GENERAC

2016 ANNUAL REPORT

ABOUT GENERAC

Founded in 1959.

A leading designer and manufacturer of a wide range of power generation equipment and other engine powered products serving residential, light commercial and industrial markets.

Products 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 users.

Ten acquisitions completed since 2011, including recent strategic acquisitions of Pramac (March 2016) and Motortech (January 2017).

Approximately 4,500 employees as of 1/1/2017.

Global manufacturing, distribution, fulfillment and commercial footprint with facilities located in the U.S., Latin America, Europe and Asia.

Cumulative total return of GNRC shares of 113% over the past five years (2011-2016), as compared to the S&P 500 of 98% during the same period (assumes all dividends were reinvested).

To Our Shareholders

2016 was another year of growth for Generac with contributions from our most recent acquisitions alongside organic growth in our residential markets helping to offset further declines in mobile products due to the continued weakness in domestic energy markets. In addition to top line growth, Adjusted EBITDA and Adjusted EPS also improved over the prior year and we generated very strong free cash flow for 2016. The strong free cash flow allowed us to continue to deploy cash in a variety of beneficial ways for our shareholders, including making strategic investments in acquisitions as well as certain capital expenditures, while also paying down debt and returning capital through share repurchases. We also made important enhancements to our Powering Ahead strategic plan during 2016 and are very excited on the targeted impact they will have on our future.

Key Strategic Accomplishments

Focus on growing overall home standby generator market remains. We made additional progress and pursued a number of strategic initiatives to increase the awareness, availability and affordability of home standby generators. These include specific projects and activities targeted towards generating more sales leads, improving close rates, and reducing the total overall cost of these products. We believe we further enhanced our market position for residential backup power products during 2016, as retail placement and the number of active residential dealers at the end of the year were at all-time highs. In addition to distribution-related initiatives, we introduced an updated version of our industry-leading home standby product line with several key design improvements focused on enabling more efficient installations that we anticipate will lead to a reduction in labor costs and give our dealers increased bandwidth during periods of high demand.

Expanding remote monitoring capabilities. Another important accomplishment during 2016 was the development of our competencies around remote monitoring. We have offered our Mobile Link remote monitoring solution to our residential customers since 2013, which is a cellular based service sold as an accessory with an annual subscription. During 2016, we invested heavily and made substantial progress in developing hardware and software competencies required to make connectivity a standard feature in all products going forward. Late in 2017 we plan to launch an updated line of residential standby generators that will come standard with this technology and will include multiple service levels for customers depending on their monitoring needs. We believe this new platform will allow for unique insights into how and when these products are used, which is critical information as we develop future products and understand additional market opportunities that may exist.

Important updates to Powering Ahead strategic plan. During 2016 we made important updates to Powering Ahead, our strategic plan that has guided our focus and investment decisions since 2011. We believe our success over the last six years is directly related to our execution of Powering Ahead as we have doubled the revenues of the company, increased our served markets fourfold, and delivered cumulative shareholder returns that considerably exceeded the overall market during that time. During the year, our management team critically analyzed the elements of our strategy as they relate to our market opportunities, competencies, vulnerabilities and areas for improvement, and we determined that important enhancements to Powering Ahead were appropriate to position Generac for continued success. The first two strategic pillars “Growing the Residential Standby Market” and “Gaining Industrial Market Share” continue to provide tremendous runway and will remain for the foreseeable future. However, important transitions are taking place with the last two pillars of “Diversifying Our Demand” and “Entering New Geographies”.

Motortech acquisition and transition from "Diversification" to "Lead Gas". We have significantly diversified our product portfolio since 2010 to include many engine powered products beyond our core offering of backup generators. With a broader product offering now in place, our team believes the time is right to place a higher priority on expanding our natural gas fueled backup and prime powered generator lines as the market for these products continues to expand at greater rates than traditional diesel power generation solutions. As part of this strategic focus toward "Lead with Gas Power Generation," on January 1st, 2017 we acquired Motortech, which allows us to build on our gas engine design technologies and competencies. Based in Celle, Germany, Motortech is a leading manufacturer of gaseous-engine control systems and components, which are sold globally to gas-engine manufacturers and to aftermarket customers. With our increased focus on natural gas, we are targeting to expand our global addressable market for these products with the Motortech acquisition being the first key step towards this goal.

Pramac acquisition and transition from "Enter" to "Expand" within geographies. The other notable change to Powering Ahead is a shift away from "Entering New Geographies" and instead creating improved focus on "Expanding within Geographies" where we are currently located. Over the last six years, we have put Generac on the path to becoming a major global player in the markets we serve, as we have significantly increased our sales mix outside the U.S. and Canada. This increase is largely the result of the acquisitions of Ottomotores in 2012, Tower Light in 2013, and the recent addition of Pramac in March of 2016. Pramac, headquartered in Siena, Italy, is a leading global manufacturer of stationary, mobile and portable generators sold in over 150 countries through a broad distribution network. These acquisitions have dramatically increased our international footprint allowing us to better participate in the over $13 billion annual market for backup power generation outside the U.S. and Canada. With these critical strategic steps now taken, we believe that our focus should be on improving our market share position and profitability within the international regions where we operate today.

In Closing

We believe we continue to successfully transition Generac to be a more diversified business, and in the process, have greatly expanded our addressable markets thereby positioning us for future growth. Our strong liquidity position gives us the flexibility to continue to invest organically in new products, technologies and infrastructure across the business as our end markets improve. We remain confident regarding the overall long-term growth prospects for our business, and we believe the enhancements we are making to our Powering Ahead strategy will ensure that we are allocating our resources going forward to generate the best return for our shareholders.
On behalf of the entire Generac team, I would like to thank our stakeholders for your ongoing confidence and support as we look forward to continued success in the future.

Sincerely,

Aaron P. Jagdfeld
President and Chief Executive Officer

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

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	**20-5654756**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
S45 W29290 Hwy 59, Waukesha, WI	**53189**
(Address of principal executive offices)	(Zip Code)

(262) 544-4811
(Registrant's telephone number, including area code)

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

Common Stock, $0.01 par value	**New York Stock Exchange**
(Title of class)	(Name of exchange on which registered)

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $2,247,442,615 based upon the closing price reported for such date on the New York Stock Exchange.

As of February 17, 2017, 62,735,597 shares of registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Stockholders for the year ended December 31, 2016 furnished to the Securities and Exchange Commission are incorporated by reference into Part II of this Form 10-K. Portions of the registrant's Proxy Statement for the 2017 Annual Meeting of Stockholders (the "2017 Proxy Statement"), which will be filed by the registrant on or prior to 120 days following the end of the registrant's fiscal year ended December 31, 2016, are incorporated by reference into Part III of this Form 10-K.

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Forward-Looking Statements

This annual 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 annual 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 annual 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 and 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 used in producing our products;
- the impact on our results of possible fluctuations in interest rates and foreign currency exchange rates;
- 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;
- competitive factors in the industry in which we operate;
- 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; and
- changes in environmental, health and safety laws and regulations.

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 Item 1A of this Annual Report on Form 10-K. 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.

PART I

Item 1. Business

We are a leading designer and manufacturer of a wide range of power generation equipment and other engine powered products serving the residential, light commercial and industrial markets. Power generation is our primary focus, which differentiates us from our primary competitors that also have broad operations outside of the generator market. As the only significant market participant focused predominantly on these products, we have one of the leading market positions in the power generation 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 engine powered products that we design and manufacture include light towers which provide temporary lighting for various end markets; commercial and industrial mobile heaters used in the oil & gas, construction and other industrial markets; and a broad product line of outdoor power equipment for residential and commercial use.

We design, manufacture, source and modify engines, alternators, transfer switches and other components necessary for our products, which are fueled by natural gas, liquid propane, gasoline, diesel and Bi-Fuel™. Our products are available globally through a broad network of independent dealers, distributors, retailers, wholesalers and equipment rental companies under a variety of brand names. We also sell direct to certain national and regional account customers, as well as to individual consumers, that are the end users of our products.

We have a significant market share in the residential and light commercial markets for automatic standby generators, which we believe remain under-penetrated in the marketplace. We also have a leading market position for portable generators used in residential, light construction and recreational applications. We believe that our leading market position is largely attributable to our strategy of providing a broad product line of high-quality, innovative and affordable products through our extensive and multi-layered distribution network to whom we offer comprehensive support and programs from the factory. In addition, we are a leading provider of light towers, mobile generators, flameless heaters, outdoor power equipment and industrial diesel generators ranging in sizes up to 3,250kW.

History

Generac Holdings Inc. (the Company or Generac) is a Delaware corporation, which was founded in 1959 to market a line of affordable portable generators that offered superior performance and features. Through innovation and focus, we have grown to be a leading provider of power generation equipment and other engine powered products to the residential, light-commercial and industrial markets.

Key events in our history include the following:

- In 1980, we expanded beyond portable generators into the industrial market with the introduction of our first stationary generators that provided up to 200 kW of power output.
- During the 1990's, we expanded our industrial product development and global distribution system, forming a series of alliances that tripled our higher-output generator sales.

- In 1998, we sold our Generac® portable products business (which included portable generator and power washer product lines) to a private equity firm who eventually sold this business to another company.
- Our growth accelerated in 2000 as we expanded our purpose-built line of residential automatic standby generators and implemented our multi-layered distribution philosophy.
- In 2005, we introduced our quiet-running QT Series generators, accelerating our penetration in the commercial market.
- In 2006, the founder of Generac Power Systems sold the company to affiliates of CCMP Capital Advisors, LLC (CCMP), together with certain other investors and members of our management.
- In 2008, we successfully expanded our position in the portable generator market after the expiration of our non-compete agreement that was entered into when we sold our Generac® portable products business in 1998.
- In February 2010, we completed our initial public offering of 20.7 million primary shares of our common stock (including additional share over allotment).
- In early 2011, we re-entered the market for gasoline-powered pressure washers (or power washers), which we previously exited in 1998 with the sale of our Generac® portable products business.
- In August 2013, CCMP completed the last of a series of sale transactions that began in November 2012 by which it sold substantially all of the shares of common stock that it owned as of the initial public offering.

Additionally, we have executed a number of acquisitions that support our strategic plan. A summary of these acquisitions can be found in Note 1, "Description of Business," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Reportable Segments

Effective in the second quarter of 2016, we changed our segment reporting from one reportable segment to two reportable segments—Domestic and International—as a result of the recent Pramac acquisition and the ongoing strategy to expand the business internationally. The Domestic segment includes the legacy Generac business and the impact of acquisitions that are based in the United States, all of which have revenues that are substantially derived from the U.S. and Canada. The International segment includes the Ottomotores, Tower Light and Pramac acquisitions, all of which have revenues that are substantially derived from outside the U.S. and Canada. Both segments design and manufacture a wide range of power generation equipment and other engine powered products, which are discussed in further detail below in the context of our product classes. Refer to Note 6, "Segment Reporting," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information.

Products

We design and manufacture stationary, portable and mobile generators with single-engine outputs ranging between 800W and 3,250kW. We have the ability to expand the power range for certain stationary generator solutions to much larger multi-megawatt systems through an integrated paralleling configuration called Modular Power Systems (MPS). Other engine powered products that we design and manufacture include light towers, mobile heaters, power washers and water pumps, along with a broad line of outdoor power equipment. We classify our products into three categories based on similar range of power output geared for varying end customer uses: Residential products, Commercial & Industrial (C&I) products and Other products. The following summary outlines our portfolio of products, including their key attributes and customer applications.

Residential Products

Our residential automatic standby generators range in output from 6kW to 60kW, with manufacturer's suggested retail prices (MSRPs) from approximately $1,899 to $16,199. These products operate on natural gas, liquid propane or diesel and are permanently installed with an automatic transfer switch, which we also manufacture. Air-cooled engine residential standby generators range in outputs from 6kW to 22kW, are available in steel and aluminum enclosures and serve as an emergency backup for small to medium-sized homes. Liquid-cooled engine generators serve as emergency backup for larger homes and small businesses and range in output from 22kW to 60kW. We also provide a cellular-based remote monitoring system for home standby generators called *Mobile Link*™, which allows our customers to check the status of their generator conveniently from a desktop PC, tablet computer or smartphone, and also provides the capability to receive maintenance and service alerts.

We provide a broad product line of portable generators that are fueled predominantly by gasoline, with certain models running on propane and diesel fuel, which range in size from 800W to 17,500W. These products serve as an emergency home backup source of electricity and are also used for construction and recreational purposes. Our portable generators are targeted at homeowners, with price points ranging between the consumer value end of the market through the premium homeowner market; at professional contractors, starting at the value end through the premium contractor segment; and inverter generators targeted at the recreational market. In addition, we offer manual transfer switches to supplement our portable generator product offering. The acquisition of PR Industrial S.r.l. (Pramac) in March 2016 added a broad product line of portable generators that are sold globally and used for numerous residential, light construction and recreational purposes.

We provide a broad product line of engine driven power washers for residential and commercial use, fueled by gasoline, which range in pressure from 2,500 to 4,200 PSI. Additionally, we offer a product line of water pumps built to meet the water removal needs of homeowners, farmers, construction crews and other end-user applications.

Further, we provide a broad product line of outdoor power equipment that includes trimmer & brush mowers, log splitters, lawn & leaf vacuums, and chipper shredders for the property maintenance needs of larger-acreage residences, light commercial properties, municipalities and farms. These products are largely sold in North America through catalogs and outdoor power equipment dealers primarily under the DR® brand name.

Residential products comprised 53.5%, 51.2% and 49.5%, respectively, of total net sales in 2016, 2015 and 2014.

Commercial & Industrial Products

We offer a full line of C&I generators fueled by diesel, natural gas, liquid propane and Bi-Fuel™. We believe we have one of the broadest product offerings in the industry with power outputs ranging from 10kW up to 3,250kW.

Our light-commercial standby generators include a full range of affordable systems from 22kW to 150kW and related transfer switches, providing three-phase power sufficient for most small and mid-sized businesses including grocery stores, convenience stores, restaurants, gas stations, pharmacies, retail banks, small health care facilities and other small-footprint retail applications. Our light-commercial generators run on natural gas, liquid propane and diesel fuel.

We manufacture a broad line of standard and configured stationary generators and related transfer switches for various industrial standby, continuous-duty and prime rated applications. Our single-engine industrial generators range in output from 10kW up to 3,250kW, which includes stationary and containerized packages, with our MPS technology extending our product range up to much larger multi-megawatt systems through an integrated paralleling configuration. We offer four fuel options for our industrial generators, including diesel, natural gas, liquid propane or Bi-Fuel™. Bi-Fuel™ generators operate on a combination of both diesel and natural gas to allow our customers the advantage of multiple fuel sources and extended run times. Our industrial standby generators are primarily used as emergency backup for large healthcare, telecom, datacom, commercial office, municipal and manufacturing customers.

Our MPS technology combines the power of several smaller generators to produce the output of a larger generator, providing our customers with redundancy and scalability in a cost-effective manner. For larger industrial applications, our MPS products offer customers an efficient, affordable way to scale their standby power needs, and also offers superior reliability given its built-in redundancy which allows individual units to be taken off-line for routine maintenance while retaining coverage for critical circuits.

We provide a broad line of light towers, mobile generators and mobile heaters, which provide temporary lighting, power and heat for various end markets, such as road and commercial construction, energy, mining, military and special events. We also manufacture commercial mobile pumps which utilize wet and dry-priming pump systems for a wide variety of wastewater applications.

The acquisition of Pramac in March 2016 added a broad product line of C&I stationary and mobile generators that are sold in over 150 countries through a broad distribution network.

C&I products comprised 38.6%, 41.6% and 44.6% respectively, of total net sales in 2016, 2015 and 2014.

Other Products

Our "Other Products" category includes aftermarket service parts to our dealers, product accessories and proprietary engines to third-party original equipment manufacturers (OEMs).

Other power products comprised 7.9%, 7.2% and 5.9%, respectively, of total net sales in 2016, 2015 and 2014.

Distribution Channels and Customers

We distribute our products through several distribution channels to increase awareness of our product categories and brands, and to ensure our products reach a broad customer base. This distribution network includes independent residential dealers, industrial distributors and dealers, national and regional retailers, e-commerce merchants, electrical and HVAC wholesalers (including certain private label arrangements), catalogs, equipment rental companies and equipment distributors. We also sell direct to certain national and regional account customers, as well as to individual consumers, that are the end users of our products.

We believe our distribution network is a competitive advantage that has strengthened over the years as a result of adding, expanding and developing the various distribution channels through which we sell our products. Our network is well balanced with no customer providing more than 7% of our sales in 2016.

Our overall dealer network located in the United States, Canada and Latin America, is the industry's largest network of factory direct independent generator contractors in North America. We further expanded our dealer network on a global basis with the acquisition of Pramac in March 2016, particularly in Europe, the Middle East and Asia/Pacific regions.

Our residential/light commercial dealer network sells, installs and services our residential and light commercial products to end users. We have increased our level of investment in recent years by focusing on a variety of initiatives to more effectively market and sell our home standby products and better align our dealer network with Generac.

Our industrial network consists of a combination of primary distributors as well as a support network of dealers serving the United States and Canada. The industrial distributors and dealers provide industrial and commercial end users with ongoing sales and product support. Our industrial distributors and dealers maintain the local relationships with commercial electrical contractors, specifying engineers and national account regional buying offices. In recent years, we have been expanding our dealer network globally through the Ottomotores acquisition in December 2012 and Pramac acquisition in March 2016, along with organic means, in order to expand our international sales opportunities.

Our retail distribution network includes thousands of locations across the globe and includes a variety of regional and national home improvement chains, retailers, clubs, buying groups and farm supply stores. These physical retail locations are supplemented by a number of catalog and e-commerce retailers. This network primarily sells our residential standby, portable and light-commercial generators, as well as our other engine powered tools. The placement of our products at retail locations drives significant awareness for our brands and the automatic home standby product category.

Our wholesaler network distributes our residential and light-commercial generators, and consists of selling branches of both national and local distribution houses for electrical and HVAC products.

On a selective basis, we have established private label and licensing arrangements with third party partners to provide residential, light-commercial and industrial generators. These partners include leading home equipment, electrical equipment and construction machinery companies, each of which provides access to incremental channels of distribution for our products.

