

REFINITIV

DELTA REPORT

10-Q

GENC - GENCOR INDUSTRIES INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - DECEMBER 31, 2023

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM10-Q

FORM10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 **FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2023**

OR **FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2024**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 **FOR THE TRANSITION PERIOD:**

FOR THE TRANSITION PERIOD: From **to**

Commission File Number:001-11703

GENCOR INDUSTRIES, INC.

GENCOR INDUSTRIES, INC.

Delaware
(State or other jurisdiction of incorporation or organization)
of incorporation or organization

59-0933147
(IRS Employer
Identification No.)

5201 North Orange Blossom Trail, Orlando, Florida 32810
(Address of principal executive offices) (Zip Code)

(407)290-6000
(Registrant's telephone number, including area code)

Securities registered or to be registered pursuant to Section 12(b) of the Act

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Exchange on which registered</u>
Common Stock (\$0.10 Par Value)	GENC	NYSE American LLC

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 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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 <u>February 5, 2024</u> <u>May 9, 2024</u>
Common stock, \$.10 par value	12,338,845 shares
Class B stock, \$.10 par value	2,318,857 shares

GENCOR INDUSTRIES, INC.

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Introductory Note: Caution Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Quarterly Report") and the Company's other communications and statements may contain 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"), including statements about the Company's beliefs, plans, objectives, goals, expectations, estimates, projections and intentions. All forward-looking statements, by their nature, 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 Company's actual future results may differ materially from those set forth in the Company's forward-looking statements 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. In addition, the impact of the invasion by Russia into Ukraine and the conflict between Israel and Hamas, as well as actions taken by other countries, including the U.S., in response to such conflicts, could result in a disruption in our

supply chain and higher costs of our products. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "goal," and similar expressions are intended to identify forward-looking statements.

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, 2023: (a) Part I, Item 1A, "Risk Factors" and (b) Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations". 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 statement made by the Company herein speaks as of the date of this Quarterly Report. The Company does not undertake to update any forward-looking statements, except as required by law.

Unless the context otherwise indicates, all references in this Quarterly Report to the "Company," "Gencor," "we," "us," or "our," or similar words are to Gencor Industries, Inc. and its subsidiaries.

Part I. Financial Information

Item 1. Financial Statements

GENCOR INDUSTRIES, INC.

Condensed Consolidated Balance Sheets

	December 31, 2023 (Unaudited)	September 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,559,000	\$ 17,031,000
Marketable securities at fair value (cost of \$86,134,000 at December 31, 2023 and \$85,514,000 at September 30, 2023)	86,231,000	84,252,000
Accounts receivable, less allowance for doubtful accounts of \$485,000 at December 31, 2023 and \$545,000 at September 30, 2023	4,028,000	2,467,000
Costs and estimated earnings in excess of billings	6,164,000	1,508,000
Inventories, net	72,209,000	71,527,000
Repaid expenses and other current assets	2,377,000	2,169,000
Total current assets	<u>189,568,000</u>	<u>178,954,000</u>
Property and equipment, net	12,947,000	13,246,000
Deferred and other income taxes	2,855,000	3,167,000
Other long-term assets	288,000	381,000
Total Assets	<u>\$ 205,658,000</u>	<u>\$ 195,748,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,709,000	\$ 3,269,000
Customer deposits	12,702,000	6,815,000
Accrued expenses	3,103,000	3,753,000
Current operating lease liabilities	235,000	328,000
Total current liabilities	<u>19,749,000</u>	<u>14,165,000</u>
Total liabilities	<u>19,749,000</u>	<u>14,165,000</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$.10 per share; 300,000 shares authorized; none issued	—	—
Common stock, par value \$.10 per share; 15,000,000 shares authorized; 12,338,845 shares issued and outstanding at December 31, 2023 and September 30, 2023	1,234,000	1,234,000
Class B Stock, par value \$.10 per share; 6,000,000 shares authorized; 2,318,857 shares issued and outstanding at December 31, 2023 and September 30, 2023	232,000	232,000
Capital in excess of par value	12,590,000	12,590,000
Retained earnings	171,853,000	167,527,000
Total shareholders' equity	<u>185,909,000</u>	<u>181,583,000</u>
Total Liabilities and Shareholders' Equity	<u>\$ 205,658,000</u>	<u>\$ 195,748,000</u>

See accompanying Notes to Condensed Consolidated Financial Statements

GENCOR INDUSTRIES, INC.
Condensed Consolidated Income Statements
For the Quarters Ended December 31, 2023 and 2022
(Unaudited)

	2023	2022
Net revenue	\$ 26,018,000	\$ 25,825,000
Cost of goods sold	<u>18,484,000</u>	<u>20,010,000</u>
Gross profit	7,534,000	5,815,000
Operating expenses:		
Product engineering and development	801,000	897,000
Selling, general and administrative	<u>3,350,000</u>	<u>2,799,000</u>
Total operating expenses	<u>4,151,000</u>	<u>3,696,000</u>
Operating income	3,383,000	2,119,000
Other income, net:		
Interest and dividend income, net of fees	716,000	493,000
Realized and unrealized gains on marketable securities, net	<u>1,519,000</u>	<u>1,962,000</u>
	<u>2,235,000</u>	<u>2,455,000</u>
Income before income tax expense	5,618,000	4,574,000
Income tax expense	<u>1,292,000</u>	<u>1,098,000</u>
Net income	<u>\$ 4,326,000</u>	<u>\$ 3,476,000</u>
Basic income per common share	<u>\$ 0.30</u>	<u>\$ 0.24</u>
Diluted income per common share	<u>\$ 0.30</u>	<u>\$ 0.24</u>
	March 31, 2024 (Unaudited)	September 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,213,000	\$ 17,031,000
Marketable securities at fair value (cost of \$87,006,000 at March 31, 2024 and \$85,514,000 at September 30, 2023)	86,894,000	84,252,000
Accounts receivable, less allowance for credit losses of \$398,000 at March 31, 2024 and \$545,000 at September 30, 2023	5,758,000	2,467,000
Costs and estimated earnings in excess of billings	2,469,000	1,508,000
Inventories, net	63,732,000	71,527,000
Prepaid expenses and other current assets	<u>1,216,000</u>	<u>2,169,000</u>
Total current assets	<u>190,282,000</u>	<u>178,954,000</u>
Property and equipment, net	12,296,000	13,246,000
Deferred and other income taxes	2,902,000	3,167,000
Other long-term assets	<u>562,000</u>	<u>381,000</u>
Total Assets	<u>\$ 206,042,000</u>	<u>\$ 195,748,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,944,000	\$ 3,269,000
Customer deposits	7,945,000	6,815,000
Accrued expenses	2,513,000	3,753,000
Current operating lease liabilities	<u>357,000</u>	<u>328,000</u>
Total current liabilities	<u>13,759,000</u>	<u>14,165,000</u>
Non-current operating lease liabilities	<u>152,000</u>	<u>—</u>
Total liabilities	<u>13,911,000</u>	<u>14,165,000</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$.10 per share; 300,000 shares authorized; none issued	—	—
Common stock, par value \$.10 per share; 15,000,000 shares authorized; 12,338,845 shares issued and outstanding at March 31, 2024 and September 30, 2023	1,234,000	1,234,000
Class B Stock, par value \$.10 per share; 6,000,000 shares authorized; 2,318,857 shares issued and outstanding at March 31, 2024 and September 30, 2023	232,000	232,000
Capital in excess of par value	12,590,000	12,590,000
Retained earnings	<u>178,075,000</u>	<u>167,527,000</u>

