

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from to

Commission File Number 001-34627

GENERAC HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-5654756

(IRS Employer
Identification No.)

S45 W29290 Hwy 59, Waukesha, WI

(Address of principal executive offices)

53189

(Zip Code)

(262) 544-4811

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	GNRC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting 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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2019, there were 62,541,881 shares of registrant's common stock outstanding.

**GENERAC HOLDINGS INC.
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PART I. FINANCIAL INFORMATION

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Item 1. Financial Statements

Generac Holdings Inc.
Condensed Consolidated Balance Sheets
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 216,038	\$ 224,482
Accounts receivable, less allowance for doubtful accounts	373,591	326,133
Inventories	517,232	544,750
Prepaid expenses and other assets	30,570	25,404
Total current assets	1,137,431	1,120,769
Property and equipment, net	303,288	278,929
Customer lists, net	55,649	61,194
Patents, net	75,781	29,970
Other intangible assets, net	11,809	3,043
Tradenames, net	149,155	152,283
Goodwill	811,914	764,655
Deferred income taxes	3,217	163
Operating lease and other assets	45,877	15,308

Total assets	\$ 2,594,121	\$ 2,426,314
Liabilities and stockholders' equity		
Current liabilities:		
Short-term borrowings	\$ 66,985	\$ 45,583
Accounts payable	241,290	328,091
Accrued wages and employee benefits	37,401	40,819
Other accrued liabilities	127,786	144,236
Current portion of long-term borrowings and finance lease obligations	2,554	1,977
Total current liabilities	476,016	560,706
Long-term borrowings and finance lease obligations	884,315	876,396
Deferred income taxes	92,520	71,300
Operating lease and other long-term liabilities	145,491	95,647
Total liabilities	1,598,342	1,604,049
Redeemable noncontrolling interests	56,564	61,004
Stockholders' equity:		
Common stock, par value \$0.01, 500,000,000 shares authorized, 71,640,792 and 71,186,418 shares issued at September 30, 2019 and December 31, 2018, respectively	716	712
Additional paid-in capital	492,671	476,116
Treasury stock, at cost	(324,351)	(321,473)
Excess purchase price over predecessor basis	(202,116)	(202,116)
Retained earnings	1,013,707	831,123
Accumulated other comprehensive loss	(46,363)	(23,813)
Stockholders' equity attributable to Generac Holdings, Inc.	934,264	760,549
Noncontrolling interests	4,951	712
Total stockholders' equity	939,215	761,261
Total liabilities and stockholders' equity	\$ 2,594,121	\$ 2,426,314

See notes to consolidated financial statements.

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Generac Holdings Inc.
Condensed Consolidated Statements of Comprehensive Income
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2019	2018	2019	2018
Net sales	\$ 601,135	\$ 562,388	\$ 1,613,404	\$ 1,460,060
Costs of goods sold	383,618	362,054	1,037,874	939,326
Gross profit	217,517	200,334	575,530	520,734
Operating expenses:				
Selling and service	59,356	48,985	158,954	141,874
Research and development	17,603	13,653	48,906	38,122
General and administrative	27,596	25,499	80,016	75,613
Amortization of intangibles	7,406	5,678	19,999	16,792
Total operating expenses	111,961	93,815	307,875	272,401
Income from operations	105,556	106,519	267,655	248,333
Other (expense) income:				
Interest expense	(10,704)	(9,824)	(31,428)	(30,939)
Investment income	523	382	1,889	1,095
Loss on extinguishment of debt	-	-	-	(1,332)
Other, net	(414)	(483)	(1,868)	(2,764)
Total other expense, net	(10,595)	(9,925)	(31,407)	(33,940)
Income before provision for income taxes	94,961	96,594	236,248	214,393
Provision for income taxes	20,064	20,072	53,876	49,870
Net income	74,897	76,522	182,372	164,523
Net (loss) income attributable to noncontrolling interests	(677)	746	(21)	1,841
Net income attributable to Generac Holdings Inc.	\$ 75,574	\$ 75,776	\$ 182,393	\$ 162,682
Net income attributable to Generac Holdings Inc. per common share - basic:	\$ 1.20	\$ 1.12	\$ 2.95	\$ 2.36
Weighted average common shares outstanding - basic:	61,973,447	61,579,564	61,878,500	61,659,817

Net income attributable to Generac Holdings Inc. per common share - diluted:	\$ 1.18	\$ 1.11	\$ 2.92	\$ 2.34
Weighted average common shares outstanding - diluted:	62,770,592	62,220,298	62,519,205	62,266,140
Comprehensive income attributable to Generac Holdings Inc.	\$ 64,904	\$ 80,768	\$ 161,828	\$ 173,355

See notes to consolidated financial statements.

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Generac Holdings Inc.
Condensed Consolidated Statements of Stockholders' Equity
(U.S. Dollars in Thousands, Except Share Data)
(Unaudited)

	Generac Holdings Inc.										
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
Balance at July 1, 2019	71,471,341	\$ 715	\$ 485,703	(9,098,294)	\$ (324,149)	\$ (202,116)	\$ 939,618	\$ (33,831)	\$ 865,940	\$ 5,071	\$ 871,011
Acquisition of business	-	-	-	-	-	-	-	-	-	-	-
Unrealized gain/loss on interest rate swaps, net of tax of (\$956)	-	-	-	-	-	-	-	(2,721)	(2,721)	-	(2,721)
Foreign currency translation adjustment	-	-	-	-	-	-	-	(9,811)	(9,811)	(11)	(9,822)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	169,451	1	3,419	-	-	-	-	-	3,420	-	3,420
Net share settlement of restricted stock awards	-	-	-	(2,628)	(202)	-	-	-	(202)	-	(202)
Stock repurchases	-	-	-	-	-	-	-	-	-	-	-
Cash dividends paid to noncontrolling interest of subsidiary	-	-	-	-	-	-	-	-	-	-	-
Share-based compensation	-	-	3,549	-	-	-	-	-	3,549	-	3,549
Redemption value adjustment	-	-	-	-	-	-	(1,485)	-	(1,485)	-	(1,485)
Net income	-	-	-	-	-	-	75,574	-	75,574	(109)	75,465
Balance at September 30, 2019	71,640,792	\$ 716	\$ 492,671	(9,100,922)	\$ (324,351)	\$ (202,116)	\$ 1,013,707	\$ (46,363)	\$ 934,264	\$ 4,951	\$ 939,215

	Generac Holdings Inc.										
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
Balance at January 1, 2019	71,186,418	\$ 712	\$ 476,116	(9,047,060)	\$ (321,473)	\$ (202,116)	\$ 831,123	\$ (23,813)	\$ 760,549	\$ 712	\$ 761,261
Acquisition of business	-	-	-	-	-	-	-	-	-	4,125	4,125
Unrealized gain/loss on interest rate swaps, net of tax of (\$5,234)	-	-	-	-	-	-	-	(14,898)	(14,898)	-	(14,898)
Foreign currency translation adjustment	-	-	-	-	-	-	-	(7,652)	(7,652)	27	(7,625)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	454,374	4	5,078	-	-	-	-	-	5,082	-	5,082
Net share settlement of restricted stock awards	-	-	-	(53,862)	(2,878)	-	-	-	(2,878)	-	(2,878)
Stock repurchases	-	-	-	-	-	-	-	-	-	-	-
Cash dividends paid to noncontrolling interest of subsidiary	-	-	-	-	-	-	-	-	-	(285)	(285)
Share-based compensation	-	-	11,477	-	-	-	-	-	11,477	-	11,477
Redemption value adjustment	-	-	-	-	-	-	191	-	191	-	191
Net income	-	-	-	-	-	-	182,393	-	182,393	372	182,765
Balance at September 30, 2019	71,640,792	\$ 716	\$ 492,671	(9,100,922)	\$ (324,351)	\$ (202,116)	\$ 1,013,707	\$ (46,363)	\$ 934,264	\$ 4,951	\$ 939,215

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Generac Holdings Inc.
Condensed Consolidated Statements of Stockholders' Equity
(U.S. Dollars in Thousands, Except Share Data)
(Unaudited)

Generac Holdings Inc.											
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
Balance at July 1, 2018	71,030,347	\$ 710	\$ 468,598	(9,039,480)	\$ (321,052)	\$ (202,116)	\$ 687,772	\$ (16,900)	\$ 617,012	\$ 243	\$ 617,255
Acquisition of business	-	-	-	-	-	-	-	-	-	-	-
Unrealized gain/loss on interest rate swaps, net of tax of \$571	-	-	-	-	-	-	-	1,626	1,626	(5)	1,621
Foreign currency translation adjustment	-	-	-	-	-	-	-	5,717	5,717	-	5,717
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	75,226	1	2,369	-	-	-	-	-	2,370	-	2,370
Net share settlement of restricted stock awards	-	-	-	(6,197)	(345)	-	-	-	(345)	-	(345)
Stock repurchases	-	-	-	-	-	-	-	-	-	-	-
Cash dividends paid to noncontrolling interest of subsidiary	-	-	-	-	-	-	-	-	-	-	-
Share-based compensation	-	-	2,919	-	-	-	-	-	2,919	-	2,919
Redemption value adjustment	-	-	-	-	-	-	(6,912)	-	(6,912)	-	(6,912)
Net income	-	-	-	-	-	-	75,776	-	75,776	234	76,010
Balance at September 30, 2018	71,105,573	\$ 711	\$ 473,886	(9,045,677)	\$ (321,397)	\$ (202,116)	\$ 756,636	\$ (9,557)	\$ 698,163	\$ 472	\$ 698,635

Generac Holdings Inc.											
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
Balance at January 1, 2018	70,820,173	\$ 708	\$ 459,816	(8,448,874)	\$ (294,005)	\$ (202,116)	\$ 610,836	\$ (21,198)	\$ 554,041	\$ 279	\$ 554,320
Acquisition of business	-	-	-	-	-	-	-	-	-	-	-
Unrealized gain/loss on interest rate swaps, net of tax of \$3,654	-	-	-	-	-	-	-	10,403	10,403	-	10,403
Foreign currency translation adjustment	-	-	-	-	-	-	-	1,238	1,238	-	1,238
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	285,400	3	4,160	-	-	-	-	-	4,163	-	4,163
Net share settlement of restricted stock awards	-	-	-	(36,803)	(1,737)	-	-	-	(1,737)	-	(1,737)
Stock repurchases	-	-	-	(560,000)	(25,655)	-	-	-	(25,655)	-	(25,655)
Cash dividends paid to noncontrolling interest of subsidiary	-	-	-	-	-	-	-	-	-	(314)	(314)
Share-based compensation	-	-	9,910	-	-	-	-	-	9,910	-	9,910
Redemption value adjustment	-	-	-	-	-	-	(16,882)	-	(16,882)	-	(16,882)
Net income	-	-	-	-	-	-	162,682	-	162,682	507	163,189
Balance at September 30, 2018	71,105,573	\$ 711	\$ 473,886	(9,045,677)	\$ (321,397)	\$ (202,116)	\$ 756,636	\$ (9,557)	\$ 698,163	\$ 472	\$ 698,635

See notes to consolidated financial statements.

Generac Holdings Inc.
Condensed Consolidated Statements of Cash Flows
(U.S. Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
Operating activities		
Net income	\$ 182,372	\$ 164,523
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	22,842	18,332
Amortization of intangible assets	19,999	16,792
Amortization of original issue discount and deferred financing costs	3,597	3,554
Loss on extinguishment of debt	–	1,332
Deferred income taxes	19,514	17,218
Share-based compensation expense	11,477	9,910
Other	557	1,249
Net changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(45,543)	(55,649)
Inventories	27,190	(99,957)
Other assets	1,488	(16,488)
Accounts payable	(83,174)	47,559
Accrued wages and employee benefits	(7,517)	13,044
Other accrued liabilities	(17,092)	18,011
Excess tax benefits from equity awards	(1,908)	(432)
Net cash provided by operating activities	133,802	138,998
Investing activities		
Proceeds from sale of property and equipment	83	213
Proceeds from beneficial interests in securitization transactions	2,036	2,825
Expenditures for property and equipment	(45,447)	(25,577)
Acquisition of business, net of cash acquired	(120,863)	(71,926)
Net cash used in investing activities	(164,191)	(94,465)
Financing activities		
Proceeds from short-term borrowings	68,802	28,332
Proceeds from long-term borrowings	–	51,425
Repayments of short-term borrowings	(45,437)	(12,478)
Repayments of long-term borrowings and finance lease obligations	(3,110)	(51,164)
Stock repurchases	–	(25,656)
Cash dividends paid to noncontrolling interest of subsidiary	(285)	(314)
Payment of debt issuance costs	–	(1,702)
Taxes paid related to equity awards	(5,749)	(2,777)
Proceeds from exercise of stock options	7,957	5,191
Net cash provided by (used in) financing activities	22,178	(9,143)
Effect of exchange rate changes on cash and cash equivalents	(233)	139
Net (decrease) increase in cash and cash equivalents	(8,444)	35,529
Cash and cash equivalents at beginning of period	224,482	138,472
Cash and cash equivalents at end of period	\$ 216,038	\$ 174,001

See notes to consolidated financial statements.

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Generac Holdings Inc.
Notes to Condensed Consolidated Financial Statements
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

1. Description of Business and Basis of Presentation

Founded in 1959, Generac Holdings Inc. (the Company) is a leading designer and manufacturer of energy solutions and other power products. As an industry leader serving residential, light commercial and industrial markets, the Company's products and solutions are available globally through a broad network of independent dealers, distributors, retailers, wholesalers and equipment rental companies, as well as sold direct to certain end user customers.

Over the years, the Company has executed a number of acquisitions that support its strategic plan (as discussed in Item 1 of the Annual Report on Form 10-K for the year ended December 31, 2018). A summary of acquisitions affecting the reporting periods presented include:

- In June 2018, the Company acquired Selmeq Equipos Industriales, S.A. de C.V. (Selmeq), headquartered in Mexico City, Mexico. Selmeq is a

designer and manufacturer of industrial generators ranging from 10kW to 2,750kW. Selmec offers a market-leading service platform and specialized engineering capabilities, together with robust integration, project management and remote monitoring services.

- In February 2019, the Company acquired a majority share of Captiva Energy Solutions Private Limited (Captiva). Captiva, founded in 2010 and headquartered in Kolkata, India, specializes in customized industrial generators.
- In March 2019, the Company acquired Neuro Technology Inc. (Neurio), founded in 2005 and headquartered in Vancouver, British Columbia. Neuro is a leading energy data company focused on metering technology and sophisticated analytics to optimize energy use within a home or business.
- In April 2019, the Company acquired Pika Energy, Inc. (Pika), founded in 2010 and located in Westbrook, Maine. Pika is a manufacturer of battery storage technologies that capture and store solar or grid power for homeowners and businesses and is also a manufacturer of advanced power electronics, software and controls for smart energy storage and management.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries that are consolidated in conformity with U.S. generally accepted accounting principles (U.S. GAAP). All intercompany amounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of September 30, 2019, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2019 and 2018, the condensed consolidated statements of stockholders' equity for the three and nine months ended September 30, 2019 and 2018, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for the fair presentation of the financial position, results of operation and cash flows have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP 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 condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2018.

New Accounting Standards Not Yet Adopted

In June 2016, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which represents a new credit loss standard that will change the impairment model for most financial assets and certain other financial instruments. Specifically, this guidance will require entities to utilize a new “expected loss” model as it relates to trade and other receivables. In addition, entities will be required to recognize an allowance for estimated credit losses on available-for-sale debt securities, regardless of the length of time that a security has been in an unrealized loss position. This guidance will be effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual reporting periods, and early adoption is permitted. The Company is currently evaluating the potential impact that the adoption of this guidance may have on the Company's consolidated financial statements.

Recently Adopted Accounting Standards

On April 1, 2019, the Company adopted ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This guidance was issued to address the diversity in practice related to the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The Company adopted this standard prospectively, impacting all implementation costs incurred after adoption. The adoption did not have a material impact on the Company’s results of operations and financial position.

On January 1, 2019, the Company adopted ASU 2016-02, *Leases*. This guidance was issued to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities in the balance sheet and by disclosing key information about leasing arrangements. The Company adopted this standard using the modified retrospective approach as of the date of adoption, meaning no prior period balances were impacted by the adoption. Additionally, the Company elected to adopt the standard using the package of practical expedients permitted under the standard’s transition guidance, which allowed the Company to carryforward its historical lease classifications, and embedded lease and initial direct cost assessments. The adoption of the standard had a material impact on the Company’s condensed consolidated balance sheet primarily related to the recognition of right-of-use (ROU) assets and lease liabilities for operating leases. However, the adoption did not have a material impact on the condensed consolidated statement of comprehensive income and statement of cash flows. Refer to Note 9, “Leases,” for further information regarding the Company’s leases.

On January 1, 2019, the Company adopted ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This guidance was issued to address the impact of the change in the U.S. federal corporate income tax rate from the 2017 U.S. Tax Cuts and Jobs Act (the “Tax Act”) on items recorded as a component of accumulated other comprehensive income (AOCI). This guidance allows companies to reclassify to retained earnings the stranded tax effects lodged in AOCI as a result of the Tax Act. Upon adoption of the ASU, the Company elected to not reclassify the stranded income tax effects from AOCI to retained earnings.

There are several new accounting pronouncements issued by the FASB. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe any of these accounting pronouncements has had or will have a material impact on the Company’s consolidated financial statements.

2. Acquisitions

Acquisition of Pika

On April 26, 2019, the Company acquired Pika for a purchase price, net of cash acquired, of \$49,068. The acquisition purchase price was funded solely through cash on hand.