The distribution for our mobile products includes international, national, regional and specialty equipment rental companies, equipment distributors and construction companies, which primarily serve non-residential building construction, road construction, energy markets and special events. In addition, our Tower Light and Pramac businesses provide access to numerous independent distributors in over 150 countries.

We sell direct to certain national and regional account customers that are the end users of our products covering a number of end market verticals, including telecommunication, retail, banking, convenience stores, grocery stores and other light commercial applications. Additionally, a portion of our portable generators and other engine powered tools are sold direct to individual consumers, who are the end users of the product.

Business Strategy

We have been executing on our "Powering Ahead" strategic plan, which serves as the framework for the significant investments we have made to capitalize on the long-term growth prospects of Generac. As we continue to move the Powering Ahead plan into the future, we are focused on a number of initiatives that are driven by the same four key objectives:

Growing the residential standby generator market. As the leader in the home standby generator market, it is incumbent upon us to continue to drive growth and increase the penetration rate of these products in households across the United States and Canada. Central to this strategy is to increase the awareness, availability and affordability of home standby generators. Ongoing power outage activity, combined with expanding our residential/light commercial dealer base and overall distribution in affected regions, are key drivers in elevating the awareness of home standby generators over the long term. We intend to continue to supplement these key growth drivers by focusing on a variety of strategic initiatives targeted toward generating more sales leads, improving close rates and reducing the total overall cost of a home standby system. In addition, we intend to continue to focus on innovation in this growing product category and introduce new products into the marketplace. With only approximately 4.0% penetration of the addressable market of homes in the United States (which we define as single-family detached, owner-occupied households with a home value of over $100,000, as defined by the U.S. Census Bureau's 2015 American Housing Survey for the United States), we believe there are opportunities to further penetrate the residential standby generator market.

Gaining commercial and industrial market share. Our growth strategy for commercial and industrial power generation products is focused on incremental market share gains. Key to this objective are efforts to leverage our expanding platform of diesel and natural gas offerings by better optimizing our industrial distribution partners' capabilities to market, sell and support these products. Specifically, we continue to pursue certain initiatives to expand our distributors' interactions with engineering firms and electrical contractors responsible for specifying and selecting our products within C&I power generation applications. We are also committed to a number of sales process initiatives to improve the overall specification rates for our products which should increase quoting activity and close rates for our industrial distributors.

Lead with gas power generation products. We will attempt to gain incremental market share within commercial and industrial markets through our leading position in the growing market for cleaner burning, more cost effective natural gas fueled standby power solutions. While still a much smaller portion of the overall C&I market, we believe demand for these products continues to increase at a faster rate than traditional diesel fueled generators as a result of their lower capital investment and operating costs. We also intend to explore new gaseous generator related market opportunities, including increasing our product capabilities for continuous-duty and prime rated applications, by leveraging our deep technical capabilities for gaseous-fueled products, leading position for natural gas standby generators and growing market acceptance for these products.

Expanding global presence. We have increased our revenues shipped outside the U.S. and Canada in recent years, with sales outside this region accounting for approximately 20% of our revenues during 2016, as compared to approximately 10% and 9% in 2015 and 2014, respectively. This increase is largely the result of acquisitions made that comprise our International segment—Ottomotores, Tower Light and Pramac. These businesses have significantly increased our global presence by adding product, manufacturing and distribution capabilities that serve local markets around the world, and have resulted in us becoming a leading global player in the markets for backup power and mobile power equipment. As we look forward, we intend to leverage our increased international footprint attained from these acquisitions to serve the over $13 billion annual market for power generation equipment outside the U.S. and Canada. We also intend to improve the profit margins of our International segment by executing on several revenue and cost synergies, and driving organic growth in existing markets with additional investment and focus, including the expanding opportunity for global gaseous-fueled products. We will continue to evaluate other opportunities to expand into additional regions of the world through both organic initiatives and potential acquisitions.

We believe the investments we have made to date, due in part to our Powering Ahead strategy, have helped to capitalize on the macro, secular growth drivers for our business and are an important part of our efforts to diversify and globalize our business. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Drivers and Trends" for additional drivers that influence demand for our products and other trends affecting the markets that we serve.

Manufacturing

We operate numerous manufacturing plants, distribution facilities and inventory warehouses located throughout the world. We maintain inventory warehouses in the United States that accommodate material storage and rapid response requirements of our customers. See "Item 2—Properties" for additional details regarding the locations and activities of our principal operations.

In recent years, we have added manufacturing capacity through investments in automation, improved utilization and the expansion of our manufacturing footprint through organic means as well as through acquisitions. We believe we have sufficient capacity to achieve our business goals for the near-to-intermediate term.

Research and Development

Our primary focus on power generation equipment and other engine powered products drives technological innovation, specialized engineering and manufacturing competencies. Research and development (R&D) is a core competency and includes a staff of over 300 engineers working on numerous projects. Our sponsored research and development expense was $37.2 million, $32.9 million and $31.5 million for the years ended December 31, 2016, 2015 and 2014, respectively. Research and development is conducted at several of our manufacturing facilities worldwide and is focused on developing new technologies and product enhancements as well as maintaining product competitiveness by improving manufacturing costs, safety characteristics, reliability and performance while ensuring compliance with regulatory standards. We have over 30 years of experience using natural gas engines and have developed specific expertise with fuel systems and emissions technology. In the residential and light commercial markets, we have developed proprietary engines, cooling packages, controls, fuel systems and emissions systems. We believe that our expertise in engine powered equipment gives us the capability to develop new products that will allow continued diversification in our end markets.

Intellectual Property

We are committed to research and development, and we rely on a combination of patents and trademarks to establish and protect our proprietary rights. Our patents protect certain features and technologies we have developed for use in our products including fuel systems, air flow, electronics and controls, noise reduction and air-cooled engines. We believe the existence of these patents and trademarks, along with our ongoing processes to register additional patents and trademarks, protect our intellectual property rights and enhance our competitive position. We also use proprietary manufacturing processes that require customized equipment.

Suppliers of Raw Materials

Our primary raw material inputs are steel, copper and aluminum, all of which are purchased from third parties and, in many cases, as part of machined or manufactured components. We have developed an extensive network of reliable suppliers in the United States and internationally. Our strategic global sourcing function continuously evaluates the quality and cost structure of our products and assesses the capabilities of our supply chain. Components are sourced accordingly based on this evaluation. Our supplier quality engineers conduct on-site audits of major supply chain partners and help to maintain the reliability of critical sourced components.

Competition

The market for power generation equipment and other engine powered products is competitive. We face competition from a variety of large diversified industrial companies as well as smaller generator manufacturers, along with mobile equipment and engine powered tools providers, both domestic and internationally. However, specifically in the generator market, most of the traditional participants compete on a more specialized basis, focused on specific applications within their larger diversified product mix. We are the only significant market participant with a primary focus on power generation with a core emphasis on standby, portable and mobile generators with broad capabilities across the residential, light-commercial and industrial markets. We believe that our engineering capabilities and core focus on generators provide us with manufacturing flexibility and enables us to maintain a first-mover advantage over our competition for product innovation. We also believe our broad product offering, diverse distribution model and strong factory support provide additional advantages as well.

A summary of the primary competitors across our main product classes are as follows:

Residential products—Kohler, Briggs & Stratton, Cummins, Honda, Champion, Techtronics International, Husqvarna and Ariens, along with a number of smaller domestic and foreign competitors; certain of which also have broad operations in other manufacturing businesses.

C&I products—Caterpillar, Cummins, Kohler, MTU, Stemac, Selmec, IGSA, Wacker, MultiQuip, Terex, Doosan, Briggs & Stratton (Allmand), Atlas Copco and Himonisa; certain of which focus on the market for diesel generators as they are also diesel engine manufacturers. Also, we compete against other regional packagers that serve local markets throughout the world.

In a continuously evolving market, we believe our scale and broad capabilities make us well positioned to remain competitive. We compete primarily on the basis of brand reputation, quality, reliability, pricing, innovative features, breadth of product offering, product availability and factory support.

Employees

As of December 31, 2016, we had 4,202 employees (3,608 full time and 594 part-time and temporary employees). Of those, 2,266 employees were directly involved in manufacturing at our manufacturing facilities.

Domestically, we have had an "open shop" bargaining agreement for the past 50 years. The current agreement, which expires October 17, 2021, covers our Waukesha and Eagle, Wisconsin facilities. Additionally, our plants in Mexico, Italy and Brazil are operated under various local or national union groups. Our other facilities are not unionized.

Regulation, including Environmental Matters

As a manufacturing company, our operations are subject to a variety of federal, state, local and foreign laws and regulations covering environmental, health and safety matters. Applicable laws and regulations include those governing, among other things, emissions to air, discharges to water, noise and employee safety, as well as the generation, handling, storage, transportation, treatment, and disposal of waste and other materials. In addition, our products are subject to various laws and regulations relating to, among other things, emissions and fuel requirements, as well as labeling and marketing.

Our products sold in the United States are regulated by the U.S. Environmental Protection Agency (EPA), California Air Resources Board (CARB) and various other state and local air quality management districts. These governing bodies continue to pass regulations that require us to meet more stringent emission standards, and all of our engines and engine-driven products are regulated within the United States and its territories. Other countries have varying degrees of regulation depending upon product application and fuel types.

Available Information

The Company's principal executive offices are located at S45 W29290 Highway 59, Waukesha, Wisconsin, 53189 and the Company's telephone number is (262) 544-4811. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge through the "Investors" portion of the Company's web site, www.generac.com, as soon as reasonably practical after they are filed with the Securities and Exchange Commission (SEC). The SEC maintains a web site, www.sec.gov, which contains reports, proxy and information statements, and other information filed electronically with the SEC by the Company. The information provided on these websites is not part of this report and is therefore not incorporated herein by reference.

Executive Officers

The following table sets forth information regarding our executive officers:

Name	Age	Position
Aaron P. Jagdfeld	45	President, Chief Executive Officer and Chairman
York A. Ragen	45	Chief Financial Officer
Russell S. Minick	56	Chief Marketing Officer
Erik Wilde	42	Executive Vice President, North America Industrial
Roger F. Pascavis	56	Executive Vice President, Strategic Global Sourcing
Patrick Forsythe	49	Executive Vice President, Global Engineering

Aaron P. Jagdfeld has served as our Chief Executive Officer since September 2008, as a director since November 2006 and was named Chairman in February 2016. Prior to becoming Chief Executive Officer, Mr. Jagdfeld worked for Generac for 15 years. He began his career in the finance department in 1994 and became our Chief Financial Officer in 2002. In 2007, he was appointed President and was responsible for sales, marketing, engineering and product development. Prior to joining Generac, Mr. Jagdfeld worked in the audit practice of the Milwaukee, Wisconsin office of Deloitte and Touche. Mr. Jagdfeld holds a Bachelor of Business Administration in Accounting from the University of Wisconsin-Whitewater.

York A. Ragen has served as our Chief Financial Officer since September 2008. Prior to becoming Chief Financial Officer, Mr. Ragen held Director of Finance and Vice President of Finance positions at Generac. Prior to joining Generac in 2005, Mr. Ragen was Vice President, Corporate Controller at APW Ltd., a spin-off from Applied Power Inc., now known as Actuant Corporation. Mr. Ragen began his career in the Audit division of Arthur Andersen's Milwaukee, Wisconsin office. Mr. Ragen holds a Bachelor of Business Administration in Accounting from the University of Wisconsin-Whitewater.

Russell S. Minick began serving as our Chief Marketing Officer in August 2016. Prior to this appointment he served as Executive Vice President, Residential Products since October 2011, with this responsibility being expanded in January 2014 to Executive Vice President, Global Residential Products and to Executive Vice President, North America in September 2014. Prior to joining Generac, Mr. Minick was President & CEO of Home Care Products for Electrolux from 2006 to 2011, President of The Gunlocke Company at HNI Corporation from 2003 to 2006, Senior Vice President of Sales, Marketing and Product Development at True Temper Sports from 2002 to 2003, and General Manager of Extended Warranty Operations for Ford Motor Company from 1998 to 2002. Mr. Minick is a graduate of the University of Northern Iowa, and holds a degree in marketing.

Erik Wilde began serving as our Executive Vice President, North America Industrial in July 2016. Mr. Wilde was Vice President and General Manager of the Mining Division for Komatsu America Corp. from 2013 until he joined Generac. Prior to that role, he held leadership positions as Vice President of the ICT Business Division and Product Marketing back to 2005. Mr. Wilde holds a

Bachelor of Business Administration in Management from Boise State University and an M.B.A. from Keller Graduate School of Management.

Roger Pascavis has served as our Executive Vice President, Strategic Global Sourcing since March 2013. Prior to becoming Executive Vice President of Strategic Global Supply, he served as the Senior Vice President of Operations since January 2008. Mr. Pascavis joined Generac in 1995 and has served as Director of Materials and Vice President of Operations. Prior to joining Generac, Mr. Pascavis was a Plant Manager for MTI in Waukesha, Wisconsin. Mr. Pascavis holds a B.S. in Industrial Technology from the University of Wisconsin-Stout and an M.B.A. from Lake Forest Graduate School of Management.

Patrick Forsythe has served as our Executive Vice President of Global Engineering since re-joining Generac in July 2015. Mr. Forsythe was Vice President, Global Engineering & Technology of Hayward Industries from 2008 to 2015, Vice President, Global Engineering at Ingersoll Rand Company (and the acquired Doosan Infracore International) from 2004 to 2008, and Director of Engineering at Ingersoll Rand Company from 2002 to 2004. Prior to 2002, Mr. Forsythe worked in various engineering management capacities with Generac from 1995 to 2002. Mr. Forsythe holds a Higher National Diploma (HND) in Mechanical Engineering from the University of Ulster (United Kingdom), a B.S. in Mechanical Engineering, and an M.S. in Manufacturing Management & Technology from The Open University (United Kingdom).

Item 1A. Risk Factors

You should carefully consider the following risks. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our common stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward-looking statements made by us. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “Forward-Looking Statements” and the risks of our businesses described elsewhere in this Annual Report.

Risk factors related to our business and industry

Demand for the majority of our products is significantly affected by unpredictable power-outage activity that can lead to substantial variations in, and uncertainties regarding, our financial results from period to period.

Sales of our products are subject to consumer buying patterns, and demand for the majority of our products is affected by power outage events caused by thunderstorms, hurricanes, ice storms, blackouts and other power grid reliability issues. The impact of these outage events on our sales can vary depending on the location, frequency and severity of the outages. Sustained periods without major power disruptions can lead to reduced consumer awareness of the benefits of standby and portable generator products and can result in reduced sales growth rates and excess inventory. There are smaller, more localized power outages that occur frequently that drive a baseline level of demand for back-up power solutions. The lack of major power-outage events and fluctuations to the baseline levels of power-outage activity are part of managing our business, and these fluctuations could have an adverse effect on our net sales and profits. Despite their unpredictable nature, we believe power disruptions create awareness and accelerate adoption for our home standby products.

Demand for our products is significantly affected by durable goods spending by consumers and businesses, and other macroeconomic conditions.

Our business is affected by general economic conditions, and uncertainty or adverse changes such as the prolonged downturn in U.S. residential investment and the impact of more stringent credit standards could lead to a decline in demand for our products and pressure to reduce our prices. Our sales of light-commercial and industrial generators are affected by conditions in the non-residential construction sector and by the capital investment trends for small and large businesses and municipalities. If these businesses and municipalities cannot access credit markets or do not utilize discretionary funds to purchase our products as a result of the economy or other factors, our business could suffer and our ability to realize benefits from our strategy of increasing sales in the light-commercial and industrial sectors through, among other things, our focus on innovation and product development, including natural gas engine and modular technology, could be adversely affected. In addition, consumer confidence and home remodeling expenditures have a significant impact on sales of our residential products, and prolonged periods of weakness in consumer durable goods spending could have a material impact on our business. Typically, we do not have contracts with our customers which call for committed volume, and we cannot guarantee that our current customers will continue to purchase our products at the same level, if at all. If general economic conditions or consumer confidence were to worsen, or if the non-residential construction sector or rate of capital investments were to decline, our net sales and profits would likely be adversely affected. Additionally, timing of capital spending by our national account customers can vary from quarter-to-quarter based on capital availability and internal capital spending budgets.

Decreases in the availability and quality, or increases in the cost, of raw materials and key components we use could materially reduce our earnings.

The principal raw materials that we use to produce our products are steel, copper and aluminum. We also source a significant number of component parts from third parties that we utilize to manufacture our products. The prices of those raw materials and components are susceptible to significant fluctuations due to trends in supply and demand, transportation costs, government regulations and tariffs, price controls, economic conditions and other unforeseen circumstances beyond our control. We do not have long-term supply contracts in place to ensure the raw materials and components we use are available in necessary amounts or at fixed prices. If we are unable to mitigate raw material or component price increases through product design improvements, price increases to our customers, manufacturing productivity improvements, or hedging transactions, our profitability could be adversely affected. Also, our ability to continue to obtain quality materials and components is subject to the continued reliability and viability of our suppliers, including in some cases, suppliers who are the sole source of certain important components. If we are unable to obtain adequate, cost efficient or timely deliveries of required raw materials and components, we may be unable to manufacture sufficient quantities of products on a timely basis. This could cause us to lose sales, incur additional costs, delay new product introductions or suffer harm to our reputation.

The industry in which we compete is highly competitive, and our failure to compete successfully could adversely affect our results of operations and financial condition.

We operate in markets that are highly competitive. Some of our competitors have established brands and are larger in size or are divisions of large diversified companies which have substantially greater financial resources than we do. Some of our competitors may be willing to reduce prices and accept lower margins in order to compete with us. In addition, we could face new competition from large international or domestic companies with established industrial brands that enter our end markets. Demand for our products may also be affected by our ability to respond to changes in design and functionality, to respond to downward pricing pressure, and to provide shorter lead times for our products than our competitors. If we are unable to respond successfully to these competitive pressures, we could lose market share, which could have an adverse impact on our results. For further information, see “Item 1—Business—Competition”.

Our industry is subject to technological change, and our failure to continue developing new and improved products and to bring these products rapidly to market could have an adverse impact on our business.

New products, or refinements and improvements of existing products, may have technical failures, delayed introductions, higher than expected production costs or may not be well accepted by our customers. If we are not able to anticipate, identify, develop and market high quality products in line with technological advancements that respond to changes in customer preferences, demand for our products could decline and our operating results could be adversely affected.

