GENCOR INDUSTRIES INC
Form 10-K
December 06, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

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

For the Fiscal Year Ended September 30, 2017

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

Commission File No. 001-11703

GENCOR INDUSTRIES, INC.

Incorporated in the	**I.R.S. Employer**

State of Delaware **Identification No. 59-0933147**

5201 North Orange Blossom Trail

Orlando, Florida 32810

Registrant s Telephone Number, Including Area Code: (407) 290-6000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Common Stock ($.10 Par Value)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act Yes No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

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 Section13(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

The aggregate market value of the common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the most recently completed second fiscal quarter was $152,357,700.

Indicate the number of shares outstanding of each of the Registrant s classes of Common Stock, as of the latest practicable date: 12,154,829 shares of Common Stock ($.10 par value) and 2,263,857 shares of Class B Stock ($.10 par value) as of December 1, 2017.

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K is incorporated by reference from the Registrant s 2018 Proxy Statement for the Annual Meeting of the Stockholders.

Introductory Note: Caution Concerning Forward-Looking Statements

This annual report on Form 10-K (Report) and the Company s other communications and statements may contain forward-looking statements, including statements about the Company s beliefs, plans, objectives, goals, expectations, estimates, projections and intentions. These statements are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond the Company s control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, target, goal, and similar expressions are int forward-looking statements. All forward-looking statements, by their nature, are subject to risks and uncertainties. The Company s actual future results may differ materially from those set forth in the Company s forward-looking statements. For information concerning these factors and related matters, see Risk Factors in Part I, Item 1A in this Report, and Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 in this Report. However, other factors besides those referenced could adversely affect the Company s results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by the Company herein speak as of the date of this Report. The Company does not undertake to update any forward-looking statement, except as required by law.

PART I

ITEM 1. BUSINESS

General

Gencor Industries, Inc. and its subsidiaries (the Company, Gencor, we, us or our) is a leading manufacturer of he machinery used in the production of highway construction materials and environmental control equipment. The Company s products are manufactured in two facilities in the United States. The Company s products are sold through a combination of Company sales representatives and independent dealers and agents located throughout the world.

The Company designs, manufactures and sells machinery and related equipment used primarily for the production of asphalt and highway construction materials. The Company s principal core products include asphalt plants, combustion systems and fluid heat transfer systems. The Company believes that its technical and design capabilities, environmentally friendly process technology, and wide range of products have enabled it to become a leading producer of highway construction materials fuels and environmental control equipment worldwide. The Company believes it has the largest installed base of asphalt production plants in the United States.

Because the Company s products are sold primarily to the highway construction industry, the business has historically been seasonal. 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 typically 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 level of government funding for domestic highway construction and repair, replacement of existing plants, the need for spare parts, and a continuing trend towards efficiencies of a larger plant.

In 1968, the Company was formed by the merger of Mechtron Corporation with General Combustion, Inc. and Genco Manufacturing, Inc. The new entity reincorporated in Delaware in 1969 and adopted the name Mechtron International Corporation in 1970. In 1985, the Company began a series of acquisitions into related fields starting with the Beverley Group Ltd. in the United Kingdom (the UK). Hy-Way Heat Company, Inc. and the Bituma Group were acquired in 1986. In 1987, the Company changed its name to Gencor Industries, Inc. and acquired Davis Line Inc. and its subsidiaries in 1988.

Table of Contents

In 1998, the Company entered into agreements with Carbontronics, LLC (CLLC) pursuant to which the Company designed, manufactured, sold and installed four synthetic fuel production plants. In addition to payment for the plants, the Company received membership interests in two synthetic fuel entities. These derived significant cash flows from the sale of synthetic fuel and tax credits (Internal Revenue Code, Section 29) and, consequently, distributed significant cash to the Company from 2001 to 2010.

The tax credit legislation expired at the end of calendar year 2007. Consequently, the four synthetic fuel plants were decommissioned. The plants were sold or transferred to site owners in exchange for a release of all contracted liabilities related to the removal of plants from the sites. Gencor no longer has any ownership in the two synthetic fuel entities.