Total shareholders' equity	192,131,000	181,583,000
Total Liabilities and Shareholders' Equity	\$ 206,042,000	\$ 195,748,000

See accompanying Notes to Condensed Consolidated Financial Statements

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GENCOR INDUSTRIES, INC.
Condensed Consolidated Income Statements of Shareholders' Equity
(Unaudited)

	For the Quarters Ended		For the Six Months Ended	
	March 31,		March 31,	
	2024	2023	2024	2023
Net revenue	\$ 40,676,000	\$ 30,501,000	\$ 66,694,000	\$ 56,327,000
Cost of goods sold	28,354,000	21,404,000	46,838,000	41,415,000
Gross profit	12,322,000	9,097,000	19,856,000	14,912,000
Operating expenses:				
Product engineering and development	893,000	874,000	1,694,000	1,771,000
Selling, general and administrative	4,357,000	3,062,000	7,707,000	5,861,000
Total operating expenses	5,250,000	3,936,000	9,401,000	7,632,000
Operating income	7,072,000	5,161,000	10,455,000	7,280,000
Other income (expense), net:				
Interest and dividend income, net of fees	803,000	565,000	1,519,000	1,058,000
Net realized and unrealized gains (losses) on marketable securities	205,000	692,000	1,724,000	2,654,000
Total other income (expense), net	1,008,000	1,257,000	3,243,000	3,712,000
Income before income tax expense	8,080,000	6,418,000	13,698,000	10,992,000
Income tax expense	1,858,000	1,545,000	3,150,000	2,643,000
Net income	<u>\$ 6,222,000</u>	<u>\$ 4,873,000</u>	<u>\$ 10,548,000</u>	<u>\$ 8,349,000</u>
Net income per common share – basic and diluted	<u>\$ 0.42</u>	<u>\$ 0.33</u>	<u>\$ 0.72</u>	<u>\$ 0.57</u>

For the Quarter Ended December 31, 2023

	Common Stock		Class B Stock		Capital in Excess of Par Value	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
September 30, 2023	12,338,845	\$ 1,234,000	2,318,857	\$ 232,000	\$ 12,590,000	\$ 167,527,000	\$ 181,583,000
Net income	—	—	—	—	—	4,326,000	4,326,000
December 31, 2023	<u>12,338,845</u>	<u>\$ 1,234,000</u>	<u>2,318,857</u>	<u>\$ 232,000</u>	<u>\$ 12,590,000</u>	<u>\$ 171,853,000</u>	<u>\$ 185,909,000</u>

For the Quarter Ended December 31, 2022

	Common Stock		Class B Stock		Capital in Excess of Par Value	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
September 30, 2022	12,338,845	\$ 1,234,000	2,318,857	\$ 232,000	\$ 12,590,000	\$ 152,861,000	\$ 166,917,000
Net income	—	—	—	—	—	3,476,000	3,476,000
December 31, 2022	<u>12,338,845</u>	<u>\$ 1,234,000</u>	<u>2,318,857</u>	<u>\$ 232,000</u>	<u>\$ 12,590,000</u>	<u>\$ 156,337,000</u>	<u>\$ 170,393,000</u>

See accompanying Notes to Condensed Consolidated Financial Statements

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GENCOR INDUSTRIES, INC.
Condensed Consolidated Statements of Shareholders' Equity

GENCOR INDUSTRIES, INC.
Condensed Consolidated Statements of Cash Flows
For the Quarters Ended December 31, 2023 and 2022
(Unaudited)

	2023		2022	
	Net income	\$ 4,326,000	Net income	\$ 3,476,000
Cash flows from operating activities:				

Adjustments to reconcile net income to cash provided by (used in) operating activities:			
<i>Purchase of marketable securities</i>		(13,102,000)	(42,080,000)
<i>Proceeds from sale and maturity of marketable securities</i>		12,522,000	41,427,000
<i>Change in value of marketable securities</i>		(1,399,000)	(1,765,000)
<i>Deferred and other income taxes</i>		312,000	490,000
<i>Depreciation and amortization</i>		665,000	705,000
<i>Provision for doubtful accounts</i>		—	75,000
<i>Loss on disposal of assets</i>		—	157,000
<i>Changes in assets and liabilities:</i>			
<i>Accounts receivable</i>		(1,561,000)	(1,738,000)
<i>Costs and estimated earnings in excess of billings</i>		(4,656,000)	(2,832,000)
<i>Inventories</i>		(682,000)	(3,500,000)
<i>Prepaid expenses and other current assets</i>		(208,000)	36,000
<i>Accounts payable</i>		440,000	134,000
<i>Customer deposits</i>		5,887,000	2,523,000
<i>Accrued expenses</i>		(650,000)	(6,000)
<i>Total adjustments</i>		(2,432,000)	(6,374,000)
Cash flows provided by (used in) operating activities		1,894,000	(2,898,000)
<i>Cash flows from investing activities:</i>			
<i>Capital expenditures</i>		(366,000)	(705,000)
Cash flows used in investing activities		(366,000)	(705,000)
Net increase (decrease) in cash and cash equivalents		1,528,000	(3,603,000)
<i>Cash and cash equivalents at:</i>			
<i>Beginning of period</i>		17,031,000	9,581,000
<i>End of period</i>		\$ 18,559,000	\$ 5,978,000

(Unaudited)

	For the Six Months Ended March 31, 2024						
	Common Stock		Class B Stock		Capital in Excess of Par Value	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
September 30, 2023	12,338,845	\$ 1,234,000	2,318,857	\$ 232,000	\$ 12,590,000	\$ 167,527,000	\$ 181,583,000
Net income	—	—	—	—	—	4,326,000	4,326,000
December 31, 2023	12,338,845	\$ 1,234,000	2,318,857	\$ 232,000	\$ 12,590,000	\$ 171,853,000	\$ 185,909,000
Net income	—	—	—	—	—	6,222,000	6,222,000
March 31, 2024	12,338,845	\$ 1,234,000	2,318,857	\$ 232,000	\$ 12,590,000	\$ 178,075,000	\$ 192,131,000
For the Six Months Ended March 31, 2023							
	Common Stock		Class B Stock		Capital in Excess of Par Value	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
	12,338,845	\$ 1,234,000	2,318,857	\$ 232,000	\$ 12,590,000	\$ 152,861,000	\$ 166,917,000
Net income	—	—	—	—	—	3,476,000	3,476,000
December 31, 2022	12,338,845	\$ 1,234,000	2,318,857	\$ 232,000	\$ 12,590,000	\$ 156,337,000	\$ 170,393,000
Net income	—	—	—	—	—	4,873,000	4,873,000
March 31, 2023	12,338,845	\$ 1,234,000	2,318,857	\$ 232,000	\$ 12,590,000	\$ 161,210,000	\$ 175,266,000

