of royalty payments from the plants and the distribution thereof to its members. Carbontronics II, LLC has no other significant operations or assets. Any income arising from these investments is dependent upon tax credits (adjusted for operating losses at the fuel plants) being generated as a result of synthetic fuel production, which will be recorded as received. The Company received \$163 in distributions in December 2009 and \$48 in December 2008.

The existing tax credit legislation expired at the end of calendar year 2007. Consequently, the four synthetic fuel plants were decommissioned. They were sold or transferred to site owners in exchange for a release of all contracted liabilities related to the removal of plants from the sites. The administrative partner has informed the Company that almost all of the partnership affairs were finalized in 2008, that there were no operations in calendar 2009 and none are expected in calendar 2010. It is not possible to predict the amount, if any, of final distributions from the partnerships upon the final disposition and winding-up of operations.

---

**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. The majority of orders for the Company's products are 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 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 extends authorization of the surface transportation programs previously funded under SAFETEA-LU through December 31, 2010 at 2009 levels. In addition, the HIRE Act authorizes a one-time transfer of \$19.5 billion from the general fund to the highway trust fund related to previously foregone interest payments. Although the HIRE Act should help stabilize the federal highway program, the Company believes a new multi-year 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 any new funding will have a positive impact on the Company's financial performance, although the magnitude of that improvement cannot be determined.

Economic downturns like the one currently being experienced generally result in reduced purchasing within the Company's served markets and thus have a direct impact on sales and tend to increase the pricing pressures on the Company's products resulting in lower pricing and margins. The market price for an asphalt plant ranges from \$2 to \$6 million and may require the buyers to obtain financing. The current state of the financial industry and the tightening of the credit markets have had an adverse impact on the Company's customers' attitudes toward purchasing new equipment.

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 manufacturing asphalt and could therefore decrease demand for asphalt and certain of the Company's products. The Company does not currently foresee the fluctuations in oil prices having a significant impact on its financial performance.

Steel is a major component used in manufacturing the Company's equipment. During the fourth quarter of 2008, steel prices retreated from their 2008 highs and continued the downward trend through the first half of 2009. Moderate increases have occurred during the past several months. Should there be a significant run-up in steel prices in the current economy and competitive environment, the Company may not be able to raise prices to cover the increasing costs of steel and its financial results could be negatively affected.

---

**Table of Contents**

For the long-term, the Company believes the strategy of continuing to invest heavily 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 capital equipment rebounds. 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 efficiencies 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 June 30, 2010 versus June 30, 2009*

Net sales for the quarter ended June 30, 2010 and 2009 were \$12,684 and \$11,674, respectively. Sales in this third quarter of fiscal 2010 dropped significantly from the \$24,042 in the second quarter of 2010 as the majority of the plant sales that were booked earlier in the year shipped prior to the end of March 2010 to meet the start of the asphalt-paving season. Although we continue to quote our customers on new plant proposals, actual bookings are slow to materialize as the road-building industry continues to languish under the current economic conditions. The Company's operations are concentrated in the asphalt-related business and 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 16.7% in the quarter ended June 30, 2009 to 11.9% in the quarter ended June 30, 2010. Gross margins decreased in 2010 primarily due to unfavorable manufacturing efficiencies from reduced production volumes and less than proportionate decreases in manufacturing expenses.

Product engineering and development expenses increased \$69 and selling, general and administrative expenses increased \$395 in the quarter ended June 30, 2010 compared to the quarter ended June 30, 2009 due to increased sales and compensation related expenses for certain key employee additions.

The Company had an operating loss of \$1,518 for the quarter ended June 30, 2010 versus an operating loss of \$1,172 for the quarter ended June 30, 2009. The increased operating loss was primarily due to the unfavorable manufacturing variances and increased selling, general and administrative expenses.

For the quarter ended June 30, 2010, net investment interest and dividend income from the investment portfolio was \$695 as compared to \$473 in the quarter ended June 30, 2009. The net realized and unrealized losses on marketable securities were \$2,058 for the quarter ended June 30, 2010 versus losses of \$289 for the quarter ended June 30, 2009. The net investment losses included in the current quarter reflect the overall dip in the market at the end of June 2010. Through August 4, 2010 the investment returns had recovered the losses experienced during the third quarter, however, we cannot guaranty that we will not experience losses during future periods.

During June 2010, the Company was the recipient of ninety-five thousand shares of Gencor common stock as a result of a settlement and release agreement on a lawsuit against Gencor shareholders related to alleged short-swing profits arising from purchases and sales of Gencor common stock by the defendants to the suit. The parties to the suit entered into the agreement for the sole purpose of resolving contested claims and disputes and avoiding the substantial costs associated with litigating the claims and disputes. No wrongdoing or liability was admitted to by the defendants. Other non-operating income includes \$738 related to the market value based on closing bid price of the Gencor common stock upon receipt. The market value of the shares upon receipt is included in treasury stock in the accompanying condensed consolidated balance sheet as of June 30, 2010.

The effective income tax rate for the quarter ended June 30, 2010 was a benefit of 25.9% versus a benefit of 19.2% for the quarter ended June 30, 2009. The change in the effective tax rate between periods is primarily due to the effect of tax exempt interest income and the timing of realized gains and losses.

---

**Table of Contents**

*Nine Months Ended June 30, 2010 versus June 30, 2009*

Net sales for the nine months ended June 30, 2010 and 2009 were \$47,796 and \$46,350, respectively. The sales shortfall in the first quarter of fiscal 2010 from the impact of the recessionary economy and tightening of credit availability was offset in the second fiscal quarter from increased foreign plant sales. Sales related to the Company's former United Kingdom operations included in the nine months ended March 31, 2009 were \$1,118. The Company divested its operations in the United Kingdom in June 2009.