Products

Asphalt Plants. The Company manufactures and produces hot-mix asphalt plants used in the production of asphalt paving materials. The Company also manufactures related asphalt plant equipment, including hot-mix storage silos, fabric filtration systems, cold feed bins and other plant components. The Company s H&B (Hetherington and Berner) product line is the world s oldest asphalt plant line, first manufactured in 1894. The Company s subsidiary, Bituma Corporation, formerly known as Boeing Construction Company, developed the first continuous process for asphalt production. Gencor developed and patented the first counter flow drum mix technology, several adaptations of which have become the industry standard, which recaptures and burns emissions and vapors, resulting in a cleaner and more efficient process. The Company also manufactures a very comprehensive range of fully mobile batch plants.

Combustion Systems and Industrial Incinerators. The Company manufactures combustion systems, which are large burners that can transform most solid, liquid or gaseous fuels into usable energy, or burn multiple fuels, alternately or simultaneously. Through its subsidiary General Combustion, the Company has been a significant source of combustion systems for the asphalt and aggregate drying industries since the 1950 s. The Company also manufactures soil remediation machinery, as well as combustion systems for rotary dryers, kilns, fume and liquid incinerators and fuel heaters. The Company believes maintenance and fuel costs are lower for its burners because of their superior design.

Fluid Heat Transfer Systems. The Company s General Combustion subsidiary also manufactures the Hy-Way heat and Beverley lines of thermal fluid heat transfer systems and specialty storage tanks for a wide array of industry uses. Thermal fluid heat transfer systems are similar to boilers, but use high temperature oil instead of water. Thermal fluid heaters have been replacing steam pressure boilers as the best method of heat transfer for storage, heating and pumping viscous materials (i.e., asphalt, chemicals, heavy oils, etc.) in many industrial and petrochemical applications worldwide. The Company believes the high-efficiency design of its thermal fluid heaters can outperform competitive units in many types of process applications.

Product Engineering and Development

The Company is engaged in product engineering and development efforts to expand its product lines and to further develop more energy-efficient and environmentally friendly systems.

Product engineering and development activities are directed toward more efficient methods of producing asphalt and lower cost fluid heat transfer systems. In addition, efforts are also focused on developing combustion systems that operate at higher efficiency and offer a higher level of environmental compatibility.

Sources of Supply and Manufacturing

Substantially all products and components sold by the Company and its subsidiaries are manufactured and assembled by the Company, except for procured raw materials and hardware. The Company purchases steel, other raw materials and hardware used to manufacture its products from numerous suppliers and is not dependent on any single supplier. Periodically, the Company reviews the cost effectiveness of internal manufacturing versus outsourcing to independent third parties. The Company believes it has the internal capability to produce the highest quality products at the lowest cost. The Company may augment internal production by outsourcing some of its production when demand for its products exceeds its manufacturing capacity.

Table of Contents

Seasonality

The Company is concentrated in the manufacturing of asphalt plants and related components which had historically been subject to a seasonal slow-down during the third and fourth quarters of the calendar year. Recent bidding activity and delivery of equipment has been occurring more evenly throughout the year. The Company cannot determine if this is a new trend or the result of a greater near-term demand for its products.

Competition

The markets for the Company s products are highly competitive. The industry remains fairly concentrated, with a small number of companies competing for the majority of the Company s product lines. The principal competitive factors include quality, delivery and technology. The Company believes it manufactures the highest quality and heaviest equipment in the industry. Its products performance reliability, brand recognition, pricing and after-the-sale technical support are other important factors.

Sales and Marketing

The Company s products and services are marketed primarily through Company-employed sales representatives and, to a lesser extent, independent dealers.

Sales Backlog

The size of the Company s backlog should not be viewed as an indicator of the Company s quarterly or annualized revenues, due to the timing of order fulfillment of asphalt plants. The Company s backlog, which includes orders received through the date of this filing, was $46.0 million and $32.1 million as of December 1, 2017 and December 1, 2016, respectively.

Financial Information about Geographic Areas Reporting Segments

For a geographic breakdown of revenues and long-term assets, see the table captioned Reporting Segments in Note 1 to the Consolidated Financial Statements.