The Company recorded a preliminary purchase price allocation during the second quarter of 2019 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately \$55,986 of intangible assets, including \$23,286 of goodwill recorded in the Domestic segment, as of the acquisition date. The goodwill ascribed to the acquisition is not deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of Pika from the date of acquisition through September 30, 2019. The preliminary allocation of the purchase price is based on a preliminary valuation performed to determine the fair value of the net assets as of the acquisition date. The purchase price allocation is subject to further analysis and review, primarily around the review and final valuation of acquired intangible assets.

Acquisition of Neuroio

On March 12, 2019, the Company acquired Neuroio for a purchase price of \$59,071, net of cash acquired and inclusive of a deferred payment of \$7,922 which was made during the three months ended September 30, 2019. The acquisition purchase price was funded solely through cash on hand.

The Company recorded a preliminary purchase price allocation in the second quarter of 2019 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately \$58,511 of intangible assets, including \$24,011 of goodwill recorded in the Domestic segment, as of the acquisition date. Substantially all of the goodwill ascribed to this acquisition is deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of Neuroio from the date of acquisition through September 30, 2019. The preliminary allocation of the purchase price is based on a preliminary valuation performed to determine the fair value of the net assets as of the acquisition date. The purchase price allocation is subject to further analysis and review, primarily around the review and final valuation of acquired intangible assets.

Acquisition of Selmec

On June 1, 2018, the Company acquired Selmec for a purchase price of \$79,972, net of cash acquired and inclusive of estimated earnout payments of \$14,902. The acquisition purchase price was funded solely through cash on hand.

The Company finalized the Selmec purchase price allocation during the second quarter of 2019 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately \$79,826 of intangible assets, including approximately \$46,196 of goodwill recorded in the International segment, as of the acquisition date. The goodwill ascribed to the acquisition is not deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of Selmec from the date of acquisition through September 30, 2019.

Overall, the net sales contribution from all non-annualized acquisitions to the three and nine month periods ended September 30, 2019 was \$4,814 and \$32,018, respectively.

3. Redeemable Noncontrolling Interest

On March 1, 2016, the Company acquired a 65% ownership interest in PR Industrial S.r.l. and its subsidiaries (Pramac). The 35% noncontrolling interest in Pramac had an acquisition date fair value of \$34,253, and was recorded as a redeemable noncontrolling interest in the condensed consolidated balance sheet, as the noncontrolling interest holder had within its control the right to require the Company to redeem its interest in Pramac. In February 2019, the Company amended its agreement with the noncontrolling interest holder of Pramac, extending the agreement by five years, allowing the Company to exercise its call option rights in partial increments at certain times during the five year period, and providing that the noncontrolling interest holder no longer holds the right to put its shares to the Company until April 1, 2021.

The redeemable noncontrolling interest is recorded at the greater of the initial fair value, increased or decreased for the noncontrolling interests' share of comprehensive income (loss), or the estimated redemption value, with any adjustments to the redemption value impacting retained earnings, but not net income. However, the redemption value adjustments are reflected in the earnings per share calculation, as detailed in Note 14, "Earnings Per Share," to the condensed consolidated financial statements. The following table presents the changes in the redeemable noncontrolling interest:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Balance at beginning of period	\$ 59,117	\$ 53,035	\$ 61,004	\$ 43,929
Net income	(563)	519	(388)	1,341
Foreign currency translation	(3,475)	(569)	(3,861)	(2,255)
Redemption value adjustment	1,485	6,912	(191)	16,882
Balance at end of period	\$ 56,564	\$ 59,897	\$ 56,564	\$ 59,897

4. Derivative Instruments and Hedging Activities

The Company records all derivatives in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, which requires derivative instruments to be reported on the condensed consolidated balance sheets at fair value and establishes criteria for designation and effectiveness of hedging relationships. The Company is exposed to market risk such as changes in commodity prices, foreign currencies and interest rates. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company periodically utilizes commodity derivatives and foreign currency forward purchase and sales contracts in the normal course of business. Because these contracts do not qualify for hedge accounting, the related gains and losses are recorded in the Company's condensed consolidated statements of comprehensive income. These gains and losses are not material to the Company's condensed consolidated financial statements.

Interest Rate Swaps

The Company entered into two interest rate swap agreements in October 2013 and one interest rate swap agreement in May 2014, all of which expired in July 2018. In 2017, the Company entered into twenty interest rate swap agreements, sixteen of which are still outstanding as of September 30, 2019. The Company formally documented all relationships between interest rate hedging instruments and the related hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. These interest rate swap agreements qualify as cash flow hedges and therefore, the effective portions of the gains or losses are reported as a component of accumulated other comprehensive loss (AOCL) in the condensed consolidated balance sheets. The amount of losses, net of tax, recognized for the three and nine months ended September 30, 2019 were \$(2,721) and \$(14,898), respectively. The amount of gains, net of tax, recognized for the three and nine months ended September 30, 2018 were \$1,626 and \$10,403, respectively. The cash flows of the swaps are recognized as adjustments to interest expense each period. The ineffective portions of the derivatives' changes in fair value, if any, are immediately recognized in earnings.

Fair Value

The following table presents the fair value of all of the Company's derivatives:

	September 30, 2019	December 31, 2018
Commodity contracts	\$ (172)	\$ (160)
Foreign currency contracts	(302)	(117)
Interest rate swaps	(11,826)	8,307

The fair value of the commodity and foreign currency contracts is included in other accrued liabilities, and the fair value of the interest rate swaps is included in other accrued liabilities and other long-term liabilities in the condensed consolidated balance sheets as of September 30, 2019. The fair values of the commodity and foreign currency contracts are included in other accrued liabilities, and the fair value of the interest rate swaps is included in other assets in the consolidated balance sheet as of December 31, 2018. Excluding the impact of credit risk, the fair value of the derivative contracts as of September 30, 2019 and December 31, 2018 is a liability of \$12,498 and an asset of \$8,220, respectively, which represent the amount the Company would pay/receive upon exit of the agreements on those dates.

5. Fair Value Measurements

ASC 820-10, *Fair Value Measurement*, defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring basis or nonrecurring basis. ASC 820-10 clarifies that fair value is an exit price, representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the pronouncement establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short-term borrowings and ABL facility borrowings), excluding Term Loan borrowings, approximates the fair value of these instruments based upon their short-term nature. The fair value of Term Loan borrowings, which have an aggregate carrying value of \$861,231, was approximately \$881,198 (Level 2) at September 30, 2019, as calculated based on independent valuations whose inputs and significant value drivers are observable.

For the fair value of the derivatives measured on a recurring basis, refer to the fair value table in Note 4, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements. The fair value of all derivative contracts is classified as Level 2. The valuation techniques used to measure the fair value of derivative contracts, all of which have counterparties with high credit ratings, were based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. The fair value of derivative contracts above considers the Company's credit risk in accordance with ASC 820-10.

6. Accumulated Other Comprehensive Loss

The following presents a tabular disclosure of changes in AOCL during the three and nine months ended September 30, 2019 and 2018, net of tax:

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance – July 1, 2019	\$ (16,673)	\$ (10,541)	\$ (6,617)	\$ (33,831)
Other comprehensive loss before reclassifications	(9,811)	-	(2,721) (1)	(12,532)
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive loss	(9,811)	-	(2,721)	(12,532)
Ending Balance – September 30, 2019	\$ (26,484)	\$ (10,541)	\$ (9,338)	\$ (46,363)

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain on Cash Flow Hedges	Total
Beginning Balance – July 1, 2018	\$ (17,335)	\$ (10,978)	\$ 11,413	\$ (16,900)
Other comprehensive income before reclassifications	5,717	-	1,626 (2)	7,343
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive income	5,717	-	1,626	7,343
Ending Balance – September 30, 2018	\$ (11,618)	\$ (10,978)	\$ 13,039	\$ (9,557)

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance – January 1, 2019	\$ (18,832)	\$ (10,541)	\$ 5,560	\$ (23,813)
Other comprehensive loss before reclassifications	(7,652)	-	(14,898) (3)	(22,550)
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive loss	(7,652)	-	(14,898)	(22,550)
Ending Balance – September 30, 2019	\$ (26,484)	\$ (10,541)	\$ (9,338)	\$ (46,363)

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain on Cash Flow Hedges	Total
Beginning Balance – January 1, 2018	\$ (12,856)	\$ (10,978)	\$ 2,636	\$ (21,198)
Other comprehensive income before reclassifications	1,238	-	10,403 (4)	11,641
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive income	1,238	-	10,403	11,641
Ending Balance – September 30, 2018	\$ (11,618)	\$ (10,978)	\$ 13,039	\$ (9,557)

- (1) Represents unrealized losses of \$(3,677), net of tax effect of \$956, for the three months ended September 30, 2019.
- (2) Represents unrealized gains of \$2,197, net of tax effect of \$(571), for the three months ended September 30, 2018.
- (3) Represents unrealized losses of \$(20,132), net of tax effect of \$5,234, for the nine months ended September 30, 2019.
- (4) Represents unrealized gains of \$14,057, net of tax effect of \$(3,654), for the nine months ended September 30, 2018.

7. Segment Reporting

The Company has two reportable segments for financial reporting purposes - Domestic and International. The Domestic segment includes the legacy Generac business and the acquisitions that are based in the U.S. and Canada, all of which have revenues that are substantially derived from the U.S. and Canada. The International segment includes the Ottomotores, Tower Light, Pramac, Motortech and Selmecc businesses, all of which have revenues that are substantially derived from outside of the U.S. and Canada. Both reportable segments design and manufacture a wide range of power generation equipment and other power products. The Company has multiple operating segments, which it aggregates into the two reportable segments, based on materially similar economic characteristics, products, production processes, classes of customers, distribution methods and regional considerations.

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The Company's product offerings consist primarily of power generation equipment and other power products geared for varying end customer uses. Residential products and commercial & industrial (C&I) products are each a similar class of products based on similar power output and end customer. The breakout of net sales between residential, C&I, and other products by reportable segment is as follows:

Product Classes	Net Sales by Segment		
	Three Months Ended September 30, 2019		
	Domestic	International	Total
Residential products	\$ 324,096	\$ 10,933	\$ 335,029
Commercial & industrial products	133,559	81,346	214,905
Other	40,508	10,693	51,201
Total net sales	<u>\$ 498,163</u>	<u>\$ 102,972</u>	<u>\$ 601,135</u>

Product Classes	Three Months Ended September 30, 2018		
	Domestic	International	Total
Residential products	\$ 300,387	\$ 11,531	\$ 311,918
Commercial & industrial products	121,952	84,414	206,366
Other	33,793	10,311	44,104
Total net sales	<u>\$ 456,132</u>	<u>\$ 106,256</u>	<u>\$ 562,388</u>

Product Classes	Nine Months Ended September 30, 2019		
	Domestic	International	Total
Residential products	\$ 784,459	\$ 36,774	\$ 821,233
Commercial & industrial products	394,545	259,913	654,458
Other	104,344	33,369	137,713
Total net sales	<u>\$ 1,283,348</u>	<u>\$ 330,056</u>	<u>\$ 1,613,404</u>

Product Classes	Nine Months Ended September 30, 2018		
	Domestic	International	Total
Residential products	\$ 711,203	\$ 37,587	\$ 748,790
Commercial & industrial products	340,244	256,875	597,119
Other	91,040	23,111	114,151
Total net sales	<u>\$ 1,142,487</u>	<u>\$ 317,573</u>	<u>\$ 1,460,060</u>

Residential products consist primarily of automatic home standby generators ranging in output from 6kW to 60kW, portable generators, energy storage solutions, power washers and other outdoor power equipment. These products are sold through independent residential dealers, national and regional retailers, e-commerce merchants, electrical/HVAC/solar wholesalers and outdoor power equipment dealers. The residential products revenue consists of the sale of the product to our distribution partners, which in turn sell or rent the product to the end consumer, including installation and maintenance services. In some cases, residential products are sold direct to the end consumer. Substantially all of the residential products revenues are transferred to the customer at a point in time.

C&I products consist of larger output stationary generators used in various C&I applications and fueled by diesel, natural gas, liquid propane and bi-fuel, with power outputs ranging from 10kW up to 3,250kW for single engine sets. Also included in C&I products are mobile generators, light towers, mobile heaters and mobile pumps. These products are sold through industrial power generation distributors and dealers, equipment rental companies and equipment distributors. The C&I products revenue consists of the sale of the product to our distribution partners, which in turn sell or rent the product to the end customer, including installation and maintenance services. In some cases, C&I products are sold direct to the end customer. Substantially all of the C&I products revenues are transferred to the customer at a point in time.

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Other products consist primarily of aftermarket service parts and product accessories sold to our dealers, and the amortization of extended warranty deferred revenue. The aftermarket service parts and product accessories are generally transferred to the customer at a point in time, while the extended warranty revenue is recognized over the life of the contract.

In accordance with ASU 2014-09, *Revenue from Contracts with Customers*, extended warranty revenues are reported within net sales in the condensed consolidated statements of comprehensive income. Previously, these amounts were reported net within selling and service expense on the condensed consolidated statements of comprehensive income, in amounts that were not material. To report extended warranty in accordance with ASU 2014-09, the net sales and gross profit amounts for the three months ended September 30, 2018 have been revised by \$2,873 and \$2,449, respectively, and the net sales and gross profit amounts for the nine months ended September 30, 2018 have been revised by \$7,962 and \$6,604, respectively, from the amounts previously reported in the Company's third quarter 2018 Form 10-Q, with equal offsets to selling and service expenses. The revisions impacted the Domestic segment and the Other product class. There was no impact to income from operations, net income or comprehensive income, earnings per share, the condensed consolidated balance sheets, the condensed consolidated statements of stockholders' equity, or the condensed consolidated statements of cash flows.

Management evaluates the performance of its segments based primarily on Adjusted EBITDA, which is reconciled to Income before provision for income taxes below. The computation of Adjusted EBITDA is based on the definition contained in the Company's credit agreements.

	Adjusted EBITDA			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Domestic	\$ 121,217	\$ 117,108	\$ 306,723	\$ 273,185
International	4,736	7,366	18,244	25,300
Total adjusted EBITDA	<u>\$ 125,953</u>	<u>\$ 124,474</u>	<u>\$ 324,967</u>	<u>\$ 298,485</u>
Interest expense	(10,704)	(9,824)	(31,428)	(30,939)
Depreciation and amortization	(15,494)	(11,841)	(42,841)	(35,124)
Non-cash write-down and other adjustments (1)	(347)	(900)	(673)	(3,522)
Non-cash share-based compensation expense (2)	(3,549)	(2,919)	(11,477)	(9,910)
Loss on extinguishment of debt (3)	-	-	-	(1,332)
Transaction costs and credit facility fees (4)	(358)	(1,767)	(2,047)	(2,470)
Business optimization expenses (5)	(567)	(583)	(809)	(750)
Other	27	(46)	556	(45)
Income before provision for income taxes	<u>\$ 94,961</u>	<u>\$ 96,594</u>	<u>\$ 236,248</u>	<u>\$ 214,393</u>

- (1) Includes certain foreign currency and purchase accounting related adjustments, gains/losses on disposal of assets and unrealized mark-to-market adjustments on commodity contracts.
- (2) Represents share-based compensation expense to account for stock options, restricted stock and other stock awards over their respective vesting periods.
- (3) Represents the non-cash write-off of original issue discount and deferred financing costs due to a voluntary prepayment of Term Loan debt.
- (4) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance, debt issuance or refinancing, together with certain fees relating to our senior secured credit facilities.
- (5) Represents severance and other non-recurring restructuring charges related to the consolidation of certain of our facilities.

The Company's sales in the United States represented approximately 78% of total sales for the three months ended September 30, 2019 and 2018. The Company's sales in the United States represented approximately 75% and 74% of total sales for the nine month periods ended September 30, 2019 and 2018, respectively. Approximately 81% and 80% of the Company's identifiable long-lived assets were located in the United States at September 30, 2019 and December 31, 2018, respectively.

8. Balance Sheet Details

Inventories consist of the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Raw material	\$ 323,864	\$ 348,980
Work-in-process	8,815	6,971
Finished goods	184,553	188,799
Total	<u>\$ 517,232</u>	<u>\$ 544,750</u>

Property and equipment consists of the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Land and improvements	\$ 17,753	\$ 15,975
Buildings and improvements	174,226	163,161
Machinery and equipment	114,359	103,726
Dies and tools	20,947	28,198
Vehicles	3,344	2,070
Office equipment and systems	93,357	82,638
Leasehold improvements	4,076	2,137
Construction in progress	28,139	26,543
Gross property and equipment	<u>456,201</u>	<u>424,448</u>
Accumulated depreciation	<u>(152,913)</u>	<u>(145,519)</u>
Total	<u>\$ 303,288</u>	<u>\$ 278,929</u>

Total property and equipment included capital leases of \$20,158 at December 31, 2018, primarily comprised of buildings and improvements. Amortization of capital leases is recorded within depreciation expense in the condensed consolidated statements of comprehensive income. The initial measurement of capital leases is accounted for as a non-cash item in the condensed consolidated statement of cash flows for the nine months ended September 30, 2019. Refer to Note 9, "Leases," for further information regarding the Company's accounting for leases under ASC 842, *Leases*, in 2019.