See accompanying Notes to Condensed Consolidated Financial Statements

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GENCOR INDUSTRIES, INC.
Condensed Consolidated Statements of Cash Flows
For the Six Months Ended March 31, 2024 and 2023
(Unaudited)

	2024	2023
Cash flows from operating activities:		
Net income	\$ 10,548,000	\$ 8,349,000
Adjustments to reconcile net income to cash provided by operating activities:		
Purchase of marketable securities	(36,665,000)	(89,256,000)

Proceeds from sale and maturity of marketable securities	35,599,000	93,074,000
Change in value of marketable securities	(1,576,000)	(2,369,000)
Deferred and other income taxes	265,000	1,011,000
Depreciation and amortization	1,328,000	1,394,000
Provision for credit losses	—	115,000
Loss on disposal of assets	—	157,000
Changes in assets and liabilities:		
Accounts receivable	(3,291,000)	(4,297,000)
Costs and estimated earnings in excess of billings	(961,000)	2,821,000
Inventories	7,795,000	(7,988,000)
Prepaid expenses and other current assets	953,000	56,000
Accounts payable	(325,000)	256,000
Customer deposits	1,130,000	6,459,000
Accrued expenses	(1,240,000)	273,000
Total adjustments	3,012,000	1,706,000
Cash flows provided by operating activities	13,560,000	10,055,000
Cash flows from investing activities:		
Capital expenditures	(378,000)	(1,174,000)
Cash flows used in investing activities	(378,000)	(1,174,000)
Net increase in cash and cash equivalents	13,182,000	8,881,000
Cash and cash equivalents at:		
Beginning of period	17,031,000	9,581,000
End of period	\$ 30,213,000	\$ 18,462,000
Non-cash investing and financing activities:		
Operating lease right-of-use assets	\$ 361,000	\$ 352,000
Operating lease liabilities	\$ 361,000	\$ 352,000

See accompanying Notes to Condensed Consolidated Financial Statements

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GENCOR INDUSTRIES, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1—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 Form10-Q and Article 10 of RegulationS-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 the six months ended December 31, 2023 March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending September 30, 2024.

The accompanying Condensed Consolidated Balance Sheet at September 30, 2023 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.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form10-K for the year ended September 30, 2023 filed with the Securities and Exchange Commission on December 13, 2023.

Recent Accounting Pronouncements

No accounting pronouncements recently issued or newly effective have had, or are expected to have, a material impact on the Company's condensed consolidated financial statements.

Global, market and economic conditions may negatively impact our business, financial condition and share price

Concerns over inflation, geopolitical issues and global financial markets have led to increased economic instability and expectations of slower global economic growth. Our business may be adversely affected by any such economic instability or unpredictability. Russia's invasion of Ukraine and related sanctions has led to increased energy prices. Such sanctions and disruptions to the global economy may lead to additional inflation and may disrupt the global supply chain and could have a material adverse effect on our ability to secure supplies. The increased cost of oil, along with increased or prolonged periods of inflation, would likely increase our costs in the form of higher wages, further inflation on supplies and equipment necessary to operate our business. Additionally, the armed conflict involving Hamas and Israel, as well as further escalation of tensions between Israel, the U. S., and various countries in the Middle East and North Africa, may cause increased inflation in energy and logistics costs and could further cause general economic conditions in the U.S. or abroad to deteriorate. There is a risk that one or more of our suppliers could be negatively affected by global economic instability, which could adversely affect our ability to operate efficiently and timely complete our operational goals. As of the date of issuance of this Quarterly Report, the Company's operations have not been significantly impacted.

Note 2—2—Marketable Securities and Fair Value Measurements

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 condensed consolidated income statements. Net changes in unrealized gains and losses are reported in the condensed consolidated income statements in the current 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.

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The fair value of marketable equity securities (stocks), mutual funds, exchange-traded funds, government securities, and cash and money funds, are substantially based on quoted market prices (Level 1). Corporate bonds are valued using market standard valuation methodologies, including: discounted cash flow methodologies, and 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 firms. From time to time the Company may transfer cash between its marketable securities portfolio and operating cash and cash equivalents.

The following table sets forth, by level, within the fair value hierarchy, the Company's marketable securities measured at fair value as of December 31, 2023 March 31, 2024:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Exchange-Traded Funds	\$ 3,462,000	\$ —	\$ —	\$ 3,462,000
Corporate Bonds	—	30,501,000	—	30,501,000
Government Securities	52,104,000	—	—	52,104,000
Cash and Money Funds	164,000	—	—	164,000
Total	\$ 55,730,000	\$ 30,501,000	\$ —	\$ 86,231,000
Fair Value Measurements				
Exchange-Traded Funds	Level 1	Level 2	Level 3	Total
Corporate Bonds	\$ 3,560,000	\$ —	\$ —	\$ 3,560,000
Government Securities	—	30,302,000	—	30,302,000
Cash and Money Funds	52,848,000	—	—	52,848,000
Total	\$ 56,592,000	\$ 30,302,000	\$ —	\$ 86,894,000

Net unrealized gains (losses) included in the Condensed Consolidated Income Statements for the quarter and six months ended December 31, 2023 on trading securities still held as of December 31, 2023 March 31, 2024, were \$1,359,000, \$(208,000) and \$1,151,000, respectively.

The following table sets forth by level, within the fair value hierarchy, the Company's assets measured at fair value as of September 30, 2023:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Exchange-Traded Funds	\$ 3,327,000	\$ —	\$ —	\$ 3,327,000
Corporate Bonds	—	33,160,000	—	33,160,000
Government Securities	47,672,000	—	—	47,672,000
Cash and Money Funds	93,000	—	—	93,000
Total	\$ 51,092,000	\$ 33,160,000	\$ —	\$ 84,252,000

Net unrealized gains (losses) included in the Condensed Consolidated Income Statements for the quarter and six months ended December 31, 2022 on trading securities still held as of December 31, 2022 March 31, 2023, were \$2,332,000, \$2,112,000 and \$4,443,000, respectively.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, customer deposits and accrued expenses approximate fair value because of the short-term nature of these items.

