

GENCOR INDUSTRIES INC
Form 10-K
December 13, 2018
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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, 2018

**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
State of Delaware**

**IRS Employer 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:

Title of Class	Name of Exchange on Which Registered
Common Stock (\$.10 Par Value)	NASDAQ Global Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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 Section 13(a) of the Exchange Act.

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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 \$166,869,500.

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practicable date: 12,252,337 shares of Common Stock (\$.10 par value) and 2,288,857 shares of Class B Stock (\$.10 par value) as of December 1, 2018.

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DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K is incorporated by reference from the Registrant's 2019 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 intended to identify forward-looking statements. All forward-looking statements, by their nature, are subject to risks and uncertainties. The Company's actual future results may differ materially from those set forth in 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 heavy 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 and environmentally friendly process technology have enabled it to become a leading producer of hot mix asphalt plants and related components in North America. The Company believes it has the largest installed base of asphalt plants in the United States.

Because the Company's products are sold primarily to companies in the highway construction industry, its business has historically been seasonal. Traditionally, the Company's customers do not purchase new equipment 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 asphalt plants 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 federal and state funding for domestic highway construction and repair, the replacement of existing plants, and a trend towards efficient, larger plants.

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.

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In 1998, the Company entered into agreements with Carbontronic, 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's ownership in the two synthetic fuel entities ended in 2013.

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 specialized parts. 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 may augment internal production by outsourcing some of its production when demand for its products exceeds its manufacturing capacity.

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Seasonality

The Company is concentrated in the manufacturing of asphalt plants and related components, which is typically subject to a seasonal slow-down during the third and fourth quarters of the calendar year.

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, price, 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.

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 \$28.0 million and \$46.0 million as of December 1, 2018 and December 1, 2017, 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, 2018, the Company had a total of 372 full-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.

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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.

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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/or labor costs.

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

Most highway 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.

Previously, 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 its largest customer in recent years was 3% in fiscal 2018, 13% in fiscal 2017 and 14% in fiscal 2016. No customer accounted for 10% or more of fiscal 2018 revenues.

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 SEC 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, 2018. See Item 9A Controls and Procedures Management's Annual Report on Internal Control over Financial Reporting. Although the Company concluded that its internal control over financial reporting was effective as of September 30, 2018, 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.

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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 base. 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 companies in the highway construction industry. The highway construction industry historically has been cyclical and vulnerable to 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 larger contracts are recognized using the percentage-of-completion method of accounting. The Company recognizes product revenues upon shipment of its products. The Company's asphalt production equipment operations are subject to seasonal fluctuations, which may lower revenues and result in possible quarterly operating losses.

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.

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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 material the Company uses is carbon steel. 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 steel could have a material adverse effect on the Company's business and its results of operations.

Index to Financial Statements***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 beneficially own 100% of the outstanding shares of the Company's Class B stock. The holders of the Class B stock are entitled to elect 75% (calculated to the nearest whole number, rounding five-tenths to next highest whole number) of the members of the Company's Board of Directors. Further, approval of a majority of the holders 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.

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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 common 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.

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None

ITEM 2 PROPERTIES

The following table lists the operating properties owned by the Company as of September 30, 2018:

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 probable losses and expenses of litigation.

ITEM 4 MINE SAFETY DISCLOSURES

None

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The Company's stock is traded on the NASDAQ Global Market under the symbol GENC.

As of September 30, 2018, there were 220 holders of common stock of record and 6 holders of Class B stock of record. The Company has not paid cash dividends during the last two fiscal years and has no intention to pay cash dividends in the foreseeable future.

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, 2018:

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	317,492	\$ 5.984	582,000 *

* Includes 100,000 of Class B securities

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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.

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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, 2018 compared with the year ended September 30, 2017

Net revenue for the year ended September 30, 2018 was \$98.6 million, an increase of 22.3% or \$18.0 million from \$80.6 million for the year ended September 30, 2017. Net revenue for the fourth quarter of 2018 was up 10.7% or \$2.0 million over the fourth quarter of 2017. The FAST Act, along with increased domestic infrastructure spending at the federal level, continued to generate strong demand for the Company's products from domestic highway contractors through fiscal 2018.

Gross profit for fiscal 2018 was 27.0% of net revenue versus 26.2% of net revenue in fiscal 2017. The Company faced significant inflationary pressures from steel and related purchased parts, but was able to improve its gross margins through higher net revenues, cost management and operational improvements implemented over the past few years.

Product engineering and development (PED) expenses increased \$768,000 or 35.8% from fiscal 2017 due to increased headcount and salaries to meet the higher demand for its products. Selling, general and administrative (SG&A) expenses increased \$1,215,000 or 13.8% to \$9,991,000 from \$8,776,000 in fiscal 2017. SG&A expenses increased due to increased headcount, increased sales commissions due to higher revenues, and increased advertising and trade show expenses to capture the optimism within the highway construction industry. As a percentage of net revenue, SG&A expenses declined to 10.1%, compared to 10.9% in the prior year.

Fiscal 2018 had operating income of \$13,715,000 versus \$10,236,000 in fiscal 2017. The improved operating results were due primarily to higher net revenue and gross margins, partially offset by increases in PED and SG&A expenses.