9. Leases

The Company determines if an arrangement is or contains a lease at contract inception. The Company recognizes a right of use ("ROU") asset and lease liability at the lease commencement date based on the present value of the lease payments over the lease term. As the Company's leases generally do not provide an implicit rate, the incremental borrowing rate is used to determine the present value of lease payments. The incremental borrowing rate is a collateralized rate determined based on the lease term, the Company's credit rating, and other market information available at the commencement date. The ROU asset also includes any lease payments made prior to the commencement date and is reduced by any lease incentives. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term, while lease expense for finance leases is recognized as depreciation and interest expense using the effective interest method. The Company's variable lease expense generally consists of property tax and insurance payments that are variable in nature, however, these amounts are immaterial to the condensed consolidated financial statements.

The Company has lease agreements with both lease and nonlease components, which it elected to account for as a single lease component. However, the Company did not elect to apply the recognition exception for short-term leases. The Company is applying these elections to all asset classes.

The Company leases certain manufacturing facilities, distribution centers, office space, warehouses, automobiles, machinery and computer equipment globally under both finance and operating leases. The Company's leases have remaining lease terms of up to 20 years, of which certain leases, primarily within the buildings and improvements asset class, include options to extend the leases for up to 10 additional years. Further, the Company leases certain buildings from a noncontrolling interest holder, which the Company has determined to be arms' length transactions.

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The Company is a lessor of one building that it leases to a third party. The lease income related to this arrangement is not material to the condensed consolidated financial statements.

The Company records its operating lease cost and amortization of finance lease ROU assets within cost of goods sold or operating expenses in the condensed consolidated statements of comprehensive income depending on the cost center of the underlying asset. The Company records its finance lease interest cost within interest expense in the condensed consolidated statements of comprehensive income.

The components of total lease cost consist of the following:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	\$ 2,312	\$ 7,263
Finance lease cost:		
Amortization of ROU assets	643	1,873
Interest on lease liabilities	554	1,696
Total lease cost	<u>\$ 3,509</u>	<u>\$ 10,832</u>

Prior to the adoption of ASC 842, lease expense consisted of payments on operating leases.

As of January 1, 2019, the date of the adoption of ASU 2016-02, the Company recognized ROU assets and lease liabilities related to operating leases of \$42,024 and \$42,056, respectively, and there was no cumulative effect adjustment made to retained earnings. Supplemental balance sheet information related to the Company's leases is as follows:

	September 30, 2019
Operating Leases	
Operating lease ROU assets (1)	<u>\$ 37,270</u>
Operating lease liabilities - current (2)	\$ 7,519
Operating lease liabilities - noncurrent (3)	30,693
Total operating lease liabilities	<u>\$ 38,212</u>
Finance Leases	
Finance lease ROU assets, gross	\$ 29,353
Accumulated depreciation - finance lease ROU assets	(3,326)
Finance lease ROU assets, net (4)	<u>\$ 26,027</u>
Finance lease liabilities - current (5)	\$ 1,813
Finance lease liabilities - noncurrent (6)	24,158
Total finance lease liabilities	<u>\$ 25,971</u>

(1) Recorded in the operating lease and other assets line

(2) Recorded in the other accrued liabilities line

(3) Recorded in the operating lease and other long-term liabilities line

(4) Recorded in the property and equipment, net line

(5) Recorded in the current portion of long-term borrowings and finance lease obligations line

(6) Recorded in the long-term borrowings and finance lease obligations line

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Supplemental cash flow information related to the Company's leases is as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 2,565	\$ 7,951
Operating cash flows from finance leases	471	1,393
Financing cash flows from finance leases	905	2,261
ROU assets obtained in exchange for lease liabilities		
Operating leases	989	3,782
Finance leases	194	8,165

Weighted average remaining lease term and discount rate information related to the Company's leases is as follows:

	September 30, 2019
Weighted average remaining lease term (in years)	
Operating Leases	7.00
Finance Leases	14.24
Weighted average discount rate	
Operating Leases	5.51%
Finance Leases	7.87%

The maturities of the Company's lease liabilities are as follows:

	As of September 30, 2019	
	Finance Leases	Operating Leases
Remainder of 2019	\$ 934	\$ 2,481
2020	3,519	8,934
2021	3,158	6,898
2022	3,388	5,368
2023	2,655	4,581
After 2023	32,016	18,338
Total minimum lease payments	45,670	46,600
Interest component	(19,699)	(8,388)
Present value of minimum lease payments	<u>\$ 25,971</u>	<u>\$ 38,212</u>

	As of December 31, 2018	
	Capital Leases	Operating Leases
2019	\$ 2,166	\$ 8,914
2020	2,477	7,575
2021	2,053	6,379
2022	1,995	4,955
2023	1,889	4,482
After 2023	18,108	18,614
Total minimum lease payments	28,688	<u>\$ 50,919</u>
Interest component	(8,517)	
Present value of minimum lease payments	<u>\$ 20,171</u>	

10. Product Warranty Obligations

The Company records a liability for standard product warranty obligations accounted for as assurance warranties at the time of sale to a customer based upon historical warranty experience. The Company also records a liability for specific warranty matters when they become known and are reasonably estimable. The following is a tabular reconciliation of the Company's standard product warranty liability accounted for as an assurance warranty:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Balance at beginning of period	\$ 45,324	\$ 38,660	\$ 41,785	\$ 35,422
Product warranty reserve assumed in acquisition	-	-	407	-
Payments	(7,576)	(5,205)	(18,867)	(15,097)
Provision for warranty issued	8,518	8,074	23,656	19,552
Changes in estimates for pre-existing warranties	230	(974)	(485)	678
Balance at end of period	<u>\$ 46,496</u>	<u>\$ 40,555</u>	<u>\$ 46,496</u>	<u>\$ 40,555</u>

Additionally, the Company sells extended warranty coverage for certain products, which it accounts for as a service warranty. The sales of extended warranties are recorded as deferred revenue, and typically have a duration of five to ten years. The deferred revenue related to extended warranty coverage is amortized over the duration of the extended warranty contract period, following the standard warranty period, using the straight-line method. Revenue is recognized on extended warranty contracts when the revenue recognition criteria are met, resulting in ratable recognition over the contract term. The amortization of deferred revenue is recorded to net sales in the condensed consolidated statements of comprehensive income. The following is a tabular reconciliation of the deferred revenue related to extended warranty coverage:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Balance at beginning of period	\$ 74,517	\$ 63,007	\$ 68,340	\$ 57,854
Deferred revenue contracts issued	5,918	4,787	18,832	15,029
Amortization of deferred revenue contracts	(3,573)	(2,873)	(10,310)	(7,962)
Balance at end of period	<u>\$ 76,862</u>	<u>\$ 64,921</u>	<u>\$ 76,862</u>	<u>\$ 64,921</u>

The timing of recognition of the Company's deferred revenue balance related to extended warranties at September 30, 2019 is as follows:

Remainder of 2019	\$ 3,704
2020	15,250
2021	15,678
2022	13,831
2023	10,535
After 2023	17,864
Total	<u>\$ 76,862</u>

Standard product warranty obligations and extended warranty related deferred revenues are included in the condensed consolidated balance sheets as follows:

	September 30, 2019	December 31, 2018
Product warranty liability		
Current portion - other accrued liabilities	\$ 27,109	\$ 25,396
Long-term portion - other long-term liabilities	19,387	16,389
Total	<u>\$ 46,496</u>	<u>\$ 41,785</u>
Deferred revenue related to extended warranties		
Current portion - other accrued liabilities	\$ 15,924	\$ 13,646
Long-term portion - other long-term liabilities	60,938	54,694
Total	<u>\$ 76,862</u>	<u>\$ 68,340</u>

11. Contract Balances

In certain cases, the Company's customers pay for their goods in advance. These prepayments are recognized as customer deposits (contract liabilities) and recorded in other accrued liabilities in the condensed consolidated balance sheets. The balance of customer deposits was \$7,814 and \$14,174 at September 30, 2019 and December 31, 2018, respectively. During the nine months ended September 30, 2019, the Company recognized revenue of \$9,166 related to amounts included in the December 31, 2018 customer deposit balance. The Company typically recognizes revenue within one year of the receipt of the customer deposit.

12. Credit Agreements

Short-term borrowings are included in the condensed consolidated balance sheets as follows:

	September 30, 2019	December 31, 2018
ABL facility	\$ 28,479	\$ 18,459
Other lines of credit	38,506	27,124
Total	\$ 66,985	\$ 45,583

Long-term borrowings are included in the condensed consolidated balance sheets as follows:

	September 30, 2019	December 31, 2018
Term loan	\$ 879,000	\$ 879,000
Original issue discount and deferred financing costs	(18,843)	(22,440)
Finance lease obligation	25,971	20,171
Other	741	1,642
Total	886,869	878,373
Less: current portion of debt	741	1,075
Less: current portion of finance lease obligation	1,813	902
Total	\$ 884,315	\$ 876,396

The Company's credit agreements originally provided for a \$1,200,000 term loan B credit facility (Term Loan) and currently include a \$300,000 uncommitted incremental term loan facility. The maturity date of the Term Loan is May 31, 2023. The Term Loan is guaranteed by all of the Company's wholly-owned domestic restricted subsidiaries, and is secured by associated collateral agreements which pledge a first priority lien on virtually all of the Company's assets, including fixed assets and intangibles, other than all cash, trade accounts receivable, inventory, and other current assets and proceeds thereof, which are secured by a second priority lien. The Term Loan initially bore interest at rates based upon either a base rate plus an applicable margin of 1.75% or adjusted LIBOR rate plus an applicable margin of 2.75%, subject to a LIBOR floor of 0.75%. The Term Loan agreement has been amended a number of times since inception.

In June 2018, the Company amended the Term Loan, which further reduced the applicable margin rates to base rate plus a fixed applicable margin of 0.75% or adjusted LIBOR rate plus a fixed applicable margin of 1.75%.

The Term Loan does not require an Excess Cash Flow payment if the Company's secured leverage ratio is maintained below 3.75 to 1.00 times. As of September 30, 2019, the Company's net secured leverage ratio was 1.61 to 1.00 times, and the Company was in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

The Company's credit agreements also originally provided for a senior secured ABL revolving credit facility (ABL Facility). Borrowings under the ABL Facility are guaranteed by all of the Company's wholly-owned domestic restricted subsidiaries, and are secured by associated collateral agreements which pledge a first priority lien on all cash, trade accounts receivable, inventory, and other current assets and proceeds thereof, and a second priority lien on all other assets, including fixed assets and intangibles of the Company and certain domestic subsidiaries. ABL Facility borrowings initially bore interest at rates based upon either a base rate plus an applicable margin of 1.00% or adjusted LIBOR rate plus an applicable margin of 2.00%, in each case, subject to adjustments based upon average availability under the ABL Facility. The ABL Facility agreement has been amended a number of times since inception.

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In June 2018, the Company amended the ABL Facility; increasing it from \$250,000 to \$300,000 and extending the maturity date to June 12, 2023. In addition, the ABL Facility amendment modified the pricing by reducing certain applicable interest rates to either a base rate plus an applicable margin of 0.375% or an adjusted LIBOR rate plus an applicable margin of 1.375%.

As of September 30, 2019, there was \$28,479 outstanding under the ABL Facility, leaving \$271,171 of availability, net of outstanding letters of credit.

As of September 30, 2019 and December 31, 2018, short-term borrowings consisted of borrowings by the Company's foreign subsidiaries on local lines of credit and the ABL Facility, which totaled \$66,985 and \$45,583, respectively.

13. Stock Repurchase Program

In August 2015, the Company's Board of Directors approved a \$200,000 stock repurchase program, which the Company completed in the third quarter of 2016. In October 2016, the Company's Board of Directors approved another \$250,000 stock repurchase program, which expired in the fourth quarter of 2018. In September 2018, the Company's Board of Directors approved another stock repurchase program, which commenced in October 2018, and under which the Company may repurchase an additional \$250,000 of its common stock over the following 24 months. The Company may repurchase its common stock from time to time, in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. The repurchases may be executed using open market purchases, privately negotiated agreements or other transactions. The actual timing, number and value of shares repurchased under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's common stock and general market and economic conditions, applicable legal requirements, and compliance with the terms of the Company's outstanding indebtedness. The repurchases may be funded with cash on hand, available borrowings or proceeds from potential debt or other capital markets sources. The stock repurchase program may be suspended or discontinued at any time without prior notice. During the nine months ended September 30, 2018, the Company repurchased 560,000 shares of its common stock for \$25,656, funded with cash on hand. There were no share repurchases during the three and nine months ended September 30, 2019. Since the inception of the above noted programs, the Company has repurchased 8,676,706 shares of its common stock for \$305,547, all funded with cash on hand.

14. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to the common stockholders of the Company by the weighted average number of common shares outstanding during the period, exclusive of restricted shares. Except where the result would be anti-dilutive, diluted earnings per share is calculated by assuming the vesting of unvested restricted stock and the exercise of stock options. Refer to Note 3, "Redeemable Noncontrolling Interest" for further information regarding the accounting for redeemable noncontrolling interests.

The following table reconciles the numerator and the denominator used to calculate basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator				
Net income attributable to Generac Holdings Inc.	\$ 75,574	\$ 75,776	\$ 182,393	\$ 162,682
Redeemable noncontrolling interest redemption value adjustment	(1,485)	(6,912)	191	(16,882)
Net income attributable to common shareholders	<u>\$ 74,089</u>	<u>\$ 68,864</u>	<u>\$ 182,584</u>	<u>\$ 145,800</u>
Denominator				
Weighted average shares, basic	61,973,447	61,579,564	61,878,500	61,659,817
Dilutive effect of stock compensation awards (1)	797,145	640,734	640,705	606,323
Diluted shares	<u>62,770,592</u>	<u>62,220,298</u>	<u>62,519,205</u>	<u>62,266,140</u>
Net income attributable to common shareholders per share				
Basic	\$ 1.20	\$ 1.12	\$ 2.95	\$ 2.36
Diluted	\$ 1.18	\$ 1.11	\$ 2.92	\$ 2.34

(1) Excludes approximately 38,900 and 48,200 stock options for the three and nine months ended September 30, 2018, respectively, as the impact of such awards was anti-dilutive. There were no awards with an anti-dilutive impact for the three and nine months ended September 30, 2019.

15. Income Taxes

The effective income tax rates for the nine months ended September 30, 2019 and 2018 were 22.8% and 23.3%, respectively. Both years were impacted by certain discrete tax items driven by US tax reform legislation, the Tax Act as well as the mix of earnings in the jurisdictions where the Company operates.

16. Benefit Plans

In June 2019, the Compensation Committee of the Company's Board of Directors approved a resolution to terminate the Company's defined benefit pension plan (the Pension Plan). After this approval, during the second quarter of 2019, the Company commenced the plan termination process. In the third quarter of 2019, the Company received regulatory approval and amended the Pension Plan to provide eligible participants the choice of a lump sum or annuity payment. While there are many factors that may impact the timing of the plan termination, the Company expects to complete the lump sum payments and the transfer of the remaining Pension Plan assets to a third-party administrator during the fourth quarter of 2019. Termination of the Pension Plan will not result in a reduction of benefits to plan participants. The decision to terminate the Pension Plan follows the Company's decision in 2008 to freeze benefits being accrued under the previous noncontributory salaried and hourly pension plans, which were merged into one plan effective December 31, 2018. Upon settlement of the pension liability, the Company will reclassify any related pension losses currently recorded in AOCL, to the consolidated statements of comprehensive income. As of September 30, 2019, the Company had unrecognized losses related to the Pension Plan of \$10,541 recorded in AOCL. The Company will recognize this loss upon termination of the Pension Plan, adjusted for the total required payout to plan participants which will be determined based on employee elections and market conditions present at the time of termination.

17. Commitments and Contingencies

The Company has an arrangement with a finance company to provide floor plan financing for certain dealers. The Company receives payment from the finance company after shipment of product to the dealer. The Company participates in the cost of dealer financing up to certain limits and has agreed to repurchase products repossessed by the finance company, but does not indemnify the finance company for any credit losses they incur. The amount financed by dealers which remained outstanding under this arrangement at September 30, 2019 and December 31, 2018 was approximately \$52,217 and \$47,200, respectively.

In the normal course of business, the Company is named as a defendant in various lawsuits in which claims are asserted against the Company. In the opinion of management, the liabilities, if any, which may result from such lawsuits are not expected to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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

This quarterly report contains forward-looking statements that are subject to risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "estimate," "expect," "forecast," "project," "plan," "intend," "believe," "confident," "may," "should," "can have," "likely," "future," "optimistic" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events.

The forward-looking statements contained in this quarterly report are based on assumptions that we have made in light of our industry experience and on our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond our control) and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results and cause them to differ materially from those anticipated in the forward-looking statements. The forward-looking statements contained in this quarterly report include estimates regarding:

- our business, financial and operating results, and future economic performance;
- proposed new product and service offerings; and
- management's goals, expectations, objectives and other similar expressions concerning matters that are not historical facts.

Factors that could affect our actual financial results and cause them to differ materially from those anticipated in the forward-looking statements include:

- frequency and duration of power outages impacting demand for our products;
- availability, cost and quality of raw materials and key components and labor needed in producing our products;
- the impact on our results of possible fluctuations in interest rates, foreign currency exchange rates, commodities, product mix and regulatory tariffs;

- the possibility that the expected synergies, efficiencies and cost savings of our acquisitions will not be realized, or will not be realized within the expected time period;
- the risk that our acquisitions will not be integrated successfully;
- difficulties we may encounter as our business expands globally or into new markets;
- our dependence on our distribution network;
- our ability to invest in, develop or adapt to changing technologies and manufacturing techniques;
- loss of our key management and employees;
- increase in product and other liability claims or recalls;
- failures or security breaches of our networks or information technology systems; and

- changes in environmental, health and safety, or product compliance laws and regulations affecting our products or operations.

Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove incorrect, our actual results may vary in material respects from those projected in any forward-looking statements. A detailed discussion of these and other factors that may affect future results is contained in our filings with the Securities and Exchange Commission, including in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018. Stockholders, potential investors and other readers should consider these factors carefully in evaluating the forward-looking statements.

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Overview

We are a leading global designer and manufacturer of a wide range of energy solutions and other power products serving the residential, light commercial and industrial markets. Power products and solutions are our primary focus, which differentiates us from our main competitors that also have broad operations outside of the power equipment market. As the only significant market participant focused predominantly on these products, we have one of the leading market positions in the power equipment market in North America and an expanding presence internationally. We believe we have one of the widest ranges of products in the marketplace, including residential, commercial and industrial standby generators, as well as portable and mobile generators used in a variety of applications. Other power products that we design and manufacture include battery storage systems to augment alternative energy sources; light towers which provide temporary lighting for various end markets; commercial and industrial mobile heaters and pumps used in the oil & gas, construction and other industrial markets; and a broad product line of outdoor power equipment for residential and commercial use.

Business Drivers and Operational Factors

In operating our business and monitoring its performance, we pay attention to a number of business drivers and trends as well as operational factors. The statements in this section are based on our current expectations.

Business Drivers and Trends

Our performance is affected by the demand for reliable power generation products, mobile product solutions and other power products by our customer base. This demand is influenced by several important drivers and trends affecting our industry, including the following:

Increasing penetration opportunity. Many potential customers are still not aware of the costs and benefits of automatic backup power solutions. We estimate that penetration rates for home standby generators are only approximately 4.5% of U.S. single-family detached, owner-occupied households with a home value of over \$100,000, as defined by the U.S. Census Bureau's 2017 American Housing Survey for the United States. The decision to purchase backup power for many light-commercial buildings such as convenience stores, restaurants and gas stations is more return-on-investment driven and as a result, these applications have relatively lower penetration rates as compared to buildings used in code-driven or mission critical applications such as hospitals, wastewater treatment facilities, 911 call centers, data centers and certain industrial locations. The emergence of lower cost, cleaner burning natural gas-fueled generators has helped to increase the penetration of standby generators over the past decade in the light-commercial market. In addition, the installed base of backup power for telecommunications infrastructure is still increasing due to the growing importance for uninterrupted voice and data services, in particular as 5G networks roll-out. We believe by expanding our distribution network, continuing to develop our product line and targeting our marketing efforts, we can continue to build awareness and increase penetration for our standby generators for residential, commercial and industrial purposes.

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Effect of large scale and baseline power disruptions. Power disruptions are an important driver of customer awareness for back-up power and have historically influenced demand for generators, both in the United States and internationally. Increased frequency and duration of major power outage events, that have a broader impact beyond a localized level, increases product awareness and may drive consumers to accelerate their purchase of a standby or portable generator during the immediate and subsequent period, which we believe may last for six to twelve months following a major power outage event for standby generators. For example, the major outage events that occurred during the second half of 2017 drove strong demand for portable and home standby generators, and the increased awareness of these products contributed to strong revenue growth in both 2017 and 2018. In addition, demand for home standby generators is currently increasing in the California market due to the threat of utility shut-offs that could cause major power outage events in the future. Major power disruptions are unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period. In addition, there are smaller, more localized power outages that occur frequently across the United States that drive the baseline level of demand for back-up power solutions. The level of baseline power outage activity occurring across the United States can also fluctuate, and may cause our financial results to fluctuate from year to year.

Impact of residential investment cycle. The market for residential generators is also affected by the residential investment cycle and overall consumer confidence and sentiment. When homeowners are confident of their household income, the value of their home and overall net worth, they are more likely to invest in their home. These trends can have an impact on demand for residential generators. Trends in the new housing market highlighted by residential housing starts can also impact demand for our residential generators. Demand for outdoor power equipment is also impacted by several of these factors, as well as weather precipitation patterns.

Impact of business capital investment cycles. The global market for our commercial and industrial products is affected by different capital investment cycles, which can vary across the numerous regions around the world in which we participate. These markets include non-residential building construction, durable goods and infrastructure spending as well as investments in the exploration and production of oil & gas, as businesses or organizations either add new locations or make investments to upgrade existing locations or equipment. These trends can have a material impact on demand for these products. The capital investment cycle may differ for the various commercial and industrial end markets that we serve including light commercial, retail, office, telecommunications, industrial, data centers, healthcare, construction, oil & gas and municipal infrastructure, among others. The market for these products is also affected by general economic and geopolitical conditions as well as credit availability in the geographic regions that we serve. In addition, we believe demand for our mobile power products will continue to benefit from a secular shift towards renting versus buying this type of equipment.

Factors Affecting Results of Operations

We are subject to various factors that can affect our results of operations, which we attempt to mitigate through factors we can control, including continued product development, expanded distribution, pricing, cost control and hedging. Certain operational and other factors that affect our business include the following:

Effect of commodity, currency and component price fluctuations. Industry-wide price fluctuations of key commodities, such as steel, copper and aluminum, along with other components we use in our products, as well as changes in labor costs required to produce our products, can have a material impact on our results of operations. Also, acquisitions in recent years have further expanded our commercial and operational presence outside of the United States. These international acquisitions, along with our existing global supply chain, expose us to fluctuations in foreign currency exchange rates and regulatory tariffs that can have a material impact on our results of operations.

We have historically attempted to mitigate the impact of any inflationary pressures through improved product design and sourcing, manufacturing efficiencies, price increases and select hedging transactions. Our results are also influenced by changes in fuel prices in the form of freight rates, which in some cases are accepted by our customers and in other cases are paid by us.

Seasonality. Although there is demand for our products throughout the year, in each of the past five years approximately 20% to 24% of our net sales occurred in the first quarter, 22% to 25% in the second quarter, 24% to 28% in the third quarter and 27% to 29% in the fourth quarter, with different seasonality depending on the occurrence, timing and severity of major power outage activity in each year. Major outage activity is unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period. The seasonality experienced during a major power outage, and for the subsequent quarters following the event, will vary relative to other periods where no major outage events occurred. We maintain a flexible production and supply chain infrastructure in order to respond to outage-driven peak demand.

Factors influencing interest expense and cash interest expense. Interest expense can be impacted by a variety of factors, including market fluctuations in LIBOR, interest rate election periods, interest rate swap agreements, repayments or borrowings of indebtedness, and amendments to our credit agreements. Interest expense increased slightly during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, primarily due to increased short term borrowings and higher interest rates, partially offset by lower interest rate spreads resulting from Term Loan and ABL Facility amendments in June 2018 and new interest rate swaps beginning in July 2018. Refer to Note 12, "Credit Agreements," to the condensed consolidated financial statements for further information.

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Factors influencing provision for income taxes and cash income taxes paid. We had approximately \$347 million of tax-deductible goodwill and intangible asset amortization remaining as of December 31, 2018 related to our acquisition by CCMP Capital Advisors, LLC in 2006 that we expect to generate aggregate cash tax savings of approximately \$90 million through 2021, assuming continued profitability of our U.S. business and a combined federal and state tax rate of 26%. The recognition of the tax benefit associated with these assets for tax purposes is expected to be \$122 million annually through 2020 and \$102 million in 2021, which generates annual cash tax savings of \$32 million through 2020 and \$26 million in 2021. Based on current business plans, we believe that our cash tax obligations through 2021 will be significantly reduced by these tax attributes, after which our cash tax obligation will increase. Other domestic acquisitions have resulted in additional tax deductible goodwill and intangible assets that will generate tax savings, but are not material to the Company's condensed consolidated financial statements.

Acquisitions. Over the years, we have executed a number of acquisitions that support our strategic plan. A summary of the recent acquisitions can be found in Note 1, "Description of Business and Basis of Presentation," to the condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q, and in Item 8 (Note 1, "Description of Business") of the Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Updates

The Company recently completed two acquisitions – Neuroio Technology, Inc. ("Neuroio," acquired on March 12, 2019) and Pika Energy, Inc. ("Pika," acquired on April 26, 2019). Neuroio is a leading energy data company focused on metering technology and sophisticated analytics to optimize energy use within a home or business. Pika is a manufacturer of energy storage technologies that capture and store solar or grid power for homeowners or business owners. Together, these acquisitions provide the Company with the technology to enter the rapidly developing market for energy management and storage. By combining Generac's strong distribution, brand, and market creation capabilities with Neuroio's valuable energy monitoring technologies and Pika's expertise in energy storage, we believe we are well positioned to offer a new, differentiated line of products and solutions to help homeowners and business owners reduce their overall energy costs.

Further information on these recent acquisitions can be found in Note 1, "Description of Business and Basis of Presentation," and Note 2, "Acquisitions" to the condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

Results of Operations

Three months ended September 30, 2019 compared to the three months ended September 30, 2018

The following table sets forth our consolidated statements of operations information for the periods indicated:

(U.S. Dollars in thousands)	Three Months Ended September 30,		\$ Change	% Change
	2019	2018		
Net sales	\$ 601,135	\$ 562,388	\$ 38,747	6.9%
Cost of goods sold	383,618	362,054	21,564	6.0%
Gross profit	217,517	200,334	17,183	8.6%
Operating expenses:				
Selling and service	59,356	48,985	10,371	21.2%
Research and development	17,603	13,653	3,950	28.9%
General and administrative	27,596	25,499	2,097	8.2%
Amortization of intangible assets	7,406	5,678	1,728	30.4%

Total operating expenses	111,961	93,815	18,146	19.3%
Income from operations	105,556	106,519	(963)	-0.9%
Total other expense, net	(10,595)	(9,925)	(670)	6.8%
Income before provision for income taxes	94,961	96,594	(1,633)	-1.7%
Provision for income taxes	20,064	20,072	(8)	0.0%
Net income	74,897	76,522	(1,625)	-2.1%
Net (loss) income attributable to noncontrolling interests	(677)	746	(1,423)	-190.8%
Net income attributable to Generac Holdings Inc.	\$ 75,574	\$ 75,776	\$ (202)	-0.3%

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The following table sets forth our reportable segment information for the periods indicated:

(U.S. Dollars in thousands)	Net Sales			
	Three Months Ended			
	September 30,			
	2019	2018	\$ Change	% Change
Domestic	\$ 498,163	\$ 456,132	\$ 42,031	9.2%
International	102,972	106,256	(3,284)	-3.1%
Total net sales	\$ 601,135	\$ 562,388	\$ 38,747	6.9%

(U.S. Dollars in thousands)	Adjusted EBITDA			
	Three Months Ended			
	September 30,			
	2019	2018	\$ Change	% Change
Domestic	\$ 121,217	\$ 117,108	\$ 4,109	3.5%
International	4,736	7,366	(2,630)	-35.7%
Total Adjusted EBITDA	\$ 125,953	\$ 124,474	\$ 1,479	1.2%

The following table sets forth our product class information for the periods indicated:

(U.S. Dollars in thousands)	Three Months Ended			
	September 30,			
	2019	2018	\$ Change	% Change
Residential products	\$ 335,029	\$ 311,918	\$ 23,111	7.4%
Commercial & industrial products	214,905	206,366	8,539	4.1%
Other	51,201	44,104	7,097	16.1%
Total net sales	\$ 601,135	\$ 562,388	\$ 38,747	6.9%

Net sales. The increase in Domestic sales for the three months ended September 30, 2019 was primarily due to strong growth in shipments of home standby generators, as well as strong C&I stationary generator shipments primarily driven by natural gas and telecom related products. The overall Domestic segment growth was partially offset by lower shipments of C&I mobile products. Core sales growth for the Domestic segment, which excludes the impact of the Neuro and Pika acquisitions, was approximately 8.5%.

International sales for the three months ended September 30, 2019 decreased 3.1% compared to the prior year quarter. Core sales for the International segment, which excludes the impact of the Captiva acquisition and the unfavorable impact of currency, was approximately flat compared to the prior year.

Overall, the net sales contribution from non-annualized recent acquisitions to the three months ended September 30, 2019 was \$4.8 million.

Gross profit. Gross profit margin for the third quarter of 2019 was 36.2% compared to 35.6% in the prior year third quarter. Pricing actions, favorable sales mix and lower realized commodity and currency input costs were partially offset by increased regulatory tariffs.

Operating expenses. The increase in operating expenses was primarily driven by additional employee headcount related to strategic initiatives, higher marketing and promotional spend, recurring operating expenses from recent acquisitions and higher intangible amortization expenses.

Other expense. The increase in Other expense, net was primarily driven by an increase in interest expense.

Provision for income taxes. The effective income tax rates for the three months ended September 30, 2019 and 2018 were 21.1% and 20.8%, respectively. Both years were impacted by certain discrete tax items driven by US tax reform legislation, the Tax Cuts and Jobs Act of 2017 as well as the earnings mix of the Company in the jurisdictions in which we operate.

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Net income attributable to Generac Holdings Inc. The slight decrease was primarily driven by the incremental earnings from the previously mentioned sales growth, offset by additional operating expense investment.

Adjusted EBITDA. Adjusted EBITDA for the Domestic segment was \$121.2 million, or 24.3% of net sales, as compared to \$117.1 million, or 25.7% of net sales, in the prior year quarter. Pricing initiatives and favorable sales mix, improved commodity and currency input costs, and fixed operating cost leverage were more than offset by increased regulatory tariffs and higher operating expenses.

Adjusted EBITDA for the International segment, before deducting for non-controlling interests, was \$4.7 million, or 4.6% of net sales, as compared to \$7.4 million, or 6.9% of net sales, in the prior year. Unfavorable sales mix and incremental operating expense investment contributed to the decline.

Adjusted Net Income. Adjusted Net Income of \$90 million for the three months ended September 30, 2019 increased 1.0% from \$89.1 million for the three months ended September 30, 2018, due to the factors outlined above.

See “Non-GAAP Measures” for a discussion of how we calculate Adjusted EBITDA and Adjusted Net Income and the limitations on their usefulness.

Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018

The following table sets forth our consolidated statements of operations data for the periods indicated:

(U.S. Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2019	2018		
Net sales	\$ 1,613,404	\$ 1,460,060	\$ 153,344	10.5%
Cost of goods sold	1,037,874	939,326	98,548	10.5%
Gross profit	575,530	520,734	54,796	10.5%
Operating expenses:				
Selling and service	158,954	141,874	17,080	12.0%
Research and development	48,906	38,122	10,784	28.3%
General and administrative	80,016	75,613	4,403	5.8%
Amortization of intangible assets	19,999	16,792	3,207	19.1%
Total operating expenses	307,875	272,401	35,474	13.0%
Income from operations	267,655	248,333	19,322	7.8%
Total other expense, net	(31,407)	(33,940)	2,533	-7.5%
Income before provision for income taxes	236,248	214,393	21,855	10.2%
Provision for income taxes	53,876	49,870	4,006	8.0%
Net income	182,372	164,523	17,849	10.8%
Net income attributable to noncontrolling interests	(21)	1,841	(1,862)	-101.1%
Net income attributable to Generac Holdings Inc.	\$ 182,393	\$ 162,682	\$ 19,711	12.1%

The following table sets forth our reportable segment information for the periods indicated:

(U.S. Dollars in thousands)	Net Sales Nine Months Ended September 30,		\$ Change	% Change
	2019	2018		
Domestic	\$ 1,283,348	\$ 1,142,487	\$ 140,861	12.3%
International	330,056	317,573	12,483	3.9%
Total net sales	\$ 1,613,404	\$ 1,460,060	\$ 153,344	10.5%
	Adjusted EBITDA Nine Months Ended September 30,		\$ Change	% Change
	2019	2018		
Domestic	\$ 306,723	\$ 273,185	\$ 33,538	12.3%
International	18,244	25,300	(7,056)	-27.9%
Total Adjusted EBITDA	\$ 324,967	\$ 298,485	\$ 26,482	8.9%

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The following table sets forth our product class information for the periods indicated:

(U.S. Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2019	2018		
Residential products	\$ 821,233	\$ 748,790	\$ 72,443	9.7%
Commercial & industrial products	654,458	597,119	57,339	9.6%
Other	137,713	114,151	23,562	20.6%
Total net sales	\$ 1,613,404	\$ 1,460,060	\$ 153,344	10.5%

Net sales. The increase in Domestic sales for the nine months ended September 30, 2019 was primarily due to strong growth in shipments of home standby generators, as well as strong C&I stationary generator shipments, compared to the prior year period. Additionally, the Pika and Neuroio acquisitions provided a modest contribution in 2019. These increases were partially offset by a decrease in sales of portable generators and C&I mobile products.

The increase in International sales for the nine months ended September 30, 2019 was primarily due to continued market share gains and further execution of synergies in certain markets around the world. This increase in sales was also driven by the Selmecc and Captiva acquisitions, partially offset by an unfavorable foreign currency impact.

Overall, the net sales contribution from all non-annualized recent acquisitions to the nine months ended September 30, 2019 was \$32.0 million.

Gross profit. Gross profit margin for the nine months ended September 30, 2019 was 35.7% compared to 35.7% in the prior year period. The gross profit margin was impacted by a favorable sales mix shift towards higher margin home standby generator sales and price increases implemented since the prior year period, fully offset by the impact of recent acquisitions and the realization of higher input costs, including regulatory tariffs, logistics costs, labor rates, and commodities.

Operating expenses. The increase in Operating expenses was primarily driven by incremental variable operating expense on the strong sales growth, recurring operating expenses from recent acquisitions, an increase in employee headcount related to strategic initiatives, higher marketing and promotional spend and higher intangible amortization expenses.

Other expense. The decrease in Other expense, net was primarily due to the \$1.3 million loss on extinguishment of debt recorded in the second quarter of 2018 resulting from a \$50.0 million voluntary prepayment of Term Loan debt that did not repeat in the current year, as well as an increase in investment income compared to prior year.