We rely on independent dealers and distribution partners, and the loss of these dealers and distribution partners, or of any of our sales arrangements with significant private label, telecommunications, retail or equipment rental customers, would adversely affect our business.

In addition to our direct sales force and manufacturer sales representatives, we depend on the services of independent distributors and dealers to sell our products and provide service and aftermarket support to our end customers. We also rely upon our distribution channels to drive awareness for our product categories and our brands. In addition, we sell our products to end users through private label arrangements with leading home equipment, electrical equipment and construction machinery companies; arrangements with top retailers and equipment rental companies; and our direct national accounts with telecommunications and industrial customers. Our distribution agreements and any contracts we have with large telecommunications, retail and other customers are typically not exclusive, and many of the distributors with whom we do business offer competitors' products and services. Impairment of our relationships with our distributors, dealers or large customers, loss of a substantial number of these distributors or dealers or of one or more large customers, or an increase in our distributors' or dealers' sales of our competitors' products to our customers or of our large customers' purchases of our competitors' products could materially reduce our sales and profits. Also, our ability to successfully realize our growth strategy is dependent in part on our ability to identify, attract and retain new distributors at all layers of our distribution platform, and we cannot be certain that we will be successful in these efforts. For further information, see "Item 1—Business—Distribution Channels and Customers".

Our business could be negatively impacted if we fail to adequately protect our intellectual property rights or if third parties claim that we are in violation of their intellectual property rights.

We consider our intellectual property rights to be important assets, and seek to protect them through a combination of patent, trademark, copyright and trade secret laws, as well as licensing and confidentiality agreements. These protections may not be adequate to prevent third parties from using our intellectual property without our authorization, breaching any confidentiality agreements with us, copying or reverse engineering our products, or developing and marketing products that are substantially equivalent to or superior to our own. The unauthorized use of our intellectual property by others could reduce our competitive advantage and harm our business. Not only are intellectual property-related proceedings burdensome and costly, but they could span years to resolve and we might not ultimately prevail. We cannot guarantee that any patents, issued or pending, will provide us with any competitive advantage or will not be challenged by third parties. Moreover, the expiration of our patents may lead to increased competition with respect to certain products.

In addition, we cannot be certain that we do not or will not infringe third parties' intellectual property rights. Any such claim, even if it is without merit, may be expensive and time-consuming to defend, subject us to damages, cause us to cease making, using or selling certain products that incorporate the disputed intellectual property, require us to redesign our products, divert management time and attention, and/or require us to enter into costly royalty or licensing arrangements.

Our operations are subject to various environmental, health and safety laws and regulations, and non-compliance with or liabilities under such laws and regulations could result in substantial costs, fines, sanctions and claims.

Our operations are subject to a variety of foreign, federal, state and local environmental, health and safety laws and regulations including those governing, among other things, emissions to air; discharges to water; noise; and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. In addition, under federal and state environmental laws, we could be required to investigate, remediate and/or monitor the effects of the release or disposal of materials both at sites associated with past and present operations and at third-party sites where wastes generated by our operations were disposed. This liability may be imposed retroactively and whether or not we caused, or had any knowledge of, the existence of these materials and may result in our paying more than our fair share of the related costs. We could also be subject to a recall action by regulatory authorities. Violations of or liabilities under such laws and regulations could result in substantial costs, fines and civil or criminal proceedings or personal injury and workers' compensation claims.

Our products are subject to substantial government regulation.

Our products are subject to extensive statutory and regulatory requirements governing, among other things, emissions and noise, including standards imposed by the EPA, CARB and other regulatory agencies around the world. These laws are constantly evolving and many are becoming increasingly stringent. Changes in applicable laws or regulations, or in the enforcement thereof, could require us to redesign our products and could adversely affect our business or financial condition in the future. Developing and marketing products to meet such new requirements could result in substantial additional costs that may be difficult to recover in some markets. In some cases, we may be required to modify our products or develop new products to comply with new regulations, particularly those relating to air emissions. Typically, additional costs associated with significant compliance modifications are passed on to the market. While we have been able to meet previous deadlines and requirements, failure to comply with other existing and future regulatory standards could adversely affect our position in the markets we serve.

We may incur costs and liabilities as a result of product liability claims.

We face a risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in injury or other damage. Although we currently maintain product liability insurance coverage, we may not be able to obtain such insurance on acceptable terms in the future, if at all, or obtain insurance that will provide adequate coverage against potential claims. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. A significant unsuccessful product liability defense could have a material adverse effect on our financial condition and results of operations. In addition, we believe our business depends on the strong brand reputation we have developed. If our reputation is damaged, we may face difficulty in maintaining our market share and pricing with respect to some of our products, which could reduce our sales and profitability.

The loss of any key members of our senior management team or key employees could disrupt our operations and harm our business.

Our success depends, in part, on the efforts of certain key individuals, including the members of our senior management team, who have significant experience in the power products industry. If, for any reason, our senior executives do not continue to be active in management, or if our key employees leave our company, our business, financial condition or results of operations could be adversely affected. Failure to continue to attract these individuals at reasonable compensation levels could have a material adverse effect on our business, liquidity and results of operations. Although we do not anticipate that we will have to replace any of these individuals in the near future, the loss of the services of any of our key employees could disrupt our operations and have a material adverse effect on our business.

Disruptions caused by labor disputes or organized labor activities could harm our business.

We may from time to time experience union organizing activities in our non-union facilities. Disputes with the current labor union or new union organizing activities could lead to work slowdowns or stoppages and make it difficult or impossible for us to meet scheduled delivery times for product shipments to our customers, which could result in loss of business. In addition, union activity could result in higher labor costs, which could harm our financial condition, results of operations and competitive position. A work stoppage or limitations on production at our facilities for any reason could have an adverse effect on our business, results of operations and financial condition. In addition, many of our suppliers have unionized work forces. Strikes or work stoppages experienced by our customers or suppliers could have an adverse effect on our business, results of operations and financial condition.

We may experience material disruptions to our manufacturing operations.

While we seek to operate our facilities in compliance with applicable rules and regulations and take measures to minimize the risks of disruption at our facilities, a material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales and/or negatively impact our financial results. Any of our manufacturing facilities, or any of our equipment within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

- equipment or information technology infrastructure failure;
- disruptions in the transportation infrastructure including roads, bridges, railroad tracks and container ports;
- fires, floods, tornados, earthquakes, or other catastrophes; and
- other operational problems.

In addition, a significant portion of our manufacturing and production facilities are located in Wisconsin within a 100-mile radius of each other. We could experience prolonged periods of reduced production due to unforeseen events occurring in or around our manufacturing facilities in Wisconsin. In the event of a business interruption at our facilities, in particular our Wisconsin facilities, we may be unable to shift manufacturing capabilities to alternate locations, accept materials from suppliers or meet customer shipment needs, among other severe consequences. Such an event could have a material and adverse impact on our financial condition and results of our operations.

A significant portion of our purchased components are sourced in foreign countries, exposing us to additional risks that may not exist in the United States.

We source a significant portion of our purchased components overseas, primarily in Asia and Europe. Our international sourcing subjects us to a number of potential risks in addition to the risks associated with third-party sourcing generally. Such risks include:

- inflation or changes in political and economic conditions;
- unstable regulatory environments;
- changes in import and export duties;
- domestic and foreign customs and tariffs;

- currency rate fluctuations;
- trade restrictions;
- labor unrest;
- logistical challenges, including extended container port congestion;
- communications challenges; and
- other restraints and burdensome taxes.

These factors may have an adverse effect on our ability to efficiently and cost effectively source our purchased components overseas. In particular, if the U.S. dollar were to depreciate significantly against the currencies in which we purchase raw materials from foreign suppliers, our cost of goods sold could increase materially, which would adversely affect our results of operations.

We are vulnerable to supply disruptions from single-sourced suppliers.

We single-source certain types of parts in our product designs. Any delay in our suppliers' deliveries may impair our ability to deliver products to our customers. A wide variety of factors could cause such delays including, but not limited to, lack of capacity, economic downturns, availability of credit, weather events or natural disasters.

As a U.S. corporation that conducts business in a variety of foreign countries, we are subject to the Foreign Corrupt Practices Act and a variety of anti-corruption laws worldwide. A determination that we violated any of these laws may affect our business and operations adversely.

The U.S. Foreign Corrupt Practices Act (FCPA) generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. The United Kingdom Bribery Act (UKBA) prohibits domestic and foreign bribery of the private sector as well as public officials. Any determination that we have violated any anti-corruption laws could have a material adverse effect on our financial position, operating results and cash flows.

Our total assets include goodwill and other indefinite-lived intangibles. If we determine these have become impaired, net income could be materially adversely affected.

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. Indefinite-lived intangibles are comprised of certain tradenames. At December 31, 2016, goodwill and other indefinite-lived intangibles totaled $833.0 million. We review goodwill and other intangibles at least annually for impairment and any excess in carrying value over the estimated fair value is charged to the statement of operations. Future impairment may result from, among other things, deterioration in the performance of an acquired business or product line, adverse market conditions and changes in the competitive landscape, adverse changes in applicable laws or regulations, including changes that restrict the activities of an acquired business or product line, and a variety of other circumstances. A reduction in net income resulting from the write-down or impairment of goodwill or indefinite-lived intangibles could have a material adverse effect on our financial statements.

We are unable to determine the specific impact of changes in selling prices or changes in volumes of our products on our net sales.

Because of the wide range of products that we sell, the level of customization for many of our products, the frequent rollout of new products and the fact that we do not apply pricing changes uniformly across our entire portfolio of products, we are unable to determine with specificity the effect of volume changes or changes in selling prices on our net sales.

We may not realize all of the anticipated benefits of our acquisitions or those benefits may take longer to realize than expected. We may also encounter significant unexpected difficulties in integrating acquired businesses.

Our ability to realize the anticipated benefits of our acquisitions will depend, to a large extent, on our ability to integrate the acquired businesses with our business. The combination of independent businesses is a complex, costly and time-consuming process. Further, integrating and managing businesses with international operations may pose challenges not previously experienced by our management. As a result, we may be required to devote significant management attention and resources to integrating the business practices and operations of any acquired businesses with ours. The integration process may disrupt our business and, if implemented ineffectively, could preclude realization of the full benefits expected by us. Our failure to meet the challenges involved in integrating an acquired business into our existing operations or otherwise to realize the anticipated benefits of the transaction could cause an interruption of, or a loss of momentum in, our activities and could adversely affect our results of operations.

In addition, the overall integration of our acquired businesses may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships, and diversion of management's attention, and may cause our stock price to decline. The difficulties of combining the operations of acquired businesses with ours include, among others:

- managing a larger company;
- maintaining employee morale and retaining key management and other employees;
- complying with newly applicable foreign regulations;
- integrating two business cultures, which may prove to be incompatible;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- retaining existing customers and attracting new customers;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- the diversion of management's attention from ongoing business concerns and performance shortfalls as a result of the diversion of management's attention to the acquisition;
- unanticipated issues in integrating information technology, communications and other systems;
- unanticipated changes in applicable laws and regulations;
- managing tax costs or inefficiencies associated with integrating the operations of the combined company;
- unforeseen expenses or delays associated with the acquisition;
- difficulty comparing financial reports due to differing financial and/or internal reporting systems; and
- making any necessary modifications to internal financial control standards to comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially impact our business, financial condition and results of operations. In addition, even if the operations of our acquired businesses are integrated successfully with our operations, we may not realize the full benefits of the transaction, including the synergies, cost savings or sales or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all. Or, additional unanticipated costs may be incurred in the integration of our businesses. All of these factors could cause dilution to our earnings per share, decrease or delay the expected accretive effect of the acquisition, and cause a decrease in the price of our common stock. As a result, we cannot assure you that the combination of our acquisitions with our business will result in the realization of the full benefits anticipated from the transaction.

We may encounter difficulties in implementing or operating a new enterprise resource planning (ERP) system across our subsidiaries, which may adversely affect our operations and financial reporting.

In 2016, we implemented a new ERP system for a majority of our business as part of our ongoing efforts to improve and strengthen our operational and financial processes and our reporting systems; and we will be implementing the new ERP system at our other locations in future years. The ERP system may not provide the benefits anticipated, could add costs and complications to ongoing operations, and may impact our ability to process transactions efficiently, all of which may have a material adverse effect on the Company's business and results of operations.

Failures or security breaches of our networks or information technology systems could have an adverse effect on our business.

We rely heavily on information technology (IT) both in our products and services for customers and in our IT systems. Further, we collect and store sensitive information in our data centers and on our networks. Government agencies and security experts have warned about growing risks of hackers, cyber-criminals, malicious insiders and other actors targeting confidential information and all types of IT systems. These actors may engage in fraudulent activities, theft of confidential or proprietary information and sabotage.

Our IT systems and our confidential information may be vulnerable to damage or intrusion from a variety of attacks including computer viruses, worms or other malicious software programs. These attacks pose a risk to the security of the products, systems and networks of our customers, suppliers and third-party service providers, as well to the confidentiality of our information and the integrity and availability of our data. While we attempt to mitigate these risks through controls, due diligence, training, surveillance and other measures, we remain vulnerable to information security threats.

Despite the precautions we take, an intrusion or infection of our systems could result in the disruption of our business, loss of proprietary or confidential information, or injuries to people or property. Similarly, an attack on our IT systems could result in theft or disclosure of trade secrets or other intellectual property or a breach of confidential customer or employee information. Any such events could have an adverse impact on sales, harm our reputation and cause us to incur legal liability and increased costs to address such events and related security concerns. As the threats evolve and become more potent, we may incur additional costs to secure the products that we sell, as well as our data and infrastructure of networks and devices.

Risks related to our common stock

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our common stock or if our results of operations do not meet their expectations, our common stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade recommendations regarding our stock, or if our results of operations do not meet their expectations, our stock price could decline and such decline could be material.

Anti-takeover provisions in our amended and restated certificate of incorporation and by-laws could prohibit a change of control that our stockholders may favor and could negatively affect our stock price.

Provisions in our amended and restated certificate of incorporation and by-laws may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our stockholders. These provisions could discourage potential takeover attempts and could adversely affect the market price of our common stock. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. For example, our amended and restated certificate of incorporation and by-laws:

- permit our board of directors to issue preferred stock with such terms as they determine, without stockholder approval;
- provide that only one-third of the members of the board of directors are elected at each stockholders meeting and prohibit removal without cause;
- require advance notice for stockholder proposals and director nominations; and
- contain limitations on convening stockholder meetings.

These provisions make it more difficult for stockholders or potential acquirers to acquire us without negotiation and could discourage potential takeover attempts and could adversely affect the market price of our common stock.

We do not have plans to pay dividends on our common stock in the foreseeable future.

We currently do not have plans to pay dividends in the foreseeable future on our common stock. We intend to use future earnings for the operation and expansion of our business, as well as for repayment of outstanding debt and for share repurchases. In addition, the terms of our senior secured credit facilities limit our ability to pay dividends on our common stock. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for the foreseeable future. While we may change this policy at some point in the future, we cannot assure that we will make such a change.

Risks related to our capital structure

We have a significant amount of indebtedness which could adversely affect our cash flow and our ability to remain in compliance with debt covenants and make payments on our indebtedness.

We have a significant amount of indebtedness. As of December 31, 2016, we had total indebtedness of $1,052.9 million. Our significant level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our significant indebtedness, combined with our other financial obligations and contractual commitments could have other important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, which could result in an event of default under the agreements governing our indebtedness;
- make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;

- require us to dedicate a portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes.

Any of the above-listed factors could materially adversely affect our business, financial condition, results of operations and cash flows. While we maintain interest rate swaps covering a portion of our outstanding debt, our interest expense could increase if interest rates increase because debt under our credit facilities bears interest at a variable rate once above a certain LIBOR floor. If we do not have sufficient earnings to service our debt, we may be required to refinance all or part of our existing debt, sell assets, borrow more money or sell securities, none of which we can guarantee we will be able to do.

The terms of our credit facilities restrict our current and future operations, particularly our ability to respond to changes in our business or to take certain actions.

Our credit facilities contain, and any future indebtedness of ours or our subsidiaries would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on us and our subsidiaries, including restrictions on our ability to engage in acts that may be in our best long-term interests. These restrictions include, among other things, our ability to:

- incur liens;
- incur or assume additional debt or guarantees or issue preferred stock;
- pay dividends, or make redemptions and repurchases, with respect to capital stock;
- prepay, or make redemptions and repurchases of, subordinated debt;
- make loans and investments;
- make capital expenditures;
- engage in mergers, acquisitions, asset sales, sale/leaseback transactions and transactions with affiliates;
- change the business conducted by us or our subsidiaries; and
- amend the terms of subordinated debt.

The operating and financial restrictions in our credit facilities and any future financing agreements may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. A breach of any of the restrictive covenants in our credit facilities would result in a default. If any such default occurs, the lenders under our credit facilities may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable, or enforce their security interest, any of which would result in an event of default. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further borrowings. Our existing credit facilities do not contain any financial maintenance covenants.

We may need additional capital to finance our growth strategy or to refinance our existing credit facilities, and we may not be able to obtain it on acceptable terms, or at all, which may limit our ability to grow.

We may require additional financing to expand our business. Financing may not be available to us or may be available to us only on terms that are not favorable. The terms of our senior secured credit facilities limit our ability to incur additional debt. In addition, economic conditions, including a downturn in the credit markets, could impact our ability to finance our growth on acceptable terms or at all. If we are unable to raise additional funds or obtain capital on acceptable terms, we may have to delay, modify or abandon some or all of our growth strategies. In the future, if we are unable to refinance our credit facilities on acceptable terms, our liquidity could be adversely affected.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own, operate or lease manufacturing, distribution and office facilities globally totaling over four million square feet. We also operate a dealer training center at our Eagle, Wisconsin facility, which allows us to train new industrial and residential dealers on the service and installation of our products and provide existing dealers with training on product innovations. We also have inventory warehouses that accommodate material storage and rapid response requirements of our customers.