As of September 30, 2018 and 2017, the cost basis of the investment portfolio was \$103.8 million and \$87.0 million, respectively. For the years ended September 30, 2018 and 2017, net investment interest and dividend income (Investment Income) was \$1.5 million and \$0.7 million, respectively. The net realized and unrealized gains (losses) on marketable securities were \$(0.4) million in fiscal 2018 versus \$1.3 million in fiscal 2017. The total cash, cash equivalents and investments balance at September 30, 2018 was \$112.1 million, compared to the September 30, 2017 cash, cash equivalents and investments balance of \$110.8 million, an increase of \$1.3 million.

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, during the first quarter of fiscal 2018. The Company recorded an additional \$0.1 million of tax benefits related to the Tax Reform Act in the fourth quarter of fiscal 2018.

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The effective income tax rate for fiscal 2018 was 15.6% versus 30.9% in fiscal 2017 due primarily to lowering of the corporate income tax rate under the Tax Reform Act.

As of September 30, 2017, the Company had no federal research and development tax credits (R&D Credits) carryforwards. In fiscal 2018, \$249,000 of new credits were generated, all of which were used. There are no R&D Credits carryforwards as of September 30, 2018.

As of September 30, 2017, the Company had \$155,000 in Florida state research and development tax credits (Florida R&D Credits) carryforwards. The Company received additional Florida R&D Credits of \$25,000 in fiscal 2018 and used \$93,000, leaving \$87,000 of Florida R&D Credits carryforwards as of September 30, 2018. The \$87,000 of Florida R&D Credits, which are included in net deferred and other income tax liabilities of \$(2,358,000) at September 30, 2018, expire in fiscal 2022.

Net income for the year ended September 30, 2018 was \$12,564,000 or \$0.85 per diluted share versus net income of \$8,418,000 or \$0.57 per diluted share for the year ended September 30, 2017. The increase in net income was primarily due to the improved net revenue and higher gross profit margins.

Liquidity and Capital Resources

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

The Company had no long-term debt outstanding at September 30, 2018 or 2017. As of September 30, 2018, the Company has funded \$135,000 in cash deposits at insurance companies to cover collateral needs.

As of September 30, 2018, the Company had \$8.0 million in cash and cash equivalents, and \$104.1 million in marketable securities. The marketable securities are invested through professional investment management firms. The securities may be liquidated at any time into cash and cash equivalents.

The Company's backlog, which includes orders received through the date of this filing, was \$43.8 million at September 30, 2018 versus \$61.3 million at September 30, 2017. The Company's working capital was \$136.6 million at September 30, 2018 versus \$124.7 million at September 30, 2017.

The significant purchases, sales and maturities of marketable securities shown on the consolidated statements of cash flows reflect the frequent purchase and sale of United States treasury bills.

Year ended September 30, 2018 compared with the year ended September 30, 2017

Cash used in operations in fiscal 2018 of \$(11,995,000) was primarily due to investing an additional \$15.0 million of operating cash in marketable equity securities. The increase in costs and estimated earnings in excess of billings of \$5.1 million reflects significant progress on large percentage-of-completion jobs prior to final billing and payment of amounts due in advance of shipment. Similarly, customer deposits decreased \$4.1 million, reflecting the application of down payments on these jobs.

Cash provided by operations in fiscal 2017 of \$6,108,000 was primarily from increases in net revenue. The increase in inventories of \$5.1 million reflected the ongoing need for additional equipment to meet the increased demand for the Company's products. Similarly, customer deposits increased \$4.1 million, reflecting the down payments related to increased backlog of orders.

Cash used in investing activities during the year ended September 30, 2018 of \$3,550,000 and \$1,617,000 for the year ended September 30, 2017, related primarily to capital expenditures for manufacturing equipment. Cash provided by financing activities of \$624,000 in fiscal 2018 and \$223,000 in fiscal 2017 related to proceeds from the exercise of stock options.

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 Company's 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 Consolidated Financial Statements, Accounting Policies.

Estimates and Assumptions

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

Index to Financial Statements*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 September 30, 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, and interim periods within those annual periods, beginning after December 15, 2017. ASU 2014-09 is effective for the Company starting in the first quarter of its fiscal 2019. The Company elected to adopt the standard using the modified retrospective method. The Company has substantially completed its analysis of the impact of the adoption, and expects that the adoption of this guidance will not have a material impact on its consolidated financial statements.

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 PED and SG&A 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 (see Note 2 to Consolidated Financial Statements). 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 materials, 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 are reduced by 50%, while the cost basis of inventories four to five years old are reduced by 75%, and the cost basis of inventories greater than five years old are 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.

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

Inflation

The overall effects of inflation on the Company's business during the periods discussed have not been significant. The Company monitors the prices it charges for its products and services on an ongoing basis and believes that it will be able to adjust those prices to take into account future changes in the rate of inflation.

Contractual Obligations

There were no outstanding borrowings or long-term contractual obligations at September 30, 2018.

The Company had no long-term or short-term debt as of September 30, 2018. There was no long-term debt facility in place and there were no outstanding letters of credit at September 30, 2018.

Off-Balance Sheet Arrangements

None

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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GENCOR INDUSTRIES, INC.

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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Gencor Industries, Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Gencor Industries, Inc. (the Company) as of September 30, 2018 and 2017, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the two-year period ended September 30, 2018, and the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of September 30, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are

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recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

We have served as the Company's auditor since 2001.