Note 3 – Inventories

Inventories are valued at the lower of cost or net realizable value with cost being determined under the first in, first out method and net realizable value defined as the estimated selling price of goods less reasonable costs of completion and delivery. 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

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finished goods includes materials, direct labor, variable costs and overhead. The Company evaluates the need to record inventory adjustments on all inventories, including raw material, work in process, finished goods, spare parts and used equipment. Used equipment acquired by the Company on trade-in from customers is carried at estimated

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net realizable value. Unless specific circumstances warrant different treatment regarding inventory obsolescence, an allowance is established to reduce the cost basis of inventories three to four years old by 50%, the cost basis of inventories four to five years old by 75%, and the cost basis of inventories greater than five years old to zero. Inventory is typically reviewed for obsolescence on an annual basis computed as of September 30, 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 December 31, 2023 March 31, 2024 and September 30, 2023 consist of the following:

	December 31, 2023	September 30, 2023	March 31, 2024	September 30, 2023
Raw materials	\$ 37,896,000	\$ 35,918,000	\$ 33,672,000	\$ 35,918,000
Work in process	22,759,000	22,923,000	19,488,000	22,923,000
Finished goods	11,554,000	12,686,000	10,572,000	12,686,000
	<u>\$ 72,209,000</u>	<u>\$ 71,527,000</u>	<u>\$ 63,732,000</u>	<u>\$ 71,527,000</u>

Slow-moving and obsolete inventory reserves allowances were \$9,915,000 \$11,106,000 and \$9,813,000 \$9,813,000 at December 31, 2023 March 31, 2024 and September 30, 2023, respectively.

Note 4 – Costs and Estimated Earnings in Excess of Billings

Costs and estimated earnings in excess of billings on uncompleted contracts as of December 31, 2023 March 31, 2024 and September 30, 2023, consist of the following:

	December 31, 2023	September 30, 2023	March 31, 2024	September 30, 2023
Costs incurred on uncompleted contracts	\$ 21,196,000	\$ 18,468,000	\$ 16,117,000	\$ 18,468,000
Estimated earnings	8,785,000	7,939,000	5,228,000	7,939,000
	<u>29,981,000</u>	<u>26,407,000</u>	<u>21,345,000</u>	<u>26,407,000</u>
Billings to date	<u>23,817,000</u>	<u>24,899,000</u>	<u>18,876,000</u>	<u>24,899,000</u>
Costs and estimated earnings in excess of billings	<u>\$ 6,164,000</u>	<u>\$ 1,508,000</u>	<u>\$ 2,469,000</u>	<u>\$ 1,508,000</u>

Note 5 – Earnings per Share Data

The condensed consolidated financial statements include basic and diluted earnings per share information. The following table sets forth the computation of basic and diluted income (loss) earnings per share for the quarters and six months ended December 31, 2023 March 31, 2024 and 2022: 2023:

	Quarter Ended December 31,	
	2023	2022
Net Income	<u>\$ 4,326,000</u>	<u>\$ 3,476,000</u>

Common Shares:			
Weighted average common shares outstanding	14,658,000	14,658,000	
Common stock equivalents	—	—	
Diluted shares outstanding	<u>14,658,000</u>	<u>14,658,000</u>	
Basic:			
Net income per share	\$ 0.30	\$ 0.24	
Diluted:			
Net income per share	\$ 0.30	\$ 0.24	

The Company's 2009 Incentive Compensation Plan expired on October 1, 2021.

	Quarter Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Net Income	\$ 6,222,000	\$ 4,873,000	\$ 10,548,000	\$ 8,349,000
Weighted Average Common Shares Outstanding:				
Basic and diluted	14,658,000	14,658,000	14,658,000	14,658,000
Net income per common share – basic and diluted	\$ 0.42	\$ 0.33	\$ 0.72	\$ 0.57

There were no other existing equity compensation plans and arrangements previously approved by security holders as of December 31, 2023 March 31, 2024 and December 31, 2022 March 31, 2023.

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Note 6 – Customers with 10% (or greater) of Net Revenues

During the quarter ended December 31, 2023 March 31, 2024, one two customers accounted for 13.9% and 12.4%, respectively, of net revenues. During the six months ended March 31, 2024, the first customer noted above accounted for 11.0% of net revenues and a third customer accounted for 20.3% 10.0%, respectively, of net revenues.

During the quarter ended December 31, 2022 March 31, 2023, two customers accounted for 13.4% 12.7% and 12.5% 11.6%, respectively, of net revenues, respectively. During the six months ended March 31, 2023, no customer accounted for 10% or greater of net revenues.

Note 7 – Income Taxes

Income taxes are provided for the tax effects of transactions reported in the condensed consolidated financial statements and primarily consist of taxes currently due, plus deferred taxes.

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the condensed consolidated financial statements or tax returns using current tax rates. The Company and its domestic subsidiaries file a consolidated federal income tax return.

Deferred tax assets and liabilities are measured using the rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse and the credits are expected to be used. The effect on deferred tax assets and liabilities of the change in tax rates is recognized in income in the period that includes the enactment date. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, the Company is more likely than not to realize the benefit of a deferred tax asset and whether a valuation allowance is needed for some portion or all of a deferred tax asset. No such valuation allowances were recorded as of December 31, 2023 March 31, 2024 and September 30, 2023.

The Company's income tax provision is based on management's estimate of the effective tax rate for the full year. The tax provision in any period will be affected by, among other things, permanent, as well as temporary differences in the deductibility of certain items, in addition to changes in tax legislation. As a result, the Company may experience significant fluctuations in the effective book tax rate (that is, its tax expense divided by pre-taxbook income) from period to period. The Company's effective tax rates for the quarters and six months ended December 31, 2023 March 31, 2024 and December 31, 2022 March 31, 2023 reflect income tax rates under the Tax Cuts and Jobs Act of 2017 (the "TCJA").

Beginning in 2022, the TCJA eliminated the option of expensing all research and development expenditures in the current year, instead requiring amortization over five years pursuant to IRC Section 174. In the future, Congress may consider legislation that would eliminate the capitalization and amortization requirement. There is no assurance that the requirement will be deferred, repealed or otherwise modified. The requirement became effective for the Company's fiscal year 2023, beginning October 1, 2022. The Company will continue to make additional estimated federal tax payments based on the current Section 174 tax law. The impact of Section 174 on the Company's cash from operations depends primarily on the amount of research and development expenditures incurred and whether the IRS issues guidance on the provision which differs from the Company's current interpretation.

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Note 8 – Revenue Recognition and Related Costs

The Company recognizes revenue under ASUNo. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The following table disaggregates the Company's net revenue by major source for the quarters and six months ended **December 31, 2023** **March 31, 2024** and **2022: 2023**:

	Quarter Ended December 31,	
	2023	2022
Equipment sales recognized over time	\$ 9,833,000	\$ 7,329,000
Equipment sales recognized at a point in time	7,181,000	11,498,000
Parts and component sales	7,796,000	5,901,000
Freight revenue	1,135,000	1,046,000
Other	73,000	51,000
Net revenue	\$ 26,018,000	\$ 25,825,000

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	Quarter Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Equipment sales recognized over time	\$ 12,380,000	\$ 4,383,000	\$ 22,213,000	\$ 11,713,000
Equipment sales recognized at a point in time	17,394,000	16,595,000	24,575,000	28,093,000
Parts and component sales	8,591,000	7,227,000	16,387,000	13,128,000
Freight revenue	1,762,000	1,954,000	2,897,000	3,000,000
Other	549,000	342,000	622,000	393,000
Net revenue	\$ 40,676,000	\$ 30,501,000	\$ 66,694,000	\$ 56,327,000

Revenues from contracts with customers for the design, manufacture and sale of custom equipment are recognized over time when the performance obligation is satisfied by transferring control of the equipment. Control of the equipment transfers over time, as the equipment is unique to the specific contract and thus does not create an asset with an alternative use to the Company. Revenues and costs are recognized in proportion to actual labor costs incurred, as compared with total estimated labor costs expected to be incurred, during the entire contract. All incremental costs related to obtaining a contract are expensed as incurred, as the amortization period is less than one year. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined.