The following table provides information about our principal facilities exceeding 10,000 square feet:

Location	Owned/ Leased	Activities	Segment
Waukesha, WI	Owned	Corporate headquarters, manufacturing, storage, R&D, service parts distribution	Domestic
Eagle, WI	Owned	Manufacturing, office, training	Domestic
Whitewater, WI	Owned	Manufacturing, office, distribution	Domestic
Oshkosh, WI	Owned	Manufacturing, office, storage, R&D	Domestic
Berlin, WI	Owned	Manufacturing, office, storage, R&D	Domestic
Jefferson, WI	Owned	Manufacturing, distribution, R&D	Domestic
Various WI	Leased	Storage	Domestic
Maquoketa, IA	Owned	Storage, rental property	Domestic
Vergennes, VT	Leased	Office	Domestic
Winooski, VT	Leased	Manufacturing, R&D	Domestic
Mexico City, Mexico	Owned	Manufacturing, sales, distribution, storage, office, R&D	International
Mexico City, Mexico	Leased	Office, storage and warehouse	International
Curitiba, Brazil	Leased	Manufacturing, sales, distribution, storage, office	International
Milan, Italy	Leased	Manufacturing, sales, distribution, storage, office, R&D	International
Casole d'Elsa, Italy	Leased	Manufacturing, office, storage, R&D	International
Balsicas, Spain	Leased	Manufacturing, office, storage, R&D	International
Foshan, China	Owned	Manufacturing, office, storage, R&D	International
Saint-Nizier-sous-Charlieu, France	Leased	Sales, office, storage	International
Ribeirao Preto, Brazil	Leased	Manufacturing, office, storage	International
Fellbach, Germany	Leased	Sales, office, storage	International
Crewe, England	Leased	Sales, office, storage	International
Celle, Germany	Owned	Manufacturing, office, sales, R&D	International
Charzyno, Poland	Owned	Manufacturing	International

As of December 31, 2016, substantially all of our domestically-owned and a portion of our internationally-owned properties are subject to collateral provisions under our senior secured credit facilities.

Item 3. Legal Proceedings

From time to time, we are involved in legal proceedings primarily involving product liability, patent and employment matters and general commercial disputes arising in the ordinary course of our business. As of December 31, 2016, we believe that there is no litigation pending that would have a material effect on our results of operations or financial condition.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Shares of our common stock are traded on the New York Stock Exchange (NYSE) under the symbol "GNRC." The following table sets forth the high and low sales prices reported on the NYSE for our common stock by fiscal quarter during 2016 and 2015, respectively.

2016	High	Low
Fourth Quarter	$43.49	$35.74
Third Quarter	$38.00	$33.13
Second Quarter	$39.25	$33.86
First Quarter	$38.51	$27.26

2015	High	Low
Fourth Quarter	$32.53	$26.88
Third Quarter	$39.78	$27.16
Second Quarter	$49.35	$39.62
First Quarter	$50.41	$43.74

Purchases of Equity Securities By the Issuer and Affiliated Purchasers

The following table summarizes the stock repurchase activity for the three months ended December 31, 2016, which consisted of the withholding of shares upon the vesting of restricted stock awards to pay withholding taxes on behalf of the recipient and shares repurchased under the Company's $250.0 million stock repurchase program authorized in October 2016:

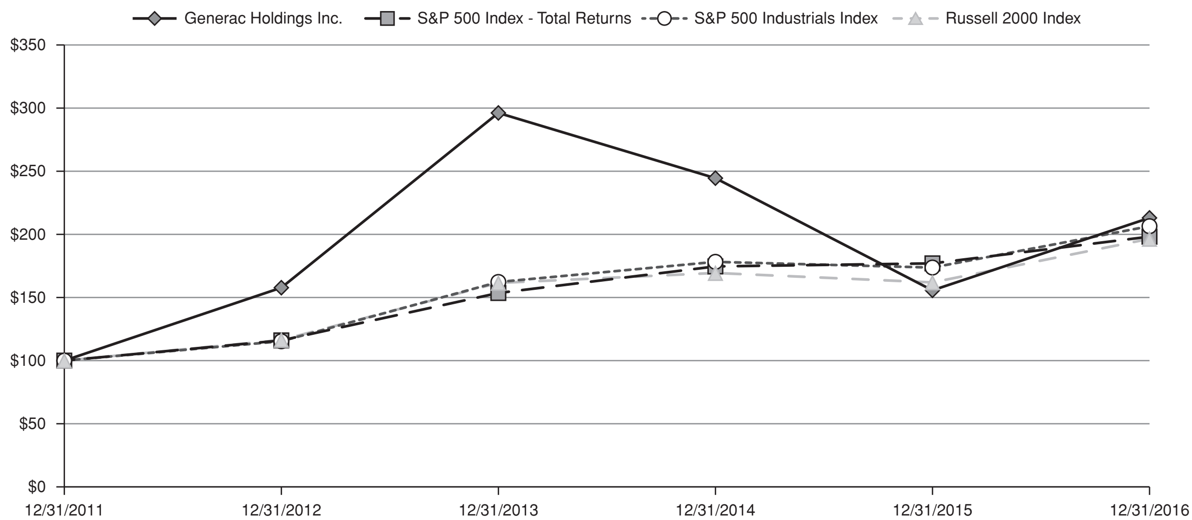
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Approximate Dollar Value Of Shares That May Yet Be Purchased Under The Plans Or Programs
10/01/16 - 10/31/16	38,699	$38.58	38,500	$248,639,009
11/01/16 - 11/30/16	716,809	39.66	716,000	220,244,705
12/01/16 - 12/31/16	481,000	41.84	481,000	200,120,516
Total	1,236,508	$40.47		

For equity compensation plan information, please refer to Note 15, "Share Plans," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Stock Performance Graph

The line graph below compares the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor's S&P 500 Index, the S&P 500 Industrials Index and the Russell 2000 Index for the five-year period ended December 31, 2016. The graph and table assume that $100 was invested on December 31, 2011 in each of our common stock, the S&P 500 Index, the S&P 500 Industrials Index and the Russell 2000 Index, and that all dividends were reinvested. Cumulative total stockholder returns for our common stock, the S&P 500 Index, the S&P 500 Industrials Index and the Russell 2000 Index are based on our fiscal year.

COMPARISON OF CUMULATIVE TOTAL RETURN



ASSUMES $100 INVESTED ON DEC. 31, 2011
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DEC. 31, 2016

Company / Market / Peer Group	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Generac Holdings Inc.	$100.00	$157.76	$296.17	$244.51	$155.67	$213.03
S&P 500 Index—Total Returns	100.00	116.00	153.57	174.60	177.01	198.18
S&P 500 Industrials Index	100.00	115.35	162.27	178.22	173.70	206.46
Russell 2000 Index	100.00	116.35	161.52	169.42	161.95	196.45

Holders

As of February 17, 2017, there were approximately 199 registered holders of record of Generac's common stock. A substantially greater number of holders of Generac common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

Dividends

We do not have plans to pay dividends on our common stock in the foreseeable future. However, in the future, subject to factors such as general economic and business conditions, our financial condition and results of operations, our capital requirements, our future liquidity and capitalization, and other such factors that our board of directors may deem relevant, we may change this policy and choose to pay dividends. Our ability to pay dividends on our common stock is currently restricted by the terms of our senior secured credit facilities and may be further restricted by any future indebtedness we incur. Our business is conducted through our subsidiaries, including our principal operating subsidiary, Generac Power Systems. Dividends from, and cash generated by our subsidiaries will be our principal sources of cash to repay indebtedness, fund operations, repurchase shares of common stock and pay dividends. Accordingly, our ability to pay dividends to our stockholders is dependent on the earnings and distributions of funds from our subsidiaries, including Generac Power Systems.

Securities Authorized for Issuance Under Equity Compensation Plans

For information on securities authorized for issuance under our equity compensation plans, see "Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," which is incorporated herein by reference.

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Registered Securities

Not applicable.

Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data for the periods and at the dates indicated. The selected historical consolidated financial data for the years ended December 31, 2016, 2015 and 2014 are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected historical consolidated financial data for the years ended December 31, 2013 and 2012 is derived from our audited historical consolidated financial statements not included in this annual report.

The results indicated below and elsewhere in this annual report are not necessarily indicative of our future performance. This information should be read together with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto in Item 8 of this Annual Report on Form 10-K.

(U.S. Dollars in thousands, except per share data)	2016	2015	2014	2013	2012
	Year Ended December 31,				
Statement of Operations Data:					
Net sales	$1,444,453	$1,317,299	$1,460,919	$1,485,765	$1,176,306
Costs of goods sold	930,347	857,349	944,700	916,205	735,906
Gross profit	514,106	459,950	516,219	569,560	440,400
Operating expenses:					
Selling and service	164,607	130,242	120,408	107,515	101,448
Research and development	37,229	32,922	31,494	29,271	23,499
General and administrative	74,700	52,947	54,795	55,490	46,031
Amortization of intangibles(1)	32,953	23,591	21,024	25,819	45,867
Tradename and goodwill impairment(2)	—	40,687	—	—	—
Gain on remeasurement of contingent consideration(3)	—	—	(4,877)	—	—
Total operating expenses	309,489	280,389	222,844	218,095	216,845
Income from operations	204,617	179,561	293,375	351,465	223,555
Other income (expense):					
Interest expense	(44,568)	(42,843)	(47,215)	(54,435)	(49,114)
Investment income	44	123	130	91	79
Loss on extinguishment of debt(4)	(574)	(4,795)	(2,084)	(15,336)	(14,308)
Gain (loss) on change in contractual interest rate(5)	(2,957)	(2,381)	16,014	—	—
Costs related to acquisitions	(1,082)	(1,195)	(396)	(1,086)	(1,062)
Other, net	902	(5,487)	(1,462)	(1,983)	(2,798)
Total other expense, net	(48,235)	(56,578)	(35,013)	(72,749)	(67,203)
Income before provision for income taxes	156,382	122,983	258,362	278,716	156,352
Provision for income taxes	57,570	45,236	83,749	104,177	63,129
Net income	98,812	77,747	174,613	174,539	93,223
Net income attributable to noncontrolling interests	24	—	—	—	—
Net income attributable to Generac Holdings Inc.	$ 98,788	$ 77,747	$ 174,613	$ 174,539	$ 93,223
Net income attributable to common shareholders per common share—diluted:	$ 1.50	$ 1.12	$ 2.49	$ 2.51	$ 1.35
Statement of Cash Flows data:					
Depreciation	$ 21,465	$ 16,742	$ 13,706	$ 10,955	$ 8,293
Amortization of intangible assets	32,953	23,591	21,024	25,819	45,867
Expenditures for property and equipment	(30,467)	(30,651)	(34,689)	(30,770)	(22,392)
Other Financial Data:					
Adjusted EBITDA attributable to Generac Holdings Inc.(6)	$ 274,603	$ 270,816	$ 337,283	$ 402,613	$ 289,809
Adjusted net income attributable to Generac Holdings Inc.(7)	198,257	198,436	234,165	301,664	220,792

(U.S. Dollars in thousands)	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014	As of December 31, 2013	As of December 31, 2012
Balance Sheet Data:					
Current assets	$ 683,509	$ 632,017	$ 707,637	$ 627,310	$ 473,866
Property, plant and equipment, net	212,793	184,213	168,821	146,390	104,718
Goodwill	704,640	669,719	635,565	608,287	552,943
Other intangibles and other assets	260,742	292,686	352,396	394,237	459,470
Total assets	$1,861,684	$1,778,635	$1,864,419	$1,776,224	$1,590,997
Total current liabilities	$ 341,939	$ 213,224	$ 240,522	$ 250,845	$ 294,859
Long-term borrowings, less current portion	1,006,758	1,037,132	1,065,858	1,155,298	785,031
Other long-term liabilities	78,737	62,408	68,240	53,010	47,479
Redeemable noncontrolling interests	33,138	—	—	—	—
Stockholders' equity	401,112	465,871	489,799	317,071	463,628
Total liabilities and stockholders' equity	$1,861,684	$1,778,635	$1,864,419	$1,776,224	$1,590,997

(1) Our amortization of intangibles expense includes the straight-line amortization of customer lists, patents, certain tradenames and other finite-lived intangible assets.

(2) During the fourth quarter of 2015, our Board of Directors approved a plan to strategically transition and consolidate certain of our brands acquired through acquisitions over the past several years to the Generac® tradename. This brand strategy change resulted in a reclassification to a two year remaining useful life for the impacted tradenames and a $36.1 million non-cash charge to write-down to net realizable value. Additionally, during the fourth quarter of 2015, a $4.6 million goodwill impairment charge was recorded related to the write-down of the Ottomotores reporting unit goodwill. Refer to Note 2, "Significant Accounting Policies—Goodwill and Other Indefinite-Lived Intangible Assets," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the 2015 impairment charges.

(3) During the second quarter of 2014, we recorded a gain of $4.9 million related to an adjustment to a certain earn-out obligation in connection with the Tower Light acquisition.

(4) For the years ended December 31, 2016, 2015, 2014 and 2013, represents the non-cash write-off of original issue discount and deferred financing costs due to voluntary debt prepayments. Additionally, for the year ended December 31, 2013, represents the loss on extinguishment of debt as a result of a refinancing transaction in May 2013. For the year ended December 31, 2012, represents the loss on extinguishment of debt as a result of the refinancing transactions in February and May 2012. Refer to Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the losses on extinguishment of debt.

(5) For the year ended December 31, 2016, represents a non-cash loss in the third quarter relating to the continued 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio remaining above 3.0 times and expected to remain above 3.0 times based on current projections. For the year ended December 31, 2015, represents a non-cash loss relating to a 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio rising above 3.0 times effective third quarter 2015 and expected to remain above 3.0 times based on projections at that time. For the year ended December 31, 2014, represents a non-cash gain relating to a 25 basis point reduction in borrowing costs as a result of the credit agreement leverage ratio falling below 3.0 times effective second quarter 2014 and expected to remain below 3.0 times based on projections at that time. Refer to Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the gains and losses on changes in the contractual interest rate.

(6) Adjusted EBITDA represents net income before noncontrolling interests, interest expense, taxes, depreciation and amortization, as further adjusted for the other items reflected in the reconciliation table set forth below. The computation of adjusted EBITDA is based on the definition of EBITDA contained in the Term Loan and Amended ABL Facility (terms defined in Note 10, "Credit

Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K), which is substantially the same definition that was contained in the Company's previous credit agreements.

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 because 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 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.

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. generally accepted accounting principles (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 Amended 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 and 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 (h) 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 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 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 calculations are subject to review by our Board of Directors in the context of the Board's review of our financial statements, and certification by our Chief Financial Officer in a compliance certificate provided to the lenders under our Term Loan and Amended ABL Facility, this discretion may be viewed as an additional limitation on the use of Adjusted EBITDA as an analytical tool.

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.:

	Year Ended December 31,				
(U.S. Dollars in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Net income attributable to Generac Holdings Inc.	$ 98,788	$ 77,747	$174,613	$174,539	$ 93,223
Net income attributable to noncontrolling interests(a)	24	—	—	—	—
Net income	98,812	77,747	174,613	174,539	93,223
Interest expense	44,568	42,843	47,215	54,435	49,114
Depreciation and amortization	54,418	40,333	34,730	36,774	54,160
Provision for income taxes	57,570	45,236	83,749	104,177	63,129
Non-cash write-down and other adjustments(b)	357	3,892	(3,853)	78	247
Non-cash share-based compensation expense(c)	9,493	8,241	12,612	12,368	10,780
Tradename and goodwill impairment(d)	—	40,687	—	—	—
Loss on extinguishment of debt(e)	574	4,795	2,084	15,336	14,308
(Gain) loss on change in contractual interest rate(f)	2,957	2,381	(16,014)	—	—
Transaction costs and credit facility fees(g)	2,442	2,249	1,851	3,863	4,117
Business optimization expenses(h)	7,316	1,947	—	—	—
Other	(120)	465	296	1,043	731
Adjusted EBITDA	278,387	270,816	337,283	402,613	289,809
Adjusted EBITDA attributable to noncontrolling interests	3,784	—	—	—	—
Adjusted EBITDA attributable to Generac Holdings Inc.	$274,603	$270,816	$337,283	$402,613	$289,809

(a) For the year ended December 31, 2016, includes the noncontrolling interests' share of expenses related to Pramac purchase accounting, including the step-up in value of inventories and intangible amortization of $8.0 million.

(b) Represents the following non-cash charges: gains/losses on disposal of assets, unrealized mark-to-market adjustments on commodity contracts, foreign currency gains/losses and certain purchase accounting related adjustments. Additionally, the year ended December 31, 2014 includes a gain of $4.9 million related to an adjustment to an earn-out obligation in connection with the Tower Light acquisition.

We believe that adjusting net income for these non-cash charges is useful for the following reasons:

- 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;
- 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;
- 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; and

- The adjustment to a certain earn-out obligation in connection with the Tower Light acquisition recorded in the year ended December 31, 2014, is a one-time charge that we believe does not reflect our ongoing operations.

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

(d) During the fourth quarter of 2015, our Board of Directors approved a plan to strategically transition and consolidate certain of our brands acquired through acquisitions over the past several years to the Generac® tradename. This brand strategy change resulted in a reclassification to a two year remaining useful life for the impacted tradenames and a $36.1 million non-cash charge to write-down to net realizable value. Additionally, during the fourth quarter of 2015, a $4.6 million goodwill impairment charge was recorded related to the write-down of the Ottomotores reporting unit goodwill. Refer to Note 2, "Significant Accounting Policies—Goodwill and Other Indefinite-Lived Intangible Assets," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the 2015 impairment charges.

(e) For the years ended December 31, 2016, 2015, 2014 and 2013, represents the non-cash write-off of original issue discount and deferred financing costs due to voluntary debt prepayments. Additionally, for the year ended December 31, 2013, represents the loss on extinguishment of debt as a result of a refinancing transaction in May 2013. For the year ended December 31, 2012, represents the loss on extinguishment of debt as a result of the refinancing transactions in February and May 2012. Refer to Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the losses on extinguishment of debt.

(f) For the year ended December 31, 2016, represents a non-cash loss in the third quarter relating to the continued 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio remaining above 3.0 times and expected to remain above 3.0 times based on current projections. For the year ended December 31, 2015, represents a non-cash loss relating to a 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio rising above 3.0 times effective third quarter 2015 and expected to remain above 3.0 times based on projections at that time. For the year ended December 31, 2014, represents a non-cash gain relating to a 25 basis point reduction in borrowing costs as a result of the credit agreement leverage ratio falling below 3.0 times effective second quarter 2014 and expected to remain below 3.0 times based on projections at that time. Refer to Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the gains and losses on changes in the contractual interest rate.