Provision for income taxes. The effective income tax rates for the nine months ended September 30, 2019 and 2018 were 22.8% and 23.3%, respectively. Both years were impacted by certain discrete tax items driven by US tax reform legislation, the Tax Cuts and Jobs Act of 2017 as well as the earnings mix of the Company in the jurisdictions in which we operate.

Net income attributable to Generac Holdings Inc. The increase was primarily driven by higher operating earnings as outlined above and a lower effective tax rate recorded during the current year period.

Adjusted EBITDA. Adjusted EBITDA for the Domestic segment was \$306.7 million, or 23.9% of net sales, as compared to \$273.2 million in the prior year, or 23.9% of net sales. Adjusted EBITDA margin in the current year benefited from favorable sales mix, pricing initiatives, and fixed operating cost leverage on the higher sales volumes. These favorable impacts were offset by higher input costs, including regulatory tariffs, increased employee costs, higher marketing and promotional spend, and recurring operating expenses from recent acquisitions.

Adjusted EBITDA for the International segment, before deducting for non-controlling interests, was \$18.2 million, or 5.5% of net sales, as compared to \$25.3 million in the prior year, or 8% of net sales. The decrease in Adjusted EBITDA margin as compared to the prior year was primarily due to unfavorable sales mix, higher input costs, and incremental operating expense investments.

Adjusted Net Income. Adjusted Net Income of \$221.4 million for the nine months ended September 30, 2019 increased 8.5% from \$204.1 million for the nine months ended September 30, 2018 due to the factors outlined above, partially offset by an increase in cash income tax expense.

See “Non-GAAP Measures” for a discussion of how we calculate Adjusted EBITDA and Adjusted Net Income and the limitations on their usefulness.

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Liquidity and Financial Condition

Our primary cash requirements include payment for our raw material and component supplies, salaries and benefits, facility and lease costs, operating expenses, interest and principal payments on our debt and capital expenditures. We finance our operations primarily through cash flow generated from operations and, if necessary, borrowings under our ABL Facility.

Our credit agreements originally provided for a \$1.2 billion Term Loan and include a \$300.0 million uncommitted incremental term loan facility. The Term Loan matures on May 31, 2023, and bears interest at rates based upon either a base rate plus an applicable margin of 0.75% or adjusted LIBOR rate plus an applicable margin of 1.75%, subject to a LIBOR floor of 0.75%. The Term Loan does not require an Excess Cash Flow payment if the Company’s secured leverage ratio is maintained below 3.75 to 1.00 times. As of September 30, 2019, the Company’s secured leverage ratio was 1.61 to 1.00 times, and the Company was in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

Our credit agreements also provide for the \$300.0 million ABL Facility. The maturity date of the ABL Facility is June 12, 2023. As of September 30, 2019, there were \$28.5 million of borrowings outstanding and \$271.2 million of availability under the ABL Facility, net of outstanding letters of credit. We are in compliance with all covenants of the ABL Facility as of September 30, 2019.

In August 2015, our Board of Directors approved a \$200.0 million stock repurchase program, which we completed in the third quarter of 2016. In October 2016, our Board of Directors approved a new \$250.0 million stock repurchase program, which expired in the fourth quarter of 2018. In September 2018, the Board of Directors approved another stock repurchase program, which commenced in October 2018, and under which we may repurchase an additional \$250.0 million of common stock over 24 months from time to time; in amounts and at prices we deem appropriate, subject to market conditions and other considerations. During the nine months ended September 30, 2018, we repurchased 560,000 shares of our common stock for \$25.7 million. There were no share repurchases during the nine months ended September 30, 2019. Since the inception of all programs, we have repurchased 8,676,706 shares of our common stock for \$305.5 million, all funded with cash on hand.

See Note 12, “Credit Agreements” to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

Long-term Liquidity

We believe that our cash flow from operations and availability under our ABL Facility and other short-term lines of credit, combined with our favorable tax attributes (which result in a lower cash tax rate as compared to the U.S. statutory tax rate) provide us with sufficient capital to continue to grow our business in the future. We will use a portion of our cash flow to pay interest and principal on our outstanding debt as well as repurchase shares of our common stock, impacting the amount available for working capital, capital expenditures and other general corporate purposes. As we continue to expand our business, we may require additional capital to fund working capital, capital expenditures or acquisitions.

Cash Flow

Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018

The following table summarizes our cash flows by category for the periods presented:

(U.S. Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2019	2018		
Net cash provided by operating activities	\$ 133,802	\$ 138,998	\$ (5,196)	-3.7%
Net cash used in investing activities	(164,191)	(94,465)	(69,726)	73.8%
Net cash provided by (used in) financing activities	22,178	(9,143)	31,321	-342.6%

The decrease in net cash provided by operating activities was primarily driven by higher working capital investments, partially offset by an increase in operating earnings as compared to the prior year period.

Net cash used in investing activities for the nine months ended September 30, 2019 primarily represents cash payments of \$120.9 million related to the acquisition of businesses and \$45.4 million related to the purchase of property and equipment. Net cash used in investing activities for the nine months ended September 30, 2018 primarily represents cash payments of \$71.9 million related to the acquisition of businesses and \$25.6 million for the purchase of property and equipment.

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Net cash provided by financing activities for the nine months ended September 30, 2019 primarily represents cash proceeds of \$68.8 million from short-term borrowings and \$8.0 million from the exercise of stock options. These cash proceeds were partially offset by \$48.5 million of debt repayments (\$45.4 million of short-term borrowings and \$3.1 million of long-term borrowings and finance lease obligations) and \$5.7 million of taxes paid for the exercise of equity awards.

Net cash used in financing activities for the nine months ended September 30, 2018 primarily represents \$63.6 million of debt repayments (\$51.1 million of long-term borrowings and \$12.5 million of short-term borrowings), \$25.7 million cash used for the repurchase of our common stock, and \$2.8 million of taxes paid for the exercise of equity awards. These payments were partially offset by cash proceeds of \$79.8 million from borrowings (\$51.4 million long-term and \$28.3 million short-term) and \$5.2 million from the exercise of stock options.

Contractual Obligations

There have been no material changes to our contractual obligations since the February 26, 2019 filing of our Annual Report on Form 10-K for the year ended December 31, 2018.

Off-Balance Sheet Arrangements

There have been no material changes to off-balance sheet arrangements since the February 26, 2019 filing of our Annual Report on Form 10-K for the year ended December 31, 2018.

Critical Accounting Policies

There have been no material changes in our critical accounting policies since the February 26, 2019 filing of our Annual Report on Form 10-K for the year ended December 31, 2018.

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2018, in preparing the financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that have an impact on the asset, liability, revenue and expense amounts reported. These estimates can also affect supplemental information disclosures of the Company, including information about contingencies, risk and financial condition. The Company believes, given current facts and circumstances, its estimates and assumptions are reasonable, adhere to U.S. GAAP, and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates and estimates may vary as new facts and circumstances arise. The Company makes routine estimates and judgments in determining net realizable value of accounts receivable, inventories, property and equipment, prepaid expenses, product warranties and other reserves. Management believes the Company's most critical accounting estimates and assumptions are in the following areas: goodwill and other indefinite-lived intangible asset impairment assessment; business combinations and purchase accounting; defined benefit pension obligations and income taxes.

Non-GAAP Measures

Adjusted EBITDA

The computation of Adjusted EBITDA attributable to Generac Holdings Inc. is based on the definition of EBITDA contained in our credit agreement, as amended. To supplement our condensed consolidated financial statements presented in accordance with U.S. GAAP, we provide the computation of Adjusted EBITDA attributable to the Company, taking into account certain charges and gains that were recognized during the periods presented.

We view Adjusted EBITDA as a key measure of our performance. We present Adjusted EBITDA not only due to its importance for purposes of our credit agreements but also because it assists us in comparing our performance across reporting periods on a consistent basis as it excludes items that we do not believe are indicative of our core operating performance. Our management uses Adjusted EBITDA:

- for planning purposes, including the preparation of our annual operating budget and developing and refining our internal projections for future periods;
- to allocate resources to enhance the financial performance of our business;
- as a benchmark for the determination of the bonus component of compensation for our senior executives under our management incentive plan, as described further in our 2019 Proxy Statement;
- to evaluate the effectiveness of our business strategies and as a supplemental tool in evaluating our performance against our budget for each

- period; and
- in communications with our Board of Directors and investors concerning our financial performance.

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We believe Adjusted EBITDA is used by securities analysts, investors and other interested parties in the evaluation of the Company. Management believes the disclosure of Adjusted EBITDA offers an additional financial metric that, when coupled with results prepared in accordance with U.S. GAAP and the reconciliation to U.S. GAAP results, provides a more complete understanding of our results of operations and the factors and trends affecting our business. We believe Adjusted EBITDA is useful to investors for the following reasons:

- Adjusted EBITDA and similar non-GAAP measures are widely used by investors to measure a company's operating performance without regard to items that can vary substantially from company to company depending upon financing and accounting methods, book values of assets, tax jurisdictions, capital structures and the methods by which assets were acquired;
- investors can use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of our company, including our ability to service our debt and other cash needs; and
- by comparing our Adjusted EBITDA in different historical periods, our investors can evaluate our operating performance excluding the impact of items described below.

The adjustments included in the reconciliation table listed below are provided for under our Term Loan and ABL Facility, and also are presented to illustrate the operating performance of our business in a manner consistent with the presentation used by our management and Board of Directors. These adjustments eliminate the impact of a number of items that:

- we do not consider indicative of our ongoing operating performance, such as non-cash write-downs and other charges, non-cash gains, write-offs relating to the retirement of debt, severance costs and other restructuring-related business optimization expenses;
- we believe to be akin to, or associated with, interest expense, such as administrative agent fees, revolving credit facility commitment fees and letter of credit fees; or
- are non-cash in nature, such as share-based compensation.

We explain in more detail in footnotes (a) through (e) below why we believe these adjustments are useful in calculating Adjusted EBITDA as a measure of our operating performance.

Adjusted EBITDA does not represent, and should not be a substitute for, net income or cash flows from operations as determined in accordance with U.S. GAAP. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of the limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- several of the adjustments that we use in calculating Adjusted EBITDA, such as non-cash write-downs and other charges, while not involving cash expense, do have a negative impact on the value of our assets as reflected in our consolidated balance sheet prepared in accordance with U.S. GAAP; and
- other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Furthermore, as noted above, one of our uses of Adjusted EBITDA is as a benchmark for determining elements of compensation for our senior executives. At the same time, some or all of these senior executives have responsibility for monitoring our financial results, generally including the adjustments in calculating Adjusted EBITDA (subject ultimately to review by our Board of Directors in the context of the Board's review of our quarterly financial statements). While many of the adjustments (for example, transaction costs and credit facility fees), involve mathematical application of items reflected in our financial statements, others involve a degree of judgment and discretion. While we believe all of these adjustments are appropriate, and while the quarterly calculations are subject to review by our Board of Directors in the context of the Board's review of our quarterly financial statements and certification by our Chief Financial Officer in a compliance certificate provided to the lenders under our Term Loan and ABL Facility credit agreements, this discretion may be viewed as an additional limitation on the use of Adjusted EBITDA as an analytical tool.

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Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only supplementally.

The following table presents a reconciliation of net income to Adjusted EBITDA attributable to Generac Holdings Inc.:

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
(U.S. Dollars in thousands)	2019	2018	2019	2018
Net income attributable to Generac Holdings Inc.	\$ 75,574	\$ 75,776	\$ 182,393	\$ 162,682
Net (loss) income attributable to noncontrolling interests	(677)	746	(21)	1,841
Net income	74,897	76,522	182,372	164,523
Interest expense	10,704	9,824	31,428	30,939
Depreciation and amortization	15,494	11,841	42,841	35,124
Provision for income taxes	20,064	20,072	53,876	49,870

Non-cash write-down and other adjustments (a)	347	900	673	3,522
Non-cash share-based compensation expense (b)	3,549	2,919	11,477	9,910
Loss on extinguishment of debt (c)	-	-	-	1,332
Transaction costs and credit facility fees (d)	358	1,767	2,047	2,470
Business optimization expenses (e)	567	583	809	750
Other	(27)	46	(556)	45
Adjusted EBITDA	125,953	124,474	324,967	298,485
Adjusted EBITDA attributable to noncontrolling interests	909	1,454	3,722	5,633
Adjusted EBITDA attributable to Generac Holdings Inc.	<u>\$ 125,044</u>	<u>\$ 123,020</u>	<u>\$ 321,245</u>	<u>\$ 292,852</u>

(a) Represents the following non-cash charges: transactional foreign currency gains/losses and certain purchase accounting related adjustments, gains/losses on disposals of assets and unrealized mark-to-market adjustments on commodity contracts. We believe that adjusting net income for these non-cash charges is useful for the following reasons:

- The purchase accounting adjustments represent non-cash items to reflect fair value at the date of acquisition, and therefore do not reflect our ongoing operations;
- The gains/losses on disposals of assets result from the sale of assets that are no longer useful in our business and therefore represent gains or losses that are not from our core operations; and
- The adjustments for unrealized mark-to-market gains and losses on commodity contracts represent non-cash items to reflect changes in the fair value of forward contracts that have not been settled or terminated. We believe it is useful to adjust net income for these items because the charges do not represent a cash outlay in the period in which the charge is incurred, although Adjusted EBITDA must always be used together with our U.S. GAAP statements of comprehensive income and cash flows to capture the full effect of these contracts on our operating performance.

(b) Represents share-based compensation expense to account for stock options, restricted stock and other stock awards over their respective vesting periods.

(c) Represents the non-cash write-off of original issue discount and deferred financing costs due to a voluntary prepayment of Term Loan debt.

(d) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance or debt issuance or refinancing, together with certain fees relating to our senior secured credit facilities, such as administrative agent fees and credit facility commitment fees under our Term Loan and ABL Facility, which we believe to be akin to, or associated with, interest expense and whose inclusion in Adjusted EBITDA is therefore similar to the inclusion of interest expense in that calculation.

(e) Represents severance and other non-recurring restructuring charges related to the consolidation of certain of our facilities. These charges represent expenses that are not from our core operations and do not reflect our ongoing operations.

Adjusted Net Income

To further supplement our condensed consolidated financial statements in accordance with U.S. GAAP, we provide the computation of Adjusted Net Income attributable to the Company, which is defined as net income before noncontrolling interest and provision for income taxes adjusted for the following items: cash income tax expense, amortization of intangible assets, amortization of deferred financing costs and original issue discount related to our debt, intangible impairment charges, certain transaction costs and other purchase accounting adjustments, losses on extinguishment of debt, business optimization expenses, certain other non-cash gains and losses, and adjusted net income attributable to noncontrolling interests, as set forth in the reconciliation table below.

We believe Adjusted Net Income is used by securities analysts, investors and other interested parties in the evaluation of our company's operations. Management believes the disclosure of Adjusted Net Income offers an additional financial metric that, when used in conjunction with U.S. GAAP results and the reconciliation to U.S. GAAP results, provides a more complete understanding of our ongoing results of operations, and the factors and trends affecting our business.

The adjustments included in the reconciliation table listed below are presented to illustrate the operating performance of our business in a manner consistent with the presentation used by investors and securities analysts. Similar to the Adjusted EBITDA reconciliation, these adjustments eliminate the impact of a number of items we do not consider indicative of our ongoing operating performance or cash flows, such as amortization costs, transaction costs and write-offs relating to the retirement of debt. We also make adjustments to present cash taxes paid as a result of our favorable tax attributes.

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Similar to Adjusted EBITDA, Adjusted Net Income does not represent, and should not be a substitute for, net income or cash flows from operations as determined in accordance with U.S. GAAP. Adjusted Net Income has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of the limitations are:

- Adjusted Net Income does not reflect changes in, or cash requirements for, our working capital needs;
- although amortization is a non-cash charge, the assets being amortized may have to be replaced in the future, and Adjusted Net Income does not reflect any cash requirements for such replacements; and
- other companies may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of net income to Adjusted Net Income attributable to Generac Holdings Inc.:

(U.S. Dollars in thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income attributable to Generac Holdings Inc.	\$ 75,574	\$ 75,776	\$ 182,393	\$ 162,682
Net (loss) income attributable to noncontrolling interests	(677)	746	(21)	1,841
Net income	74,897	76,522	182,372	164,523

Provision for income taxes	20,064	20,072	53,876	49,870
Income before provision for income taxes	94,961	96,594	236,248	214,393
Amortization of intangible assets	7,406	5,678	19,999	16,792
Amortization of deferred finance costs and original issue discount	1,221	1,187	3,597	3,554
Loss on extinguishment of debt	-	-	-	1,332
Transaction costs and other purchase accounting adjustments (a)	165	702	1,373	1,516
Business optimization expenses	567	583	809	750
Adjusted net income before provision for income taxes	104,320	104,744	262,026	238,337
Cash income tax expense (b)	(15,083)	(15,185)	(39,698)	(31,709)
Adjusted net income	89,237	89,559	222,328	206,628
Adjusted net income attributable to noncontrolling interests	(738)	447	958	2,491
Adjusted net income attributable to Generac Holdings Inc.	<u>\$ 89,975</u>	<u>\$ 89,112</u>	<u>\$ 221,370</u>	<u>\$ 204,137</u>

Adjusted net income per common share attributable to Generac Holdings Inc. - diluted:	\$ 1.43	\$ 1.43	\$ 3.54	\$ 3.28
Weighted average common shares outstanding - diluted:	62,770,592	62,220,298	62,519,205	62,266,140

(a) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance or debt issuance or refinancing, and certain purchase accounting adjustments.