Licenses, Patents and Trademarks

The Company held numerous patents covering technology and applications related to various products, equipment and systems, and numerous trademarks and trade names registered with the U.S. Patent and Trademark Office and in various foreign countries. In general, the Company depends upon technological capabilities, manufacturing quality control and application know-how, rather than patents or other proprietary rights in the conduct of its business. The Company believes the expiration of any one patent would not have a material adverse effect on the overall operations of the Company.

Government Regulations

The Company believes its design and manufacturing processes meet all industry and governmental agency standards that may apply to its entire line of products, including all domestic and foreign environmental, structural, electrical and safety codes. The Company s products are designed and manufactured to comply with U.S. Environmental Protection Agency regulations. Certain state and local regulatory authorities have strong environmental impact regulations. While the Company believes that such regulations have helped, rather than restricted its marketing efforts and sales results, there is no assurance that changes to federal, state, local, or foreign laws and regulations will not have a material adverse effect on the Company s products and earnings in the future.

Environmental Matters

The Company is subject to various federal, state, local and foreign laws and regulations relating to the protection of the environment. The Company believes it is in compliance with all applicable environmental laws and regulations. The Company does not expect any material impact on future operating costs as a result of compliance with currently enacted environmental regulations.

Employees

As of September 30, 2017, the Company had a total of 332 full-time employees and 3 part-time employees. The Company has a collective bargaining agreement covering employees at its Marquette, Iowa facility. No other employees are represented by a labor union or collective bargaining agreement.

Available Information

For further discussion concerning the Company s business, see the information included in Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and Item 8 (Financial Statements and Supplementary Data) of this Report.

The Company makes available free of charge through its website at www.gencor.com the Company s Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, if applicable, filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). The information posted on the website is not incorporated into this Annual Report on Form 10-K.

Table of Contents

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company, or that the Company presently deems less significant, may also impair the Company s operations. If any of the following risks actually occur, the Company s business operating results and financial condition could be materially adversely affected. The order of these risk factors does not reflect their relative importance or likelihood of occurrence.

***The business is affected by the cyclical nature of the markets it serves*.**

The demand for the Company s products and service is dependent on general economic conditions and more specifically, the commercial highway construction industry. Adverse economic conditions may cause customers to forego or delay new purchases and rely more on repairing existing equipment thus negatively impacting the Company s sales and profits. Rising oil prices, volatile steel prices and shortage of qualified workers may have adverse effects on the Company. Market conditions could limit the Company s ability to raise selling prices to offset increases in material and labor costs.

The business is affected by the level of government funding for highway construction in the United States and Canada.

Many contractors depend on funding by federal, foreign, state and local agencies for highway, transit and infrastructure programs. Future legislation may increase or decrease government spending, which, if decreased, could have a negative effect on the Company s financial condition or results of operations. Federal funding allocated to infrastructure may be decreased in the future.

In fiscal years 2017, 2016 and 2015, the Company depended on one customer for a significant portion of its revenue. The loss of this relationship could have adverse consequences on the Company s future business.

The percentage of the Company s net revenue that was derived from sales to one customer was 13% in fiscal 2017, 14% in fiscal 2016 and 15% in fiscal 2015.

If the Company fails to comply with requirements relating to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, the business could be harmed and its stock price could decline.

Rules adopted by the Securities and Exchange Commission pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require the Company to assess its internal control over financial reporting annually. The rules governing the standards that must be met for management to assess its internal control over financial reporting are complex. They require significant documentation, testing, and possible remediation of any significant deficiencies in and/or material weaknesses of internal controls in order to meet the detailed standards under these rules. The Company has evaluated its internal control over financial reporting as effective as of September 30, 2017. See Item 9A Controls and Procedures Management s Annual Report on Internal Control over Financial Reporting. Although the Company has evaluated its internal control over financial reporting as effective as of September 30, 2017, in future fiscal years, the Company may encounter unanticipated delays or problems in assessing its internal control over financial reporting as effective or in completing its assessments by the required dates. In addition, the Company cannot assure you that its independent registered public accountants will attest that internal control over financial reporting is effective in future fiscal years. If the Company cannot assess its internal control over financial reporting as effective, investor confidence and share value may be negatively impacted.

The Company may be required to reduce its profit margins on contracts on which it uses the percentage-of-completion accounting method.