(g) 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 revolving credit facility commitment fees under our Term Loan and Amended 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;
- transaction costs relating to the acquisition of a business; and
- other financing costs incurred relating to the dividend recapitalization transactions completed in May 2012 and 2013.

(h) For the year ended December 31, 2016, represents charges relating to business optimization and restructuring costs to address the significant and extended downturns for capital spending within the oil & gas industry. For the year ended December 31, 2015, represents severance and non-recurring restructuring charges related to the integration of our facilities, which represent expenses that are not from our core operations and do not reflect our ongoing operations.

(7) Adjusted Net Income is defined as net income before noncontrolling interests 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.

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 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.

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.:

	Year Ended December 31,				
(U.S. Dollars in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Net income attributable to Generac Holdings Inc.	$ 98,788	$ 77,747	$174,613	$174,539	$ 93,223
Net income attributable to noncontrolling interests	24	—	—	—	—
Net income	98,812	77,747	174,613	174,539	93,223
Provision for income taxes	57,570	45,236	83,749	104,177	63,129
Income before provision for income taxes	156,382	122,983	258,362	278,716	156,352
Amortization of intangible assets	32,953	23,591	21,024	25,189	45,867
Amortization of deferred finance costs and original issue discount	3,940	5,429	6,615	4,772	3,759
Tradename and goodwill impairment	—	40,687	—	—	—
Loss on extinguishment of debt	574	4,795	2,084	15,336	14,308
(Gain) loss on change in contractual interest rate	2,957	2,381	(16,014)	—	—
Transaction costs and other purchase accounting adjustments(a)	5,653	2,710	(3,623)	2,842	3,317
Business optimization expenses	7,316	1,947	—	—	—
Adjusted net income before provision for income taxes	209,775	204,523	268,448	326,855	223,603
Cash income tax expense(b)	(9,299)	(6,087)	(34,283)	(25,821)	(2,811)
Adjusted net income	200,476	198,436	234,165	301,034	220,792
Adjusted net income attributable to noncontrolling interests	2,219	—	—	—	—
Adjusted net income attributable to Generac Holdings Inc.	$198,257	$198,436	$234,165	$301,034	$220,792

(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. Additionally, the year ended December 31, 2014 includes a gain of $4.9 million related to an adjustment to an earn-out obligation in connection with the Tower Light acquisition.

(b) For the year ended December 31, 2016, amount is based on a cash income tax rate of 5.9%. Cash income tax expense for 2016 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 by applying the derived cash tax rate to the period's pretax income. For the years ended December 31, 2015, 2014, 2013 and 2012, amounts are based on actual cash income taxes paid during each year.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with "Item 1—Business," "Item 6—Selected Financial Data" and the consolidated financial statements and the related notes thereto in Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under "Item 1A—Risk Factors."

Overview

We are a leading designer and manufacturer of a wide range of power generation equipment and other engine powered products serving the residential, light commercial and industrial markets. Power generation is our primary focus, which differentiates us from our primary 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 engine powered products that we design and manufacture include light towers which provide temporary lighting for various end markets; commercial and industrial mobile heaters used in the oil & gas, construction and other industrial markets; and a broad product line of outdoor power equipment for residential and commercial use.

Over the past several years, we have executed a number of acquisitions that support our strategic plan. A summary of these acquisitions can be found in Note 1, "Description of Business," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

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 engine powered 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 not aware of the costs and benefits of automatic backup power solutions. We estimate that penetration rates for home standby generators are only approximately 4.0% 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 2015 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 in the light-commercial market. In addition, the installed base of backup power for telecommunications infrastructure is increasing due to the growing importance for uninterrupted voice and data services. 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 and mobile generators for residential, commercial and industrial purposes.

Effect of large scale and baseline power disruptions. Power disruptions are an important driver of customer awareness 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 portable or standby generator during the immediate and subsequent period, which we believe may last for nine to twelve months following a major power outage event for standby generators. 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, 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 benefit over the long term 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 and cost control. 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, can have a material impact on our results of operations. Also, with the Pramac acquisition in 2016, we have further expanded our commercial and operational presence outside of the United States. This acquisition, along with our existing international presence, exposes us to fluctuations in foreign currency exchange rates that can have a material impact on our results of operations.

We have historically attempted to mitigate the impact of rising commodity, currency and component prices 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 23% to 27% of our net sales occurred in the first quarter, 20% to 25% in the second quarter, 24% to 27% in the third quarter and 25% 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, credit facility pricing grids, and repayments or borrowings of indebtedness. Cash interest expense increased during 2016 compared to 2015, primarily due additional debt assumed in recent acquisitions, increased borrowings at other foreign subsidiaries and an increase in the LIBOR rate. Refer to Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information.

Factors influencing provision for income taxes and cash income taxes paid. We had approximately $592 million of tax-deductible goodwill and intangible asset amortization remaining as of December 31, 2016 related to our acquisition by CCMP in 2006 that we expect to generate aggregate cash tax savings of approximately $231 million through 2021, assuming continued profitability and a 39% tax rate. 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 $48 million through 2020 and $40 million in 2021, assuming profitability and a 39% tax rate. As a result of the asset acquisition of the Magnum business in the fourth quarter of 2011, we had approximately $38.0 million of incremental tax deductible goodwill and intangible assets remaining as of December 31, 2016. We expect these assets to generate aggregate cash tax savings of $14.9 million through 2026 assuming continued profitability and a 39% tax rate. The amortization of these assets for tax purposes is expected to be $3.8 million annually through 2025 and $2.8 million in 2026, which generates an additional annual cash tax savings of $1.5 million through 2025 and $1.1 million in 2026, assuming profitability and a 39% tax rate. Based on current business plans, we believe that our cash tax obligations through 2026 will be significantly reduced by these tax attributes. 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 consolidated financial statements.

Components of Net Sales and Expenses

Net Sales

Substantially all of our net sales are generated through the sale of our power generator equipment and other engine powered products to the residential, light commercial and industrial markets. We also sell engines to certain customers and service parts to our dealer network. Net sales, which include shipping and handling charges billed to customers, are generally recognized upon shipment of products to our customers. Related freight costs are included in cost of sales.

We are not dependent on any one channel or customer for our net sales, with no single customer representing more than 7% of our sales, and our top ten customers representing less than 22% of our total sales for the year ended December 31, 2016.

Costs of Goods Sold

The principal elements of costs of goods sold in our manufacturing operations are component parts, raw materials, factory overhead and labor. Component parts and raw materials comprised approximately 78% of costs of goods sold for the year ended December 31, 2016. The principal component parts are engines and alternators. We design and manufacture air-cooled engines for certain of our generators up to 22kW, along with certain liquid-cooled engines. We source engines for certain of our smaller products and all of our diesel products. For certain natural gas engines, we source the base engine block, and then add a significant amount of value engineering, sub-systems and other content to the point that we are recognized as the OEM of those engines. We design many of the alternators for our units and either manufacture or source alternators for certain of our units. We also manufacture other generator components where we believe we have a design and cost advantage. We source component parts from an extensive global network of reliable, high quality suppliers. In some cases, these relationships are proprietary.

The principal raw materials used in the manufacturing process that are sourced are steel, copper and aluminum. We are susceptible to fluctuations in the cost of these commodities, impacting our costs of goods sold. We seek to mitigate the impact of commodity prices on our business through a continued focus on global sourcing, product design improvements, manufacturing efficiencies, price increases and select hedging transactions. However, there is typically a lag between raw material price fluctuations and their effect on our costs of goods sold.

Other sources of costs include our manufacturing and warehousing facilities, factory overhead, labor and shipping costs. Factory overhead includes utilities, support personnel, depreciation, general supplies, support and maintenance. Although we attempt to maintain a flexible manufacturing cost structure, our margins can be impacted when we cannot timely adjust labor and manufacturing costs to match fluctuations in net sales.

Operating Expenses

Our operating expenses consist of costs incurred to support our sales, marketing, distribution, service parts, engineering, information systems, human resources, finance, risk management, legal and tax functions, among others. These expenses include personnel costs such as salaries, bonuses, employee benefit costs and taxes, and are classified into three categories: selling and service, research and development, and general and administrative. Additionally, the amortization expense related to our finite-lived intangible assets is included within operating expenses.

Selling and service. Our selling and service expenses consist primarily of personnel expense, marketing expense, warranty expense and other sales expenses. Our personnel expense recorded in selling and services expenses includes the expense of our sales force responsible for our broad customer base and other personnel involved in the marketing, sales and service of our products. Warranty expense, which is recorded at the time of sale, is estimated based on historical trends. Our marketing expenses include direct mail costs, printed material costs, product display costs, market research expenses, trade show expenses, media advertising, promotional expenses and co-op advertising costs. Marketing expenses are generally related to the launch of new product offerings, participation in trade shows and other events, and opportunities to create market awareness for home standby generators in areas impacted by heightened power outage activity.

Research and development. Our research and development expenses support numerous projects covering all of our product lines. We operate engineering facilities at many locations globally and employ over 300 personnel with focus on new product development, existing product improvement and cost containment. We are committed to research and development, and rely on a combination of patents and trademarks to establish and protect our proprietary rights. Our research and development costs are expensed as incurred.

General and administrative. Our general and administrative expenses include personnel costs for general and administrative employees; accounting, legal and professional services fees; information technology costs; insurance; travel and entertainment expense; and other corporate expenses.

Amortization of intangibles. Our amortization of intangibles expense includes the straight-line amortization of finite-lived tradenames, customer lists, patents and other intangibles assets.

Other Income (Expense)

Other income (expense) includes the interest expense on our outstanding borrowings, amortization of debt financing costs and original issue discount, and expenses related to interest rate swap agreements. Other income (expense) also includes other financial items such as losses on extinguishment of debt, gains (losses) on change in contractual interest rate, interest income earned on our cash and cash equivalents, and costs related to acquisitions.

Costs related to acquisitions. In 2016, the other expenses include transaction expenses related to the acquisitions of Pramac and Motortech. In 2015, the other expenses include transaction expenses related to the acquisitions of CHP and Pramac. In 2014, the other expenses include transaction expenses related to the acquisitions of Powermate and MAC. Refer to Note 3, "Acquisitions" and Note 19, "Subsequent Events" to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for additional information on the Company's recent acquisitions.

Results of Operations

Year ended December 31, 2016 compared to year ended December 31, 2015

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

(U.S. Dollars in thousands)	Year Ended December 31, 2016	Year Ended December 31, 2015	$ Change	% Change
Net sales	$1,444,453	$1,317,299	127,154	9.7%
Cost of goods sold	930,347	857,349	72,998	8.5%
Gross profit	514,106	459,950	54,156	11.8%
Operating expenses:				
Selling and service	164,607	130,242	34,365	26.4%
Research and development	37,229	32,922	4,307	13.1%
General and administrative	74,700	52,947	21,753	41.1%
Amortization of intangible assets	32,953	23,591	9,362	39.7%
Tradename and goodwill impairment	—	40,687	(40,687)	−100.0%
Total operating expenses	309,489	280,389	29,100	10.4%
Income from operations	204,617	179,561	25,056	14.0%
Total other expense, net	(48,235)	(56,578)	8,343	−14.7%
Income before provision for income taxes	156,382	122,983	33,399	27.2%
Provision for income taxes	57,570	45,236	12,334	27.3%
Net income	98,812	77,747	21,065	27.1%
Net income attributable to noncontrolling interests	24	—	24	N/A
Net income attributable to Generac Holdings Inc.	$ 98,788	$ 77,747	21,041	27.1%

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

(U.S. Dollars in thousands)	Net Sales Year Ended December 31, 2016	2015	$ Change	% Change
Domestic	$1,173,559	$1,204,589	(31,030)	−2.6%
International	270,894	112,710	158,184	140.3%
Total net sales	$1,444,453	$1,317,299	127,154	9.7%

	Adjusted EBITDA Year Ended December 31, 2016	2015	$ Change	% Change
Domestic	$261,428	$254,882	6,546	2.6%
International	16,959	15,934	1,025	6.4%
Total Adjusted EBITDA	$278,387	$270,816	7,571	2.8%

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

(U.S. Dollars in thousands)	Year Ended December 31, 2016	2015	$ Change	% Change
Residential products	$ 772,436	$ 673,764	98,672	14.6%
Commercial & industrial products	557,532	548,440	9,092	1.7%
Other	114,485	95,095	19,390	20.4%
Total net sales	$1,444,453	$1,317,299	127,154	9.7%

Net sales. The decrease in Domestic sales for the year ended December 31, 2016 was primarily due to significant declines in shipments of mobile products into oil & gas and general rental markets. Partially offsetting these impacts was the contribution from the CHP acquisition, along with increased shipments of portable and home standby generators.

The increase in International sales for the year ended December 31, 2016 was due to the contribution from the Pramac acquisition. Partially offsetting this impact were declines in organic shipments of mobile products into the European region.

The total contribution from non-annualized recent acquisitions for the year ended December 31, 2016 was $236.6 million.

Net income attributable to Generac Holdings Inc. Net income attributable to Generac Holdings Inc. for the year ended December 31, 2016 includes the impact of $7.1 million of non-recurring, pre-tax charges relating to business optimization and restructuring costs to address the impact of the significant and extended downturn for capital spending within the oil & gas industry. The cost-reduction actions taken include the consolidation of production facilities, headcount reductions, certain non-cash asset write-downs and other non-recurring product-related charges. The charges consist of $2.7 million classified within cost of goods sold and $4.4 million classified within operating expenses. The increase in net income attributable to Generac Holdings Inc. was primarily due to a prior year $40.7 million pre-tax, non-cash charge for the impairment of certain intangible assets, partially offset by the business optimization charge discussed above and the other factors outlined in this section.

Gross profit. Gross profit margin for the year ended December 31, 2016 was 35.6% compared to 34.9% for the year ended December 31, 2015, which includes the impact of the aforementioned

$2.7 million of business optimization charges classified within cost of goods sold, as well as $4.2 million of expense relating to the purchase accounting adjustment for the step-up in value of inventories relating to the Pramac acquisition. Excluding the impact of these adjustments, gross profit margin was 36.1%, an improvement of 120 basis points over the prior year. The increase was primarily due to the favorable impacts from lower commodity costs and overseas sourcing benefits from a stronger U.S. Dollar, along with an overall favorable organic product mix. In addition, gross margin in the prior year was negatively impacted by temporary increases in certain costs associated with the west coast port congestion as well as other overhead-related costs that did not repeat in the current year. These factors were partially offset by the mix impact from the Pramac acquisition.

Operating expenses. Excluding the impact of the aforementioned current year $4.4 million of business optimization charges and prior year $40.7 million of intangible impairment charges classified within operating expenses, operating expenses increased $65.4 million, or 27.3%, to $305.1 million for the year ended December 31, 2016 from $239.7 million for the year ended December 31, 2015. The increase was primarily due to the addition of recurring operating expenses associated with recent acquisitions and increased amortization expense.

Other expense. Other expense in the prior year included a non-cash $4.8 million loss on extinguishment of debt resulting from $150.0 million of voluntary prepayments of Term Loan debt, and a $2.4 million non-cash loss resulting from an increase in our Term Loan interest rate spread of 25 basis points. In the current year, other expense included a $3.0 million non-cash loss resulting from a continuation of the 25 basis point spread increase, and a $0.6 million loss on extinguishment of debt resulting from a $25.0 million voluntary prepayment of Term Loan debt.

Income tax expense. The effective income tax rates for the years ended December 31, 2016 and 2015 were 36.8%.

Adjusted EBITDA. Adjusted EBITDA margins for the Domestic segment for the year ended December 31, 2016 were 22.3% of net sales as compared to 21.2% of net sales for the year ended December 31, 2015. This increase was primarily due to overall favorable product mix; lower commodity costs and overseas sourcing benefits from a stronger U.S. Dollar; and the benefit of cost-reduction actions within domestic mobile products, partially offset by increased promotional activities.

Adjusted EBITDA margins for the International segment for the year ended December 31, 2016 were 6.3% of net sales as compared to 14.1% of net sales for the year ended December 31, 2015. This decrease was primarily due to a large decline in mobile products margins given the reduced operating leverage on lower organic sales volume, unfavorable sales mix, foreign currency impacts with the weakness in the British Pound, and, to a lesser extent, the Pramac acquisition sales mix.

Adjusted net income. Adjusted Net Income of $198.3 million for the year ended December 31, 2016 decreased 0.1% from $198.4 million for the year ended December 31, 2015. The increased earnings outlined above were offset by an increase in cash income tax expense and adjusted net income attributable to noncontrolling interests.

Year ended December 31, 2015 compared to year ended December 31, 2014

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

(U.S. Dollars in thousands)	Year Ended December 31, 2015	Year Ended December 31, 2014	$ Change	% Change
Net sales	$1,317,299	$1,460,919	(143,620)	−9.8%
Cost of goods sold	857,349	944,700	(87,351)	−9.2%
Gross profit	459,950	516,219	(56,269)	−10.9%
Operating expenses:				
Selling and service	130,242	120,408	9,834	8.2%
Research and development	32,922	31,494	1,428	4.5%
General and administrative	52,947	54,795	(1,848)	−3.4%
Amortization of intangible assets	23,591	21,024	2,567	12.2%
Tradename and goodwill impairment	40,687	—	40,687	N/A
Gain on remeasurement of contingent consideration	—	(4,877)	4,877	−100.0%
Total operating expenses	280,389	222,844	57,545	25.8%
Income from operations	179,561	293,375	(113,814)	−38.8%
Total other expense, net	(56,578)	(35,013)	(21,565)	61.6%
Income before provision for income taxes	122,983	258,362	(135,379)	−52.4%
Provision for income taxes	45,236	83,749	(38,513)	−46.0%
Net income	$ 77,747	$ 174,613	(96,866)	−55.5%

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

(U.S. Dollars in thousands)	Net Sales Year Ended December 31, 2015	Net Sales Year Ended December 31, 2014	$ Change	% Change
Domestic	$1,204,589	$1,343,367	(138,778)	−10.3%
International	112,710	117,552	(4,842)	−4.1%
Total net sales	$1,317,299	$1,460,919	(143,619)	−9.8%

	Adjusted EBITDA Year Ended December 31, 2015	Adjusted EBITDA Year Ended December 31, 2014	$ Change	% Change
Domestic	$254,882	$322,769	(67,887)	−21.0%
International	15,934	14,514	1,420	9.8%
Total Adjusted EBITDA	$270,816	$337,283	(66,467)	−19.7%

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

(U.S. Dollars in thousands)	Year Ended December 31, 2015	2014	$ Change	% Change
Residential products	$ 673,764	$ 722,206	(48,442)	−6.7%
Commercial & industrial products	548,440	652,216	(103,776)	−15.9%
Other	95,095	86,497	8,598	9.9%
Total net sales	$1,317,299	$1,460,919	(143,620)	−9.8%

Net sales. The decrease in Domestic sales for the year ended December 31, 2015 was primarily due to lower demand of home standby generators as a result of the significant decline in the power outage severity environment during 2015, and a reduction in shipments into oil & gas and general rental markets and, to a lesser extent, reduced shipments to telecom national account customers. Partially offsetting these impacts was the contribution from the CHP acquisition.