Orlando, Florida

December 13, 2018

Index to Financial Statements**Part I. Financial Information****GENCOR INDUSTRIES, INC.****Consolidated Balance Sheets****As of September 30, 2018 and 2017**

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,012,000	\$ 22,933,000
Marketable securities at fair value (cost of \$103,751,000 at September 30, 2018 and \$86,967,000 at September 30, 2017)	104,058,000	87,886,000
Accounts receivable, less allowance for doubtful accounts of \$313,000 at September 30, 2018 and \$207,000 at September 30, 2017	993,000	1,184,000
Costs and estimated earnings in excess of billings	11,900,000	6,768,000
Inventories, net	18,214,000	16,687,000
Prepaid expenses	1,904,000	1,660,000
Total current assets	145,081,000	137,118,000
Property and equipment, net	7,889,000	5,722,000
Other assets	53,000	53,000
Total Assets	\$ 153,023,000	\$ 142,893,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,838,000	\$ 1,320,000
Customer deposits	4,563,000	8,628,000
Accrued expenses	2,085,000	2,426,000
Total current liabilities	8,486,000	12,374,000
Deferred and other income taxes	2,358,000	1,601,000
Total liabilities	10,844,000	13,975,000
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$.10 per share; 300,000 shares authorized; none issued		
Common stock, par value \$.10 per share; 15,000,000 shares authorized; 12,252,337 shares and 12,154,829 shares issued and outstanding at September 30, 2018 and 2017, respectively	1,225,000	1,215,000
	229,000	226,000

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Class B Stock, par value \$.10 per share; 6,000,000 shares authorized; 2,288,857 shares and 2,263,857 shares issued and outstanding at September 30, 2018 and 2017, respectively

Capital in excess of par value	11,862,000	11,178,000
Retained earnings	128,863,000	116,299,000
Total shareholders' equity	142,179,000	128,918,000
Total Liabilities and Shareholders' Equity	\$ 153,023,000	\$ 142,893,000

See accompanying Notes to Consolidated Financial Statements

Index to Financial Statements**GENCOR INDUSTRIES, INC.****Consolidated Income Statements****For the Years Ended September 30, 2018 and 2017**

	2018	2017
Net revenue	\$ 98,614,000	\$ 80,608,000
Cost of goods sold	71,993,000	59,449,000
Gross profit	26,621,000	21,159,000
Operating expenses:		
Product engineering and development	2,915,000	2,147,000
Selling, general and administrative	9,991,000	8,776,000
Total operating expenses	12,906,000	10,923,000
Operating income	13,715,000	10,236,000
Other income (expense), net:		
Interest and dividend income, net of fees	1,535,000	650,000
Realized and unrealized gains (losses) on marketable securities, net	(363,000)	1,297,000
Other	2,000	(5,000)
	1,174,000	1,942,000
Income before income tax expense	14,889,000	12,178,000
Income tax expense	2,325,000	3,760,000
Net income	\$ 12,564,000	\$ 8,418,000
Basic earnings per common share	\$ 0.87	\$ 0.58
Diluted earnings per common share	\$ 0.85	\$ 0.57

See accompanying Notes to Consolidated Financial Statements

Index to Financial Statements**GENCOR INDUSTRIES, INC.****Consolidated Statements of Shareholders Equity****For the Years Ended September 30, 2018 and 2017**

	Common Stock		Class B Stock		Capital in	Retained	Total
	Shares	Amount	Shares	Amount	Excess of Par Value	Earnings	Shareholders Equity
September 30, 2016	12,111,079	\$ 1,211,000	2,263,857	\$ 226,000	\$ 10,887,000	\$ 107,881,000	\$ 120,205,000
Net income						8,418,000	8,418,000
Stock-based compensation					71,000		71,000
Stock options exercised	43,750	4,000			220,000		224,000
September 30, 2017	12,154,829	1,215,000	2,263,857	226,000	11,178,000	116,299,000	128,918,000
Net income						12,564,000	12,564,000
Stock-based compensation					71,000		71,000
Stock options exercised	97,508	10,000	25,000	3,000	613,000		626,000
September 30, 2018	12,252,337	\$ 1,225,000	2,288,857	\$ 229,000	\$ 11,862,000	\$ 128,863,000	\$ 142,179,000

See accompanying Notes to Consolidated Financial Statements

Index to Financial Statements**GENCOR INDUSTRIES, INC.****Consolidated Statements of Cash Flows****For the Years Ended September 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Net income	\$ 12,564,000	\$ 8,418,000
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Purchase of marketable securities	(256,124,000)	(492,674,000)
Proceeds from sale and maturity of marketable securities	239,462,000	491,852,000
Change in value of marketable securities	490,000	(1,126,000)
Deferred and other income taxes	757,000	1,285,000
Depreciation and amortization	1,380,000	1,128,000
Provision for doubtful accounts	210,000	115,000
Loss on disposal of assets	3,000	7,000
Stock-based compensation	71,000	71,000
Changes in assets and liabilities:		
Accounts receivable	(19,000)	(189,000)
Costs and estimated earnings in excess of billings	(5,132,000)	(1,847,000)
Inventories	(1,527,000)	(5,053,000)
Prepaid expenses	(244,000)	(62,000)
Accounts payable	518,000	(123,000)
Customer deposits	(4,065,000)	4,144,000
Accrued expenses	(341,000)	162,000
Total adjustments	(9,561,000)	(2,310,000)
Cash flows provided by (used in) operating activities	(11,997,000)	6,108,000
Cash flows from investing activities:		
Capital expenditures	(3,550,000)	(1,624,000)
Proceeds from sale of property and equipment		7,000
Cash flows used in investing activities	(3,550,000)	(1,617,000)
Cash flows from financing activities:		
Proceeds from stock option exercises	626,000	223,000
Cash flows provided by financing activities	626,000	223,000
Net increase (decrease) in cash and cash equivalents	(14,921,000)	4,714,000
Cash and cash equivalents at:		
Beginning of year	22,933,000	18,219,000

