NATIONAL STEEL CO
Form 6-K
March 29, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the
Securities Exchange Act of 1934

For the month of March, 2013
Commission File Number 1-14732

COMPANHIA SIDERÚRGICA NACIONAL

(Exact name of registrant as specified in its charter)

National Steel Company

(Translation of Registrant's name into English)

Av. Brigadeiro Faria Lima 3400, 20º andar
São Paulo, SP, Brazil
04538-132
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F. Form 20-F ___X___ Form 40-F _______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _______ No ___X____

CSN REACHES RECORD NET REVENUES OF R$16.9 BILLION IN 2012

STEEL SALES VOLUME TOTALED 5.8 MILLION TONNES IN 2012, 19% HIGHER THAN 2011

São Paulo, Brazil, March 28, 2013

Companhia Siderúrgica Nacional (CSN) (BM&FBOVESPA: CSNA3) (NYSE: SID) announces its consolidated results for the fourth quarter (4Q12) and full year of 2012, which are presented in Brazilian Reais and in accordance with both the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the Brazilian accounting practices, which are fully convergent with international accounting norms, issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM), pursuant to CVM Instruction 485 of September 1, 2010. All comments presented herein refer to the Company's consolidated results and comparisons refer to the third quarter of 2012 (3Q12) and full year of 2011, unless otherwise stated. The Real/U.S. Dollar exchange rate on December 28, 2012 was R$2.044.

- CSN's consolidated net revenue reached the record amount of R$16.9 billion in 2012, fueled by the record net revenue of R$4.6 billion in 4Q12;
- Steel net revenue reached the record amount of R$10.8 billion in 2012, due to the record steel sales volume of 5.8 million tonnes, in which, domestic sales stood out;
- In 2012, working capital declined by R$806 million, chiefly due to improved payment and inventory management, which reduced the cash conversion cycle by 34 days;
- CSN's investments in fixed assets totaled R$3.1 billion in 2012;
- CSN ended the year with R$14.4 billion in cash and cash equivalents.

Executive Summary

Consolidated Highlights	4Q12	3Q12	2012	2011	4Q12 x 3Q12 (Change)	2012 x 2011 (Change)
Net Revenue (R$ MM)	4,597	4,267	16,896	16,520	8%	2%
Gross Profit (R$ MM)	1,361	1,164	4,824	6,719	17%	-28%
Adjusted EBITDA (R$ MM)	1,222	1,076	4,532	6,468	14%	-30%

Adjusted EBITDA Margin (%)	27%	25%	27%	39%	2 p.p.	-12 p.p.
Total Sales (thousand t)						
- Steel	**1,506**	**1,589**	**5,829**	**4,896**	**-5%**	**19%**
- Domestic Market	77%	79%	77%	86%	-2 p.p.	-9 p.p.
- Overseas Subsidiaries	20%	19%	20%	10%	1 p.p.	10 p.p.
- Export	3%	2%	3%	4%	1 p.p.	-1 p.p.
- Iron Ore[1]	**6,422**	**6,564**	**25,775**	**29,332**	**-2%**	**-12%**
- Domestic Market	0%	3%	2%	5%	-3 p.p.	-3 p.p.
- Export	100%	97%	98%	95%	3 p.p.	3 p.p.
Net Debt (R$ MM)	**15,707**	**15,644**	**15,707**	**12,471**	**0%**	**26%**
Cash Position	14,445	14,554	14,445	15,417	-1%	-6%

At the close of 2012

- BM&FBovespa: CSNA3 R$11.86/share
- NYSE: SID US$5.81/ADR (1 ADR = 1 share)
- Total no. of shares = 1,457,970,108
- Share appreciation (CSNA3): 4%
- ADR appreciation (SID): 3%
- Market Cap: R$17.3 billion/US$8.5 billion

Investor Relations Team

- **IR Executive Officer:** David Salama - (+55 11) 3049-7588
- **IR Manager:** Claudio Pontes - (+55 11) 3049-7592
- **Specialist:** Kate Murano - (+55 11) 3049-7585
- **Analyst:** Ana Troster - (+55 11) 3049-7526
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Economic Scenario

The recovery of global economic activity is moving ahead at a moderate pace, still reflecting the high level of uncertainty surrounding the international scenario.