(b) Amounts for the three and nine months ended September 30, 2019 are now based on an anticipated cash income tax rate of approximately 17% for the full year ended 2019. Amounts for the three and nine months ended September 30, 2018 are based on an anticipated cash income tax rate of approximately 15% for the full year ended 2018. Cash income tax expense for the respective periods is based on the projected taxable income and corresponding cash tax rate for the full year after considering the effects of current and deferred income tax items, and is calculated for each respective period by applying the derived full year cash tax rate to the period's pretax income.

New Accounting Standards

Refer to Note 1, "Description of Business and Basis of Presentation," to the condensed consolidated financial statements for further information on the new accounting standards applicable to the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to Note 4, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements for a discussion of changes in commodity, currency and interest rate related risks and hedging activities. Otherwise, there have been no material changes in market risk from the information provided in Item 7A (Quantitative and Qualitative Disclosures About Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

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Changes in Internal Control Over Financial Reporting

There have been no changes during the three months ended September 30, 2019 in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings primarily involving product liability, employment matters and general commercial disputes arising in the ordinary course of our business. As of September 30, 2019, we believe there is no litigation pending that would have a material effect on our results of operations or financial condition.

Item 1A. Risk Factors

There have been no material changes in our risk factors since the February 26, 2019 filing of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the stock repurchase activity for the three months ended September 30, 2019, which consisted of the withholding of shares upon the vesting of restricted stock awards to pay related withholding taxes on behalf of the recipient:

Total Number of	Average Price Paid per Share	Total Number Of Shares Purchased	Approximate Dollar Value Of Shares
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**Generac Holdings Inc.
2019 Equity Incentive Plan**

RESTRICTED STOCK AWARD AGREEMENT

Upon acceptance by you through the online acceptance procedures set forth at www.computershare.com (“**Computershare**”), this Restricted Stock Award Agreement (this “**Agreement**”) is made effective as of the date set forth on your online award acceptance page on Computershare (“**Grant Date**”), which is incorporated by reference herein, between Generac Holdings Inc., a Delaware corporation (the “**Company**”) and you (the “**Participant**”).

R E C I T A L S:

WHEREAS, the Company has adopted and its stockholders have approved the Generac Holdings Inc. 2019 Equity Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan; and

WHEREAS, the Company has adopted the Generac Power Systems, Inc. Executive Change in Control Policy (the “**CIC Policy**”); and

WHEREAS, the Compensation Committee has determined that it would be in the best interests of the Company and its stockholders to grant the restricted stock provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Restricted Stock Award. Subject to the terms and conditions of the Plan and this Agreement, the Company hereby grants to the Participant a certain number of Shares of the Common Stock of the Company as set forth on the Participant’s online award acceptance page on Computershare (the “**Restricted Shares**”), which shall vest and become nonforfeitable in accordance with Section 3 hereof. Unless and until these Restricted Shares vest as provided in Section 3 below, they are subject to the restrictions specified in Section 2 of this Agreement.

2. Applicable Restrictions.

a. The Participant shall have none of the rights of a stockholder of the Company until the Restricted Shares vest, except as otherwise provided in this Section 2. The following restrictions apply to the unvested Restricted Shares (the “**Restrictions**”):

- (i) dividends and other distributions declared and paid with respect to the Restricted Shares before they vest shall be subject to Section 2.b;
 - (ii) unless otherwise provided by the Committee, none of the Restricted Shares may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided, that, the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Restricted Shares to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof; and
-

(iii) subject to Section 3, all or a portion of the invested Restricted Shares may be forfeited if the Participant's employment with the Company and its subsidiaries terminates before all of the Restricted Shares have vested, or if the Participant attempts to transfer Restricted Shares in a manner contrary to the Restrictions. Any Restricted Shares that are forfeited shall be returned to the Company for cancellation.

b. With respect to the Participant's outstanding but unvested Restricted Shares, any cash dividends and any other dividends or distributions payable or distributable with respect to or in exchange for outstanding but unvested Restricted Shares, including any shares of Company common stock or other property or securities distributable as the result of any equity restructuring or other change in corporate capitalization described in Section 12(a) of the Plan, shall be delivered to, retained and held by the Company subject to the same Restrictions, vesting conditions and other terms of this Agreement to which the underlying unvested Restricted Shares are subject. At the time the underlying Restricted Shares vest, the Company shall deliver to the Participant (without interest) the portion of such retained dividends and distributions that relate to the Restricted Shares that have vested. The Participant agrees to execute and deliver to the Company any instruments of assignment that may be necessary to permit transfer to the Company of all or any portion of any dividends or distributions subject to this Section 2.b that may be forfeited.

3. Vesting of Restricted Stock.

a. Scheduled Vesting. If the Participant remains in Service to the Company or any of its subsidiaries continuously from the Grant Date, then the Restricted Shares will vest in the number(s) and on the date(s) specified in the Vesting Schedule on the Participant's online award acceptance page on Computershare, vesting in equal installments on each of the first three (3) anniversaries of the Grant Date (each, a "**Scheduled Vesting Date**").

b. Termination of Service Without Cause. Notwithstanding Section 3.a hereof, upon a termination of the Participant's Service by the Company without Cause (except as set forth in Section 3.d), any Restricted Shares, to the extent not then-vested, shall continue to vest during the period beginning on the date of such termination of Service and ending on the date that is one (1) year following such termination of Service, subject to the Participant's execution on or after the termination date of an effective general release and waiver of all claims against the Company, its Affiliates and their respective officers and directors, substantially in the form attached hereto as Exhibit A.

- c. Termination of Service for Normal Retirement. Notwithstanding Section 3.a hereof, upon a termination of the Participant's Service by reason of Normal Retirement, any Restricted Shares, to the extent not then-vested, shall continue to vest during the period beginning on the date of such termination of Service and ending on the date that is two (2) years following such termination of Service, subject to the Participant's execution on or after the termination date of an effective general release and waiver of all claims against the Company, its Affiliates and their respective officers and directors, substantially in the form attached hereto as Exhibit A. "**Normal Retirement**" shall mean a voluntary termination of Service by a Participant who has attained at least sixty-five (65) years of age and has at least twenty (20) years of Service to the Company or any of its Affiliates.
- d. Termination of Service following a Change of Control. Notwithstanding Section 3.a hereof, (i) in the event of a Change in Control the provisions of Section 12 of the Plan shall apply except as specifically provided herein; and (ii) in the event of (1) Participant's Qualifying Termination (as defined under the CIC Policy) or (2) a termination of Participant's Service by the Company or any Affiliate without Cause within the one (1) year period following a Change in Control, the Restricted Shares shall vest as of the date of such Qualifying Termination or termination of Participant's Service, as applicable, subject to the Participant's execution on or after the termination date of an effective general release and waiver of all claims against the Company, its Affiliates and their respective officers and directors, substantially in the form attached hereto as Exhibit A.
- e. Termination of Service for death or Disability. Upon a termination of the Participant's Service by reason of death or Disability, any Restricted Shares, to the extent not then-vested, shall vest as of the date of such termination of Service.
- f. Other Terminations of Service. Upon a termination of the Participant's Service for any reason, other than as contemplated by Sections 3.b, 3.c, and 3.d or 3.e above, the Restricted Shares, to the extent not then-vested, shall immediately be forfeited by the Participant without consideration.

4. Release of Unrestricted Shares. Upon the vesting of Restricted Shares and the corresponding lapse of the Restrictions as to those Shares, and after the Company has determined that all conditions to the release of unrestricted Shares to the Participant, including Sections 9 and 10 of this Agreement, have been satisfied, it shall release to the Participant such unrestricted Shares, as evidenced by issuance to him or her of a stock certificate without restrictive legend, by electronic delivery of such Shares to a brokerage account of the Participant, or by an unrestricted book-entry registration of such Shares with the Company's transfer agent.

5. Restrictive Covenant Agreement. The Participant and the Company have previously entered into a restrictive covenant agreement. Participant hereby reaffirms his obligations under such restrictive covenant agreement and nothing contained in this Agreement shall cancel, change or modify Participant's obligations thereunder.

6. Non-Disparagement. The Participant, while providing Service to the Company and thereafter, shall not make any oral or written communication to any Person that disparages, or has the effect of damaging the reputation of, the Company, the Affiliates or their respective directors, officers, agents, employees, former employees, representatives or stockholders; provided, that, nothing in the foregoing shall preclude the Participant from disclosing any information to Participant's attorney or in response to a lawful subpoena or court order requiring disclosure of information.

7. Adjustment of Shares. In the event of any corporate event or transaction (as described in Section 12(a) of the Plan), the terms of this Agreement (including, without limitation, the number and kind of Shares subject to this Agreement) may be adjusted as set forth in Section 12(a) of the Plan.

8. No Right to Continued Service. The granting of the Restricted Shares evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the Service of the Participant and shall not lessen or affect any right that the Company or any Affiliate may have to terminate the Service of such Participant.

9. Securities Laws/Legend on Certificates. The issuance and delivery of Shares shall comply with Section 16(c) of the Plan as well as comply with (or be exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded. The Company shall not be obligated to file any registration statement under any applicable securities laws to permit the purchase or issuance of any Shares under the Plan or Awards, and accordingly any certificates for Shares or documents granting Awards may have an appropriate legend or statement of applicable restrictions endorsed thereon. If the Company deems it necessary to ensure that the issuance of Shares under the Plan is not required to be registered under any applicable securities laws, each Participant to whom such Shares would be issued shall deliver to the Company an agreement or certificate containing such representations, warranties and covenants as the Company may reasonably request which satisfies such requirements.

10. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold, any applicable withholding taxes in respect of the Restricted Shares, their vesting or transfer and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.

11. Notices. Any notification required by the terms of this Agreement shall be given in writing and shall be deemed effective upon personal delivery or within three (3) days of deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid. A notice shall be addressed to the Company, Attention: General Counsel, at its principal executive office and to the Participant at the address that he or she most recently provided to the Company.

12. Entire Agreement. This Agreement, the details of the award on the Participant's online award acceptance page on Computershare, and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) which relate to the subject matter hereof.

13. Waiver. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition whether of like or different nature.

14. Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon the Participant, the Participant's assigns and the legal representatives, heirs and legatees of the Participant's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to be joined herein and be bound by the terms hereof.

15. Choice of Law. This Agreement shall be governed by the law of the State of Delaware (regardless of the laws that might otherwise govern under applicable Delaware principles of conflicts of law) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies.

16. Restricted Shares Subject to Plan. By entering into this Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Restricted Shares are subject to the Plan. The terms and provisions of the Plan as it may be amended from time to time are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

17. No Guarantees Regarding Tax Treatment. Participants (or their beneficiaries) shall be responsible for all taxes with respect to the Restricted Shares. The Committee and the Company make no guarantees regarding the tax treatment of the Restricted Shares. None of the Company, any Subsidiary or Affiliate, or any of their employees or representatives shall have any liability to a Participant with respect thereto.

18. Amendment. The Committee may amend or alter this Agreement and the Restricted Shares granted hereunder at any time, subject to the terms of the Plan.

19. Section 83(b) Election. In the event the Participant determines to make an election with the Internal Revenue Service (the "IRS") under Section 83(b) of the Code and the regulations promulgated thereunder (the "**83(b) Election**"), the Participant shall provide a copy of such form to the Company promptly following its filing, which is required under current law to be filed with the IRS no later than thirty (30) days after the Date of Grant of the Restricted Shares. The form for making an 83(b) Election is attached hereto as Exhibit B. The Participant is advised to consult with his or her own tax advisors regarding the purchase and holding of the Restricted Shares, and the Company shall bear no liability for any consequence of the Participant making an 83(b) Election or failing to make an 83(b) Election.

20. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

21. Signature. The grant of Restricted Shares is subject to Participant's acceptance of the terms and conditions of this Agreement. By clicking the acknowledgment button, Participant indicates he or she (1) has been provided access to a copy of the Plan, (2) has had the opportunity to obtain independent legal advice prior to accepting the grant, (3) has read this Agreement, (4) agrees fully to the terms of the Agreement and (5) consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company's third-party stock plan administrator. The Participant also acknowledges that all decisions, determinations and interpretations of the Committee in respect of the Plan, this Agreement and the Restricted Shares shall be final and conclusive.

22. Compensation Recovery. In addition to those provisions in Sections 5 and 6, to the extent that this Award and any compensation associated therewith is considered "incentive-based compensation" within the meaning and subject to the requirements of Section 10D of the Exchange Act, this Award and any compensation associated therewith shall be subject to potential forfeiture or recovery by the Company in accordance with any compensation recovery policy adopted by the Board or the Committee in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's Shares are then listed. This Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

23. Forfeiture. Notwithstanding anything to the contrary in this Agreement, if the Participant's Service is terminated for Cause, or if, during the term of the Participant's Service with the Company and its Affiliates and for one year after such Service ends (or such longer period as specified in the Participant's Restrictive Covenant Agreement or following the Participant's Normal Retirement and prior to the Scheduled Vesting Date) (the "**Restricted Period**"), the Participant breaches any of the restrictive covenants contained in Section 6 or Section 7, then (i) the Participant shall immediately forfeit this Award and any right to receive Shares that have not yet been issued pursuant to Section 3, and (ii) with respect to Shares that have been issued pursuant to this Award, either (A) the Participant shall return such Shares to the Company, or (B) the Participant shall pay to the Company in cash an amount equal to the Fair Market Value of such Shares as of their respective vesting date.

EXHIBIT A

FORM OF RELEASE

A release is required as a condition for receiving the benefits provided pursuant to the Restricted Stock Award Agreement between GENERAC HOLDINGS INC. (the “**Company**”) and Participant (“**Participant**”) dated _____ (the “**Agreement**”); thus, by executing this release (“**Release**”), you have advised us that you hold no claims against the Company, its predecessors, successors or assigns, affiliates, shareholders or members and each of their respective officers, directors, agents and employees (collectively, the “**Releasees**”), and by execution of this Release you agree to waive and release any such claims, except relating to any compensation, severance pay and benefits described in any written agreement between you and the Company.

You understand and agree that this Release will extend to all claims, demands, liabilities and causes of action of every kind, nature and description whatsoever, whether known, unknown or suspected to exist, which you ever had or may now have against the Releasees in your capacity as an employee of the Company, including, without limitation, any claims, demands, liabilities and causes of action arising from your employment with the Releasees and the termination of that employment, including any claims for severance or vacation pay, business expenses, and/or pursuant to any federal, state, county, or local employment laws, regulations, executive orders, or other requirements, including, but not limited to, Title VII of the 1964 Civil Rights Act, the 1866 Civil Rights Act, the Age Discrimination in Employment Act as amended by the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the Civil Rights Act of 1991, the Workers Adjustment and Retraining Notification Act and any other local, state or federal fair employment laws, and any contract or tort claims.

You understand and agree that this Release is intended to include all claims by you or on your behalf alleging discrimination on the basis of race, sex, religion, national origin, age, disability, marital status, or any other protected status or involving any contract or tort claims based on your termination from the Company. It is also acknowledged that your termination is not in any way related to any work-related injury.

It also is understood and agreed that the remedy at law for breach of the Award Agreement, any restrictive covenant agreements between you and the Company, and/or this Release shall be inadequate, and the Company shall be entitled to injunctive relief in respect thereof.

Your ability to receive payments and benefits under the terms of the Award Agreement will remain open for a 21-day period after your Termination Date to give you an opportunity to consider the effect of this Release. At your option, you may elect to execute this Release on an earlier date. Additionally, you have seven days after the date you execute this Release to revoke it. As a result, this Release will not be effective until eight days after you execute it. We also want to advise you of your right to consult with legal counsel prior to executing a copy of this Release.

Finally, this is to expressly acknowledge:

- You understand that you are not waiving any claims or rights that may arise after the date you execute this Release.

- You understand and agree that the compensation and benefits described in the Award Agreement offer you consideration greater than that to which you would otherwise be entitled.

I hereby state that I have carefully read this Release and that I am signing this Release knowingly and voluntarily with the full intent of releasing the Releases from any and all claims, except as set forth herein. Further, if signed prior to the completion of the 21 day review period, this is to acknowledge that I knowingly and voluntarily signed this Release on an earlier date.

Date:	

EXHIBIT B

SECTION 83(b) ELECTION

This statement is being made under Section 83(b) of the Internal Revenue Code, pursuant to Treas. Reg. Section 1.83-2.

- (1) The taxpayer who performed the services is:
Name: _____
Address: _____
Social Security Number: _____
- (2) The property with respect to which the election is being made is _____ shares of the common stock, par value \$0.01 per share, of Generac Holdings Inc.
- (3) The transferor of the property is Generac Holdings Inc.
- (4) The property was transferred on _____.
- (5) The taxable year in which the election is being made is the calendar year _____.
- (6) The property will vest upon the third anniversary of the date of transfer, subject to the taxpayer's continued service to Generac Holdings Inc. or its affiliates.
- (7) The fair market value at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) is \$_____ per share.
- (8) The amount paid for such property is \$_____ per share.
- (9) A copy of this statement was furnished to Generac Holdings Inc. for whom taxpayer rendered the services underlying the transfer of property.
- (10) This statement is executed on _____.

Signature:

[Taxpayer's name]

This election must be filed with the Internal Revenue Service Center with which taxpayer files his Federal income tax returns and must be made within thirty days after the Date of Grant. This filing should be made by registered or certified mail, return receipt requested. The taxpayer shall also provide a copy of such form to the Company promptly following its filing. The taxpayer should retain two (2) additional copies of the completed form for filing with Federal and state tax returns for the taxpayer's current tax year and an additional copy for the taxpayer's records.