End of year	\$ 8,012,000	\$ 22,933,000
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See accompanying Notes to Consolidated Financial Statements

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GENCOR INDUSTRIES, INC.

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Gencor Industries, Inc. and its subsidiaries (collectively, the Company) is a diversified, heavy machinery manufacturer for the production of highway construction materials and environmental control machinery and equipment.

These consolidated financial statements include the accounts of Gencor Industries, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting Pronouncements and Policies

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. Additional disclosures are required to provide the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. ASU 2014-09 is effective for the Company starting in the first quarter of its fiscal 2019. The Company elected to adopt the standard using the modified retrospective method. The Company has substantially completed its analysis of the impact of the adoption, and expects that the adoption of this guidance will not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (ASU 2016-02). With adoption of this standard, lessees will have to recognize most leases as a right-of-use asset and a lease liability on their balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are similar to those applied in current lease accounting. ASU 2016-02 must be applied on a modified retrospective basis and is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company does not expect the new accounting standard to have a significant impact on its financial results when adopted.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation* (Topic 718): *Scope of Modification Accounting* (ASU 2017-09). The new guidance clarifies when a change to the terms or conditions of a share based payment award must be accounted for as a modification. ASU 2017-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. ASU 2017-09 is effective for the Company in the first quarter of its fiscal 2019. The Company does not expect the adoption of this standard to have a significant impact on its financial results when adopted.

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Index to Financial Statements**Earnings per Share (EPS)**

The consolidated financial statements include basic and diluted earnings (loss) per share (EPS) information. Basic EPS is based on the weighted-average number of shares outstanding. Diluted EPS is based on the sum of the weighted-average number of shares outstanding plus common stock equivalents.

The weighted-average shares issuable upon the exercise of stock options included in the diluted EPS calculation at September 30, 2018 were 367,000, which equates to 231,000 dilutive common stock equivalents. For the year ended September 30, 2017, the weighted-average shares issuable upon the exercise of stock options included in the diluted EPS calculation were 463,000, which equates to 284,000 dilutive common stock equivalents. Weighted-average shares issuable upon the exercise of stock options, which were not included in the diluted EPS calculation because they were anti-dilutive, were zero in 2018 and 2017.

The following presents the calculation of the basic and diluted EPS for the years ended September 30, 2018 and 2017:

	2018			2017		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS	\$ 12,564,000	14,492,000	\$ 0.87	\$ 8,418,000	14,396,000	\$ 0.58
Common stock equivalents		231,000			284,000	
Diluted EPS	\$ 12,564,000	14,723,000	\$ 0.85	\$ 8,418,000	14,680,000	\$ 0.57

Cash Equivalents

Cash equivalents consist of short-term certificates of deposit and deposits in money market accounts with original maturities of three months or less.

Marketable Securities

Marketable debt and equity securities are categorized as trading securities and are thus marked to market and stated at fair value. Fair value is determined using the quoted closing or latest bid prices for Level 1 investments and market standard valuation methodologies for Level 2 investments. Realized gains and losses on investment transactions are determined by specific identification and are recognized as incurred in the consolidated income statements. Net changes in unrealized gains and losses are reported in the consolidated income statements in the current period.

Fair Value Measurements

The fair value of financial instruments is presented based upon a hierarchy of levels that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value of marketable equity securities, mutual funds, exchange-traded funds, corporate bonds, government securities, and cash and money funds are substantially based on quoted market prices (Level 1). Corporate and

municipal bonds are valued using market standard valuation methodologies, including: discounted cash flow methodologies, and matrix pricing or other similar techniques. The inputs to these market standard valuation methodologies include, but are not limited to: interest rates, credit standing of the issuer or counterparty, industry sector of the issuer, coupon rate, call provisions, maturity, estimated duration and assumptions regarding liquidity and estimated future cash flows. In addition to bond characteristics, the valuation methodologies incorporate market data, such as actual trades completed, bids and actual dealer quotes, where such information is available. Accordingly, the estimated fair values are based on available market information and judgments about financial instruments (Level 2). Fair values of the Level 2 investments are provided by the Company's professional investment management firms.

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The following table sets forth by level, within the fair value hierarchy, the Company's assets measured at fair value as of September 30, 2018:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 11,768,000	\$	\$	\$ 11,768,000
Mutual Funds	3,811,000			3,811,000
Exchange-Traded Funds	4,148,000			4,148,000
Corporate Bonds		29,884,000		29,884,000
Government Securities	53,883,000			53,883,000
Cash and Money Funds	564,000			564,000
Total	\$ 74,174,000	\$ 29,884,000	\$	\$ 104,058,000

Net unrealized losses reported during fiscal 2018 on trading securities still held as of September 30, 2018, were \$612,000. There were no transfers of investments between Level 1 and Level 2 during the year ended September 30, 2018. In September 2018, the Company invested an additional \$15.0 million of its operating cash in government securities.

