

GENCOR INDUSTRIES INC
Form 10-Q
May 14, 2013

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, 2013

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 10, 2013
Common stock, \$.10 par value	8,008,632 shares
Class B stock, \$.10 par value	1,509,238 shares

GENCOR INDUSTRIES, INC.

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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, 2012: (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.

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

	March 31, 2013 (Unaudited)	September 30, 2012
ASSETS		
Current Assets:		
Cash	\$ 6,398,000	\$ 3,361,000
Marketable securities at fair value (cost \$79,247,000 at March 31, 2013 and \$80,568,000 at September 30, 2012)	81,361,000	81,375,000
Accounts receivable, less allowance for doubtful accounts of \$263,000 at March 31, 2013 and \$368,000 at September 30, 2012	1,288,000	1,206,000
Costs and estimated earnings in excess of billings	3,569,000	3,448,000
Inventories, net	13,515,000	11,918,000
Prepaid expenses and other current assets	1,730,000	782,000
Total Current Assets	107,861,000	102,090,000
Property and equipment, net	8,191,000	8,127,000
Other assets	90,000	95,000
Total Assets	\$ 116,142,000	\$ 110,312,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,265,000	\$ 1,881,000
Customer deposits	3,193,000	480,000
Accrued expenses	3,476,000	3,517,000
Total Current Liabilities	8,934,000	5,878,000
Deferred and other income taxes	1,622,000	974,000
Total Liabilities	10,556,000	6,852,000
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	10,174,000	10,049,000
Retained earnings	94,460,000	92,459,000
Total Shareholders' Equity	105,586,000	103,460,000
Total Liabilities and Shareholders' Equity	\$ 116,142,000	\$ 110,312,000

See accompanying Notes to Condensed Consolidated Financial Statements

GENCOR INDUSTRIES, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Quarters Ended March 31,		For the Six Months Ended March 31,	
	2013	2012	2013	2012
Net revenue	\$ 17,737,000	\$ 19,339,000	\$ 22,685,000	\$ 26,203,000
Costs and expenses:				
Production costs	13,411,000	15,273,000	17,942,000	21,414,000
Product engineering and development	454,000	556,000	902,000	1,095,000
Selling, general and administrative	1,984,000	2,523,000	3,943,000	4,320,000
	15,849,000	18,352,000	22,787,000	26,829,000
Operating income (loss)	1,888,000	987,000	(102,000)	(626,000)
Other income (expenses):				
Interest and dividend income, net of fees	553,000	553,000	1,243,000	1,123,000
Net realized and unrealized gains on marketable securities	1,269,000	2,611,000	743,000	4,838,000
Other		20,000	15,000	36,000
	1,822,000	3,184,000	2,001,000	5,997,000
Income before income tax expense (benefit)	3,710,000	4,171,000	1,899,000	5,371,000
Income tax expense (benefit)	733,000	1,405,000	(102,000)	1,730,000
Net Income	\$ 2,977,000	\$ 2,766,000	\$ 2,001,000	\$ 3,641,000
Basic Income per Common Share:				
Net income per share	\$ 0.31	\$ 0.29	\$ 0.21	\$ 0.38
Diluted Income per Common Share:				
Net income per share	\$ 0.31	\$ 0.29	\$ 0.21	\$ 0.38

See accompanying Notes to Condensed Consolidated Financial Statements

GENCOR INDUSTRIES, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Months Ended	
	2013	2012
Cash flows from operations:		
Net income	\$ 2,001,000	\$ 3,641,000
Adjustments to reconcile net income to cash provided by operating activities:		
Purchases of marketable securities	(27,606,000)	(22,965,000)
Proceeds from sale and maturity of marketable securities	28,264,000	23,339,000
Change in fair value of marketable securities	(644,000)	(4,835,000)
Deferred income taxes	648,000	1,699,000
Depreciation and amortization	578,000	514,000
Provision for doubtful accounts	40,000	240,000
Stock-based compensation	124,000	92,000
Change in assets and liabilities:		
Accounts receivable	(122,000)	(202,000)
Costs and estimated earnings in excess of billings	(121,000)	4,071,000
Inventories	(1,597,000)	(1,779,000)
Prepaid expenses and other current assets	(948,000)	367,000
Accounts payable	384,000	791,000
Customer deposits	2,713,000	7,380,000
Accrued expenses and other	(40,000)	164,000
Total adjustments	1,673,000	8,876,000
Cash flows provided by operating activities	3,674,000	12,517,000
Cash flows used in investing activities:		
Capital expenditures	(637,000)	(730,000)
Cash flows used in investing activities	(637,000)	(730,000)
Net increase in cash	3,037,000	11,787,000
Cash at:		
Beginning of period	3,361,000	1,715,000
End of period	\$ 6,398,000	\$ 13,502,000

See accompanying Notes to Condensed Consolidated Financial Statements

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, 2013 are not necessarily indicative of the results that may be expected for the year ending September 30, 2013.