The decrease in International sales for the year ended December 31, 2015 was primarily due to the negative impact of foreign currency translation.

The contribution from non-annualized recent acquisitions to the year ended December 31, 2015 was $62.8 million.

Gross profit. Gross profit margin for the year ended December 31, 2015 decreased to 34.9% from 35.3% for the year ended December 31, 2014. The decline in gross margin was primarily due to unfavorable absorption of manufacturing overhead-related costs, partially offset by the favorable impact of lower commodity costs and overseas sourcing benefits from a stronger U.S. dollar.

Operating expenses. Operating expenses for the year ended December 31, 2015 include a non-cash $36.1 million impairment charge relating to tradenames as a result of a new brand strategy to transition and consolidate various brands to the Generac® tradename, and a non-cash $4.6 million impairment charge relating to the write-down of the goodwill of the Ottomotores reporting unit. Additionally, operating expenses for the year ended December 31, 2014 include a $4.9 million gain relating to a remeasurement of a contingent earn-out obligation from the Tower Light acquisition. Excluding the impact of these items, operating expenses increased $12.0 million primarily due to the addition of recurring operating expenses associated with the CHP acquisition, increased marketing and advertising expenses, and a $2.6 million increase in the amortization of intangible assets. This was partially offset by reductions in variable operating expenses on lower sales volumes.

Other expense. The increase in other expense was primarily due to a $16.0 million non-cash gain recorded in the year ended December 31, 2014 relating to a 25 basis point reduction in borrowing costs as a result of the credit agreement leverage ratio falling below 3.0 times effective second quarter 2014 and remaining below 3.0 times based on projections at that time, and a $2.4 million non-cash loss recorded in the year ended December 31, 2015 relating to a 25 basis point increase in borrowing costs as a result of our credit agreement leverage ratio rising above 3.0 times effective third quarter 2015 and remaining above 3.0 times based on projections at the time. Additionally, $150.0 million of voluntary prepayments of Term Loan debt were made in the year ended December 31, 2015, resulting in a non-cash $4.8 million loss on extinguishment of debt compared to voluntary prepayments of Term Loan debt of $87.0 million in the year ended December 31, 2014, which resulted in a non-cash $2.1 million loss on extinguishment of debt. The debt repayments resulted in a year-over-year decrease in interest expense of $4.4 million.

Income tax expense. The effective tax rate for 2015 was 36.8% as compared to 32.4% for 2014. The increase in income tax rate was primarily attributable to a decrease in the Company's federal domestic production activity deduction due to lower pre-tax income.

Net income. As a result of the factors identified above, we generated net income of $77.7 million for the year ended December 31, 2015 compared to $174.6 million for the year ended December 31, 2014.

Adjusted EBITDA. Adjusted EBITDA margins for the Domestic segment for the year ended December 31, 2015 were 21.2% of net sales as compared to 24.0% of net sales for the year ended December 31, 2014. This decrease was primarily due to increased marketing and advertising expenses, and reduced overall leverage of fixed operating expenses, partially offset by the favorable impact of lower commodity costs and overseas sourcing benefits from a stronger U.S. Dollar.

Adjusted EBITDA margins for the International segment for the year ended December 31, 2015 were 14.1% of net sales as compared to 12.3% of net sales for the year ended December 31, 2014. This increase was primarily due to lower operating expenses.

Adjusted net income. Adjusted Net Income of $198.4 million for the year ended December 31, 2015 decreased 15.3% from $234.2 million for the year ended December 31, 2014, due to the factors outlined above, partially offset by a decrease in cash income tax expense.

Liquidity and Financial Position

Our primary cash requirements include payment for our raw material and component supplies, salaries & benefits, 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 Amended ABL Facility.

The Company's credit agreements 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. 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%. Beginning in the second quarter of 2014, and measured each subsequent quarter thereafter, the applicable margin related to base rate loans is reduced to 1.50% and the applicable margin related to LIBOR rate loans is reduced to 2.50%, to the extent that the Company's net debt leverage ratio, as defined in the Term Loan, is below 3.00 to 1.00 for that measurement period. The Company's net debt leverage ratio as of December 31, 2016 was above 3.00 to 1.00. As of December 31, 2016, the Company is 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 provide for the $250.0 million Amended ABL Facility. The maturity date of the Amended ABL Facility is May 29, 2020. In May 2015, the Company borrowed $100.0 million under the Amended ABL Facility, the proceeds of which were used as a voluntary prepayment of Term Loan borrowings. As of December 31, 2016, there was $100.0 million outstanding under the Amended ABL Facility, and the Company is in compliance with all of its covenants.

At December 31, 2016, we had cash and cash equivalents of $67.3 million and $145.6 million of availability under our revolving ABL credit facility, net of outstanding letters of credit.

In August 2015, our Board of Directors approved a $200.0 million stock repurchase program, which we completed with stock repurchases in the third quarter of 2016. In October 2016, our Board of Directors approved a $250.0 million stock repurchase program, 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. 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 our shares of 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 from cash on hand, available borrowings, or proceeds from potential debt or other capital market sources. The stock repurchase program may be suspended or discontinued at any time without prior notice. For the year ended December 31, 2016, we repurchased 3,968,706 shares of our common stock for $149.9 million, and for the year ended December 31, 2015, the Company repurchased 3,303,500 shares of its common stock for $99.9 million, all funded with cash on hand.

Refer to Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for additional information.

Long-term Liquidity

We believe that our cash flow from operations and availability under our Amended ABL Facility, combined with relatively low ongoing capital expenditure requirements and 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

Year ended December 31, 2016 compared to year ended December 31, 2015

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

(U.S. Dollars in thousands)	Year Ended December 31, 2016	Year Ended December 31, 2015	Change	% Change
Net cash provided by operating activities	$ 253,409	$ 188,619	$ 64,790	34.3%
Net cash used in investing activities	(105,822)	(104,328)	(1,494)	1.4%
Net cash used in financing activities	(195,705)	(154,483)	(41,222)	26.7%

The 34.3% increase in net cash provided by operating activities was primarily driven by a reduction in working capital investment during the current year as compared to the larger investment that was incurred in the prior year, and an overall increase in operating earnings.

Net cash used in investing activities for the year ended December 31, 2016 primarily represents cash payments of $76.7 million related to the acquisitions of businesses and $30.5 million for the purchase of property and equipment. Net cash used in investing activities for the year ended December 31, 2015 primarily represents cash payments of $74.6 million related to the acquisition of CHP and $30.7 million for the purchase of property and equipment.

Net cash used in financing activities for the year ended December 31, 2016 primarily represents $149.9 million payments for the repurchase of the Company's common stock, $65.4 million of debt repayments ($37.6 million of long-term borrowings and $27.8 million of short-term borrowings) and $12.4 million related to the net settlement of equity awards. These payments were partially offset by $28.7 million cash proceeds from short-term borrowings and $7.9 million of excess tax benefits from equity awards.

Net cash used in financing activities for the year ended December 31, 2015 primarily represents $174.0 million of debt repayments ($150.8 million of long-term borrowings and $23.2 million of short-term borrowings), partially offset by $126.4 million cash proceeds from borrowings ($100.0 million from long-term borrowings under the Amended ABL facility and $26.4 million from short-term borrowings). In addition, the Company paid $99.9 million for the repurchase of its common stock and

$13.0 million for the net share settlement of equity awards, which was partially offset by $9.6 million of excess tax benefits from equity awards.

Year ended December 31, 2015 compared to year ended December 31, 2014

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

(U.S. Dollars in thousands)	Year Ended December 31, 2015	2014	Change	% Change
Net cash provided by operating activities	$ 188,619	$ 252,986	$(64,367)	−25.4%
Net cash used in investing activities	(104,328)	(95,491)	(8,837)	9.3%
Net cash used in financing activities	(154,483)	(116,023)	(38,460)	33.1%

The 25.4% decrease in net cash provided by operating activities was primarily attributable to lower operating earnings during the year ended December 31, 2015, along with higher working capital investment primarily due to a decrease in accounts payable, partially offset by lower cash tax payments.

Net cash used in investing activities for the year ended December 31, 2015 was primarily related to cash payments of $74.6 million related to the acquisition of CHP and $30.7 million for the purchase of property and equipment. Net cash used in investing activities for the year ended December 31, 2014 was primarily attributable to cash payments of $61.2 million related to the acquisition of businesses and $34.7 million for the purchase of property and equipment.

Net cash used in financing activities for the year ended December 31, 2015 primarily represents $174.0 million of debt repayments ($150.8 million of long-term borrowings and $23.2 million of short-term borrowings), partially offset by $126.4 million cash proceeds from borrowings ($100.0 million from long-term borrowings under the Amended ABL facility and $26.4 million from short-term borrowings). In addition, the Company paid $99.9 million for the repurchase of its common stock and $13.0 million for the net share settlement of equity awards, which was partially offset by $9.6 million of excess tax benefits from equity awards.

Net cash used in financing activities for the year ended December 31, 2014 primarily represents $120.4 million of debt repayments ($94.0 million of long-term borrowings and $26.4 million of short-term borrowings); partially offset by $6.6 million cash proceeds from short-term borrowings. In addition, the Company paid $12.2 million for the net share settlement of equity awards, which was partially offset by $11.0 million of excess tax benefits from equity awards.

Senior Secured Credit Facilities

Refer to Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 and the "Liquidity and Financial Position" section included in Item 7 of this Annual Report on Form 10-K for information on the senior secured credit facilities.

Covenant Compliance

The Term Loan contains restrictions on the Company's ability to pay distributions and dividends. Payments can be made to the Company or other parent companies for certain expenses such as operating expenses in the ordinary course, fees and expenses related to any debt or equity offering and to pay franchise or similar taxes. Dividends can be used to repurchase equity interests, subject to limitations in certain circumstances. Additionally, the Term Loan restricts the aggregate amount of dividends and distributions that can be paid and, in certain circumstances, requires pro forma compliance with certain fixed charge coverage ratios or gross leverage ratios, as applicable, in order to pay certain dividends and distributions. The Term Loan also contains other affirmative and negative covenants that, among other things, limit the incurrence of additional indebtedness, liens on property, sale and leaseback transactions, investments, loans and advances, mergers or consolidations, asset sales, acquisitions, transactions with affiliates, prepayments of certain other indebtedness and modifications of our organizational documents. The Term Loan does not contain any financial maintenance covenants.

The Term Loan contains customary events of default, including, among others, nonpayment of principal, interest or other amounts, failure to perform covenants, inaccuracy of representations or warranties in any material respect, cross-defaults with other material indebtedness, certain undischarged judgments, the occurrence of certain ERISA, bankruptcy or insolvency events, or the occurrence of a change in control (as defined in the Term Loan). A bankruptcy or insolvency event of default will cause the obligations under the Term Loan to automatically become immediately due and payable.

The Amended ABL Facility also contains covenants and events of default substantially similar to those in the Term Loan, as described above.

Contractual Obligations

The following table summarizes our expected payments for significant contractual obligations as of December 31, 2016:

(U.S. Dollars in thousands)	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Long-term debt, including curent portion(1)	$1,043,753	$14,399	$ 320	$100,034	$929,000
Capital lease obligations, including current portion	4,647	566	1,064	1,034	1,983
Interest on long-term debt	212,971	36,369	67,782	64,176	44,644
Operating leases	36,839	7,922	13,682	9,506	5,730
Total contractual cash obligations(2)	$1,298,210	$59,256	$82,848	$174,750	$981,357

(1) The Term Loan provides for a $1.2 billion term loan B credit facility and includes a $300.0 million uncommitted incremental term loan facility. The Term Loan matures on May 31, 2023. The Amended ABL Facility provides for a $250.0 million senior secured ABL revolving credit facility, which matures on May 29, 2020. There was $100.0 million outstanding on the Amended ABL Facility as of December 31, 2016.

(2) Pension obligations are excluded from this table as we are unable to estimate the timing of payment due to the inherent assumptions underlying the obligation. However, the Company estimates we will contribute $0.6 million to our pension plans in 2017.

Capital Expenditures

Our operations require capital expenditures for technology, tooling, equipment, capacity expansion, systems and upgrades. Capital expenditures were $30.5 million and $30.7 million for the years ended December 31, 2016 and 2015, respectively, and were funded through cash from operations.

Off-Balance Sheet Arrangements

We have an arrangement with a finance company to provide floor plan financing for selected dealers. This arrangement provides liquidity for our dealers by financing dealer purchases of products with credit availability from the finance company. We receive payment from the finance company after shipment of product to the dealer and our dealers are given a longer period of time to pay the finance provider. If our dealers do not pay the finance company, we may be required to repurchase the applicable inventory held by the dealer. We do not indemnify the finance company for any credit losses they may incur.

Total inventory financed under this arrangement accounted for approximately 8% and 9% of net sales for the years ended December 31, 2016 and 2015, respectively. The amount financed by dealers which remained outstanding was $33.9 million and $32.4 million as of December 31, 2016 and 2015, respectively.

Critical Accounting Policies

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, that 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, and prepaid expenses. 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; estimates of product warranty and other contingencies; income taxes and share based compensation.

Goodwill and Other Indefinite-Lived Intangible Assets

Refer to Note 2, "Significant Accounting Policies—Goodwill and Other Indefinite-Lived Intangible Assets," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Company's policy regarding the accounting for goodwill and other intangible assets.

The Company performed the required annual impairment tests for goodwill and other indefinite-lived intangible assets for the fiscal years 2016, 2015 and 2014, and found no impairment following the 2016 and 2014 tests. There were no reporting units with a carrying value at-risk of exceeding fair value as of the October 31, 2016 impairment test date.

After performing the impairment tests for fiscal year 2015, the Company determined that the fair value of the Ottomotores reporting unit was less than its carrying value, resulting in a non-cash goodwill impairment charge of $4.6 million in the fourth quarter of 2015. The fair value was determined using a discounted cash flow analysis, which utilizes key estimates and assumptions as discussed below. Additionally, in the fourth quarter of 2015, the Company's Board of Directors approved a plan to strategically transition and consolidate certain of the Company's brands acquired through acquisitions over the past several years to the Generac® tradename. This brand strategy change resulted in a reclassification to a two year remaining useful life for the impacted tradenames, causing the fair value to be less than the carrying value using the relief-from-royalty approach in a discounted cash flow analysis. As such, a $36.1 million non-cash impairment charge was recorded in the fourth quarter of 2015 to write-down the impacted tradenames to net realizable value. See Note 2, "Significant Accounting Policies—Goodwill and Other Indefinite-Lived Intangible Assets," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the impairment charges recorded in 2015.

When preparing a discounted cash flow analysis for purposes of our annual impairment test, we make a number of key estimates and assumptions. We estimate the future cash flows of the business based on historical and forecasted revenues and operating costs. This, in turn, involves further estimates, such as estimates of future growth rates and inflation rates. In addition, we apply a discount rate to the estimated future cash flows for the purpose of the valuation. This discount rate is based on the estimated weighted average cost of capital for the business and may change from year to year. Weighted average cost of capital includes certain assumptions such as market capital structures, market betas, risk-free rate of return and estimated costs of borrowing.

As noted above, a considerable amount of management judgment and assumptions are required in performing the goodwill and indefinite-lived intangible asset impairment tests. While we believe our judgments and assumptions are reasonable, different assumptions could change the estimated fair values. A number of factors, many of which we have no ability to control, could cause actual results to differ from the estimates and assumptions we employed. These factors include:

- a prolonged global or regional economic downturn;
- a significant decrease in the demand for our products;
- the inability to develop new and enhanced products and services in a timely manner;
- a significant adverse change in legal factors or in the business climate;
- an adverse action or assessment by a regulator;
- successful efforts by our competitors to gain market share in our markets;
- disruptions to the Company's business;
- inability to effectively integrate acquired businesses;
- unexpected or planned changes in the use of assets or entity structure; and
- business divestitures.

If management's estimates of future operating results change or if there are changes to other assumptions due to these factors, the estimate of the fair values may change significantly. Such change could result in impairment charges in future periods, which could have a significant impact on our operating results and financial condition.

Business Combinations and Purchase Accounting

We account for business combinations using the acquisition method of accounting, and accordingly, the assets and liabilities of the acquired business are recorded at their respective fair values. The excess of the purchase price over the estimated fair value of assets and liabilities is recorded as goodwill. Assigning fair market values to the assets acquired and liabilities assumed at the date of an acquisition requires knowledge of current market values, and the values of assets in use, and often requires the application of judgment regarding estimates and assumptions. While the ultimate responsibility resides with management, for material acquisitions we retain the services of certified valuation specialists to assist with assigning estimated values to certain acquired assets and assumed liabilities, including intangible assets and tangible long-lived assets. Acquired intangible assets, excluding goodwill, are valued using certain discounted cash flow methodologies based on future cash flows specific to the type of intangible asset purchased. This methodology incorporates various estimates and assumptions, the most significant being projected revenue growth rates, earnings margins, and forecasted cash flows based on the discount rate and terminal growth rate. See Note 1, "Description of Business," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Company's business acquisitions.

Defined Benefit Pension Obligations

The Company's pension benefit obligation and related pension expense or income are calculated in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 715-30, *Defined Benefit Plans—Pension*, and are impacted by certain actuarial assumptions, including the discount rate and the expected rate of return on plan assets. Such rates are evaluated on an annual basis considering factors including market interest rates and historical asset performance. Actuarial valuations for fiscal year 2016 used a discount rate of 4.14% for the salaried pension plan and 4.16% for the hourly pension plan. Our discount rate was selected using a methodology that matches plan cash flows with a selection of "Aa" or higher rated bonds, resulting in a discount rate that better matches a bond yield curve with comparable cash flows. In estimating the expected return on plan assets, we study historical markets and preserve the long-term historical relationships between equities and fixed-income securities. We evaluate current market factors such as inflation and interest rates before we determine long-term capital market assumptions and review peer data and historical returns to check for reasonableness and appropriateness. Changes in the discount rate and return on assets can have a significant effect on the funded status of our pension plans, stockholders' equity and related expense. We cannot predict these changes in discount rates or investment returns and, therefore, cannot reasonably estimate whether the impact in subsequent years will be significant.