The following table sets forth by level, within the fair value hierarchy, the Company's assets measured at fair value as of September 30, 2017:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Equities	\$ 11,338,000	\$	\$	\$ 11,338,000
Mutual Funds	7,155,000			7,155,000
Exchange-Traded Funds	3,417,000			3,417,000
Corporate Bonds		7,196,000		7,196,000
Government Securities	54,542,000			54,542,000
Cash and Money Funds	4,238,000			4,238,000
Total	\$ 80,690,000	\$ 7,196,000	\$	\$ 87,886,000

Net unrealized gains reported during fiscal 2017 on trading securities still held as of September 30, 2017, were \$1,183,000. There were no transfers of investments between Level 1 and Level 2 during the year ended September 30, 2017.

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

Foreign Currency Transactions

Gains and losses resulting from foreign currency transactions are included in income and were not significant during the years ended September 30, 2018 and 2017.

Index to Financial Statements**Risk Management**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, and accounts receivable. The Company maintains its cash accounts in various domestic financial institutions which may from time to time exceed federally insured limits. Operating cash is retained overnight in non-interest-bearing accounts which allow for offsets to treasury service charges. The marketable securities are invested in cash and money funds, mutual funds, exchange-traded funds (ETF s), corporate bonds, government securities and stocks through a professional investment advisor. Investment securities are exposed to various risks, such as interest rate, market and credit risks.

The Company s customers are not concentrated in any specific geographic region, but are concentrated in the road and highway construction industry. The Company extends limited credit to its customers based upon their credit-worthiness and generally requires a significant up-front deposit before beginning construction and full payment subject to hold-back provisions prior to shipment on complete asphalt plant and component orders. The Company establishes an allowance for doubtful accounts based upon the credit risk of specific customers, historical trends and other pertinent information.

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 (see Note 2). 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 are reduced by 50%, while the cost basis of inventories four to five years old are reduced by 75%, and the cost basis of inventories greater than five years old are 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.

Changes in the allowance for slow moving and obsolete inventories are as follows:

	2018	2017
Balance, beginning of year	\$ 3,826,000	\$ 3,869,000
Charged to cost of sales	262,000	77,000
Disposal of inventory, net of recoveries	(315,000)	(120,000)
Balance, end of year	\$ 3,773,000	\$ 3,826,000

Property and Equipment

Property and equipment are stated at cost (see Note 4). Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the related assets, as follows:

	Years
Land improvements	15
Buildings & improvements	6-40
Equipment	2-10

Index to Financial Statements**Impairments**

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 of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis. No such impairment losses were recorded during the years ended September 30, 2018 and 2017.

Revenues and 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 September 30, 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.

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

Changes in the accrual for warranty and related costs are composed of the following:

	2018	2017
Balance, beginning of year	\$ 412,000	\$ 401,000
Warranties issued	225,000	400,000
Warranties settled	(237,000)	(389,000)
Balance, end of year	\$ 400,000	\$ 412,000

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 category. 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. The allowance for doubtful accounts also includes an estimate for returns and allowances. Provisions for estimated returns and allowances and other adjustments, are provided for in the same period the related sales are recorded. Returns and allowances, which reduce product revenue, are estimated using known issues and historical experience.

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Changes in the allowance for doubtful accounts are composed of the following:

	2018	2017
Balance, beginning of year	\$ 207,000	\$ 195,000
Provision for doubtful accounts	210,000	115,000
Provision for estimated returns and allowances	265,000	385,000
Uncollectible accounts written-off	(76,000)	(16,000)
Returns and allowances issued	(293,000)	(472,000)
Balance, end of year	\$ 313,000	\$ 207,000

Shipping and Handling Costs

Shipping and handling costs are included in production costs in the consolidated income statements.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist primarily of taxes currently due, plus deferred taxes (see Note 6).

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

Deferred tax assets and liabilities are measured using the rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse and the credits are expected to be used. The effect on deferred tax assets and liabilities of the change in tax rates is recognized in income in the period that includes the enactment date. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, the Company is more likely than not to realize the benefit of a deferred tax asset and whether a valuation allowance is needed for some portion or all of a deferred tax asset. No such valuation allowances were recorded as of September 30, 2018 and 2017.

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 for tax years beginning after December 31, 2017, 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 Company recorded an additional \$0.1 million of tax benefits related to the Tax Reform Act in the fourth quarter of fiscal 2018.

The Company's income tax provision is based on management's estimate of the effective tax rate for the full year. The tax provision in any period will be affected by, among other things, permanent, as well as temporary differences in the deductibility of certain items, in addition to changes in tax legislation. As a result, the Company may experience significant fluctuations in the effective book tax rate (that is, its tax expense divided by pre-tax book income) from

period to period. For fiscal 2018, the Company's effective tax rate declined compared to fiscal 2017, primarily due to the implementation of the Tax Reform Act.

Comprehensive Income

For the years ended September 30, 2018 and 2017, other comprehensive income is equal to net income.