While the Eurozone remains in retraction, with high unemployment and political challenges, the United States still faces concerns over its fiscal policy.

The monetary policy trend in emerging countries is, in general, expansionist, with prospects of a recovery in the pace of activity, sustained by domestic demand.

Following six months of shrinkage, December's global Purchasing Managers Index (PMI) moved up, with the US and Chinese indicators reaching their highest level since May, 2012. The Eurozone PMI remained low with a decline in industrial output and weak domestic demand.

The IMF estimates global growth of 3.5% in 2013, a slight improvement over the 3.2% forecasted for 2012.

USA

U.S. GDP grew by 2.2% in 2012, an improvement over the 1.8% reported in 2011.

According to the latest FED figures, industrial production edged up by 0.3% in December and 1.0% in 4Q12, reflecting reconstruction works post-hurricane Sandy. Manufacturing PMI reached 50.7 points in December, versus 49.5 in November.

On the monetary policy front, the FED opted to peg interest rates to the economic scenario, keeping them low while unemployment is above 6.5% and estimated inflation for the next two years does not exceed 2.5%.

The FED estimates GDP growth of between 2.3% and 2.8% in 2013. However, the US$85 billion cut in the U.S. budget may affect several economic sectors, resulting in a reduction of up to 1% in the GDP estimates.

In January, Congress approved a tax increase from 35% to 39.6% for households with an annual income of over US$450,000, in order to reduce the risk associated with the fiscal cliff.

Europe

The Eurozone manufacturing sector ended 2012 in recession, reflecting weak international and domestic demand. Manufacturing PMI stood at 46.1 points in December, the 17th consecutive monthly decline.

Unemployment remained flat in December over November at 11.7%, equivalent to 18.7 million people out of work in the Eurozone. Greece and Spain had the highest rates, with 26.8% and 26.1% respectively, while Germany recorded unemployment of 5.3%.

According to Eurostat, Eurozone GDP decreased by 0.5% in 2012 over 2011 and by 0.6% in 4Q12 over the previous quarter, marking the bloc's worst performance since the beginning of 2009. The downturn in 4Q12 was fueled by the four largest economies: Germany (0.6%), France (0.3%), Italy (0.9%) and Spain (0.7%).

The European Central Bank has recently forecast stagnation in 2013 and growth of 1.1% in 2014.

In the UK, fourth-quarter GDP fell by 0.3% over 3Q12, the latter reflecting the influence of the Olympic Games in August. Annual GDP remained unchanged in 2012, with expectations of a 1% growth in 2013.

The Bank of England expects that the annualized inflation of 2.7% reported in January, reach the level of 3% by mid-2013, remaining above the 2% target for two years.

Asia

The Chinese economy has been recording steady growth, thanks to increased investments in infrastructure, the cut in interest rates and the reduction in reserve requirements since the end of 2011. Annualized GDP moved up by 7.9% in 4Q12, above the 7.4% increase posted in 3Q12, both year-on-year, interrupting the downward cycle and resulting in a growth of 7.8% in 2012.

Chinese manufacturing PMI reached 51.5 points in December, the highest figure since May 2011, while industrial output and retail sales climbed by 10% and 14.3%, respectively, in 2012. Annual inflation fell to 2.6%, less than half the inflation of 5.4% recorded in 2011.

For 2013, the Chinese Central Bank maintained its GDP growth estimate at 7.5%. During the Central Economic Work Conference held in December, Chinese authorities singled out urbanization growth as a key factor in fueling domestic demand, deemed necessary in order to reduce the country's dependence on exports, given the uncertainties in the global economy. At the same time, the Chinese government is expected to continue with its proactive fiscal policies and prudential monetary measures.

Japanese GDP shrank by 0.1% in 4Q12 over 3Q12, while 2012 recorded an upturn of 1.9% in relation to 2011.

Impacted by the Japanese Central Bank's aggressive monetary policy, the yen has depreciated by around 20% against the dollar since November 2012.