The funded status of our pension plans is the difference between the projected benefit obligation and the fair value of its plan assets. The projected benefit obligation is the actuarial present value of all benefits expected to be earned by the employees' service. No compensation increase is assumed in the calculation of the projected benefit obligation, as the plans were frozen effective December 31, 2008. Further information regarding the funded status of our pension plans can be found in Note 14, "Benefit Plans," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Our funding policy for our pension plans is to contribute amounts at least equal to the minimum annual amount required by applicable regulations. Given this policy, we expect to make $0.6 million in contributions to our pension plans in 2017.

Product Warranty Reserves and Other Contingencies

The reserves, if any, for product warranty, product liability, litigation and customer rebates are fact-specific and take into account such factors as specific customer situations, historical experience, and current and expected economic conditions. Further information on these reserves are reflected under Notes 2, 9, and 16 to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes*. Our estimate of income taxes payable, deferred income taxes and the effective tax rate is based on an analysis of many factors including interpretations of federal, state and international income tax laws; the difference between tax and financial reporting bases of assets and liabilities; estimates of amounts currently due or owed in various jurisdictions; and current accounting standards. We review and update our estimates on a quarterly basis as facts and circumstances change and actual results are known.

In assessing the realizability of the deferred tax assets on our balance sheet, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. We consider the taxable income in prior carryback years, scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Refer to Note 13, "Income Taxes" to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Company's income taxes.

Share Based Compensation

Under the fair value recognition provisions of ASC 718, *Compensation—Stock Compensation*, share based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. Determining the fair value of share based awards at the grant date requires judgment, including estimating expected dividends and market volatility of our stock. In addition, judgment is also required in estimating the amount of share based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share based compensation expense and our results of operations could be impacted. See Note 15, "Share Plans" to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Company's share based compensation.

New Accounting Standards

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 2, "Significant Accounting Policies—New Accounting Pronouncements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in foreign currency exchange rates, commodity prices and interest rates. To reduce the risk from these changes, we use financial instruments from time to time. We do not hold or issue financial instruments for trading purposes.

Foreign Currency

We are exposed to foreign currency exchange risk as a result of transactions denominated in currencies other than the U.S. Dollar, as well as operating businesses in foreign countries. Periodically, we utilize foreign currency forward purchase and sales contracts to manage the volatility associated with certain foreign currency purchases and sales in the normal course of business. Contracts typically have maturities of twelve months or less. Realized gains and losses on transactions denominated in foreign currency are recorded in earnings as a component of cost of goods sold on the statements of comprehensive income.

The following is a summary of the foreign currency contracts outstanding as of December 31, 2016 (in thousands):

Currency Denomination	Trade Dates	Effective Dates	Notional Amount	Expiration Dates
GBP	9/28/16 - 12/20/16	9/28/16 - 1/9/17	5,850	1/27/17 - 6/28/17
USD	9/26/16 - 12/19/16	9/26/16 - 12/19/16	7,950	1/13/17 - 6/30/17

Commodity Prices

We are a purchaser of commodities and of components manufactured from commodities including steel, aluminum, copper and others. As a result, we are exposed to fluctuating market prices for those commodities. While such materials are typically available from numerous suppliers, commodity raw materials are subject to price fluctuations. We generally buy these commodities and components based upon market prices that are established with the supplier as part of the purchase process. Depending on the supplier, these market prices may reset on a periodic basis based on negotiated lags and calculations. To the extent that commodity prices increase and we do not have firm pricing from our suppliers, or our suppliers are not able to honor such prices, we may experience a decline in our gross margins to the extent we are not able to increase selling prices of our products or obtain manufacturing efficiencies or supply chain savings to offset increases in commodity costs.

Periodically, we engage in certain commodity risk management activities to mitigate the impact of potential price fluctuations on our financial results. These derivatives typically have maturities of less than eighteen months. As of December 31, 2016, we had the following commodity forward contract outstanding (in thousands):

Hedged Item	Trade Date	Effective Date	Notional Amount	Fixed Price	Expiration Date
Copper	October 19, 2016	October 20, 2016	$3,502	$2.118 per LB	December 31, 2017

For additional information on the Company's commodity forward contracts, including amounts charged to the statement of comprehensive income during 2016, see Note 4, "Derivative Instruments and Hedging Activity," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Interest Rates

As of December 31, 2016, all of the outstanding debt under our Term Loan was subject to floating interest rate risk. As of December 31, 2016, we had the following interest rate swap contracts outstanding (in thousands):

Hedged Item	Contract Date	Effective Date	Notional Amount	Fixed LIBOR Rate	Expiration Date
Interest rate	October 23, 2013	July 1, 2014	$100,000	1.7420%	July 1, 2018
Interest rate	October 23, 2013	July 1, 2014	$100,000	1.7370%	July 1, 2018
Interest rate	May 19, 2014	July 1, 2014	$100,000	1.6195%	July 1, 2018

At December 31, 2016, the fair value of these interest rate swaps was a liability of $1.7 million. For additional information on the Company's interest rate swaps, including amounts charged to the statement of comprehensive income during 2016, see Note 4, "Derivative Instruments and Hedging Activities," and Note 5, "Accumulated Other Comprehensive Loss," to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K. Even after giving effect to these swaps, we are exposed to risks due to changes in interest rates with respect to the portion of our Term Loan that is not covered by the swaps. A hypothetical change in the LIBOR interest rate of 100 basis points would have changed annual cash interest expense by approximately $6.3 million (or, without the swaps in place, $9.3 million) in 2016. The existence of a 0.75% LIBOR floor provision in our Term Loan limits the impact of a hypothetical 100 basis point change in LIBOR at current December 31, 2016 LIBOR rates.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Generac Holdings Inc.
Waukesha, Wisconsin

We have audited the accompanying consolidated balance sheet of Generac Holdings Inc. and subsidiaries (the "Company") as of December 31, 2016, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for the year ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Generac Holdings Inc. and subsidiaries as of December 31, 2016, and the consolidated results of their operations and their cash flows for the year ended December 31, 2016, in conformity accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) and our report dated February 24, 2017 expressed an unqualified opinion thereon.

/s/ Deloitte & Touche LLP

Milwaukee, WI
February 24, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Generac Holdings Inc.
Waukesha, Wisconsin

We have audited the accompanying consolidated balance sheet of Generac Holdings Inc. (the Company) as of December 31, 2015, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Generac Holdings Inc. at December 31, 2015, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Milwaukee, WI
February 26, 2016, (except for Note 6, *Segment Reporting,* and Note 2, *New Accounting Pronouncements,* as to which the date is February 24, 2017)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Generac Holdings Inc.
Waukesha, Wisconsin

We have audited the internal control over financial reporting of Generac Holdings Inc. and its subsidiaries (the "Company") as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at the PR Industrial business ("Pramac"), which was acquired on March 1, 2016 and whose financial statements constitute 22.5% and 11.1% of net and total assets, respectively, 12.6% of revenues, and 0.7% of net income of the total consolidated financial statement amounts as of and for the year ended December 31, 2016. Accordingly, our audit did not include the internal control over financial reporting at Pramac. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2016 and the related consolidated statement of comprehensive income, stockholders' equity and cash flows for the year ended December 31, 2016 of Generac Holdings Inc. and our report dated February 24, 2017 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Milwaukee, WI
February 24, 2017

Generac Holdings Inc.

Consolidated Balance Sheets

(U.S. Dollars in Thousands, Except Share and Per Share Data)

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 67,272	$ 115,857
Accounts receivable, less allowance for doubtful accounts of $5,642 and $2,494 at December 31, 2016 and 2015, respectively	241,857	182,185
Inventories	349,731	325,375
Prepaid expenses and other assets	24,649	8,600
Total current assets	683,509	632,017
Property and equipment, net	212,793	184,213
Customer lists, net	45,312	39,313
Patents, net	48,061	53,772
Other intangible assets, net	2,925	2,768
Tradenames, net	158,874	161,057
Goodwill	704,640	669,719
Deferred income taxes	3,337	34,812
Other assets	2,233	964
Total assets	$1,861,684	$1,778,635
Liabilities and stockholders' equity		
Current liabilities:		
Short-term borrowings	$ 31,198	$ 8,594
Accounts payable	181,519	108,332
Accrued wages and employee benefits	21,189	13,101
Other accrued liabilities	93,068	82,540
Current portion of long-term borrowings and capital lease obligations	14,965	657
Total current liabilities	341,939	213,224
Long-term borrowings and capital lease obligations	1,006,758	1,037,132
Deferred income taxes	17,278	4,950
Other long-term liabilities	61,459	57,458
Total liabilities	1,427,434	1,312,764
Redeemable noncontrolling interest	33,138	—
Stockholders' equity:		
Common stock, par value $0.01, 500,000,000 shares authorized, 70,261,481 and 69,582,669 shares issued at December 31, 2016 and 2015, respectively	702	696
Additional paid-in capital	449,049	443,109
Treasury stock, at cost, 7,564,874 and 3,567,575 shares at December 31, 2016 and 2015, respectively	(262,402)	(111,516)
Excess purchase price over predecessor basis	(202,116)	(202,116)
Retained earnings	456,052	358,173
Accumulated other comprehensive loss	(40,163)	(22,475)
Stockholders' equity attributable to Generac Holdings Inc.	401,122	465,871
Noncontrolling interests	(10)	—
Total stockholders' equity	401,112	465,871
Total liabilities and stockholders' equity	$1,861,684	$1,778,635

See notes to consolidated financial statements.

Generac Holdings Inc.

Consolidated Statements of Comprehensive Income

(U.S. Dollars in Thousands, Except Share and Per Share Data)

	Year Ended December 31,		
	2016	**2015**	**2014**
Net sales	$ 1,444,453	$ 1,317,299	$ 1,460,919
Costs of goods sold	930,347	857,349	944,700
Gross profit	514,106	459,950	516,219
Operating expenses:			
Selling and service	164,607	130,242	120,408
Research and development	37,229	32,922	31,494
General and administrative	74,700	52,947	54,795
Amortization of intangibles	32,953	23,591	21,024
Tradename and goodwill impairment	—	40,687	—
Gain on remeasurement of contingent consideration	—	—	(4,877)
Total operating expenses	309,489	280,389	222,844
Income from operations	204,617	179,561	293,375
Other (expense) income:			
Interest expense	(44,568)	(42,843)	(47,215)
Investment income	44	123	130
Loss on extinguishment of debt	(574)	(4,795)	(2,084)
Gain (loss) on change in contractual interest rate	(2,957)	(2,381)	16,014
Costs related to acquisition	(1,082)	(1,195)	(396)
Other, net	902	(5,487)	(1,462)
Total other expense, net	(48,235)	(56,578)	(35,013)
Income before provision for income taxes	156,382	122,983	258,362
Provision for income taxes	57,570	45,236	83,749
Net income	98,812	77,747	174,613
Net income attributable to noncontrolling interests	24	—	—
Net income attributable to Generac Holdings Inc.	$ 98,788	$ 77,747	$ 174,613
Net income attributable to common shareholders per common share—basic:	$ 1.51	$ 1.14	$ 2.55
Weighted average common shares outstanding—basic:	64,905,793	68,096,051	68,538,248
Net income attributable to common shareholders per common share—diluted:	$ 1.50	$ 1.12	$ 2.49
Weighted average common shares outstanding—diluted:	65,382,774	69,200,297	70,171,044
Other comprehensive income (loss):			
Foreign currency translation adjustment	$ (18,545)	$ (7,624)	$ (3,082)
Net unrealized gain (loss) on derivatives	535	(965)	(1,420)
Pension liability adjustment	322	1,881	(8,850)
Other comprehensive loss	(17,688)	(6,708)	(13,352)
Total comprehensive income	81,124	71,039	161,261
Comprehensive loss attributable to noncontrolling interests	(973)	—	—
Comprehensive income attributable to Generac Holdings Inc.	$ 82,097	$ 71,039	$ 161,261

See notes to consolidated financial statements.

Generac Holdings Inc.

Consolidated Statements of Stockholders' Equity

(U.S. Dollars in Thousands, Except Share Data)

	Generac Holdings Inc.										
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
Balance at December 31, 2013	68,767,367	$688	$421,672	(163,458)	$ (6,571)	$(202,116)	$105,813	$ (2,415)	$ 317,071	$ —	$ 317,071
Unrealized loss on interest rate swaps, net of tax of $(860)	—	—	—	—	—	—	—	(1,420)	(1,420)	—	(1,420)
Foreign currency translation adjustment	—	—	—	—	—	—	—	(3,082)	(3,082)	—	(3,082)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	354,904	3	(10,378)	—	—	—	—	—	(10,375)	—	(10,375)
Net share settlement of restricted stock awards	—	—	—	(34,854)	(1,770)	—	—	—	(1,770)	—	(1,770)
Excess tax benefits from equity awards	—	—	10,972	—	—	—	—	—	10,972	—	10,972
Share-based compensation	—	—	12,612	—	—	—	—	—	12,612	—	12,612
Dividends declared	—	—	28	—	—	—		—	28	—	28
Pension liability adjustment, net of tax of $(5,658)	—	—	—	—	—	—	—	(8,850)	(8,850)	—	(8,850)
Net income	—	—	—	—	—	—	174,613	—	174,613	—	174,613
Balance at December 31, 2014	69,122,271	$691	$434,906	(198,312)	$ (8,341)	$(202,116)	$280,426	$(15,767)	$ 489,799	$ —	$ 489,799
Unrealized loss on interest rate swaps, net of tax of $(609)	—	—	—	—	—	—	—	(965)	(965)	—	(965)
Foreign currency translation adjustment	—	—	—	—	—	—	—	(7,624)	(7,624)	—	(7,624)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	460,398	5	(9,626)	—	—	—	—	—	(9,621)	—	(9,621)
Net share settlement of restricted stock awards	—	—	—	(65,763)	(3,233)	—	—	—	(3,233)	—	(3,233)
Stock repurchases	—	—	—	(3,303,500)	(99,942)	—	—	—	(99,942)	—	(99,942)
Excess tax benefits from equity awards	—	—	9,559	—	—	—	—	—	9,559	—	9,559
Share-based compensation	—	—	8,241	—	—	—	—	—	8,241	—	8,241
Dividends declared	—	—	29	—	—	—		—	29	—	29
Pension liability adjustment, net of tax of $1,176	—	—	—	—	—	—	—	1,881	1,881	—	1,881
Net income	—	—	—	—	—	—	77,747	—	77,747	—	77,747
Balance at December 31, 2015	69,582,669	$696	$443,109	(3,567,575)	$(111,516)	$(202,116)	$358,173	$(22,475)	$ 465,871	$ —	$ 465,871
Acquisition of business	—	—	—	—	—	—	—	—	—	53	53
Unrealized gain on interest rate swaps, net of tax of $341	—	—	—	—	—	—	—	535	535	—	535
Foreign currency translation adjustment	—	—	—	—	—	—	—	(18,545)	(18,545)	13	(18,532)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	678,812	6	(11,473)	—	—	—	—	—	(11,467)	—	(11,467)
Net share settlement of restricted stock awards	—	—	—	(28,593)	(949)	—	—	—	(949)	—	(949)
Stock repurchases	—	—	—	(3,968,706)	(149,937)	—	—	—	(149,937)	—	(149,937)
Excess tax benefits from equity awards	—	—	7,920	—	—	—	—	—	7,920	—	7,920
Share-based compensation	—	—	9,493	—	—	—	—	—	9,493	—	9,493
Pension liability adjustment, net of tax of $207	—	—	—	—	—	—	—	322	322	—	322
Redemption value adjustment	—	—	—	—	—	—	(909)	—	(909)	—	(909)
Net income	—	—	—	—	—	—	98,788	—	98,788	(76)	98,712
Balance at December 31, 2016	70,261,481	$702	$449,049	(7,564,874)	$(262,402)	$(202,116)	$456,052	$(40,163)	$ 401,122	$(10)	$ 401,112

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2016	2015	2014
Operating activities			
Net income	$ 98,812	$ 77,747	$ 174,613
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation	21,465	16,742	13,706
Amortization of intangible assets	32,953	23,591	21,024
Amortization of original issue discount and deferred financing costs	3,940	5,429	6,615
Tradename and goodwill impairment	—	40,687	—
Loss on extinguishment of debt	574	4,795	2,084
(Gain) loss on change in contractual interest rate	2,957	2,381	(16,014)
Gain on remeasurement of contingent consideration	—	—	(4,877)
Deferred income taxes	39,347	26,955	37,878
Share-based compensation expense	9,493	8,241	12,612
Other	127	540	1,248
Net changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(9,082)	9,610	(2,988)
Inventories	15,514	9,084	3,508
Other assets	406	5,063	2,456
Accounts payable	32,908	(27,771)	15,269
Accrued wages and employee benefits	5,196	(5,361)	(9,405)
Other accrued liabilities	6,719	445	6,229
Excess tax benefits from equity awards	(7,920)	(9,559)	(10,972)
Net cash provided by operating activities	253,409	188,619	252,986
Investing activities			
Proceeds from sale of property and equipment	1,360	105	394
Expenditures for property and equipment	(30,467)	(30,651)	(34,689)
Acquisition of business, net of cash acquired	(61,386)	(73,782)	(61,196)
Deposit paid related to acquisition	(15,329)	—	—
Net cash used in investing activities	(105,822)	(104,328)	(95,491)
Financing activities			
Proceeds from short-term borrowings	28,712	26,384	6,550
Proceeds from long-term borrowings	—	100,000	—
Repayments of short-term borrowings	(27,755)	(23,149)	(26,444)
Repayments of long-term borrowings and capital lease obligations	(37,627)	(150,826)	(94,035)
Stock repurchases	(149,937)	(99,942)	—
Payment of debt issuance costs	(4,557)	(2,117)	(4)
Cash dividends paid	(76)	(1,436)	(902)
Taxes paid related to the net share settlement of equity awards	(14,008)	(12,956)	(12,160)
Proceeds from the exercise of stock options	1,623	—	—
Excess tax benefits from equity awards	7,920	9,559	10,972
Net cash used in financing activities	(195,705)	(154,483)	(116,023)
Effect of exchange rate changes on cash and cash equivalents	(467)	(3,712)	(1,858)
Net increase (decrease) in cash and cash equivalents	(48,585)	(73,904)	39,614
Cash and cash equivalents at beginning of period	115,857	189,761	150,147
Cash and cash equivalents at end of period	$ 67,272	$ 115,857	$ 189,761
Supplemental disclosure of cash flow information			
Cash paid during the period			
Interest	$ 42,456	$ 39,524	$ 42,592
Income taxes	8,889	6,087	34,283

See notes to consolidated financial statements.