Contract assets (excluding accounts receivable) under contracts with customers represent revenue recognized in excess of amounts billed on equipment sales recognized over time. These contract assets were **\$6,164,000** **\$2,469,000** and **\$1,508,000** **\$1,508,000** at **December 31, 2023** **March 31, 2024** and September 30, 2023, respectively, and are included in current assets as costs and estimated earnings in excess of billings on the Company's condensed consolidated balance sheets. The Company anticipates that all of the contract assets at **December 31, 2023** **March 31, 2024**, will be billed and collected within one year.

Revenues from all other contracts for the design and manufacture of equipment, for service and for parts sales, net of any discounts and return allowances, are recorded at a point in time when control of the goods or services has been transferred. Control of the goods or service typically transfers at time of shipment or upon completion of the service.

Payment for equipment under contract with customers is typically due prior to shipment. Payment for services under contract with customers is due as services are completed. Accounts receivable related to contracts with customers for equipment sales were **\$76,000** **\$283,000** and **\$114,000** **\$114,000** at **December 31, 2023** **March 31, 2024** and September 30, 2023, respectively.

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

Under certain contracts with customers, recognition of a portion of the consideration received may be deferred and recorded as a contract liability if the Company has to satisfy a future obligation, such as to provide installation assistance. There were no contract liabilities other than customer deposits at **December 31, 2023** **March 31, 2024** and September 30, 2023. Customer deposits related to contracts with customers were **\$12,702,000** **\$7,945,000** and **\$6,815,000** **\$6,815,000** at **December 31, 2023** **March 31, 2024** and September 30, 2023, respectively, and are included in current liabilities on the Company's condensed consolidated balance sheets.

The Company records revenues earned for shipping and handling as freight revenue at the time of shipment, regardless of whether or not it is identified as a separate performance obligation. The cost of shipping and handling is classified as cost of goods sold concurrently with the revenue recognition.

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.

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The allowance for **doubtful accounts credit losses** 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 category. The measurement and recognition of credit losses involves judgment and represents the Company's estimate of expected credit losses based on consideration of historical credit loss experience, the aging of

account balances, customer credit worthiness, and current and expected economic, market and industry factors impacting the Company's customers, including their financial condition. Account balances are charged off against the allowance for doubtful accounts credit losses when they are determined to be uncollectible. Any recoveries of account balances previously considered in the allowance for doubtful accounts credit losses reduce future additions to the allowance for doubtful accounts credit losses. The allowance for doubtful accounts credit losses also includes an estimate for returns and allowances. Provisions for estimated returns and allowances and other adjustments, are provided for in the same period the related sales are recorded. Returns and allowances, which reduce product revenue, are estimated using known issues and historical experience.

Note 9 – Leases

The Company leases certain equipment under non-cancelable operating leases. Future minimum rental payments under these leases at December 31, 2023 March 31, 2024 were immaterial.

On August 28, 2020, the Company entered into a three-year operating lease for property related to manufacturing and warehousing. The lease term was for the period beginning on from September 1, 2020 through August 31, 2023 August 31, 2023. In accordance with ASU2016-02, the Company recorded a ROU right-of-use ("ROU") asset totaling \$970,000 and related lease liabilities at inception. In March 2023, the Company extended the lease term through August 31, 2024. In accordance with ASU2016-02, the Company recorded a ROU right-of-use ("ROU") asset totaling \$352,000 and related lease liabilities upon extension.

On October 9, 2020, In March 2024, the Company entered into an operating lease for additional warehousing space for inventory. The original extended the lease term was for one year beginning November 2020 with automatic one-year renewals, through August 31, 2025. In accordance with ASU2016-02, the Company recorded a ROU asset totaling \$254,000 \$361,000 and related lease liabilities at inception. An additional \$39,000 was recorded as a ROU asset and related lease liability in October 2021 to reflect the impact of the lease renewal. In March 2022, the ROU asset and related liability was reduced by \$39,000 to reflect the impact of a reduction in the square footage being leased, upon extension.

For the quarter and six months ended December 31, 2023 March 31, 2024, operating lease costs and cash payments related to these operating leases were \$109,000, \$109,000 and \$218,000, respectively. For the quarter and six months ended December 31, 2022 March 31, 2023, operating lease costs were \$107,000 and \$214,000, respectively, and cash payments related to these operating leases were \$133,000, \$110,000 and \$243,000, respectively.

Other information concerning the Company's operating lease accounted for under ASC 842 guidelines as of December 31, 2023 March 31, 2024 and September 30, 2023, is as follows:

	December 31, 2023	September 30, 2023
Operating lease ROU asset included in other long-term assets	\$ 235,000	\$ 328,000
Current operating lease liability	235,000	328,000
Non-current operating lease liability	—	—
Weighted average remaining lease term (in years)	0.75	0.51
Weighted average discount rate used in calculating ROU asset	5.0%	4.5%
	March 31, 2024	September 30, 2023
Operating lease ROU asset included in other long-term assets	\$ 509,000	\$ 328,000
Current operating lease liability	357,000	328,000
Non-current operating lease liability	152,000	0
Weighted average remaining lease term (in years)	0.50	0.51
Weighted average discount rate used in calculating ROU asset	5.0%	4.5%

Future annual minimum lease payments as of December 31, 2023 March 31, 2024 are as follows:

Fiscal Year	Annual Lease Payments
2024	Fiscal Year
(remaining 2024 (remaining six months))	\$ 181,000
nine months)	338,000
	519,000
Less interest	(10,000)
Present value of lease liabilities	\$ 509,000
	\$ 239,000

Less interest	(4,000)
Present value of lease liabilities \$	235,000

Note 10 – Segment Information

The Company has one reporting segment, equipment for the highway construction industry. Based on evaluation of the criteria of ASC 280 – Segment Reporting, including the nature of products and services, the nature of the production processes, the type of customers and the methods used to distribute products and services, the Company determined that its operating segments meet the requirements for aggregation. The Company designs, manufactures and sells asphalt plants and pavers, combustion systems and fluid heat transfer systems for the highway construction industry and environmental and petrochemical markets. The Company's products are manufactured at three facilities in the United States. The Company also services and sells **spare** parts for its equipment.

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

Forward-Looking Information

This Quarterly Report contains certain "forward-looking statements" within the meaning of 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, income from investees and litigation. 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, the performance of the investment portfolio and the 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, 2023: (a) Part I, Item 1A, "Risk Factors" and (b) Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations". 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 Quarterly Report. The Company does not undertake to update any forward-looking statement, except as required by law.