Brazil

GDP growth totaled 0.9% in 2012, led by the service and construction sectors, which moved up by 1.7% and 1.4%, respectively. Fourth-quarter growth was 0.6%, once again sustained by the service sector, which climbed by 1.1%. Once again, domestic demand was the most important growth driver, fueled by the moderate credit expansion, job creation and increased individual earnings. However, several uncertainties are still hampering investments, resulting in a reduction in Gross Fixed Capital Formation. For 2013, the Central Bank's FOCUS report forecasts GDP growth of 3.00%.

December's industrial production remained flat over November, resulting in a decrease of 2.7% for the year, the first negative result since 2009.

Inflation, as measured by the IPCA consumer price index, reached 0.79% in December, the highest monthly figure since March 2011, totaling 5.84% for the year as a whole.

In its last meeting held in March, the Monetary Policy Committee (COPOM) opted to maintain the benchmark Selic interest rate at 7.25%.

The real depreciated by 8.9% against the dollar in 2012, closing the year at R$2.04/US$, while foreign reserves totaled US$379 billion.

Macroeconomic Projections

	2013	2014
IPCA (%)	5.71	5.60
Commercial dollar (final) – R$	2.00	2.05
SELIC (final - %)	8.50	8.50
GDP (%)	3.00	3.50
Industrial Production (%)	3.00	3.95

Source: FOCUS BACEN Base: March 22, 2013

Net Revenue

In 2012, CSN consolidated net revenue reached the record of R$16,896 million, 2% up on 2011, chiefly due to higher sales of steel products, with record domestic sales of 4.5 million tonnes and the consolidation of SWT’s results as of February 2012.

In 4Q12, consolidated net revenue totaled R$4,597 million, 8% up on 3Q12 and another record, basically reflecting the increase in net revenue from the mining segment.

Cost of Goods Sold (COGS)

In 2012, consolidated COGS totaled R$12,072 million, 23% up on 2011, chiefly due to higher steel sales and increased production costs in the steel and mining segments.

Fourth-quarter COGS totaled R$3,235 million, 4% more than in 3Q12, largely due to higher iron ore sales in consolidated terms and the upturn in mining production costs.

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Selling, General, Administrative and Other Operating Expenses

Annual SG&A expenses totaled R$1,508 million, 28% up on 2011, chiefly reflecting the increase in iron ore freight expenses and the consolidation of SWT’s results as of February 2012.

In 4Q12, SG&A expenses reached R$475 million, 21% higher than in 3Q12, essentially due to the increase in iron ore freight expenses.

In 2012, the “Other Operating Expenses” line was negative by R$2,673 million, versus a positive R$218 million result in 2011, primarily due to an expense of R$2,023 million from the reclassification of accumulated losses from the Company’s investments in Usiminas’ common and preferred shares, and a gain of R$698 million from the sale of its interest in Riversdale Mining Limited in 2011.

In 4Q12, the “Other Operating Expenses” line accounted for R$164 million, an increase of R$49 million in relation to the previous quarter, fueled by the increase in incidental expenses, a non-recurring item.

EBITDA

The Company uses adjusted EBITDA to measure the performance of its various segments and their operating cash flow generation capacity. It comprises net income before the net financial result, income and social contribution taxes, depreciation and amortization, equity income and other operating revenue (expenses). However, although it is used to measure segment results, adjusted EBITDA is not a measure recognized by Brazilian accounting practices or International Financial Reporting Standards (IFRS), has no standard definition and therefore should not be compared to similar indicators adopted by other companies.

Adjusted EBITDA totaled R$4,532 million in 2012, 30% down on 2011, chiefly due to the reduction in sales volume and lower iron ore prices in the international market. The consolidated adjusted EBITDA margin in 2012 stood at 27%.

In 4Q12, adjusted EBITDA amounted to R$1,222 million, 14% up on 3Q12, fueled by the results from the mining

segment, accompanied by a consolidated adjusted
EBITDA margin of 27%, up by 2 p.p. on 3Q12.

Financial Result and Net Debt

In 2012, the net financial result was negative by R$1,992 million, chiefly due to the following factors:

§ Interest on loans and financing totaling R$2,249 million;

§ Expenses of R$159 million with the monetary restatement of tax installments;

These negative effects were partially offset by financial revenues of R$416 million.