The Company records revenues and profits on many of its contracts using the percentage-of-completion method of accounting. As a result, revisions made to the estimates of revenues and profits are recorded in the period in which the conditions that require such revisions become known and can be estimated. Although the Company believes that its profit margins are fairly stated and that adequate provisions for losses for its fixed-price contracts are recorded in the financial statements, as required under U.S. generally accepted accounting principles (GAAP), the Company cannot assure you that its estimated contract profit margins will not decrease or its estimated loss provisions will not increase materially in the future.

The Company may encounter difficulties with future acquisitions.

As part of its growth strategy, the Company intends to evaluate the acquisition of other companies, assets or product lines that would complement or expand the Company s existing business or broaden its customer relationships. Although the Company conducts due diligence reviews of potential acquisition candidates, it may not be able to identify all material liabilities or risks related to potential acquisition candidates. There can be no assurance that the Company will be able to locate and acquire any business, retain key personnel and customers of an acquired business or integrate any acquired business successfully. Additionally, there can be no assurance that financing for any acquisition, if necessary, will be available on acceptable terms, if at all, or that the Company will be able to accomplish its strategic objectives in connection with any acquisition. Although the Company periodically considers possible acquisitions, no specific acquisitions are probable as of the date of this Report on Form 10-K.

Demand for the Company s products is cyclical in nature.

Demand for the Company s products depends, in part, upon the level of capital and maintenance expenditures by the highway construction industry. The highway construction industry historically has been cyclical in nature and vulnerable to general downturns in the economy. Decreases in industry spending could have a material adverse effect upon demand for the Company s products and negatively impact its business, financial condition, results of operations and the market price of its common stock.

The Company s marketable securities are comprised of cash and money funds, equities, corporate bonds, mutual funds, exchange-traded funds, and government securities invested through a professional investment management firm and are subject to various risks, such as interest rates, markets, and credit.

Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of securities, changes in these risk factors could have a material adverse impact on the Company s results of operations.

There are and will continue to be quarterly fluctuations of the Company s operating results.

The Company s operating results historically have fluctuated from quarter to quarter as a result of a number of factors, including the value, timing and shipment of individual orders and the mix of products sold. Revenues from certain large contracts are recognized using the percentage-of-completion method of accounting. The Company recognizes product revenues upon shipment for the rest of its products. The Company s asphalt production equipment operations are subject to seasonal fluctuation, which may lower revenues and result in possible losses in a quarter.

If the Company is unable to attract and retain key personnel, its business could be adversely affected.

The success of the Company will continue to depend substantially upon the efforts, abilities and services of its management team and certain other key employees. The loss of one or more key employees could adversely affect the Company s operations. The Company s ability to attract and retain qualified personnel, either through direct hiring, or acquisition of other businesses employing such persons, will also be an important factor in determining its future success.

Table of Contents

The Company may be required to defend its intellectual property against infringement or against infringement claims of others.

The Company holds numerous patents covering technology and applications related to various products, equipment and systems, and numerous trademarks and trade names registered with the U.S. Patent and Trademark Office and in various foreign countries. There can be no assurance as to the breadth or degree of protection that existing or future patents or trademarks may afford the Company, or that any pending patent or trademark applications will result in issued patents or trademarks, or that the Company s patents, registered trademarks or patent applications, if any, will be upheld if challenged, or that competitors will not develop similar or superior methods or products outside the protection of any patents issued, licensed or sublicensed to the Company. Although the Company believes that none of its patents, technologies, products or trademarks infringe upon the patents, technologies, products or trademarks of others, it is possible that the Company s existing patents, trademarks or other rights may not be valid or that infringement of existing or future patents, trademarks or proprietary rights may occur. In the event that the Company s products are deemed to infringe upon the patent or proprietary rights of others, the Company could be required to modify the design of its products, change the name of its products or obtain a license for the use of certain technologies incorporated into its products. There can be no assurance that the Company would be able to do any of the foregoing in a timely manner, upon acceptable terms and conditions, or at all, and the failure to do so could have a material adverse effect on the Company. In addition, there can be no assurance that the Company will have the financial or other resources necessary to enforce or defend a patent, registered trademark or other proprietary right, and, if the Company s products are deemed to infringe upon the patents, trademarks or other proprietary rights of others, the Company could become liable for damages, which could also have a material adverse effect on the Company.