The accompanying Condensed Consolidated Balance Sheet at September 30, 2012 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, 2012.

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, exchange traded funds 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.

The following table sets forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of March 31, 2013:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 18,222,000	\$	\$	\$ 18,222,000
Mutual Funds	20,520,000			20,520,000
Exchange Traded Funds	4,833,000			4,833,000
Corporate Bonds		11,802,000		11,802,000
Municipal Bonds		23,568,000		23,568,000
Cash and Money Funds	2,416,000			2,416,000
Total	\$ 45,991,000	\$ 35,370,000	\$	\$ 81,361,000

Net unrealized gains as of March 31, 2013 were \$2,114,000. Estimated interest accrued on the corporate and municipal bond portfolio was \$454,000 at March 31, 2013. There were no transfers of investments between Level 1 and Level 2 during the quarter ended March 31, 2013.

The following table sets forth, by level, within the fair value hierarchy, the Company's assets measured at fair value as of September 30, 2012:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 13,912,000	\$	\$	\$ 13,912,000
Mutual Funds	18,588,000			18,588,000
Corporate Bonds		14,178,000		14,178,000
Municipal Bonds		28,513,000		28,513,000
Government Securities	6,000,000			6,000,000
Cash and Money Funds	184,000			184,000
Total	\$ 38,684,000	\$ 42,691,000	\$	\$ 81,375,000

Net unrealized gains as of September 30, 2012 were \$807,000. Estimated interest accrued on the corporate and municipal bond portfolio was \$545,000 at September 30, 2012. There were no transfers of investments between Level 1 and Level 2 during the year ended September 30, 2012.

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 allowances 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.

Net inventories at March 31, 2013 and September 30, 2012 consist of the following:

	March 31, 2013	September 30, 2012
Raw materials	\$ 7,625,000	\$ 7,375,000
Work in process	1,168,000	1,201,000
Finished goods	4,588,000	3,202,000
Used equipment	134,000	140,000
	\$ 13,515,000	\$ 11,918,000

Note 4 Costs and Estimated Earnings in Excess of Billings

Costs and estimated earnings in excess of billings on uncompleted contracts as of March 31, 2013 and September 30, 2012 consist of the following:

	March 31, 2013	September 30, 2012
Costs incurred on uncompleted contracts	\$ 9,694,000	\$ 4,986,000
Estimated earnings	3,639,000	1,518,000
	13,333,000	6,504,000
Billings to date	9,764,000	3,056,000
Costs and estimated earnings in excess of billings	\$ 3,569,000	\$ 3,448,000

Note 5 Earnings per Share Data

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended March 31, 2013 and 2012:

	Quarter Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Net Income	\$ 2,977,000	\$ 2,766,000	\$ 2,001,000	\$ 3,641,000
Common Shares:				
Weighted average common shares outstanding	9,518,000	9,518,000	9,518,000	9,518,000
Effect of dilutive stock options				
Diluted shares outstanding	9,518,000	9,518,000	9,518,000	9,518,000
Basic:				
Net earnings per share	\$ 0.31	\$ 0.29	\$ 0.21	\$ 0.38
Diluted:				
Net earnings per share	\$ 0.31	\$ 0.29	\$ 0.21	\$ 0.38

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The number of potentially anti-dilutive common stock equivalents (stock options) excluded from the fully diluted calculation above was 325,500 for the three and six month periods ended March 31, 2013 and March 31, 2012.

Note 6 Subsequent Event

In April 2013, the Company received a favorable IRS ruling on its research and development tax credits (R&D Credits) on amended returns filed for tax years 2006 through 2008. Although the final audit results are not complete, the Company has recorded a tax receivable in the amount of \$750,000. The \$750,000 is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet as of March 31, 2013. The Company continues to pursue R&D Credits related to subsequent years. While the Company expects to receive additional R&D Credits, such amounts cannot yet be determined until the IRS completes their audits. Accordingly, no amounts have been recorded for these potential additional R&D Credits.

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 June. 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, President Obama signed an eighth extension of SAFETEA-LU, authorizing funding at 2011 levels through March 31, 2012. On March 30, 2012, the President signed into law the Surface Transportation Extension Act of 2012, a 90-day extension of the existing federal transportation reauthorization. The bill contained no policy changes and extended current programs and funding levels through June 30, 2012, pending enactment of a multi-year law reauthorizing such programs.