In 4Q12, the net financial result was negative by R$550 million, mainly due to the following factors:

§ Interest on loans and financing totaling R$522 million;

§ Expenses of R$35 million with the monetary restatement of tax installments;

§ Monetary and foreign exchange variations of R$78 million, including the result of derivative operations;

§ Other financial expenses totaling R$50 million.

These negative effects were partially offset by financial revenues of R$135 million.

On December 31, 2012, consolidated net debt stood at R$15.7 billion, R$0.1 billion more than the R$15.6 billion recorded on September 30, 2012, essentially due to the following factors:

§ Investments of R$0.8 billion in fixed assets;

§ A R$0.6 billion effect from disbursements related to debt charges;

§ Other effects which increased net debt by R$0.2 billion.

These impacts were offset by adjusted EBITDA of R$1.2 billion and a reduction of R$0.3 billion in working capital.

The net debt/EBITDA ratio closed the fourth quarter at 3.47x, based on LTM adjusted EBITDA.

Consolidated Net Income

CSN posted a net loss of R$481 million in 2012, basically due to the reclassification of accumulated losses from its investments in Usiminas’ common and preferred shares, previously booked under other comprehensive income in shareholders’ equity, which had an impact of R$1,335 million on the income statement. Excluding the effect from this accounting reclassification, which had no cash impact, CSN would have recorded net income of R$854 million in 2012.

In 4Q12, CSN recorded consolidated net income of R$316 million.

Capex

CSN invested R$3,144 million in 2012, R$1,627 million of which in the parent company, allocated as follows:

ü Expansion of the Casa de Pedra mine and Itaguaí Port: R$381 million;

ü Construction of the long steel plant: R$454 million;

ü Expansion of the clinker plant: R$73 million.

The remaining balance of R$1,517 million went to subsidiaries or joint subsidiaries, mostly in the following projects:

ü Transnordestina Logística: R$984 million;

ü MRS Logística: R$328 million.

CSN invested R$788 million in 4Q12, R$441 million of which in the parent company, as follows:

ü Expansion of the Casa de Pedra mine and Itaguaí Port: R$106 million;

ü Construction of the long steel plant: R$116 million;

ü Expansion of the clinker plant: R$12 million.

The remaining R$346 million went to subsidiaries or joint subsidiaries, mostly in the following projects:

ü Transnordestina Logística: R$181 million;

ü MRS Logística: R$112 million.

Working Capital

Working capital closed December 2012 at R$1,828 million, R$806 million down on the end-of-2011 balance, chiefly reflecting the Company's improved management of payments and inventories. The average inventory turnover period fell by 27 days, while the average supplier payment period and the average receivables period increased by nine days and two days, respectively.

Compared to the close of September 2012, working capital declined by R$342 million, basically due to the increase in the suppliers line, thanks to the Company's improved payment management. In this period, the average supplier payment period expanded by nine days, the average inventory turnover period narrowed by two days, and the average receivables period increased by one day.

WORKING CAPITAL (R$ MM)	4Q11	3Q12	4Q12	Change 4Q12 x 3Q12	Change 4Q12 x 4Q11
Assets	**4,418**	**4,268**	**4,265**	**(3)**	**(153)**
Accounts Receivable	**1,559**	**1,636**	**1,715**	**79**	**156**
Inventory (*)	**2,754**	**2,509**	**2,504**	**(5)**	**(250)**
Advances to Taxes	**105**	**123**	**46**	**(77)**	**(59)**
Liabilities	**1,784**	**2,098**	**2,436**	**338**	**652**
Suppliers	**1,232**	**1,475**	**1,822**	**347**	**590**
Salaries and Social Contribution	**202**	**272**	**241**	**(31)**	**39**
Taxes Payable	**325**	**289**	**336**	**47**	**11**
Advances from Clients	**24**	**62**	**37**	**(25)**	**13**
Working Capital	**2,634**	**2,170**	**1,828**	**(342)**	**(806)**

TURNOVER RATIO Average Periods	4Q11	3Q12	4Q12	Change 4Q12 x 3Q12	Change 4Q12 x 4Q11
Receivables	**29**	**30**	**31**	**1**	**2**
Supplier Payment	**46**	**46**	**55**	**9**	**9**
Inventory Turnover	**103**	**78**	**76**	**(2)**	**(27)**
Cash Conversion Cycle	**86**	**62**	**52**	**(10)**	**(34)**

(*) Inventory - includes "Advances to Suppliers" and does not include "Supplies".