Reporting Segments and Geographic Areas

The Company has one reportable segment. For fiscal 2018 and 2017, total revenues of \$98,614,000 and \$80,608,000, and total long-term assets of \$7,942,000 and \$5,775,000, respectively, were attributed to the United States. Revenues are attributed to geographic areas based on the location of the assets producing the revenues.

Index to Financial Statements**Customers with 10% (or greater) of Net Revenues**

Approximately 3% of total net revenue in the year ended September 30, 2018 and 13% of total net revenue for the year ended September 30, 2017, was from one or more separate U.S. entities owned by a foreign-based global company.

One other customer accounted for approximately 10% of net revenue for the year ended September 30, 2017. No customer accounted for 10% or more of fiscal 2018 net revenue.

Subsequent Events

Management has evaluated events occurring from September 30, 2018 through the date these financial statements were filed with the SEC for proper recording and disclosures therein.

NOTE 2 - INVENTORIES, NET

Net inventories consist of the following:

	September 30,	
	2018	2017
Raw materials	\$ 11,254,000	\$ 9,407,000
Work in process	1,020,000	3,098,000
Finished goods	5,924,000	4,166,000
Used equipment	16,000	16,000
	\$ 18,214,000	\$ 16,687,000

At September 30, 2018 and 2017, cost is determined by the LIFO method for inventories. The estimated current cost of inventories exceeded their LIFO basis by approximately \$4,446,000 and \$4,250,000 at September 30, 2018 and 2017, respectively. Slow moving and obsolete inventory reserves were \$3,773,000 and \$3,826,000 at September 30, 2018 and 2017, respectively.

NOTE 3 - COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS

Costs and estimated earnings in excess of billings on uncompleted contracts as of September 30, 2018 and 2017 consisted of the following:

	September 30,	
	2018	2017
Costs incurred on uncompleted contracts	\$ 17,437,000	\$ 10,250,000
Estimated earnings	7,335,000	3,161,000
	24,772,000	13,411,000
Billings to date	12,872,000	6,643,000

Costs and estimated earnings in excess of billings	\$ 11,900,000	\$ 6,768,000
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Index to Financial Statements**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of September 30, 2018 and 2017:

	September 30,	
	2018	2017
Land and improvements	\$ 3,323,000	\$ 3,323,000
Buildings and improvements	13,350,000	12,935,000
Equipment	12,966,000	9,943,000
	29,639,000	26,201,000
Less: Accumulated depreciation and amortization	(21,750,000)	(20,479,000)
Property and equipment, net	\$ 7,889,000	\$ 5,722,000

Property and equipment includes approximately \$11,996,000 and \$10,645,000 of fully depreciated assets, which remained in service during fiscal 2018 and 2017, respectively.

NOTE 5 - ACCRUED EXPENSES

Accrued expenses consist of the following as of September 30, 2018 and 2017:

	September 30,	
	2018	2017
Payroll and related accruals	\$ 1,371,000	\$ 1,374,000
Warranty and related accruals	400,000	412,000
Professional fees	118,000	158,000
Other	196,000	482,000
Accrued expenses	\$ 2,085,000	\$ 2,426,000

NOTE 6 - INCOME TAXES

The provision for income tax expense consists of:

	Year Ended September 30,	
	2018	2017
Current:		
Federal	\$ 1,441,000	\$ 2,381,000
State	127,000	50,000
Total current	1,568,000	2,431,000

Deferred:		
Federal	631,000	1,238,000
State	126,000	91,000
Total deferred	757,000	1,329,000
Income tax expense	\$ 2,325,000	\$ 3,760,000

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A reconciliation of the federal statutory tax rate to the total tax provision is as follows:

	Year Ended September 30,	
	2018	2017
Federal income taxes computed at the statutory rate	24.3%	34.0%
State income taxes, net of federal benefit	1.4%	1.2%
Change in current tax rate	(3.0%)	
Change in deferred tax rate	(2.3%)	
Research & development tax refunds & credits	(1.8%)	(2.1%)
Dividend received deduction	(0.9%)	(0.9%)
Domestic production activities deduction	(1.2%)	(2.8%)
Incentive stock options	(1.0%)	
Other, net	0.1%	1.5%
Effective income tax rate	15.6%	30.9%

Deferred income tax assets and liabilities consist of the following:

	September 30,	
	2018	2017
Deferred Tax Assets:		
Accrued liabilities and reserves	\$ 218,000	\$ 351,000
Allowance for doubtful accounts	71,000	73,000
Inventory	494,000	778,000
R&D tax credits carryforwards	87,000	155,000
Stock-based compensation	104,000	95,000
Net operating losses carryforwards	57,000	58,000
Other		48,000
Gross Deferred Income Tax Assets	1,031,000	1,558,000
Deferred and Other Tax Liabilities:		
Domestic international sales corporation	(543,000)	(839,000)
Percentage of completion	(1,717,000)	(1,114,000)
Property and equipment	(904,000)	(694,000)
Unrealized gain on investments	(75,000)	(332,000)
Unrecognized tax benefits	(150,000)	(150,000)
Other		(30,000)
Gross Deferred and Other Income Tax Liabilities	(3,389,000)	(3,159,000)
Net Deferred and Other Income Tax Assets (Liabilities)	\$ (2,358,000)	\$ (1,601,000)

Total income taxes paid in fiscal 2018 and 2017 were \$2,775,000 and \$1,918,000, respectively.