On July 6, 2012, President Obama signed a \$118 billion transportation bill, Moving Ahead for Progress in the 21st Century Act (MAP-21). MAP-21 includes a final three-month extension of SAFETEA-LU combined with a new two-year, \$105 billion authorization of the federal highway, transit, and safety programs effective October 1, 2012. The bill provides states with two years of funding to build roads, bridges, and transit systems.

The Canadian government enacted major infrastructure stimulus programs which benefitted the Company. In 2007, the Building Canada Plan provided \$33 billion in infrastructure funding through 2014. As part of the Building Canada Plan, the Gas Tax Fund was approved in 2009, providing \$2 billion in annual infrastructure spending. The Infrastructure Canada Plan provided \$4 billion in additional infrastructure funding from 2009 through 2011.

In addition to government funding and 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. Increases in oil prices also drive up the cost of gasoline, which results in increased freight costs. Where possible, the Company will pass increased freight costs on to its customers. However, the Company may not be able to recapture all of the increased costs and thus could have a negative impact on the Company's financial performance.

Steel is a major component used in manufacturing the Company's equipment. Fluctuations in the price of steel can have a significant impact on the Company's financial results. 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.

Over the long term, the Company believes its strategy of continuing to invest in product engineering and development and its focus on delivering high-quality products 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 actions to conserve cash, right-size its operations and cost structure. The Company continues to review its internal processes to identify inefficiencies and cost reductions and will continue reviewing its relationships with suppliers to ensure the Company is achieving the highest quality products and services at the most competitive prices.

Results of Operations

Quarter Ended March 31, 2013 versus March 31, 2012

Net revenues for the quarters ended March 31, 2013 and 2012 were \$17,737,000 and \$19,339,000, respectively, a decrease of \$1,602,000 or 8.3%. Revenues in the quarter continued to be below prior-year levels, as the domestic roadbuilding industry languishes under current economic conditions and resulting shortfall in state tax revenues. 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 increased from 21.0% in the quarter ended March 31, 2012 to 24.4% in the quarter ended March 31, 2013. The gross margin increase was primarily due to reduced spending and improved manufacturing efficiencies.

Product engineering and development expenses decreased \$102,000 to \$454,000 in the quarter ended March 31, 2013, consistent with reduced sales. Selling, general and administrative expenses decreased \$539,000 in the quarter ended March 31, 2013 as a result of reduced sales and lower legal expenses.

The Company had operating income of \$1,888,000 for the quarter ended March 31, 2013 versus \$987,000 for the quarter ended March 31, 2012. The improvement in operating income was due to improved gross margins and reduced selling, general and administrative expenses.

For the quarters ended March 31, 2013 and 2012, investment interest and dividend income, net of fees, from the investment portfolio was \$553,000. The net realized and unrealized gains on marketable securities were \$1,269,000 for the quarter ended March 31, 2013 versus net realized and unrealized gains of \$2,611,000 for the quarter ended March 31, 2012.

In April 2013, the Company received a favorable IRS ruling on its research and development tax credits on amended returns filed for tax years 2006 through 2008. Although the final audit results are not complete, the Company has recorded a tax receivable, and reduced its tax provision for the quarter and six months ended March 31, 2013, in the amount of \$750,000.

The effective income tax rate for the quarter ended March 31, 2013 was 20.0% versus 33.7% for the quarter ended March 31, 2012. In addition to the positive impact of the research and development tax credits on the fiscal 2013 tax expense, the effective income tax rates for both years were impacted by tax-exempt interest income and premium amortization on municipal bonds.

Six Months Ended March 31, 2013 versus March 31, 2012

Net sales for the six months ended March 31, 2013 and 2012 were \$22,685,000 and \$26,203,000, respectively, a decrease of 13.4%.

Gross profit margins increased to 20.9% in the six months ended March 31, 2013 from 18.3% in the six months ended March 31, 2012. The improved gross margins resulted from reduced spending and improved manufacturing efficiencies.

Product engineering and development expenses decreased \$193,000 on reduced sales. Selling, general and administrative expenses decreased \$377,000 in the six months ended March 31, 2013 compared to the six months ended March 31, 2012 on reduced sales and lower legal expenses.

The Company had an operating loss of \$(102,000) for the six months ended March 31, 2013 versus an operating loss of \$(626,000) for the six months ended March 31, 2012. The improved operating results were due to higher gross margins and reduced selling, general and administrative expenses.