Results by Segment

The Company maintains integrated operations in five business segments: Steel, Mining, Logistics, Cement and Energy. The main assets and/or companies comprising each segment are presented below:

Steel	Mining	Logistics	Cement	Energy
Pres. Vargas Steel Mill	Casa de Pedra	Railw ays:	Volta Redonda	CSN Energia
Porto Real	Namisa (60%)	- MRS	Arcos	Itasa
Paraná	Tecar	- Transnordestina		
LLC	ERSA	Port:		
Lusosider		- Sepetiba Tecon		
Prada (Distribution and				
Packaging)				
Metalic				
SWT				

The information on CSN's five business segments is derived from the accounting data, together with allocations and the apportionment of costs among the segments.

The Company's Management uses Adjusted EBITDA to measure the segments' performance and the operating cash flow generation capacity.

The charts below show the various segments' contribution to CSN's overall net revenue and adjusted EBITDA:

Net revenue by segment in 2012 (R$ million)

R$ million

Consolidated Results	Steel	Mining	Logistics (Port)	Logistics (Railways)	Energy	Cement	Eliminations /Corporate
Net Revenue	**10,802**	**4,485**	**151**	**1,067**	**229**	**388**	**(226)**
Domestic Market	8,478	713	151	1,067	229	388	(531)

p;	7,196,000							
Government Securities		54,542,000						54,
Cash and Money Funds		4,238,000						4,
Total	$	80,690,000	$	7,196,000	$		$	87,

Net unrealized gains included in the Condensed Consolidated Statements of Income for the quarter and six months ended March 31, 2017, on trading securities still held as of March 31, 2017, were $311,000 and $465,000, respectively. There were no transfers of investments between Level 1 and Level 2 during the six months ended March 31, 2017.

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 included in inventory and 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

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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. No such provisions were made during the quarter or six months ended March 31, 2018.

Net inventories at March 31, 2018 and September 30, 2017 consist of the following:

	March 31, 2018	September 30, 2017
Raw materials	$ 10,072,000	$ 9,407,000
Work in process	491,000	3,098,000
Finished goods	4,497,000	4,166,000
Used equipment	16,000	16,000
	$ 15,076,000	$ 16,687,000

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, 2018 and September 30, 2017 consist of the following:

	March 31, 2018	September 30, 2017
Costs incurred on uncompleted contracts	$ 15,741,000	$ 10,250,000
Estimated earnings	5,999,000	3,161,000
	21,740,000	13,411,000
Billings to date	10,812,000	6,643,000
Costs and estimated earnings in excess of billings	$ 10,928,000	$ 6,768,000

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 earnings per share for the quarters and six months ended March 31, 2018 and 2017:

	Quarter Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net Income	$ 3,764,000	$ 3,415,000	$ 6,110,000	$ 4,809,000
Common Shares:				
Weighted average common shares outstanding	14,482,000	14,390,000	14,470,000	14,384,000

Effect of dilutive stock options		246,000		207,000		255,000		210,000
Diluted shares outstanding		14,728,000		14,597,000		14,725,000		14,594,000
Basic:								
Net earnings per share	$	0.26	$	0.24	$	0.42	$	0.33
Diluted:								
Net earnings per share	$	0.26	$	0.23	$	0.41	$	0.33

Basic earnings per share is based on the weighted-average number of shares outstanding. Diluted earnings per share is based on the sum of the weighted-average number of shares outstanding plus common stock equivalents.