**Generac Holdings Inc.
2019 Equity Incentive Plan**

NONQUALIFIED STOCK OPTION AWARD AGREEMENT

Upon acceptance by you through the online acceptance procedures set forth at www.computershare.com (“**Computershare**”), this Nonqualified Stock Option Award Agreement (this “**Agreement**”) is made effective as of the date set forth on your online award acceptance page on Computershare (“**Grant Date**”), which is incorporated by reference herein, between Generac Holdings Inc., a Delaware corporation (the “**Company**”) and you (the “**Participant**”).

R E C I T A L S:

WHEREAS, the Company has adopted and the stockholders have approved the Generac Holdings Inc. 2019 Equity Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan;

WHEREAS, the Company has adopted the Generac Power Systems, Inc. Executive Change in Control Policy (the “**CIC Policy**”); and

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its stockholders to grant the option provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of the Option. The Company hereby grants to the Participant the right and option (the “**Option**”) to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate a certain number of Shares as set forth on the Participant’s online award acceptance page on Computershare. The Option is intended to be a Non-Qualified Stock Option.

2. Option Exercise Price. The purchase price of the Shares subject to the Option shall equal the exercise price as defined and calculated pursuant to Section 7 of the Plan, and which corresponds to the Grant Date set forth on your online award acceptance page on Computershare and denoted as the award exercise price (the “**Exercise Price**”).

3. Option Term. The term of the Option shall be ten (10) years, commencing on the Date of Grant, unless terminated at an earlier time pursuant to Section 6 (the “**Option Term**”). The Option shall automatically terminate upon the expiration of the Option Term, or at such earlier time specified herein or in the Plan.

4. Scheduled Vesting of the Option. Subject to the Participant’s continued Service to the Company through the applicable vesting date, the Option shall vest in equal installments on each of the first four (4) anniversaries of the Date of Grant, such that twenty-five percent (25%) of the Option vests on each such anniversary. At any time, the portion of the Option which has become vested in accordance with the terms hereof shall be called the “**Vested Portion**”. To the extent the Option has not already been exercised and has not expired or been terminated or cancelled, the Participant or the person otherwise entitled to exercise the Option as provided in this Agreement may at any time during the Option Term purchase all or any portion of the Shares subject to the vested portion of the Option.

5. Acceleration of Vesting Upon Termination following a Change in Control. Notwithstanding Section 4 hereof, (i) in the event of a Change in Control, the provisions of Section 12 of the Plan shall apply except as specifically provided herein, and (ii) in the event of (1) Participant's Qualifying Termination (as defined under the CIC Policy) or (2) a termination of Participant's Service by the Company or any Affiliate without Cause within the one (1) year period following a Change in Control, the Option shall immediately vest and become exercisable in full as of the date of such Qualifying Termination or termination of Participant's Service, as applicable, and shall remain exercisable until the earlier of (x) one year following such Qualifying Termination or termination of Service, as applicable, and (y) the expiration of the Option Term. In addition, vesting and exercisability of this Option may be accelerated during the term of the Option under the circumstances described in Sections 12(b)(2) of the Plan.

6. Termination of Service.

(a) Termination of Service for Cause. Upon a termination of the Participant's Service by the Company for Cause, the Option, including the Vested Portion, shall immediately terminate and be forfeited without consideration.

(b) Termination of Service Without Cause. Upon a termination of the Participant's Service by the Company without Cause (except as set forth in Section 5 and Section 6(e)), any unvested portion of the Option shall continue to vest during the period beginning on the date of such termination of Service and ending on the earlier of (i) one year following such termination of Service and (ii) the expiration of the Option Term, and any portion so vested shall remain exercisable until the earlier of (i) ninety days following the end of such one year period and (ii) the expiration of the Option Term. Any Vested Portion as of the date of a termination of Service contemplated by this Section 6(b) shall remain exercisable until the earlier of (i) ninety days following such termination of Service and (ii) the expiration of the Option Term.

(c) Termination of Service for Normal Retirement. Upon a termination of the Participant's Service by reason of Normal Retirement, any unvested portion of the Option shall continue to vest during the period beginning on the date of such termination of Service and ending on the earlier of (i) two years following such termination of Service and (ii) the expiration of the Option Term, and any portion so vested shall remain exercisable until the earlier of (i) ninety days following the end of such two year period and (ii) the expiration of the Option Term. Any Vested Portion as of the date of a termination of Service contemplated by this Section 6(c) shall remain exercisable until the earlier of (i) one year following such termination of Service and (ii) the expiration of the Option Term. "**Normal Retirement**" shall mean a voluntary termination of employment or service as a Director by a Participant who has attained at least sixty-five (65) years of age and has at least twenty (20) years of service to the Company or any of its Affiliates.

(d) Termination of Service for death or Disability. Upon a termination of the Participant's Service by reason of death or Disability, any unvested portion of the Option shall vest as of the termination of Service and the Option shall remain exercisable until the earlier of (i) one year following such termination of Service and (ii) the expiration of the Option Term.

(e) Other Terminations of Service. Upon a termination of the Participant's Service for any reason, other than as contemplated by Sections 6(a), 6(b), 6(c), and 6(d) above, any unvested portion of the Option shall immediately terminate and be forfeited without consideration. Any Vested Portion as of the date of a termination of Service contemplated by this Section 6(e) shall remain exercisable until the earlier of (i) ninety days following such termination of Service and (ii) the expiration of the Option Term.

7. Exercise Procedures.

(a) Notice of Exercise. Except as set forth in Section 6, the Participant or the Participant's representative may exercise the Vested Portion or any part thereof prior to the expiration of the Option Term by giving written notice to the Company in the form attached hereto as Exhibit A (the "Notice of Exercise"). The Notice of Exercise shall be signed by the person exercising such Option. In the event that such Option is being exercised by the Participant's representative, the Notice of Exercise shall be accompanied by proof (satisfactory to the Company) of such representative's right to exercise such Option. In the event the Option is being exercised following the termination of the Participant's Service, exercise shall be subject to the Participant's execution on or after the termination date of an effective general release and waiver of all claims against the Company, its Affiliates and their respective officers and directors, substantially in the form attached hereto as Exhibit B.

(b) Method of Exercise. The Participant or the Participant's representative shall deliver to the Company, at the time the Notice of Exercise is given, payment in a form permissible under Section 7 of the Plan for the full amount of the aggregate Exercise Price for the exercised Option.

(c) Issuance of Shares. Provided the Company receives a properly completed and executed Notice of Exercise and has determined that all other conditions to exercise, including satisfaction of withholding tax obligations and compliance with applicable laws as provided in Section 16(c) of the Plan, have been satisfied, payment for the full amount of the aggregate Exercise Price, and, if applicable, an effective release and waiver of all claims as required by this Section 7, the Company shall promptly cause to be issued certificates for the Shares underlying the exercised Option, registered in the name of the Person exercising the applicable Option, as evidenced by issuance of a stock certificate or certificates, electronic delivery of such Shares to a brokerage account of such person, or book-entry registration of such Shares with the Company's transfer agent. The Company shall pay any original issue or transfer taxes with respect to the issue or transfer of the Shares and all fees and expenses incurred by it in connection therewith. All Shares so issued shall be fully paid and nonassessable.

8. Restrictive Covenant Agreement. The Participant and the Company have previously entered into a restrictive covenant agreement. Participant hereby reaffirms his obligations under such restrictive covenant agreement and nothing contained in this Agreement shall cancel, change or modify Participant's obligations thereunder.

9. Non-Disparagement. The Participant, while providing Service to the Company and thereafter, shall not make any oral or written communication to any Person that disparages, or has the effect of damaging the reputation of, the Company, the Affiliates or their respective directors, officers, agents, employees, former employees, representatives or stockholders; provided, that, nothing in the foregoing shall preclude the Participant from disclosing any information to Participant's attorney or in response to a lawful subpoena or court order requiring disclosure of information.

10. Adjustment of Shares. In the event of any corporate event or transaction (as described in Section 12(a) of the Plan), the terms of this Agreement (including, without limitation, the number and kind of Shares subject to this Agreement and the Exercise Price) may be adjusted as set forth in Section 12(a) of the Plan.

11. No Right to Continued Service. The granting of the Option evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the Service of the Participant and shall not lessen or affect any right that the Company or any Affiliate may have to terminate the Service of such Participant.

12. Securities Laws/Legend on Certificates. The issuance and delivery of Shares shall comply with Section 16(c) of the Plan (or be exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded. The Company shall not be obligated to file any registration statement under any applicable securities laws to permit the purchase or issuance of any Shares under the Plan or Awards, and accordingly any certificates for Shares or documents granting Awards may have an appropriate legend or statement of applicable restrictions endorsed thereon. If the Company deems it necessary to ensure that the issuance of Shares under the Plan is not required to be registered under any applicable securities laws, each Participant to whom such Shares would be issued shall deliver to the Company an agreement or certificate containing such representations, warranties and covenants as the Company may reasonably request which satisfies such requirements.

13. Transferability. Unless otherwise provided by the Committee, the Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided, that, the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Option to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Option is exercisable only by the Participant.

14. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold, any applicable withholding taxes in respect of the Option, its exercise or transfer and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.

15. Notices. Any notification required by the terms of this Award Agreement shall be given in writing and shall be deemed effective upon personal delivery or within three (3) days of deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid. A notice shall be addressed to the Company, Attention: General Counsel, at its principal executive office and to the Participant at the address that he or she most recently provided to the Company.

16. Entire Agreement. This Agreement, the details of the award on the Participant's online award acceptance page on Computershare, and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) which relate to the subject matter hereof.

17. Waiver. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition whether of like or different nature.

18. Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon the Participant, the Participant's assigns and the legal representatives, heirs and legatees of the Participant's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to be joined herein and be bound by the terms hereof.

19. Choice of Law. This Agreement shall be governed by the law of the State of Delaware (regardless of the laws that might otherwise govern under applicable Delaware principles of conflicts of law) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies.

20. Option Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Option is subject to the Plan. The terms and provisions of the Plan as it may be amended from time to time are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

21. No Guarantees Regarding Tax Treatment. The Participant (or their beneficiaries) shall be responsible for all taxes with respect to the Option. The Committee and the Company make no guarantees regarding the tax treatment of the Option. Neither the Committee nor the Company has any obligation to take any action to prevent the assessment of any tax under Section 409A of the Code or Section 457A of the Code or otherwise and none of the Company, any Affiliate, or any of their employees or representatives shall have any liability to the Participant with respect thereto.

22. Amendment. The Committee may amend or alter this Agreement and the Option granted hereunder at any time, subject to the terms of the Plan.

23. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

24. Signature in Counterparts. The grant of Options is subject to Participant's acceptance of the terms and conditions of this Agreement. By clicking the acknowledgment button, Participant indicates he or she (1) has been provided access to a copy of the Plan, (2) has had the opportunity to obtain independent legal advice prior to accepting the grant, (3) has read this Agreement, (4) agrees fully to the terms of the Agreement and (5) has consented to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company's third-party stock plan administrator. The Participant also acknowledges that all decisions, determinations and interpretations of the Committee in respect of the Plan, this Agreement and the Options shall be final and conclusive.

25. Compensation Recovery. In addition to those provisions in Sections 8 and 9, to the extent that this Award and any compensation associated therewith is considered "incentive-based compensation" within the meaning and subject to the requirements of Section 10D of the Exchange Act, this Award and any compensation associated therewith shall be subject to potential forfeiture or recovery by the Company in accordance with any compensation recovery policy adopted by the Board or the Committee in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's Shares are then listed. This Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

26. Forfeiture. Notwithstanding anything to the contrary in this Agreement, if the Participant's Service is terminated for Cause, or if, during the term of the Participant's Service with the Company and its Affiliates and for one year after such Service ends (or such longer period as specified in the Participant's Restrictive Covenant Agreement or following the Participant's Normal Retirement and prior to the Scheduled Vesting Date) (the "**Restricted Period**"), the Participant breaches any of the restrictive covenants contained in Section 8 or Section 9, then (i) the Participant shall immediately forfeit this Award and any right to receive Options that have not yet been issued pursuant to Section 4, (ii) all outstanding but not-yet-exercised Options shall be canceled, and (iii) with respect to Shares that have been issued pursuant to this Award, either (A) the Participant shall return such Shares to the Company, or (B) the Participant shall pay to the Company in cash an amount equal to the Fair Market Value of such Shares as of their date of issuance pursuant to this Agreement.

EXHIBIT A
NOTICE OF EXERCISE

Generac Holdings Inc.
S45 W29290 Hwy. 59
Waukesha, Wisconsin 53187
Attn: _____

Date of Exercise: _____

Ladies & Gentlemen:

1. *Exercise of Option.* This constitutes notice to Generac Holdings, Inc. (the "Company") that pursuant to my Nonqualified Stock Option Award Agreement (the "Award Agreement") under the Company's 2019 Equity Incentive Plan (the "Plan") I elect to purchase the number of Shares of Company common stock set forth below and for the price set forth below. By signing and delivering this notice to the Company, I hereby acknowledge that I am the holder of the stock option (the "Option") exercised by this notice and have full power and authority to exercise the same.

Date of Grant: _____

Number of Shares as to
which the Option is exercised
("Optioned Shares "): _____

Certificates to be issued in name of: _____

Total exercise price: \$ _____

Cash Exercise
Cash payment delivered
herewith: \$ _____

2. *Form of Payment.* Forms of payment other than cash or its equivalent (e.g. by cashier's check) are limited by the Plan and are permissible only to the extent approved by the compensation committee of the Board of Directors of the Company (the "Committee") or any committee designated thereby, in its sole discretion.

3. *Delivery of Payment.* With this notice, I hereby deliver to the Company the full purchase price of the Optioned Shares and any and all withholding taxes due in connection with the exercise of my Option.

4. *Rights as Stockholder.* While the Company will endeavor to process this notice in a timely manner, I acknowledge that until the issuance of the shares underlying the Optioned Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to such shares, notwithstanding the exercise of my option(s). No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance of the optioned stock.

5. *Interpretation.* Any dispute regarding the interpretation of this notice shall be submitted promptly by me or by the Company to the Committee, which shall review such dispute at its next regular meeting. The resolution of such a dispute by such administrator of the Plan shall be final and binding on all parties.

6. *Governing Law; Severability.* This notice is governed by the internal substantive laws but not the choice of law rules, of Delaware. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this notice will continue in full force and effect without said provision.

7. *Entire Agreement.* The Plan and the Award Agreement under which the Optioned Shares were granted are incorporated herein by reference, and together with this notice constitute the entire agreement of the parties with respect to the subject matter hereof.

Very truly yours,

(social security number)

EXHIBIT B

FORM OF RELEASE

A release is required as a condition for receiving the benefits provided pursuant to the Nonqualified Stock Option Award Agreement between GENERAC HOLDINGS INC. (the "**Company**") and _____ ("**Participant**") dated _____ (the "**Agreement**"); thus, by executing this release ("**Release**"), you have advised us that you hold no claims against the Company, its predecessors, successors or assigns, affiliates, shareholders or members and each of their respective officers, directors, agents and employees (collectively, the "**Releasees**"), and by execution of this Release you agree to waive and release any such claims, except relating to any compensation, severance pay and benefits described in any written agreement between you and the Company.

You understand and agree that this Release will extend to all claims, demands, liabilities and causes of action of every kind, nature and description whatsoever, whether known, unknown or suspected to exist, which you ever had or may now have against the Releasees in your capacity as an employee of the Company, including, without limitation, any claims, demands, liabilities and causes of action arising from your employment with the Releasees and the termination of that employment, including any claims for severance or vacation pay, business expenses, and/or pursuant to any federal, state, county, or local employment laws, regulations, executive orders, or other requirements, including, but not limited to, Title VII of the 1964 Civil Rights Act, the 1866 Civil Rights Act, the Age Discrimination in Employment Act as amended by the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the Civil Rights Act of 1991, the Workers Adjustment and Retraining Notification Act and any other local, state or federal fair employment laws, and any contract or tort claims.

You understand and agree that this Release is intended to include all claims by you or on your behalf alleging discrimination on the basis of race, sex, religion, national origin, age, disability, marital status, or any other protected status or involving any contract or tort claims based on your termination from the Company. It is also acknowledged that your termination is not in any way related to any work-related injury.

It also is understood and agreed that the remedy at law for breach of the Award Agreement, any restrictive covenant agreements between you and the Company, and/or this Release shall be inadequate, and the Company shall be entitled to injunctive relief in respect thereof.

Your ability to receive payments and benefits under the terms of the Award Agreement will remain open for a 21-day period after your Termination Date to give you an opportunity to consider the effect of this Release. At your option, you may elect to execute this Release on an earlier date. Additionally, you have seven days after the date you execute this Release to revoke it. As a result, this Release will not be effective until eight days after you execute it. We also want to advise you of your right to consult with legal counsel prior to executing a copy of this Release.

Finally, this is to expressly acknowledge:

- You understand that you are not waiving any claims or rights that may arise after the date you execute this Release.
-

- You understand and agree that the compensation and benefits described in the Award Agreement offer you consideration greater than that to which you would otherwise be entitled.

I hereby state that I have carefully read this Release and that I am signing this Release knowingly and voluntarily with the full intent of releasing the Releases from any and all claims, except as set forth herein. Further, if signed prior to the completion of the 21 day review period, this is to acknowledge that I knowingly and voluntarily signed this Release on an earlier date.