Overview

Gencor is a leading manufacturer of heavy machinery used in the production of highway construction equipment and materials and environmental control equipment. The Company's core products include asphalt pavers, hot mix asphalt plants, combustion systems, and fluid heat transfer systems. The Company's products are manufactured at three 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 reduce their purchases of new equipment for shipment during the summer and fall months to avoid disrupting their peak season for highway construction and related 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 in the late winter and spring. 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, Canadian infrastructure spending, the need for spare parts, fluctuations in the price of liquid asphalt, and a trend towards larger more efficient asphalt plants.

On November 15, 2021, President Biden signed into law a five-year, \$1.2 trillion infrastructure bill, the Infrastructure Investment and Jobs Act (the "IIJ Act"), including \$550 billion in new spending and reauthorization of \$650 billion in previously allocated funds. The IIJ Act provides \$110 billion for the nation's highways, bridges and roads.

Fluctuations in the price of carbon steel, which is a significant cost and material used in the manufacturing of the Company's equipment, may affect the Company's financial performance. The Company is subject to fluctuations in market prices for raw materials, such as steel. If the Company is unable to purchase materials it requires or is unable to pass on price increases to its customers or otherwise reduce its cost of goods sold, its business results of operations and financial condition may be adversely affected.

Also, a significant increase in the price of liquid asphalt could decrease demand for hot mix asphalt paving materials and certain of the Company's products. Increases in oil prices also drive up the cost of gasoline and diesel, 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 higher costs and thus could have a negative impact on the Company's financial performance.

The Company believes its strategy of continuing to invest in product engineering and development and its focus on delivering the highest quality products and superior service will strengthen the Company's market position. The Company continues to review its internal processes to identify inefficiencies and cost-reduction opportunities. The Company will continue to scrutinize its relationships with suppliers to ensure it is achieving the highest quality materials and services at the most competitive cost.

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On July 19, 2022, the Company announced that it was transferring the listing of its common stock, \$0.10 per share par value ("Common Stock"), to the NYSE American LLC ("NYSE American") from the NASDAQ Global Market ("NASDAQ"). Listing and trading of the Company's Common Stock on NASDAQ ended at market close on July 29, 2022 and listing and trading of its Common Stock on the NYSE American commenced at market open on August 1, 2022 under its current ticker symbol 'GENC'.

Concerns over inflation, geopolitical issues, and global financial markets have led to increased economic instability and expectations of slower global economic growth. Our business may be adversely affected by any such economic instability or unpredictability. Russia's invasion of Ukraine and related sanctions has led to increased energy prices. Such sanctions and disruptions to the global economy may lead to additional inflation and may disrupt the global supply chain and could have a material adverse effect on our ability to secure supplies. The increased cost of oil, along with increased or prolonged periods of inflation, would likely increase our costs in the form of higher wages, further inflation on supplies and equipment necessary to operate our business. Additionally, the armed conflict involving Hamas and Israel, as well as further escalation of tensions between Israel, the U. S., and various countries in the Middle East and North Africa, may cause increased inflation in energy and logistics costs and could further cause general economic conditions in the U.S. or abroad to deteriorate. There is a risk that one or more of our suppliers could be negatively affected by global economic instability, which could adversely affect our ability to operate efficiently and timely complete our operational goals. As of the date of issuance of this Quarterly Report, the Company's operations have not been significantly impacted.

Beginning in 2022, the TCJA eliminated the option of expensing all research and development expenditures in the current year, instead requiring amortization over five years pursuant to IRC Section 174. In the future, Congress may consider legislation that would eliminate the capitalization and amortization requirement. There is no assurance that the requirement will be deferred, repealed or otherwise modified. The requirement was effective for the Company's fiscal year 2023, beginning October 1, 2022. The Company will continue to make additional estimated federal tax payments based on the current Section 174 tax law. The impact of Section 174 on the Company's cash from operations depends primarily on the amount of research and development expenditures incurred and whether the IRS issues guidance on the provision which differs from our current interpretation.

Results of Operations

Quarter Ended December 31, 2023 March 31, 2024 versus December 31, 2022 March 31, 2023

Net ~~revenues~~ revenue for the quarter ended ~~December 31, 2023~~ of \$26,018,000 ~~March 31, 2024~~ increased ~~slightly over net revenues~~ 33.4% to \$40,676,000, from \$30,501,000 for the quarter ended ~~December 31, 2022~~ of \$25,825,000. ~~March 31, 2023~~. Increased ~~revenues from parts sales and net revenue in contract equipment sales recognized over time were mostly offset by decreased revenues~~ resulted from ~~contract equipment sales recognized at a point in time~~. ~~the impact of government funding for highways, bridges and roads under the IIJ Act~~.

As a percent of ~~sales, net revenue~~, gross profit margins ~~improved~~ increased slightly to ~~29.0%~~ ~~30.3%~~ in the quarter ended ~~December 31, 2023~~ ~~March 31, 2024~~, compared to ~~22.5%~~ ~~29.8%~~ in the quarter ended ~~December 31, 2022~~ ~~March 31, 2023~~, on ~~improved manufacturing efficiencies~~ absorption on increased production, and favorable price realization.

Product engineering and development expenses ~~decreased~~ \$96,000 ~~increased~~ \$19,000 to ~~\$801,000~~ ~~\$893,000~~ for the quarter ended ~~December 31, 2023~~ ~~March 31, 2024~~, as compared to ~~\$897,000~~ ~~\$874,000~~ for the quarter ended ~~December 31, 2022~~, due to ~~reduced headcount~~. ~~March 31, 2023~~. Selling, general and administrative ("SG&A") expenses increased ~~\$551,000~~ ~~\$1,295,000~~ to ~~\$3,350,000~~ ~~\$4,357,000~~ for the quarter ended ~~December 31, 2023~~ ~~March 31, 2024~~, compared to ~~\$2,799,000~~ ~~\$3,062,000~~ for the quarter ended ~~December 31, 2022~~ ~~March 31, 2023~~. The increase in SG&A expenses was primarily due to increased trade ~~shows~~ ~~expenses~~, ~~professional fees~~ and ~~professional expenses~~. ~~commissions on higher sales~~.

The Company had operating ~~Operating~~ income of \$3,383,000 ~~increased~~ 37.0% or \$1,911,000 from \$5,161,000 for the quarter ended ~~December 31, 2023~~ as compared ~~March 31, 2023~~ to ~~\$2,119,000~~ ~~\$7,072,000~~ for the quarter ended ~~December 31, 2022~~. The increased ~~operating income~~ was due to improved gross profit margins for the quarter ended ~~December 31, 2023~~, ~~March 31, 2024~~, on significantly ~~higher net revenue~~.

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For the quarter ended December 31, 2023 March 31, 2024, the Company had net non-operating income of \$2,235,000 \$1,008,000 compared to \$2,455,000 \$1,257,000 for the quarter ended December 31, 2022 March 31, 2023. Net interest The decrease was primarily due to a decrease in net gains on marketable securities as the Company sold most of its equities in January 2023. Interest and dividend income, net of fees, was \$803,000 in the quarter ended March 31, 2024 as compared to \$565,000 in the quarter ended March 31, 2023. The increase was primarily due to higher rates earned on cash and fixed income investments. The net realized and unrealized gains on marketable securities were \$205,000 for the quarter ended March 31, 2024 compared to \$692,000 for the quarter ended March 31, 2023.