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The weighted-average shares issuable upon the exercise of stock options included in the diluted earnings per share calculation for the quarter and six months ended March 31, 2018 were 377,000 and 389,000, respectively, which equates to 246,000 and 255,000 dilutive common stock equivalents, respectively. The weighted-average shares issuable upon the exercise of stock options included in the diluted earnings per share calculation for the quarter and six months ended March 31, 2017 were 469,000 and 475,000, respectively, which equates to 207,000 and 210,000 dilutive common stock equivalents, respectively. There were no anti-dilutive shares for the quarters and six month periods ended March 31, 2018 and 2017.

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

During the quarter ended March 31, 2018, three customers accounted for 17.4%, 13.3%, and 13.3% of net revenues, and 10.1%, 12.7% and 7.8% of net revenues for the six months then ended.

Three different customers accounted for 15.0%, 13.5%, and 13.0% of net revenues for the quarter ended March 31, 2017, and 8.8%, 8.0% and 7.6% of net revenues for the six months then ended.

Note 7 Income Taxes

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the Tax Reform Act) was signed into law by President Donald Trump. The Tax Reform Act significantly lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, while also repealing the deduction for domestic production activities, implementing a territorial tax system and imposing repatriation tax on deemed repatriated earnings of foreign subsidiaries. U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the law was enacted. As a result of the Tax Reform Act, the Company recorded a tax benefit of $0.7 million due to re-measurement of its deferred tax liability, in the three months ended December 31, 2017. The tax benefit represents the Company s current best estimates. The amounts incorporate assumptions made based upon the Company s current interpretation of the Tax Reform Act and may change as the Company receives additional clarification and implementation guidance.

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

Overview

Gencor Industries, Inc. (the Company) is a leading manufacturer of heavy machinery used in the production of highway construction materials 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, Canadian infrastructure spending, 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.

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 included a final three-month extension of the previous SAFETEA-LU bill at then current spending levels combined with a new two-year, $105 billion authorization of the federal highway, transit, and safety programs effective October 1, 2012. The bill provided states with two years of funding to build roads, bridges, and transit systems. On August 8, 2014, President Obama signed a $10.8 billion ten-month bill to fund federal highway and mass-transit programs through May 31, 2015. On May 29, 2015, MAP-21 was extended through July 31, 2015. On July 31, 2015, President Obama signed a three-month extension of MAP-21 which provided $8 billion in funding for the Highway Trust Fund from August 1, 2015 through October 29, 2015. Two additional short-term extensions were approved between October 29, 2015 and December 4, 2015.

On December 4, 2015, President Obama signed into law a five-year, $305 billion transportation bill, Fixing America s Surface Transportation Act (the FAST Act). The FAST Act reauthorized the collection of the 18.4 cents per gallon gas tax that is typically used to pay for transportation projects. It also included $70 billion from other areas of the federal budget to close a $16 billion annual funding deficit. The bill includes spending of more than $205 billion on roads and highways over five years. The 2016 funding levels are approximately 5% above 2015 projected funding, with annual increases between 2.0% and 2.5% from 2016 through 2020.

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 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 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. 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.

During the first quarter of calendar 2018, the U.S. Government imposed tariffs on steel and aluminum imports from select countries. Several U.S. trading partners are exempt from these tariffs, or maybe exempt once negotiations are final. We will continue to monitor the potential for higher costs that may result from these tariffs.

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 external suppliers to ensure it is achieving the highest quality materials and services at the most competitive cost.

Results of Operations

Quarter Ended March 31, 2018 versus March 31, 2017

Net revenues for the quarter ended March 31, 2018 increased 36.9% to $30,829,000, from $22,526,000 for the quarter ended March 31, 2017. The FAST Act, along with plans to increase domestic infrastructure spending at the federal level continue to generate strong demand for asphalt plant and component orders from domestic highway contractors.

As a percent of sales, gross profit margin was 28.4% in the quarter ended March 31, 2018, a decrease of 120 basis points from 29.6% in the quarter ended March 31, 2017. Gross profit margins declined slightly, as the Company experienced higher material costs.