For the six months ended March 31, 2013, investment interest and dividend income, net of fees, from the investment portfolio was \$1,243,000 as compared to \$1,123,000 in the 2012 comparable period. The net realized and unrealized gains on marketable securities were \$743,000 for the six months ended March 31, 2013 versus net realized and unrealized gains of \$4,838,000 for the six months ended March 31, 2012.

In April 2013, the Company received a favorable IRS ruling on its research and development tax credits on amended returns filed for tax years 2006 through 2008. Although the final audit results are not complete, the Company has recorded a tax receivable, and reduced its tax provision for the quarter and six months ended March 31, 2013, in the amount of \$750,000.

The effective income tax rate for the six months ended March 31, 2013 was a benefit of 5.4% versus expense of 32.2% for the six months ended March 31, 2012. In addition to the positive impact of the research and development tax credits on the fiscal 2013 tax expense, the effective income tax rates in both years were impacted by tax-exempt interest income and premium amortization on municipal bonds.

Liquidity and Capital Resources

The Company does not currently require a credit facility but continues to review and evaluate its needs and options for such a facility.

The Company had no long-term or short-term debt outstanding at March 31, 2013 or September 30, 2012. The Company has funded \$362,000 in cash deposits at insurance companies to cover related collateral needs.

As of March 31, 2013, the Company had \$6,398,000 in operating cash, and \$81,361,000 in its investment portfolio, including \$18,222,000 in equities, \$20,520,000 in mutual funds, \$4,833,000 in exchange traded funds, \$35,370,000 in fixed income investments and \$2,416,000 in cash and money funds (see Note 2). These marketable securities are invested through a professional investment management firm. These 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 \$98.9 million at March 31, 2013 and \$96.2 million at September 30, 2012. For the six months ended March 31, 2013, customer deposits increased as down payments were made in the current quarter on several large jobs. Prepaid expenses and other current assets increased primarily from the \$750,000 tax receivable related to research and development tax credits on amended returns filed for tax years 2006 through 2008 (see Note 6). Inventories and accounts payable increased with the increased production as compared to September 2012.

Cash provided by operations during the six months ended March 31, 2013 was \$3,674,000 primarily from net income and customer deposits on new bookings. Cash flows used in investing activities for the six months ended March 31, 2013 of \$637,000 were related to capital expenditures. There were no cash disbursements or receipts related to financing activities during the six months ended March 31, 2013.

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, 2012: (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, 2012, Accounting Policies.

Estimates and Assumptions

In preparing the Consolidated Financial Statements, the Company uses certain estimates and assumptions that may affect reported amounts and disclosures. Estimates and assumptions are used, among other places, when accounting for certain revenue (e.g. contract accounting), expense, and asset and liability valuations. The Company believes that the estimates and assumptions made in preparing the Consolidated Financial Statements are reasonable, but are inherently uncertain. Assumptions may be incomplete or inaccurate and unanticipated events may occur. The Company is subject to risks and uncertainties that may cause actual results to differ from estimated results.

Revenues & Expenses

Revenues from contracts for the design, manufacture and sale of asphalt plants are recognized under the percentage-of-completion method. The percentage-of-completion method of accounting for these contracts recognizes revenue, net of any promotional discounts, and costs in proportion to actual labor costs incurred as compared with total estimated labor costs expected to be incurred during the entire contract. Pre-contract costs are expensed as incurred. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined. Revenue recognized in excess of amounts billed is classified as current assets under costs and estimated earnings in excess of billings. The Company anticipates that all incurred costs associated with these contracts at March 31, 2013 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.

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

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 exposure 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, 2013 and September 30, 2012 the Company had no debt outstanding. The Company's marketable securities are invested primarily in stocks, mutual funds, exchange traded funds, and corporate and municipal bonds through a professional investment management firm. Investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with investment securities it is possible that changes in these risk factors could have an adverse material impact on the Company's results of operations or equity.

The Company's sensitivity analysis for interest rate risk excludes accounts receivable, accounts payable and accrued liabilities because of the short-term maturity of such instruments. The analysis does not consider the effect on other variables such as changes in sales volumes or management's actions with respect to levels of capital expenditures, future acquisitions or planned divestures, all of which could be significantly influenced by changes in interest rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Principal Financial and Accounting Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and the Principal Financial and Accounting Officer concluded that, as of the end of the period covered by this Report, the Company's disclosure controls and procedures are effective.

Because of inherent limitations, the Company's disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of such disclosure controls and procedures are met and no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have 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, 2013 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

SIGNATURES

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

GENCOR INDUSTRIES, INC.

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

May 14, 2013

/s/ Eric E. Mellen
Eric E. Mellen
Chief Financial Officer
(Principal Financial and Accounting Officer)

May 14, 2013