The Company may be subject to substantial liability for its products.

The Company is engaged in a business that could expose it to possible liability claims for personal injury or property damage due to alleged design or manufacturing defects in its products. The Company believes that it meets existing professional specification standards recognized or required in the industries in which it operates, and there are no material product liability claims pending against the Company as of the date hereof. Although the Company currently maintains product liability coverage, which it believes is adequate for the continued operation of its business, such insurance may prove inadequate or become difficult to obtain or unobtainable in the future on terms acceptable to the Company.

The Company is subject to extensive environmental laws and regulations, and the costs related to compliance with, or the Company s failure to comply with, existing or future laws and regulations, could adversely affect the business and results of operations.

The Company s operations are subject to federal, state, local and foreign laws and regulations relating to the protection of the environment. Sanctions for noncompliance may include revocation of permits, corrective action orders, significant administrative or civil penalties and criminal prosecution. The Company s business involves environmental management and issues typically associated with historical manufacturing operations. To date, the Company s cost of complying with environmental laws and regulations has not been material, but the fact that such laws or regulations are changed frequently makes predicting the cost or impact of such laws and regulations on the Company s future operations uncertain.

The loss of one or more of the Company s raw materials suppliers could cause production delays.

The principal raw materials the Company uses are steel and related products. The Company has been able to obtain sufficient supplies of raw materials for its operations. Although the Company believes that such raw materials are readily available from alternate sources, an interruption in the supply of steel and related products or a substantial increase in the price of any of these raw materials could have a material adverse effect on the Company s business and its results of operations.

Table of Contents

The Company is subject to significant government regulations.

The Company is subject to a variety of governmental regulations relating to the manufacturing of its products. Any failure by the Company to comply with present or future regulations could subject it to future liabilities, or the suspension of production that could have a material adverse effect on the Company s results of operations. Such regulations could also restrict the Company s ability to expand its facilities, or could require the Company to acquire costly equipment or to incur other expenses to comply with such regulations. Although the Company believes it has the design and manufacturing capability to meet all industry or governmental agency standards that may apply to its product lines, including all domestic and foreign environmental, structural, electrical and safety codes, there can be no assurance that governmental laws and regulations will not become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with a violation. The cost to the Company of such compliance to date has not materially affected its business, financial condition or results of operations. There can be no assurance, however, that violations will not occur in the future as a result of human error, equipment failure or other causes. The Company s customers are also subject to extensive regulations, including those related to the workplace. The Company cannot predict the nature, scope or effect of governmental legislation, or regulatory requirements that could be imposed or how existing or future laws or regulations will be administered, or interpreted. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require substantial expenditures by the Company and could adversely affect its business, financial condition and results of operations.

The Company s management has effective voting control.

The Company s officers and directors beneficially own an aggregate of approximately 96.8% of the outstanding shares of the Company s $.10 par value Class B stock. The Class B stock is entitled to elect 75% (calculated to the nearest whole number, rounding five-tenths to next highest whole number) of the members of its Board of Directors. Further, approval of a majority of the Class B stock is generally required to effect a sale of the Company and certain other corporate transactions. As a result, these shareholders can elect more than a majority of the Board of Directors and exercise significant influence over most matters requiring approval by the Company s shareholders. This concentration of control may also have the effect of delaying or preventing a change in control.

The issuance of preferred stock may impede a change of control or may be dilutive to existing shareholders.

The Company s Certificate of Incorporation, as amended, authorizes the Company s Board of Directors, without shareholder vote, to issue up to 300,000 shares of preferred stock in one or more series and to determine for any series the dividend, liquidation, conversion, voting or other preferences, rights and terms that are senior, and not available, to the holders of the Company s common stock. Thus, issuances of series of preferred stock could adversely affect the relative voting power, distributions and other rights of the common stock. The issuance of preferred stock could deter or impede a merger, tender offer or other transaction that some, or a majority of the Company s common shareholders might believe to be in their best interest or in which the Company s common shareholders might receive a premium for their shares over the then current market price of such shares.