The effective income tax rates for the quarters ended March 31, 2024 and March 31, 2023, were 23.0% and 24.1%, respectively, based on the expected annual effective income tax rate.

Net income for the quarter ended December 31, 2023 was \$716,000 compared March 31, 2024 increased 27.7% to \$493,000 \$6,222,000, or \$0.42 basic and diluted earnings per share, from \$4,873,000, or \$0.33 basic and diluted earnings per share, for the quarter ended December 31, 2022 March 31, 2023. The improved net income and earnings per share resulted primarily from the increased net revenue.

Six Months Ended March 31, 2024 versus March 31, 2023

Net revenue for the six months ended March 31, 2024 and 2023 were \$66,694,000 and \$56,327,000, respectively, an increase of \$10,367,000 or 18.4%. The improved net revenue was primarily in contract equipment and parts sales resulting from the impact of government funding for highways, bridges and roads under the IJ Act.

Gross profit margins increased to 29.8% for the six months ended March 31, 2024 from 26.5% for the six months ended March 31, 2023. The higher gross profit margins in fiscal 2024 were due to improved absorption and efficiency on increased production and favorable price realization.

Product engineering and development expenses decreased \$77,000 to \$1,694,000 for the six months ended March 31, 2024, compared to \$1,771,000 for the six months ended March 31, 2023, due primarily to lower headcount. SG&A expenses increased \$1,846,000 to \$7,707,000 for the six months ended March 31, 2024, compared to \$5,861,000 the six months ended March 31, 2023. The increase in SG&A expenses was primarily due to increased trade show expenses, professional fees and commissions on higher net revenue.

The Company had operating income of \$10,455,000 for the six months ended March 31, 2024 versus \$7,280,000 for the six months ended March 31, 2023. The increase in operating income was due primarily to the increased net revenue and gross profit margins.

For the six months ended March 31, 2024, the Company had net non-operating income of \$3,243,000 compared to \$3,712,000 for the six months ended March 31, 2023. Interest and dividend income, net of fees, was \$1,519,000, as compared to \$1,058,000 for the six months ended March 31, 2023. The increase in interest and dividend income, net of fees, for the six months ended March 31, 2024, was primarily due to higher rates earned on fixed income investments coupled with the Company reallocating a majority of its holdings in equities to fixed income in January 2023. Net realized and unrealized gains on marketable securities were \$1,724,000 for the quarter six months ended December 31, 2023 were \$1,519,000 March 31, 2024 compared to \$1,962,000 \$2,654,000 for the quarter six months ended December 31, 2022 March 31, 2023. The decrease in net gains on marketable securities resulted primarily from the sale of most of its equities in January 2023.

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The effective income tax rates for the quarters six months ended December 31, 2023 March 31, 2024 and December 31, 2022 March 31, 2023, were 23.0% and 24.0%, respectively, respectively, based on the expected annual effective income tax rate. Net income for the quarter six months ended December 31, 2023 March 31, 2024 was \$4,326,000, \$10,548,000, or \$0.30 per \$0.72 basic and diluted earnings per share, compared to net income of \$3,476,000, versus \$8,349,000, or \$0.24 per \$0.57 basic and diluted earnings per share for the quarter six months ended December 31, 2022 March 31, 2023. The improved net income and earnings per share resulted primarily from the increased net revenue.

Liquidity and Capital Resources

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

The Company had no long-term or short-term debt outstanding as of December 31, 2023 at March 31, 2024 or September 30, 2023. In April 2020, a financial institution issued an irrevocable standby letter of credit ("letter of credit") on behalf of the Company for the benefit of one of the Company's insurance carriers. The maximum amount that can be drawn by

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the beneficiary under the letter of credit is \$150,000. The letter of credit expires in April 2024, 2025, unless terminated earlier, and can be extended, as provided by the agreement. The Company intends to renew the letter of credit for as long as the Company does business with the beneficiary insurance carrier. The letter is collateralized by restricted cash of the same amount on any outstanding drawings. To date, no amounts have been drawn under the letter of credit.

As of December 31, 2023 March 31, 2024, the Company had \$18,559,000 \$30,213,000 in cash and cash equivalents, and \$86,231,000 \$86,894,000 in marketable securities, including \$30,501,000 \$30,302,000 in corporate bonds, \$3,462,000 \$3,560,000 in exchange-traded funds, \$52,104,000 \$52,848,000 in government securities, and \$164,000 \$184,000 in cash and money funds. The marketable securities are invested through a professional investment management firm. These securities may be liquidated into cash at any time into cash and cash equivalents. time.

The Company's backlog was \$61.3 \$50.4 million at December 31, 2023 March 31, 2024 compared to \$42.5 \$37.4 million at December 31, 2022 March 31, 2023. The Company's working capital (defined as current assets less current liabilities) was \$169.8 \$176.5 million at December 31, 2023 March 31, 2024 and \$164.8 million at September 30, 2023. Cash flows provided by operations operating activities during the quarter six months ended December 31, 2023, March 31, 2024 were \$1,894,000 \$13,560,000. The significant purchases, sales and maturities of marketable securities shown on the condensed consolidated statements of cash flows reflect the recurring purchases and sales of United States treasury bills, bills, including the reallocation of investments in equities and mutual funds to United States treasury bills in January 2023. Accounts receivable increased \$1,561,000 \$3,291,000, due primarily to increased paver and parts sales in the quarter ended March 31, 2024 compared to the quarter ended September 30, 2023, primarily from increased parts sales. Costs and estimated earnings in excess of billings increased \$4,656,000 \$961,000 with the timing of inventory build and percentage of completion recognition on plant sales where revenue is recognized over time. Inventories decreased \$7,795,000 due to completion and shipment on several large contract orders where revenue is recognized at a point in time as well as increased paver and parts sales. Prepaid expenses decreased \$953,000 due primarily to amortization of trade show expenses. Customer deposits increased \$5,887,000 by \$1,130,000 reflecting down payments and final payments on contract jobs not yet shipped. Accrued expenses decreased \$1,240,000 due primarily to payments made on federal and state income taxes accrued at September 30, 2023.

Cash flows used in investing activities for the quarter six months ended December 31, 2023 March 31, 2024 of \$366,000 \$378,000 were related to capital expenditures, primarily for building improvements and handling equipment.

Seasonality.

The Company's primary business is the manufacture of asphalt plants and related components and asphalt pavers. These products typically experience a seasonal slowdown during the third and fourth quarters of the calendar year. This slowdown often results in lower reported sales and operating results during the first and fourth quarters of the fiscal year ended September 30.

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, 2023, "Nature of Operations and Summary of Significant Accounting Policies."

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Estimates and Assumptions

In preparing the condensed 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 condensed 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

The Company recognizes revenue under ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606).