Date:	

**Generac Holdings Inc.
2019 Equity Incentive Plan**

PERFORMANCE SHARE UNIT AWARD AGREEMENT

Upon acceptance by you through the online acceptance procedures set forth at www.computershare.com (“**Computershare**”), this Performance Share Unit Award Agreement (this “**Agreement**”) is made effective as of the date set forth on your online award acceptance page on Computershare (“**Grant Date**”), which is incorporated by reference herein, between Generac Holdings Inc., a Delaware corporation (the “**Company**”) and you (the “**Participant**”).

R E C I T A L S:

WHEREAS, the Company has adopted and its stockholders have approved the Generac Holdings Inc. 2019 Equity Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Award Agreement. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan;

WHEREAS, the Company has adopted the Generac Power Systems, Inc. Executive Change in Control Policy (the “**CIC Policy**”); and

WHEREAS, the Compensation Committee (the “**Committee**”) has determined that it would be in the best interests of the Company and its stockholders to grant the performance share unit award provided for herein to the Participant pursuant to the Plan and the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Performance Share Award. The Company hereby confirms the grant to the Participant, as of the Grant Date and subject to the terms and conditions of this Agreement and the Plan, of an award of Performance Share Units (the “**Units**”) in an amount initially equal to the Target Number of Performance Share Units specified on the Participant’s online award acceptance page on Computershare (“**Target Number of Units**”). The number of Units that may actually be earned and become eligible to vest pursuant to this Award can be between 0% and 200% of the Target Number of Units. Each Unit that is earned as a result of the performance goals specified in Exhibit A to this Agreement having been satisfied and which thereafter vests represents the right to receive one Share of the Company’s common stock. Prior to their settlement or forfeiture in accordance with the terms of this Agreement, the Units granted to the Participant will be credited to a performance share unit account in the Participant’s name maintained by the Company. This account will be unfunded and maintained for book-keeping purposes only, with the Units simply representing an unfunded and unsecured contingent obligation of the Company.

2. Vesting.

(a) Scheduled Vesting Date. The number of Units that have been earned during the Performance Period, as determined by the Committee in accordance with Exhibit A, will vest on the Scheduled Vesting Date, so long as the Participant’s Service has been continuous from the Grant Date to the Scheduled Vesting Date. For these purposes, the “**Scheduled Vesting Date**” means the date the Committee certifies (i) the degree to which the applicable performance goals for the Performance Period have been satisfied, and (ii) the number of Units that have been earned during the Performance Period specified on the Participant’s online award acceptance page on Computershare (“**Performance Period**”) as determined in accordance Exhibit A, which certification shall occur no later than March 10 of the calendar year immediately following the calendar year during which the Performance Period ended.

- (b) Termination of Service. Notwithstanding Section 2(a) hereof, upon a termination of the Participant's Service for any reason (except as set forth in Section 2(c), Section 2(d) and Section 2(e)), the Units, to the extent not then vested, shall immediately be forfeited by the Participant without consideration.
- (c) Termination of Service for Normal Retirement. Notwithstanding Section 2(a) hereof, upon a termination of the Participant's Service by reason of Normal Retirement, as defined below, prior to the Scheduled Vesting Date, the Participant will be entitled to have vest on the Scheduled Vesting Date a pro rata portion of the Units that would otherwise have been determined to have been earned during the Performance Period in accordance with Exhibit A if the Participant's Service had been continuous until the Scheduled Vesting Date, subject to the Participant's execution on or within the 21-day period after the Award payment date of an effective general release and waiver of all claims against the Company, its Affiliates and their respective officers and directors, substantially in the form attached hereto as Exhibit B. The pro rata portion shall be determined by multiplying the number of Units that would otherwise have been determined to have been earned by a fraction whose numerator is the number of days during the Performance Period prior to the Participant's employment termination date and whose denominator is the number of days in the Performance Period. For purposes of this Section 2(c), "Normal Retirement" shall mean a voluntary termination of employment by a Participant who has attained at least sixty-five (65) years of age and has at least twenty (20) years of service to the Company or any of its Affiliates.
- (d) Termination of Service for Death. Notwithstanding Section 2(a) hereof, upon a termination of the Participant's Service by reason of his or her death prior to the Scheduled Vesting Date, a pro rata portion of the Target Number of Units shall vest as of the date of Participant's death and shall be paid to the beneficiary designated by the Participant or, in the absence of any such designation, to the Participant's estate. The pro rata portion shall be determined utilizing a fraction determined in the same manner as provided in Section 2(c) above.
- (e) Termination of Service for Disability. Notwithstanding Section 2(a) hereof, upon a termination of the Participant's Service by reason of his or her Disability prior to the Scheduled Vesting Date, a pro rata portion of the Target Number of Units shall vest as of the date of such termination of Service, subject to the Participant's execution on or within the 21-day period after the termination of Service date of an effective general release and waiver of all claims against the Company, its Affiliates and their respective officers and directors, substantially in the form attached hereto as Exhibit B. The pro rata portion shall be determined utilizing a fraction determined in the same manner as provided in Section 2(c) above.
- (f) Termination of Service following a Change in Control. Notwithstanding Section 2(a) hereof, (i) in the event of a Change in Control the provisions of Section 12 of the Plan shall apply except as specifically provided herein, (ii) in the event of (1) the Participant's Qualifying Termination (as defined under the CIC Policy) on or after the occurrence of a Change in Control but prior to the Scheduled Vesting Date, or (2) a termination of Participant's Service by the Company or any Affiliate within the one (1) year period following a Change in Control, the Target Number of Units shall vest as of the date of such Qualifying Termination or termination of Participant's Service, as applicable, and (iii) in the event of a Qualifying Termination within 120 days prior to the occurrence of a Change in Control and prior to the Scheduled Vesting Date, the Target Number of Units will vest upon the Change in Control. In all cases the vesting of Units pursuant to this Section 2(f) shall be subject to the Participant's execution on or after the termination of Service date of an effective general release and waiver of all claims against the Company, its Affiliates and their respective officers and directors, substantially in the form attached hereto as Exhibit B.
- (g) Modifications to Vesting Schedule. In the event that the Participant takes an authorized leave of absence ("LOA") prior to the Scheduled Vesting Date, the Units subject to this Agreement that are scheduled to vest shall be modified as follows:
- (i) if the duration of the Participant's LOA is sixty (60) days or less, the vesting schedule set forth in Section 2(a) shall not be affected by the Participant's LOA.
 - (ii) if the duration of the Participant's LOA is greater than sixty (60) days, the scheduled vesting of any Units awarded by this Agreement that are not then vested shall be deferred for a period of time equal to the duration of the Participant's LOA.

3. Delivery of Shares. Subject to Section 23 below, as soon as administratively practicable, but not later than sixty (60) days (thirty (30) days in the case of vesting pursuant to Section 2(c), Section 2(d), Section 2(e) or Section 2(f)) following the vesting of the Units (as described in Section 2 hereof), the Company shall cause to be issued and delivered to the Participant (or to his or her personal representative or designated beneficiary or estate in the event of the Participant's death, as applicable) one Share in payment and settlement of each vested Unit. Delivery of the Shares shall be effected by the issuance of a stock certificate to the Participant, by an appropriate entry in the stock register maintained by the Company's transfer agent with a notice of issuance provided to the Participant, or by the electronic delivery of the Shares to Participant's brokerage account with Computershare, and shall be subject to the tax withholding provisions of Section 12 and compliance with all applicable legal requirements as provided in Section 10 hereof and Section 16(c) of the Plan, and shall be in complete satisfaction and settlement of such vested Units.

4. Rights as a Stockholder. Except as provided in Section 5, the Participant shall have none of the rights of a stockholder of the Company in connection with the Units unless and until Shares are issued to him or her in settlement of earned and vested Units as provided in Section 3.

5. Dividend Equivalents. If the Company pays cash dividends on its Shares while any Units subject to this Agreement are outstanding, then on the date this Award vests pursuant to Section 2 above, a total Dividend Equivalent amount will be credited to the Participant's performance share unit account and shall be deemed reinvested in additional Units ("**Dividend Equivalent Units**"). The total Dividend Equivalent amount will be determined by multiplying the number of underlying Units determined to have vested by the per share amount of each cash dividend paid on the Company's common stock with a record date and payment date occurring between the Grant Date and the applicable vesting date, and adding those products together. Each of those products is referred to as a "**Dividend Equivalent Amount**." The number of Dividend Equivalent Units to be credited to the Participant's performance share unit account pursuant to this deemed reinvestment will be determined by dividing each Dividend Equivalent Amount by the Fair Market Value of a share of the Company's common stock on the applicable dividend payment date, and adding those quotients together. Any Dividend Equivalent Units so credited will be fully vested and subject to settlement with the underlying Units as provided in Section 3 above.

6. Restrictive Covenant Agreement. The Participant and the Company have previously entered into a restrictive covenant agreement ("**Restrictive Covenant Agreement**"). Participant hereby reaffirms his or her obligations under such Restrictive Covenant Agreement and nothing contained in this Agreement shall cancel, change or modify Participant's obligations thereunder.

7. Non-Disparagement. The Participant, while providing Services to the Company and thereafter to the fullest extent permitted by law, shall not make any oral or written communication to any person or entity that disparages, or has the effect of damaging the reputation of, the Company, the Affiliates or their respective directors, officers, agents, employees, former employees, representatives or stockholders; provided, that, nothing in the foregoing shall preclude the Participant from disclosing any information to Participant's attorney, or from responding truthfully to any inquiry from a governmental entity, and/or engaging in any protected activities and/or from communicating with the Company's CEO and/or those employees or directors with a need to know about personnel issues involving Company officers, directors and/or employees.

8. Adjustment of Shares. In the event of any corporate event or transaction (as described in Section 12(a) of the Plan), the terms of this Award Agreement (including, without limitation, the number and kind of Units subject to this Agreement and the shares of stock deliverable with respect to such Units) may be adjusted as set forth in Section 12(a) of the Plan.

9. No Right to Continued Service. The granting of the Units evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the Service of the Participant and shall not lessen or affect any right that the Company or any Affiliate may have to terminate the Service of such Participant.

10. Securities Laws/Restrictions. The issuance and delivery of Shares pursuant to this Award Agreement shall comply with Section 16(c) of the Plan as well as comply with (or be exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded. The Company shall not be obligated to file any registration statement under any applicable securities laws to permit the purchase or issuance of any shares of common stock under the Plan or Awards, and accordingly any certificates or other indicia of ownership for shares of common stock may have an appropriate legend or statement of applicable restrictions endorsed thereon. If the Company deems it necessary to ensure that the issuance of shares of common stock under the Plan is not required to be registered under any applicable securities laws, each Participant to whom such shares of common stock would be issued shall deliver to the Company an agreement or certificate containing such representations, warranties and covenants as the Company may reasonably request which satisfies such requirements.

11. Transferability. Unless otherwise provided by the Committee, the Units may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided, that, the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Units to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

12. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold, any applicable withholding taxes in respect of the transfer of Shares and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.

13. Notices. Any notification required by the terms of this Agreement shall be given in writing and shall be deemed effective upon personal delivery or within three (3) days of deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid. A notice shall be addressed to the Company, Attention: General Counsel, at its principal executive office and to the Participant at the address that he or she most recently provided to the Company.

14. Entire Agreement. This Agreement, including all exhibits and referenced documents, the details of the award on the Participant's online award acceptance page on Computershare, and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) which relate to the subject matter hereof.

15. Waiver. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition whether of like or different nature.

16. Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon the Participant, the Participant's assigns and the legal representatives, heirs and legatees of the Participant's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to be joined herein and be bound by the terms hereof.

17. Choice of Law. This Agreement shall be governed by the law of the State of Delaware (regardless of the laws that might otherwise govern under applicable Delaware principles of conflicts of law) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies.

18. Units Subject to Plan. By entering into this Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Units are subject to the Plan. The terms and provisions of the Plan as it may be amended from time to time are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

19. No Guarantees Regarding Tax Treatment. Participants (or their beneficiaries) shall be responsible for all taxes with respect to the Units and related Shares, if any, that are vested and earned. The Committee and the Company make no guarantees regarding the tax treatment of this Award. Neither the Committee nor the Company has any obligation to take any action to prevent the assessment of any tax under Section 409A of the Code or Section 457A of the Code or otherwise and none of the Company, any Subsidiary or Affiliate, or any of their employees or representatives shall have any liability to a Participant with respect thereto. If the delivery of Shares pursuant to the vesting of the Units is conditioned upon the execution of a release by the Participant and the combined time period for the execution of the release and the delivery of such shares overlaps the end of a calendar year, the shares of common stock shall be delivered in the second calendar year.

20. Amendment. The Committee may amend or alter this Agreement and the Units granted hereunder at any time, subject to the terms of the Plan.

21. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

22. Signature. The Agreement is subject to Participant's acceptance of the terms and conditions of this Agreement. By clicking the acknowledgment button, Participant indicates he or she (1) has been provided access to a copy of the Plan, (2) has had the opportunity to obtain independent legal advice prior to accepting the grant, (3) has read this Agreement, (4) agrees fully to the terms of the Agreement and (5) consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company's third-party stock plan administrator. The Participant also acknowledges that all decisions, determinations and interpretations of the Committee in respect of the Plan, this Agreement and the Units shall be final and conclusive.

23. Compensation Recovery. In addition to those provisions in Sections 6 and Z, to the extent that this Award and any compensation associated therewith is considered "incentive-based compensation" within the meaning and subject to the requirements of Section 10D of the Exchange Act, this Award and any compensation associated therewith shall be subject to potential forfeiture or recovery by the Company in accordance with any compensation recovery policy adopted by the Board or the Committee in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's Shares are then listed. This Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

24. Forfeiture. Notwithstanding anything to the contrary in this Agreement, if the Participant's Service is terminated for Cause, or if, during the term of the Participant's Service with the Company and its Affiliates and for one year after such Service ends (or such longer period as specified in the Participant's Restrictive Covenant Agreement or following the Participant's Normal Retirement and prior to the Scheduled Vesting Date) (the "Restricted Period"), the Participant breaches any of the restrictive covenants contained in Section 6 or Section 7, then (i) the Participant shall immediately forfeit this Award and any right to receive Shares that have not yet been issued pursuant to Section 3, and (ii) with respect to Shares that have been issued pursuant to this Award, either (A) the Participant shall return such Shares to the Company, or (B) the Participant shall pay to the Company in cash an amount equal to the Fair Market Value of such Shares as of the respective vesting date of the underlying Units.

EXHIBIT A

Performance Goals

Exhibit A shall be provided by separate document and constitutes part of this Agreement.

EXHIBIT B

FORM OF RELEASE

A release is required as a condition for receiving the benefits provided pursuant to the Performance Share Award Agreement between GENERAC HOLDINGS INC. (the "**Company**") and _____ ("**Participant**") dated _____ (the "**Agreement**"); thus, by executing this release ("**Release**"), you have advised us that you hold no claims against the Company, its predecessors, successors or assigns, affiliates, shareholders or members and each of their respective officers, directors, agents and employees (collectively, the "**Releasees**"), and by execution of this Release you agree to waive and release any such claims, except relating to any compensation, severance pay and benefits described in any written agreement between you and the Company.

You understand and agree that this Release will extend to all claims, demands, liabilities and causes of action of every kind, nature and description whatsoever, whether known, unknown or suspected to exist, which you ever had or may now have against the Releasees in your capacity as an employee of the Company, including, without limitation, any claims, demands, liabilities and causes of action arising from your employment with the Releasees and the termination of that employment, including any claims for severance or vacation pay, business expenses, and/or pursuant to any federal, state, county, or local employment laws, regulations, executive orders, or other requirements, including, but not limited to, Title VII of the 1964 Civil Rights Act, the 1866 Civil Rights Act, the Age Discrimination in Employment Act as amended by the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the Civil Rights Act of 1991, the Workers Adjustment and Retraining Notification Act and any other local, state or federal fair employment laws, and any contract or tort claims.

You understand and agree that this Release is intended to include all claims by you or on your behalf alleging discrimination on the basis of race, sex, religion, national origin, age, disability, marital status, or any other protected status or involving any contract or tort claims based on your termination from the Company. It is also acknowledged that your termination is not in any way related to any work-related injury.

It also is understood and agreed that the remedy at law for breach of the Award Agreement, any restrictive covenant agreements between you and the Company, and/or this Release shall be inadequate, and the Company shall be entitled to injunctive relief in respect thereof.

Your ability to receive payments and benefits under the terms of the Award Agreement will remain open for a 21-day period after your Termination Date to give you an opportunity to consider the effect of this Release. At your option, you may elect to execute this Release on an earlier date. Additionally, you have seven days after the date you execute this Release to revoke it. As a result, this Release will not be effective until eight days after you execute it. We also want to advise you of your right to consult with legal counsel prior to executing a copy of this Release.

Finally, this is to expressly acknowledge:

- You understand that you are not waiving any claims or rights that may arise after the date you execute this Release.
- You understand and agree that the compensation and benefits described in the Award Agreement offer you consideration greater than that to which you would otherwise be entitled.

I hereby state that I have carefully read this Release and that I am signing this Release knowingly and voluntarily with the full intent of releasing the Releasees from any and all claims, except as set forth herein. Further, if signed prior to the completion of the 21 day review period, this is to acknowledge that I knowingly and voluntarily signed this Release on an earlier date.

Date:	

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Jagdfeld, certify that:

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

Date: November 5, 2019

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld

Title: Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, York A. Ragen, certify that:

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

Date: November 5, 2019

/s/ York A. Ragen

Name: York A. Ragen

Title: Chief Financial Officer

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

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of Generac Holdings Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2019 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2019

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld

Title: *Chief Executive Officer*

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

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of Generac Holdings Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2019 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2019

/s/ York A. Ragen

Name: York A. Ragen

Title: *Chief Financial Officer*