The Company may be required to indemnify its directors and executive officers.

The Company has authority under Section 145 of the Delaware General Corporation Law to indemnify its directors and officers to the extent provided in that statute. The Company s Certificate of Incorporation, as amended, provides that a director shall not be personally liable to the Company for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law. The Company s Bylaws provide, in part, that it indemnify each of its directors and officers against liabilities imposed upon them (including reasonable amounts paid in settlement) and expenses incurred by them in connection with any claim made against them or any action, suit or proceeding to which they may be a party by reason of their being or having been a director or officer. The Company maintains officers and directors liability insurance coverage. There can be no assurance that such insurance will be available in the future, or that if available, it will be available on terms that are acceptable to the Company. Furthermore, there can be no assurance that the insurance coverage provided will be sufficient to cover the amount of any judgment awarded against an officer or director (either individually or in the aggregate). Consequently, if such judgment exceeds the coverage under the policy, the Company may be forced to pay such difference.

Table of Contents

The Company enters into indemnification agreements with each of its executive officers and directors containing provisions that may require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as officers or directors (other than liabilities arising from willful misconduct of a culpable nature) and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. Management believes that such indemnification provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

The Company does not expect to pay cash dividends for the foreseeable future.

For the foreseeable future, the Company intends to retain any earnings to finance its business requirements. It does not anticipate paying any cash dividends on its common stock or Class B stock. Any future determination to pay cash dividends will be at the discretion of the Company s Board of Directors and will be dependent upon then existing conditions, including the financial condition and results of operations, capital requirements, contractual restrictions, business prospects, and other factors that the Board of Directors considers relevant.

Competition could reduce revenue from the Company s products and services and cause it to lose market share.

The Company currently faces strong competition in product performance, price and service. Some of the Company s competitors have greater financial, product development and marketing resources than the Company. If competition in the Company s industry intensifies or if the current competitors enhance their products or lower their prices for competing products, the Company may lose sales or be required to lower the prices it charges for its products. This may reduce revenues from the Company s products and services, lower its gross margins, or cause it to lose market share.

The Company s quarterly operating results are likely to fluctuate, which may decrease its stock price.

The Company s quarterly operating results have varied significantly in the past and are likely to vary significantly from quarter to quarter in the future. As a result, the Company s operating results may fall below the expectations of securities analysts and investors in some quarters, which could result in a decrease in the market price of its common stock. The reasons the Company s quarterly results may fluctuate include:

- General competitive and economic conditions
- Delays in, or uneven timing in, delivery of customer orders
- The seasonal nature of the industry
- The fluctuations in market value of its securities portfolio
- The introduction of new products by the Company or its competitors

- Product supply shortages

- Reduced demand due to adverse weather conditions

- Expiration or renewal of Federal highway programs, and

- Changes to state or Canadian provincial programs.

Period-to-period comparisons of such items should not be relied on as indications of future performance.

The Company s stock has been, and likely will continue to be, subject to substantial price and volume fluctuations due to a number of factors, many of which will be beyond the Company s control.

The market price of the Company s common stock may be significantly affected by various factors, such as:

- Quarterly variations in operating results

- Changes in revenue growth rates as a whole or for specific geographic areas or products

- Changes in earnings estimates by market analysts

- The announcement of new products or product enhancements by the Company or its competitors

- Speculation in the press or analyst community of potential acquisitions by the Company, and

- General market conditions or market conditions specific to particular industries.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The following table lists the operating properties owned by the Company as of September 30, 2017:

Location	Owned Acreage	Building Square Footage	Principal Function
Marquette, Iowa	72.0	137,000	Offices and manufacturing
Orlando, Florida	27.0	215,000	Corporate offices and manufacturing

ITEM 3. LEGAL PROCEEDINGS

The Company has various litigation and claims, either as a plaintiff or defendant, pending as of the date of this Form 10-K which have occurred in the ordinary course of business, and which may be covered in whole, or in part, by insurance. Management has reviewed all litigation matters arising in the ordinary course of business and, upon advice of legal counsel, has made provisions, not deemed material, for any estimable losses and expenses of litigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted during the fourth quarter of this fiscal year to a vote of security holders.