Product engineering and development expenses increased $288,000 for the quarter ended March 31, 2018 as compared to the quarter ended March 31, 2017, due to increased staffing to meet the higher demands for our engineered products. Selling, general and administrative (SG&A) expenses increased $794,000 in the quarter ended March 31, 2018, compared to the quarter ended March 31, 2017. Headcount additions, higher sales commissions, and increased advertising and trade show expenses to capitalize on the renewed optimism within the highway construction industry contributed to most of the increase in SG&A expenses. As a percentage of net revenues, SG&A expenses were 9.5% in the quarter ended March 31, 2018, compared to 9.4% in the prior year.

The Company had operating income of $5,091,000 for the quarter ended March 31, 2018 versus $4,060,000 for the quarter ended March 31, 2017. Operating margins were 16.5% in the quarter ended March 31, 2018, compared to 18.0% in the prior year quarter. The decrease in operating margins was due to higher material costs and increased operating costs to support the higher production activity compared to the prior year.

For the quarter ended March 31, 2018, interest and dividend income, net of fees, from the investment portfolio was $383,000, compared to $162,000 for the quarter ended March 31, 2017. Net realized and unrealized losses on marketable securities were $(719,000) for the quarter ended March 31, 2018, compared to net realized and unrealized gains of $656,000 for the quarter ended March 31, 2017.

The effective income tax rate for the quarter ended March 31, 2018 was 20.9% versus 30.0% for the quarter ended March 31, 2017. Net income for the quarter ended March 31, 2018 was $3,764,000, or $0.26 per diluted share, versus $3,415,000, or $0.23 per diluted share, for the quarter ended March 31, 2017.

Six Months Ended March 31, 2018 versus March 31, 2017

Net sales for the six months ended March 31, 2018 and 2017 were $53,951,000 and $38,309,000, respectively, an increase of 40.8%, reflecting the impact of the FAST Act and positive outlook of our domestic customers.

Gross profit margin decreased to 25.7% in the six months ended March 31, 2018 from 28.2% in the six months ended March 31, 2017. The lower gross profit margin resulted from higher material costs, particularly steel, and increased manufacturing overhead to support the significantly higher production compared to prior year.

Product engineering and development expenses increased $572,000 in the six months ended March 31, 2018, compared to the six months ended March 31, 2017 on increased staffing. SG&A expenses increased $1,296,000 in the six months ended March 31, 2018, compared to the six months ended March 31, 2017. As a percentage of net revenues, SG&A expenses were 10.4%, compared to 11.3% in the prior six months. The higher SG&A expenses in 2018 were due to increased headcount, sales commissions and advertising expenses.

The Company had operating income of $6,782,000 for the six months ended March 31, 2018 versus $5,604,000 for the six months ended March 31, 2017, due to higher revenues. Operating margins were to 12.6% for the six months ended March 31, 2018, compared to 14.6% in the six months ended March 31, 2017.

For the six months ended March 31, 2018, interest and dividend income, net of fees, from the investment portfolio was $676,000, as compared to $203,000 for the six months ended March 31, 2017. Net realized and unrealized losses on marketable securities were $(558,000) for the six months ended March 31, 2018 versus net realized and unrealized gains of $1,063,000 for the six months ended March 31, 2017.

The effective income tax rate for the six months ended March 31, 2018 was 11.5% versus 30.0% for the six months ended March 31, 2017. The 2018 tax rate was impacted by a $0.7 million adjustment to the net deferred tax liability as a result of applying the lower corporate tax rates to comply with the recently enacted Tax Reform Act. Net income for the six months ended March 31, 2018 was $6,110,000, or $0.41 per diluted share, versus $4,809,000, or $0.33 per diluted share, for the six months ended March 31, 2017.

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 at March 31, 2018 or September 30, 2017. The Company does not currently require a credit facility. As of March 31, 2018, the Company had funded $135,000 in cash deposits at insurance companies to cover related collateral needs.

As of March 31, 2018, the Company had $22,883,000 in cash and cash equivalents, and $88,004,000 in marketable securities, including $28,062,000 in corporate bonds, $27,976,000 in government securities, $13,835,000 in equities, $8,711,000 in mutual funds, and $5,025,000 in exchange-traded funds, and $4,395,000 in cash and money funds. The marketable securities are invested through a global professional investment management firm. These securities may be liquidated at any time into cash and cash equivalents.