Accounting principles generally accepted in the United States of America (GAAP) prescribes a comprehensive model for the financial recognition, measurement, classification, and disclosure of uncertain tax positions. GAAP contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, based on the technical merits of the position. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Significant judgment is required in evaluating the Company s uncertain tax position and determining the Company s provision for taxes. Although the Company believes the reserves of unrecognized tax benefits (UTB s) are reasonable, no assurance can be given that the final outcome of these matters will not be different from that which is

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reflected in the Company's historical income tax provision and accruals. The Company adjusts these reserves in light of changing facts and circumstances. As of September 30, 2018 and 2017, the Company had UTB's of \$150,000. There were no additional accruals of UTB's during fiscal years ended September 30, 2018 and 2017.

The Company recognizes interest and penalties accrued related to UTB's as a component of income tax expense. There were no additional accruals of interest expense nor penalties during fiscal years ended September 30, 2018 and 2017. It is reasonably possible that the amount of the UTB's with respect to certain unrecognized tax positions will increase or decrease during the next 12 months. The Company does not expect the change to have a material effect on its results of operations or its financial position. The only expected potential reason for change would be the normal expiration of the statute of limitations or the ultimate results stemming from any examinations by taxing authorities. If recognized, the entire amount of UTB's would have an impact on the Company's effective tax rate.

The effective income tax rate for fiscal 2018 was 15.6% versus 30.9% in fiscal 2017 due primarily to changes in the corporate income tax rate.

As of September 30, 2017, the Company had no federal research and development tax credits (R&D Credits) carryforwards. In fiscal 2018, \$249,000 of new credits were generated, all of which were used. There are no R&D Credits carryforwards as of September 30, 2018.

As of September 30, 2017, the Company had \$155,000 in Florida state research and development tax credits (Florida R&D Credits) carryforwards. The Company received additional Florida R&D Credits of \$25,000 in fiscal 2018 and used \$93,000, leaving \$87,000 of Florida R&D Credits carryforwards as of September 30, 2018. The \$87,000 of Florida R&D Credits, which are included in net deferred and other income tax liabilities of \$(2,358,000) at September 30, 2018, expire in fiscal 2022.

The Company files U.S. federal income tax returns, as well as Florida and Iowa income tax returns. The Company's U.S. federal income tax returns filed for tax years prior to fiscal year ended September 30, 2015 are generally no longer subject to examination by taxing authorities due to the expiration of the statute of limitations.

NOTE 7 - RETIREMENT BENEFITS

The Company has a voluntary 401(k) employee benefit plan, which covers all eligible, domestic employees. The Company makes discretionary matching contributions subject to a maximum level, in accordance with the terms of the plan. The Company charged approximately \$420,000 and \$218,000 to expense under the provisions of the plan during the fiscal years 2018 and 2017, respectively.

NOTE 8 - LONG-TERM DEBT

The Company had no long-term debt outstanding at September 30, 2018 or 2017. The Company does not currently require a credit facility.

As of September 30, 2018, total cash deposits with insurance companies covering collateral needs were \$135,000.

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NOTE 9 - COMMITMENTS AND CONTINGENCIES

Leases

The Company leases certain equipment under non-cancelable operating leases. Future minimum rental commitments under these leases at September 30, 2018 are immaterial. Total rental expense for the fiscal years ended September 30, 2018 and 2017 was \$38,000 and \$179,000, respectively.

Litigation

The Company is not involved in any legal proceedings other than routine litigation arising in the normal course of business, none of which we believe will have a material adverse effect on our business, financial condition or results of operations. Claims made in the ordinary course of business may be covered in whole or in part by insurance.

NOTE 10 - SHAREHOLDERS' EQUITY

Under the Company's Certificate of Incorporation, as amended, certain rights of the holders of the Company's common stock are modified by shares of Class B stock for as long as such shares shall remain outstanding. During that period, holders of common stock will have the right to elect approximately 25% of the Company's Board of Directors, and conversely, holders of Class B stock will be entitled to elect approximately 75% of the Company's Board of Directors. During the period when shares of common stock and Class B stock are outstanding, certain matters submitted to a vote of shareholders will also require approval of the holders of common stock and Class B stock, each voting separately as a class. Common stock and Class B shareholders have equal rights with respect to dividends, preferences, and rights, including rights in liquidation.

NOTE 11 - STOCK-BASED COMPENSATION

The Company maintains a stock-based compensation plan, which provides for the issuance of Company stock to certain directors, officers, key employees and affiliates.

On March 17, 2009, the shareholders of the Company approved the 2009 Incentive Compensation Plan (the "2009 Plan"). The 2009 Plan provides that the total number of shares of Company stock that may be subject to the granting of awards under the 2009 Plan ("Awards") at any time during the term of the 2009 Plan shall be equal to 800,000 shares of common stock and 160,000 shares of Class B stock. The foregoing limit shall be increased, as provided for in the 2009 Plan. Persons eligible to receive Awards under the 2009 Plan include employees, directors, consultants and other persons who provide services to the Company. The 2009 Plan imposes individual limitations on the amount of certain Awards, in part, to comply with Internal Revenue Code, Section 162(m). The Awards can be in the form of stock options, restricted and deferred stock, performance awards and other stock-based awards, as provided for in the 2009 Plan.