As a percent of sales, gross profit margins were relatively flat between periods at 19.5% in the nine months ended June 30, 2010 and 19.7% in the nine months ended June 30, 2009.

Product engineering and development expenses increased 9.3% or \$163 and selling, general and administrative expenses decreased 1.0% or \$78 in the nine months ended June 30, 2010 compared to the nine months ended June 30, 2009. Overall these expenses were up slightly on a 3.1% increase in sales.

The Company had an operating loss of \$135 for the nine months ended June 30, 2010 versus a loss of \$797 for the nine months ended June 30, 2009. The operating loss for the nine months ended June 30, 2009 included a loss on disposal of the United Kingdom operation of \$560.

For the nine months ended June 30, 2010, net investment interest and dividend income from the investment portfolio was \$1,912 as compared to \$1,525 in the nine months ended June 30, 2009. The net realized and unrealized losses on marketable securities were \$1,873 for the nine months ended June 30, 2010 versus losses of \$2,781 for the nine months ended June 30, 2009.

The effective income tax rate for the nine months ended June 30, 2010 was a benefit of 6.0% versus a benefit of 29.4% for the nine months ended June 30, 2009. The change in the effective tax rate between periods is primarily due to operating losses incurred during fiscal 2009 versus operating income in fiscal 2010, the effect of tax exempt income from certain governmental securities and the timing of realized gains and losses.

**Liquidity and Capital Resources**

The Company generates capital resources primarily through operations.

The Company has maintained a Revolving Credit and Security Agreement ( *Credit Agreement* ) with PNC Bank, N.A. The Credit Agreement originally established a three year revolving \$20 million credit facility ( *Credit Facility* ) and was renewed through July 31, 2009. The Credit Facility provided for advances based on accounts receivable, inventory, and real estate. The facility included \$2 million for letters of credit. The Company was required to maintain a fixed charge coverage ratio of 1.1:1. There were no required repayments as long as there were no defaults and there was adequate eligible collateral. Substantially all of the Company's assets were pledged as security under the Credit Agreement. However, the Company had no indebtedness during the period.

The Company amended the Credit Agreement on July 23, 2009 (the *Third Amendment* ). The Credit Agreement was set to expire on July 31, 2009, and rather than let it expire, the Company elected to amend the agreement and reduce the amount of the Credit Facility from \$20 million to \$1.5 million. The Credit Facility also included a \$1.285 million limit on letters of credit, which was reduced from the original \$2 million limit. The Company elected to reduce its Credit Facility because it believed the higher amount associated with the original line was not needed and was an unnecessary cost. Pursuant to the Third Amendment, the Company's Credit Facility was extended through April 30, 2010. Under the Third Amendment, substantially all representations, warranties, covenants, rights, duties and obligations set forth in the original agreement continued to apply.

The Credit Agreement expired on April 30, 2010. The Company is currently evaluating its needs and options for a new revolving credit facility.



## Table of Contents

The Company had no long-term or short-term debt outstanding at June 30, 2010 or September 30, 2009. In March 2010 the Company replaced its outstanding letters of credit by funding \$975 in cash deposits at insurance companies to cover collateral requirements.

As of June 30, 2010, the Company had \$2,456 in cash and cash equivalents, and \$68,953 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 \$88,460 at June 30, 2010 and \$88,361 at September 30, 2009. For the nine months ended June 30, 2010, accounts receivable and inventories decreased, as the majority of plants and plant component sales for the period were manufactured, shipped and paid for while controlling inventory spending to match sales orders. Costs and estimated earnings in excess of billings decreased as jobs were completed, shipped and final billed. Accounts payable decreased with the reduced sales and related spending in the current quarter. The increase in accrued expenses includes \$700 for income taxes payable.

Cash used in operations during the nine months ended June 30, 2010 was \$1,211. Cash flows from investing activities during the nine months ended June 30, 2010 were related to capital expenditures and \$163 of income from Investees. There were no cash disbursements or receipts related to financing activities during the nine months ended June 30, 2010.

## 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 and/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, 2009: (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.

## **Table of Contents**

### **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, 2009, 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*

Revenues from contracts for the design and manufacture of certain custom equipment are recognized under the percentage-of-completion method. The percentage-of-completion method of accounting for long term contracts recognizes revenue in proportion to actual labor costs incurred as compared with total estimated labor costs expected to be incurred during the entire contract. Revenues from all other sales are recorded as the products are shipped or service is performed.

All 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 estimated costs of product warranties are charged to production costs as revenue is recognized.

#### *Investments*

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

#### *Investment in Unconsolidated Investees*

As of June 30, 2010 the Company owned a 45% interest in Carbontronics LLC and a 25% interest in Carbontronics Fuels LLC and Carbontronics II LLC. These interests were obtained as part of contracts to build four synthetic fuel production plants during 1998. The Company has no basis in these equity investments or requirement to provide future funding. Any income arising from these investments was dependent upon tax credits (adjusted for operating losses at the fuel plants) being generated as a result of synthetic fuel production, which were recorded as received. The synthetic fuel tax credit legislation expired at the end of calendar year 2007.

#### *Reclassifications*

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

#### *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 and, until June 2009, the United Kingdom. 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. Periodically, the Company will 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 its variable rate debt is to limit their impact on earnings and cash flow and reduce its overall borrowing costs.

At June 30, 2010 and September 30, 2009 the Company had no debt outstanding. Under the Credit Agreement (expired April 30, 2010), substantially all of the Company's borrowings, if any, would bear interest at variable rates based upon the prime rate or LIBOR.

The Company's marketable securities are invested primarily in stocks 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 divestitures, 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 nine month period ended June 30, 2010 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.

**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

August 13, 2010

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

August 13, 2010