The Company s backlog was $45.6 at March 31, 2018, compared to $42.9 million at March 31, 2017. The Company s working capital (defined as current assets less current liabilities) was equal to $128.2 million at March 31, 2018 and $124.7 million at September 30, 2017. Cash provided by operations during the six months ended March 31, 2018 was $2,319,000. The significant purchases, sales and maturities of marketable securities shown on the Condensed Consolidated Statements of Cash Flows reflect the recurring purchase and sale of United States treasury bills. Accounts receivable increased $646,000 as parts sales increased during the quarter ended March 31, 2018, as compared to the quarter ended September 30, 2017. Costs and estimated earnings in excess of billings increased $4,160,000 due to the increase in the number of open percentage-of-completion jobs at March 31, 2018, compared to September 30, 2017. Inventories decreased $1,611,000 reflecting usage of purchased parts and raw materials for the increased jobs-in-progress at March 31, 2018, compared to September 30, 2017. Accounts payable increased $2,384,000, reflecting increased parts and raw material purchases. Customer deposits decreased $3,441,000, as the majority of open percentage-of-completion jobs neared completion, as compared to September 30, 2017.

Cash flows used in investing activities for the six months ended March 31, 2018 of $2,709,000 were related to capital expenditures. Cash flows from financing activities of $340,000 during the six months ended March 31, 2018 reflect the proceeds received from stock option exercises.

Seasonality

The Company primarily manufactures and sells asphalt plants and related components and is 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 operating results 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.

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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, 2017: (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, 2017, Accounting Policies.

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

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, 2018 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/ownership is transferred or service is performed, persuasive evidence of an arrangement exists, the selling price is fixed or determinable, and collectability is reasonably assured.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*: (Topic 606) (ASU 2014-09), amending its accounting guidance related to revenue recognition. Under this ASU and subsequently issued amendments, revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for annual periods beginning after December 15, 2017. The Company plans to adopt the new standard in fiscal 2019. The Company does not expect the adoption of this standard to have a material impact on its results of

operations and is currently evaluating which one of the two retrospective methods will be used for implementation.

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 historical experience.

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.

Inventories

Inventories are valued at the lower of cost or market, with cost being determined principally by using the last-in, first-out (LIFO) method and market defined as replacement cost for raw materials and net realizable value for work in process and finished goods. Appropriate consideration is given to obsolescence, excessive levels, deterioration, possible alternative uses and other factors in determining net realizable value. The cost of work in process and finished goods includes materials, direct labor, variable costs and overhead. The Company evaluates the need to record inventory adjustments on all inventories, including raw material, work in process, finished goods, spare parts and used equipment. Used equipment acquired by the Company on trade-in from customers is carried at estimated net realizable value. Unless specific circumstances warrant different treatment regarding inventory obsolescence, the cost basis of inventories three to four years old is reduced by 50%, while the cost basis of inventories four to five years old is reduced by 75%, and the cost basis of inventories greater than five years old is reduced to zero. Inventory is typically reviewed for obsolescence on an annual basis computed as of September 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.

Investments

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company operates manufacturing facilities and sales offices principally located in the United States. The Company is subject to business risks inherent in non-U.S. activities, including political and economic uncertainty, import and export limitations, and market risk related to changes in interest rates and foreign currency exchange rates. The Company may use derivative financial instruments consisting primarily of interest rate hedge agreements to manage 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, 2018 and September 30, 2017, the Company had no debt outstanding. The Company s marketable securities are invested primarily in cash and money funds, equities, government securities, corporate bonds, mutual funds and exchange-traded funds through a global professional investment management firm. Investment securities are exposed to various risks, such as interest rate, market and credit risks. 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, 2018 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

There have been no material changes in our risk factors from those set forth in Part I, Item 1A, Risk Factors contained in our

Annual Report on Form 10K for the period ended September 30, 2017, as filed with the SEC on December 6, 2017.

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 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

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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/ John E. Elliott
John E. Elliott
Chief Executive Officer

May 3, 2018

/s/ Eric E. Mellen
Eric E. Mellen
Chief Financial Officer

(Principal Financial and Accounting Officer)

May 3, 2018