As of September 30, 2018, all outstanding common stock options had been fully vested. These options amounted to 242,492 at September 30, 2018. As long as the employee remains employed by the Company, these options are exercisable through October 1, 2021.

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As of September 30, 2018, 482,000 shares of Company common stock and 100,000 shares of Class B stock are available for granting of Awards under the 2009 Plan.

The following table summarizes option activity under the 2009 Plan:

	Number of Shares	Average Exercise Price Per Share
Options outstanding at September 30, 2016	483,750	\$ 5.684
Options exercised during fiscal 2017	(43,750)	\$ 5.126
Options outstanding at September 30, 2017	440,000	\$ 5.739
Options exercised during fiscal 2018	(122,508)	\$ 5.104
Options outstanding at September 30, 2018	317,492	\$ 5.984

No options were granted, forfeited or cancelled during the year ended September 30, 2018. The weighted average remaining contractual life on the options outstanding as of September 30, 2018 is 3.5 years under the 2009 Plan.

NOTE 12 - RELATED PARTY TRANSACTIONS

Marcar Leasing Corporation (Marcar) was engaged in leasing vehicles and forklifts to the Company. Marcar is owned by a family member of the Company's chairman. New leases between the Company and Marcar provided for equal monthly payments. There were no lease payments made to Marcar during fiscal 2018. During fiscal 2017, the Company made lease payments to Marcar totaling \$125,000. On October 5, 2017, the Company agreed to purchase leased vehicles and forklifts under contract with Marcar for \$320,000. The Company has no further obligation to Marcar.

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ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial 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 (the Exchange Act)) as of the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this Report, the Company's disclosure controls and procedures are effective.

Because of inherent limitations, the Company's disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of such disclosure controls and procedures are met and no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company has been detected.

As of the end of the period covered by this Report, the Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018.

Management's Annual Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) for the Company. The Company's internal control system is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There are inherent limitations in the effectiveness of all internal control systems no matter how well designed. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the preparation and presentation of financial statements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of a change in circumstances or conditions.

In order to ensure that the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently as of September 30, 2018. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes the Company maintained effective internal control over financial reporting as of September 30, 2018. The effectiveness of our internal control over financial reporting as of September 30, 2018 has been audited by Moore Stephens Lovelace, P.A., an independent registered public accounting firm, as stated in their report that is included herein.

Changes in Internal Control over Financial Reporting

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has reviewed the Company's internal control over financial reporting. There were no changes in the Company's internal control over financial reporting during the year ended September 30, 2018 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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ITEM 9B OTHER INFORMATION

None

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated herein by reference to the Company's Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

ITEM 11 EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated herein by reference to the Company's Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is incorporated herein by reference to the Company's Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is incorporated herein by reference to the Company's Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference to the Company's Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

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PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) A listing of financial statements and financial statement schedules filed as part of this Report and which financial statements and schedules are incorporated into this report by reference, is set forth in the Index to Financial Statements and Financial Statement Schedules in Item 8 hereof.
- (b) Exhibit Index

EXHIBIT

NUMBER	DESCRIPTION	FILED HEREWITH
3.1	Restated Certificate of Incorporation of Company, incorporated by reference to Exhibit 3.1 to Registration No. 33-627(P)	
3.2	<u>Amended and Restated By-Laws of Gencor Industries, Inc., incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended September 30, 2007</u>	
3.3	Certificate of Amendment, changing name of Mechtron International Corporation to Gencor Industries, Inc. and adding a twelfth article regarding director liability limitation, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1987(P)	
4.1	Form of Common Stock certificate, incorporated by reference to Exhibit 4.1 to Registration No. 33-627(P)	
10.1	<u>The Company's 2009 Incentive Compensation Plan, as incorporated by reference to the Company's 2009 Proxy Statement filed with the Securities and Exchange Commission on Schedule 14A on January 28, 2009</u>	
10.5	Form of Agreement for Nonqualified Stock Options granted in 1986, incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 1986(P)	
10.11	<u>1997 Stock Option Plan incorporated by reference to Exhibit A to the Company's Proxy Statement on 14A, filed March 3, 1997</u>	
10.12	<u>First Amendment to the Stock Option Plan Agreement incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006</u>	
21.1	<u>Subsidiaries of the Registrant</u>	X
23.1	<u>Consent of Independent Registered Public Accountants</u>	X

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31.1	<u>Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</u>	X
31.2	<u>Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</u>	X
32.1	<u>Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U. S. C. Section 1350</u>	X

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EXHIBIT

NUMBER	DESCRIPTION	FILED HEREWITH
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 Sections 13 or 15(d) 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.

Dated: December 13, 2018

GENCOR INDUSTRIES, INC.
(Registrant)

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. The signatures of Directors constitute a majority of Directors.

/s/ E.J. Elliott E.J. Elliott Chairman	December 13, 2018	/s/ John E. Elliott John E. Elliott Chief Executive Officer (Principal Executive Officer)	December 13, 2018
/s/ Marc G. Elliott Marc G. Elliott President	December 13, 2018	/s/ Eric E. Mellen Eric E. Mellen Chief Financial Officer (Principal Financial and Accounting Officer)	December 13, 2018
/s/ James P. Sharp James P. Sharp Director	December 13, 2018	/s/ Cort J. Dondero Cort J. Dondero Director	December 13, 2018
/s/ David A. Air David A. Air Director	December 13, 2018		