Table of Contents

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER S PURCHASES OF EQUITY SECURITIES

The Company s stock has been traded on the NASDAQ Global Market under the symbol GENC since December 20, 2007.

Stock Split

On July 11, 2016, the Company s Board of Directors approved a three-for-two split of the Company s common and Class B stock to be effected in the form of a 50% stock dividend. As a result, shareholders received one additional share of common or Class B stock for every two shares they held of the respective class of stock as of the record date. These shares were distributed on August 1, 2016, to shareholders of record as of the end of business on July 22, 2016.

Following are the high and low closing prices for the Company s common stock for the periods indicated:

2017	**HIGH**	**LOW**
First Quarter	$ 16.05	$ 11.01
Second Quarter	$ 16.15	$ 13.50
Third Quarter	$ 16.80	$ 15.10
Fourth Quarter	$ 17.85	$ 15.35
2016	**HIGH**	**LOW**
First Quarter	$ 9.25	$ 6.07
Second Quarter	$ 10.29	$ 7.00
Third Quarter	$ 10.62	$ 9.19
Fourth Quarter	$ 13.41	$ 9.84

As of September 30, 2017, there were 228 holders of common stock of record and 5 holders of Class B stock of record. The Company has not paid any cash dividends during the last two fiscal years and there is no intention to pay cash dividends in the foreseeable future.

Table of Contents

EQUITY COMPENSATION PLANS

The following table includes information about the Company s common stock that may be issued upon exercise of options, warrants and rights under all of the existing equity compensation plans and arrangements previously approved by security holders as of September 30, 2017:

Plan	Number of Securities to be Issued upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
2009 Incentive Compensation Plan	440,000	$ 5.739	582,000 *

* Includes 100,000 of Class B securities

13

Table of Contents

COMPARATIVE 5-YEAR CUMULATIVE RETURN GRAPH

The following graph sets forth the cumulative total return to the Company s shareholders during the five-year period ended September 30, 2017, as well as the Wilshire US Micro-Cap Price Index and the Dow Jones Heavy Construction Index. The stock performance assumes $100 was invested on October 1, 2012.

Comparison of Cumulative Total Return among Gencor Industries, Inc., the

Wilshire US Micro-Cap Price Index and the Dow Jones Heavy Construction Index

With Base Year of 2012:	9/30/2012	9/30/2013	9/30/2014	9/30/2015	9/30/2016	9/30/2017
Gencor Industries, Inc.	100.00	115.95	132.70	122.16	242.84	357.77
DJ Heavy Construction Index	100.00	125.38	119.13	87.91	98.97	106.11
Wilshire US Micro-Cap Index	100.00	131.96	139.78	138.23	155.37	191.34

On December 1, 2017, the Company s stock was available for trading on the NASDAQ Global Market under the symbol GENC.

14

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Selected Consolidated Statement of Operations Data:

	Years Ended September 30				
	2017	2016	2015	2014	2013
Net Revenue	$ 80,608,000	$ 69,991,000	$ 39,230,000	$ 40,017,000	$ 48,943,000
Operating Income (Loss)	10,236,000	7,816,000	(794,000)	(26,000)	2,578,000
Net Income (Loss)	8,418,000	7,043,000	(1,819,000)	3,473,000	6,725,000
Per Share Data:					
Basic Net Income (Loss)	$ 0.58	$ 0.49	$ (0.13)	$ 0.24	$ 0.47
Diluted Net Income (Loss)	$ 0.57	$ 0.48	$ (0.13)	$ 0.24	$ 0.47

Selected Consolidated Balance Sheet Data:

	September 30				
	2017	2016	2015	2014	2013
Current Assets	$ 137,118,000	$ 123,420,000	$ 112,366,000	$ 110,619,000	$ 108,791,000
Current Liabilities	12,374,000	8,191,000	7,399,000	2,960,000	6,036,000
Total Assets	142,893,000	128,712,000	120,144,000	117,828,000	116,948,000
Long Term Debt					
Shareholders Equity	128,918,000	120,205,000	112,745,000	114,175,000	110,428,000

15

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

This Form 10-K contains certain forward-looking statements within the meaning of 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, 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 Risk Factors in Part I, Item 1A in this Report. 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.