Revenues from contracts with customers for the design, manufacture and sale of custom equipment are recognized over time when the performance obligation is satisfied by transferring control of the equipment. Control of the equipment transfers over time, as the equipment is unique to the specific contract and thus does not create an asset with an alternative use to the Company. Revenues and costs are recognized in proportion to actual labor costs incurred, as compared with total estimated labor costs expected to be incurred, during the entire contract. All incremental costs related to obtaining a contract are expensed as incurred, as the amortization period is less than one year. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined.

Contract assets (excluding accounts receivable) under contracts with customers represent revenue recognized in excess of amounts billed on equipment sales recognized over time. These contract assets were ~~\$6,164,000~~ \$2,469,000 and \$1,508,000 at ~~December 31, 2023~~ March 31, 2024 and September 30, 2023, respectively, and are included in current assets as costs and estimated earnings in excess of billings on the Company's condensed consolidated balance sheets. The Company anticipates that all of the contract assets at ~~December 31, 2023~~ March 31, 2024, will be billed and collected within one year.

Revenues from all other contracts for the design and manufacture of equipment, for service and for parts sales, net of any discounts and return allowances, are recorded at a point in time when control of the goods or services has been transferred. Control of the goods or service typically transfers at time of shipment or upon completion of the service.

Payment for equipment under contract with customers is typically due prior to shipment. Payment for services under contract with customers is due as services are completed. Accounts receivable related to contracts with customers for equipment sales were ~~\$76,000~~ \$283,000 and \$114,000 at ~~December 31, 2023~~ March 31, 2024 and September 30, 2023, respectively.

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

Under certain contracts with customers, recognition of a portion of the consideration received may be deferred and recorded as a contract liability if the Company has to satisfy a future obligation, such as to provide installation assistance. There were no contract liabilities other than customer deposits at ~~December 31, 2023~~ March 31, 2024 and September 30, 2023. Customer deposits related to contracts with customers were ~~\$12,702,000~~ \$7,945,000 and \$6,815,000 at ~~December 31, 2023~~ March 31, 2024 and September 30, 2023, respectively, and are included in current liabilities on the Company's condensed consolidated balance sheets.

The Company records revenues earned for shipping and handling as freight revenue at the time of shipment, regardless of whether or not it is identified as a separate performance obligation. The cost of shipping and handling is classified as cost of goods sold concurrently with the revenue recognition.

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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.

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The allowance for **doubtful accounts credit losses** 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 category. Account balances are charged off against the allowance for **doubtful accounts credit losses** when they are determined to be uncollectible. Any recoveries of account balances previously considered in the allowance for **doubtful accounts credit losses** reduce future additions to the allowance for **doubtful accounts credit losses**. The allowance for **doubtful accounts credit losses** also includes an estimate for returns and allowances. Provisions for estimated returns and allowances and other adjustments, are provided for in the same period the related sales are recorded. Returns and allowances, which reduce product revenue, are estimated using known issues and historical experience.

Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being determined under the first in, first out method and net realizable value defined as the estimated selling price of goods less reasonable costs of completion and delivery. Appropriate consideration is given to obsolescence, excessive levels, deterioration, possible alternative uses and other factors in determining net realizable value. The cost of work in process and finished goods includes materials, direct labor, variable costs and overhead. The Company evaluates the need to record inventory adjustments on all inventories, including raw material, work in process, finished goods, spare parts and used equipment. Used equipment acquired by the Company on trade-in from customers is carried at estimated net realizable value. Unless specific circumstances warrant different treatment regarding inventory obsolescence, an allowance is established

to reduce the cost basis of inventories three to four years old by 50%, the cost basis of inventories four to five years old by 75%, and the cost basis of inventories greater than five years old to zero. Inventory is typically reviewed for obsolescence on an annual basis computed as of September 30, 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.

Marketable Securities and Fair Value Measurements

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 condensed consolidated **income statements**, **statements of income**. Net unrealized gains and (losses) are reported in the condensed consolidated **statements of income**, **statements** in the current period and represent the change in the fair value of investment holdings during the 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 **None.**

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's President (who is currently serving as the Company's Principal Executive Officer) and Chief Financial Officer (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 Quarterly Report. Based upon that evaluation, the President and the Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly 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 President and Chief Financial 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 December 31, 2023** **March 31, 2024** 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 1. Legal Proceedings

From time to time the Company is engaged in legal proceedings in the ordinary course of business. We do not believe any current legal proceedings are material to our business.

Item 1A. Risk Factors

Our business, operations, and financial condition are subject to various risks and uncertainties. The risk factors described in Part I, Item 1A, "Risk Factors" contained in our Annual Report on Form 10K for the year ended September 30, 2023, as filed with the SEC on December 13, 2023, should be carefully considered, together with the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and in our other filings filed with the SEC in connection with evaluating us, our business, and the forward-looking statements contained in this Quarterly Report.

Changes in our tax rates or exposure to additional tax liabilities could adversely affect our earnings and financial condition

Beginning in 2022, the Tax Cuts and Jobs Act of 2017 eliminated the option of expensing all research and development expenditures in the current year, instead requiring amortization over five years pursuant to IRC Section 174. In the future, Congress may consider legislation that would eliminate the capitalization and amortization requirement. There is no assurance that the requirement will be deferred, repealed or otherwise modified. The requirement ~~was~~ is effective for the Company's fiscal year 2023, beginning October 1, 2022. The Company will continue to make additional estimated federal tax payments based on the current Section 174 tax law. The impact of Section 174 on the Company's cash from operations depends primarily on the amount of research and development expenditures incurred and whether the IRS issues guidance on the provision which differs from the Company's current interpretation.

Item 5. Other Information

Rule 10b5-1 Plan Adoptions and Modifications

None.

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None of our officers or directors had any contract, instruction, or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" in effect at any time during the three months ended March 31, 2024.

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Item 6. Exhibits

Exhibit	Description
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a – 14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Rule 13a – 14(a) of the Securities Exchange Act of 1934, as amended
Exhibit 32	Certifications of Principal Executive Officer and Chief Financial Officer Pursuant to 18 U. S. C. Section 1350
Exhibit 101.1	Interactive Data File
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2023 March 31, 2024 , formatted in Inline XBRL (included in Exhibit 101)

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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/ Marc G. Elliott

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Marc G. Elliott
President
(Principal Executive Officer)

February 6, May 10, 2024

/s/ Eric E. Mellen

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

February 6, May 10, 2024

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Exhibit 31.1

CERTIFICATIONS

I, Mr. Marc G. Elliott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gencor Industries, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I, are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **February 6, 2024**

**May
10,
2024**

/s/ Marc G. Elliott

Marc G. Elliott
President
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Mr. Eric E. Mellen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gencor Industries, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I, are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **February 6, 2024**

**May
10,
2024**

/s/ Eric E. Mellen

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

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Gencor Industries, Inc. (the "Company") on Form 10-Q for the quarter **and six months ended December 31, 2023** **March 31, 2024**, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marc G. Elliott

Marc G. Elliott
President
(Principal Executive Officer)

February 6, May 10, 2024

/s/ Eric E. Mellen

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

February 6, May 10, 2024

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