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.

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), and a trend towards more efficient, larger plants.

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.

California s Senate Bill 1 (SB1), the Road Repair and Accountability Act of 2017, was signed into law on April 28, 2017. The legislative package invests $54 billion over the next decade to fix roads, freeways and bridges in communities across California and puts more dollars towards transit and safety. These funds will be allocated to state and local projects.

The Canadian government has also enacted major infrastructure stimulus programs. In 2007, the Building Canada Plan provided $33 billion in infrastructure funding through 2014. The 2014 New Building Canada Fund is one component within the $53 billion 2014 New Building Canada Plan. The 2014 New Building Canada Fund provided funding for infrastructure projects at the national, provincial and local levels.

Table of Contents

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 decrease demand for hot-mix asphalt paving materials and certain of the Company s products. 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.

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

Year ended September 30, 2017 compared with the year ended September 30, 2016

Net revenue for the year ended September 30, 2017 was $80.6 million, an increase of 15.2% or $10.6 million from $70.0 million for the year ended September 30, 2016. Net revenue for the fourth quarter of 2017 was up 25.4% or $3.8 million over the fourth quarter of 2016. The Company s increase in net revenue reflects a continued strong demand for its equipment due to the passing of the FAST Act. In addition, state and local programs that fund infrastructure, including gas tax increases and other ballot initiatives passed over the previous few years, have had a positive impact on the demand for the Company s products.

Gross profit for fiscal 2017 was 26.2% of net revenue versus 25.0% of net revenue in fiscal 2016. The gross margin increase in 2017 was due to overall higher net revenues and improved overhead absorption from increased production volumes.

Product engineering and development (PED) expenses increased $580,000 or 37.0% from fiscal 2016 due to increased headcount to meet the higher demands for our engineered products. Selling, general and administrative (SG&A) expenses increased $634,000 or 7.8% to $8,776,000 from $8,142,000 in fiscal 2016. SG&A expenses increased due to increased headcount, increased sales commissions due to higher revenues, and increased trade show expenses to capitalize on the renewed optimism within the highway construction industry. As a percentage of net revenue, SG&A expenses declined to 10.9%, compared to 11.6% in the prior year.

Fiscal 2017 had operating income of $10,236,000 versus $7,816,000 in fiscal 2016. The improved operating results were due primarily to higher net revenue and improved cost absorption, partially offset by increases in PED and SG&A expenses.

As of September 30, 2017 and 2016, the cost basis of the investment portfolio was $87.0 million and $86.2 million, respectively. For the years ended September 30, 2017 and 2016, net investment interest and dividend income (Investment Income) was $0.7 million and $0.8 million, respectively. The net realized and unrealized gains (losses) on marketable securities were $1.3 million in fiscal 2017 versus $0.8 million in fiscal 2016. The total cash, cash equivalents and investments balance at September 30, 2017 was $110.8 million, compared to the September 30, 2016 cash, cash equivalents and investments balance of $104.2 million, an increase of $6.6 million.

The effective income tax rate for fiscal 2017 was 30.9% versus 25.1% in fiscal 2016. As of September 30, 2016, the Company had $647,000 in federal research and development tax credits (R&D Credits) carryforwards. In fiscal 2017, there were $332,000 of new credits generated, bringing the total R&D Credits to $979,000, of which all were used. There are no R&D Credits carryforwards as of September 30, 2017.

Table of Contents

As of September 30, 2016, the Company had $224,000 in Florida state research and development tax credits (Florida R&D Credits) carryforwards. The Company received additional Florida R&D Credits of $22,000 in fiscal 2017 and used $91,000, leaving $155,000 of Florida R&D Credits carryforwards as of September 30, 2017. The $155,000 of Florida R&D Credits, which are included in net deferred and other income tax liabilities of $(1,601,000) at September 30, 2017, expire in fiscal 2021.

Net income for the year ended September 30, 2017 was $8,418,000 or $0.57 per diluted share versus net income of $7,043,000 or $0.48 per diluted share for the year ended September 30, 2016. The increase in net income was primarily due to the improved net revenue and higher gross profit margins.