Generac Holdings Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2016, 2015, and 2014

(U.S. Dollars in Thousands, Except Share and Per Share Data)

1. Description of Business

Founded in 1959, Generac Holdings Inc. (the Company) is a leading designer and manufacturer of a wide range of power generation equipment and other engine powered products serving the residential, light-commercial and industrial markets. Generac's power products 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 our strategic plan (refer to Item 1 in this Annual Report on Form 10-K for discussion of our Powering Ahead strategic plan). A summary of these acquisitions include the following:

- In October 2011, the Company acquired substantially all the assets of Magnum Products (Magnum), a supplier of generator powered light towers and mobile generators for a variety of industrial applications. The Magnum business is a strategic fit for the Company as it provides diversification through the introduction of new engine powered products, distribution channels and end markets.
- In December 2012, the Company acquired the equity of Ottomotores UK and its affiliates (Ottomotores), with operations in Mexico City, Mexico and Curitiba, Brazil. Ottomotores is a leading manufacturer in the Mexican market for industrial diesel gensets and is a market participant throughout all of Latin America.
- In August 2013, the Company acquired the equity of Tower Light SRL and its wholly-owned subsidiaries (Tower Light). Headquartered outside Milan, Italy, Tower Light is a leading developer and supplier of mobile light towers throughout Europe, the Middle East and Africa.
- In November 2013, the Company purchased the assets of Baldor Electric Company's generator division (Baldor Generators). Baldor Generators offers a complete line of power generation equipment throughout North America with power output up to 2.5MW, which expands the Company's commercial and industrial product lines.
- In September 2014, the Company acquired the equity of Pramac America LLC (Powermate), resulting in the ownership of the Powermate trade name and the right to license the DeWalt brand name for certain residential engine powered tools. This acquisition expands Generac's residential product portfolio in the portable generator category.
- In October 2014, the Company acquired MAC, Inc. (MAC). MAC is a leading manufacturer of premium-grade commercial and industrial mobile heaters for the United States and Canadian markets. The acquisition expands the Company's portfolio of mobile power products and provides increased access to the oil & gas market.
- In August 2015, the Company acquired Country Home Products and its subsidiaries (CHP). CHP is a leading manufacturer of high-quality, innovative, professional-grade engine powered equipment used in a wide variety of property maintenance applications, which are primarily sold in North America under the DR® Power Equipment brand. The acquisition provides an expanded product lineup and additional scale to the Company's residential engine powered products.

1. Description of Business (Continued)

- In March 2016, the Company acquired a majority ownership interest in PR Industrial S.r.l and its subsidiaries (Pramac). Headquartered in Siena, Italy, Pramac is a leading global manufacturer of stationary, mobile and portable generators primarily sold under the Pramac® brand. Pramac products are sold in over 150 countries through a broad distribution network.
- In January 2017, the Company acquired Motortech GmbH & affiliates (Motortech), headquartered in Celle, Germany. Motortech is a leading manufacturer of gaseous-engine control systems and accessories, which are sold primarily to European gas-engine manufacturers and to aftermarket customers.

2. Significant Accounting Policies

Principles of Consolidation

The 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.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company maintains the majority of its domestic cash in one commercial bank in multiple operating and investment accounts. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured.

One customer accounted for approximately 9% and 11% of accounts receivable at December 31, 2016 and 2015, respectively. No one customer accounted for greater than 7%, 7% and 8%, of net sales during the years ended December 31, 2016, 2015, or 2014, respectively.

Accounts Receivable

Receivables are recorded at their face value amount less an allowance for doubtful accounts. The Company estimates and records an allowance for doubtful accounts based on specific identification and historical experience. The Company writes off uncollectible accounts against the allowance for doubtful accounts after all collection efforts have been exhausted. Sales are generally made on an unsecured basis.

Inventories

Inventories are stated at the lower of cost or market, with cost determined generally using the first-in, first-out method.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

2. Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets, which are summarized below (in years). Costs of leasehold improvements are amortized over the lesser of the term of the lease (including renewal option periods) or the estimated useful lives of the improvements.

Land improvements	15 - 20
Buildings and improvements	10 - 40
Machinery and equipment	3 - 10
Dies and tools	3 - 10
Vehicles	3 - 6
Office equipment and systems	3 - 15
Leasehold improvements	2 - 20

Total depreciation expense was $21,465, $16,742, and $13,706 for the years ended December 31, 2016, 2015, and 2014, respectively.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill represents the excess of the purchase price over fair value of identifiable net assets acquired from business acquisitions. Goodwill is not amortized, but is reviewed for impairment on an annual basis and between annual tests if indicators of impairment are present. The Company evaluates goodwill for impairment annually as of October 31 or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable. The Company has the option to assess goodwill for impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then further goodwill impairment testing is not required to be performed. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company is required to perform a two-step goodwill impairment test. In the first step, the fair value of the reporting unit is compared to its book value including goodwill. If the fair value of the reporting unit is in excess of its book value, the related goodwill is not impaired and no further analysis is necessary. If the fair value of the reporting unit is less than its book value, there is an indication of potential impairment and a second step is performed. When required, the second step of testing involves calculating the implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of its net assets and identifiable intangible assets as if the reporting unit had been acquired. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. For reporting units with a negative book value (i.e., excess of liabilities over assets), qualitative factors are evaluated to determine whether it is necessary to perform the second step of the goodwill impairment test.

2. Significant Accounting Policies (Continued)

The Company performed the required annual impairment tests for goodwill and other indefinite-lived intangible assets for the fiscal years 2016, 2015 and 2014, and found no impairment following the 2016 and 2014 tests. There were no reporting units with a carrying value at-risk of exceeding fair value as of the October 31, 2016 impairment test date.

After performing the impairment tests for fiscal year 2015, the Company determined that the fair value of the Ottomotores reporting unit was less than its carrying value, resulting in a non-cash goodwill impairment charge in the fourth quarter of 2015 of $4,611 to write-down the balance of the Ottomotores goodwill. The decrease in fair value of the Ottomotores reporting unit was due to several factors in the second half of 2015: the continued challenges of the Latin American economies, devaluation of the Peso against the U.S. Dollar, the slow development of Mexican energy reform as a result of decreasing oil prices; combining to cause 2015 results to fall short of prior expectations and future forecasts to decrease. The fair value was determined using a discounted cash flow analysis, which utilized key financial assumptions including the sales growth factors discussed above, a 3% terminal growth rate and a 15.7% discount rate.

Other indefinite-lived intangible assets consist of certain tradenames. The Company tests the carrying value of these tradenames by comparing the assets' fair value to its carrying value. Fair value is measured using a relief-from-royalty approach, which assumes the fair value of the tradename is the discounted cash flows of the amount that would be paid had the Company not owned the tradename and instead licensed the tradename from another company. The Company conducts its annual impairment test for indefinite-lived intangible assets as of October 31 of each year.

In the fourth quarter of 2015, the Company's Board of Directors approved a plan to strategically transition and consolidate certain of the Company's brands acquired in acquisitions over the past several years to the Generac® tradename. This brand strategy change resulted in a reclassification to a two year remaining useful life for the impacted tradenames, causing the fair value to be less than the carrying value using the relief-from-royalty approach in a discounted cash flow analysis. As such, a $36,076 non-cash impairment charge was recorded to write-down the impacted tradenames to net realizable value.

Other than the impairment charges discussed above, the Company found no other impairment when performing the required annual impairment tests for goodwill and other indefinite-lived intangible assets for fiscal year 2015. There can be no assurance that future impairment tests will not result in a charge to earnings.

Impairment of Long-Lived Assets

The Company periodically evaluates the carrying value of long-lived assets (excluding goodwill and indefinite-lived tradenames). Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of an asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

2. Significant Accounting Policies (Continued)

Debt Issuance Costs

Debt discounts and direct and incremental costs incurred in connection with the issuance of long-term debt are deferred and recorded as a reduction of outstanding debt and amortized to interest expense using the effective interest method over the terms of the related credit agreements. Approximately $3,939, $5,429, and $6,615 of deferred financing costs and original issue discount were amortized to interest expense during fiscal years 2016, 2015 and 2014, respectively. Excluding the impact of any future long-term debt issuances or prepayments, estimated amortization expense for the next five years is as follows: 2017—$2,516; 2018—$4,314; 2019—$4,466; 2020—$4,420; 2021—$4,419.

Income Taxes

The Company is a C Corporation and therefore accounts for income taxes pursuant to the liability method. Accordingly, the current or deferred tax consequences of a transaction are measured by applying the provision of enacted tax laws to determine the amount of taxes payable currently or in future years. Deferred income taxes are provided for temporary differences between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. The Company considers taxable income in prior carryback years, the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies, as appropriate, in making this assessment.

Revenue Recognition

Sales, net of estimated returns and allowances, are recognized upon shipment of product to the customer, which is generally when title passes, the Company has no further obligations, and the customer is required to pay subject to agreed upon payment terms. The Company, at the request of certain customers, will warehouse inventory billed to the customer but not delivered. Unless all revenue recognition criteria have been met, the Company does not recognize revenue on these transactions until the customers take possession of the product. In these cases, the funds collected on product warehoused for these customers are recorded as a customer advance until the customer takes possession of the product and the Company's obligation to deliver the goods is completed. Customer advances are included in accrued liabilities in the consolidated balance sheets.

The Company provides for certain estimated sales programs, discounts and incentive expenses which are recognized as a reduction of sales.

Shipping and Handling Costs

Shipping and handling costs billed to customers are included in net sales, and the related costs are included in cost of goods sold in the consolidated statements of comprehensive income.

2. Significant Accounting Policies (Continued)

Advertising and Co-Op Advertising

Expenditures for advertising, included in selling and service expenses in the consolidated statements of comprehensive income, are expensed as incurred. Total expenditures for advertising were \$45,488, \$39,258, and \$32,352 for the years ended December 31, 2016, 2015, and 2014, respectively.

Research and Development

The Company expenses research and development costs as incurred. Total expenditures incurred for research and development were \$37,229, \$32,922, and \$31,494 for the years ended December 31, 2016, 2015 and 2014, respectively.

Foreign Currency Translation and Transactions

Balance sheet amounts for non-U.S. Dollar functional currency businesses are translated into U.S. Dollars at the rates of exchange in effect at fiscal year-end. Income and expenses incurred in a foreign currency are translated at the average rates of exchange in effect during the year. The related translation adjustments are made directly to accumulated other comprehensive loss, a component of stockholders' equity, in the consolidated balance sheets. Gains and losses from foreign currency transactions are recognized as incurred in the consolidated statements of comprehensive income.

Fair Value of Financial Instruments

The Financial Accounting Standards Board (FASB) Accounting Standards Update (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 the 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 \$903,673, was approximately \$904,780 (Level 2) at December 31, 2016, as calculated based on independent valuations whose inputs and significant value drivers are observable.

For the fair value of the assets and liabilities measured on a recurring basis, see the fair value table in Note 4, "Derivative Instruments and Hedging Activities," to the consolidated financial

2. Significant Accounting Policies (Continued)

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 considers the Company's credit risk in accordance with ASC 820-10.

Use of Estimates

The preparation of the 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivative Instruments and Hedging Activities

The Company records all derivatives in accordance with ASC 815, *Derivatives and Hedging*, which requires derivative instruments be reported on the 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.

Stock-Based Compensation

Stock-based compensation expense, including stock options and restricted stock awards, is generally recognized on a straight-line basis over the vesting period based on the fair value of awards which are expected to vest. The fair value of all share-based awards is estimated on the date of grant.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This guidance is the culmination of the FASB's joint project with the International Accounting Standards Board to clarify the principles for recognizing revenue. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process that entities should follow in order to achieve that core principal. ASU 2014-09, as amended by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,* ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, and ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, becomes effective for the Company in 2018. The guidance can be applied either on a full retrospective basis or on a modified retrospective basis in which the cumulative effect of initially

2. Significant Accounting Policies (Continued)

applying the standard is recognized at the date of initial application. While the Company is continuing to assess all potential impacts the standard may have on its financial statements, it believes that the adoption will not have a significant impact on its revenue related to equipment and parts sales, which represent substantially all of the revenue for the Company. The Company has not yet determined its method of adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This guidance is being issued to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the statement of financial position and by disclosing key information about leasing arrangements. The guidance should be applied using a modified retrospective approach and is effective for the Company in 2019, with early adoption permitted. The Company is currently assessing the impact the adoption of this guidance will have on its results of operations and financial position.

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. This guidance is a part of the FASB's initiative to reduce complexity in accounting standards, and includes simplification involving several aspects of the accounting for share-based payment transactions, including excess tax benefits. The guidance should be applied on a modified retrospective basis and is effective for the Company in 2017, with early adoption permitted. While the Company is still currently assessing all impacts of the guidance, the primary impact of adoption will be the recognition of excess tax benefits within the provision for income taxes on the statement of comprehensive income rather than within additional paid-in capital on the balance sheet. Additionally, this change will result in excess tax benefits from stock compensation to be reflected in net cash from operating activities on the statement of cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. This guidance is being issued to decrease diversity in practice for how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance should be applied on a retrospective basis and is effective for the Company in 2018, with early adoption permitted. The Company does not believe that this guidance will have a significant impact on its presentation of the statement of cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment*. This guidance is being issued to simplify the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test. Under the new guidance, the recognition of a goodwill impairment charge is calculated based on the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance should be applied on a prospective basis and is effective for the Company in 2020. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. The Company is currently assessing the impact the adoption will have on its results of operations and financial position.

In the first quarter of 2016, the Company adopted ASU 2015-03, *Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. As a result, the Company adjusted the impacted line items in the December 31, 2015 consolidated balance sheet to conform to the current period's presentation; decreasing both the Deferred financing costs, net and Long-term borrowings and capital

2. Significant Accounting Policies (Continued)

lease obligations line items by $12,965. Also in the first quarter of 2016, the Company adopted ASU 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*. As a result, the Company adjusted the impacted line items in the December 31, 2015 consolidated balance sheet to conform to the current period's presentation; decreasing the Deferred income taxes line item within current assets by $29,355, increasing the Deferred income taxes line item within noncurrent assets by $28,139, and decreasing the Deferred income taxes line within noncurrent liabilities by $1,216.

There are several other 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.

3. Acquisitions

Acquisition of Pramac

On March 1, 2016, the Company acquired a 65% ownership interest in Pramac for a purchase price, net of cash acquired, of $60,886. Headquartered in Siena, Italy, Pramac is a leading global manufacturer of stationary, mobile and portable generators primarily sold under the Pramac® brand. Pramac products are sold in over 150 countries through a broad distribution network. The acquisition purchase price was funded solely through cash on hand.

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 consolidated balance sheet, as the noncontrolling interest holder has within its control the right to require the Company to redeem its interest in Pramac. The noncontrolling interest holder has a put option to sell their interests to the Company any time within five years from the date of acquisition. The put option price is either (i) a fixed amount if voluntarily exercised within the first two years after the acquisition, or (ii) based on a multiple of earnings, subject to the terms of the acquisition. Additionally, the Company holds a call option that it may redeem commencing five years from the date of acquisition, or earlier upon the occurrence of certain circumstances. The call option price is based on a multiple of earnings that is subject to the terms of the acquisition. Both the put and call option only provide for the complete transfer of the noncontrolling interest, with no partial transfers of interest permitted.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

3. Acquisitions (Continued)

The redeemable noncontrolling interest is recorded at the greater of the initial fair value, increased or decreased for the noncontrolling interests' share of comprehensive net income (loss), or the estimated redemption value, with any adjustment 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 12, "Earnings Per Share," to the consolidated financial statements. The following table presents the changes in the redeemable noncontrolling interest:

	Year Ended December 31, 2016
Beginning Balance—January 1	$ —
Noncontrolling interest of Pramac	34,253
Net income	100
Foreign currency translation	(2,124)
Redemption value adjustment	909
Ending Balance—December 31	$33,138

The Company recorded a preliminary purchase price allocation during the first quarter of 2016, which was updated in the fourth quarter of 2016, based upon its estimates of the fair value of the acquired assets and assumed liabilities. The preliminary purchase price allocation as of the balance sheet date was as follows:

	March 1, 2016
Accounts receivable	$ 51,289
Inventories	39,889
Property and equipment	19,138
Intangible assets	34,471
Goodwill	46,202
Other assets	7,698
Total assets acquired	198,687
Short-term borrowings	21,105
Accounts payable	40,270
Long-term debt and capital lease obligations (including current portion)	18,599
Other liabilities	23,521
Redeemable noncontrolling interest	34,253
Noncontrolling interest	53
Net assets acquired	$ 60,886

The goodwill ascribed to this acquisition is not deductible for tax purposes. The accompanying consolidated financial statements include the results of Pramac from the date of acquisition through December 31, 2016.

3. Acquisitions (Continued)

Acquisition of CHP

On August 1, 2015, the Company acquired CHP for a purchase price, net of cash acquired, of $74,570. Headquartered in Vergennes, Vermont, CHP is a leading manufacturer of high-quality, innovative, professional-grade engine powered equipment used in a wide variety of property maintenance applications, with sales primarily in North America. The acquisition purchase price was funded solely through cash on hand.

The Company recorded a preliminary purchase price allocation during the third quarter of 2015 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately $81,726 of intangible assets, including approximately $30,076 of goodwill, as of the acquisition date. The purchase price allocation was finalized in the fourth quarter of 2015, resulting in a $6,552 decrease to total intangible assets, including an increase of $6,208 in goodwill. The goodwill ascribed to this acquisition is not deductible for tax purposes. In addition, the Company assumed $12,000 of debt along with this acquisition. The accompanying consolidated financial statements include the results of CHP from the date of acquisition through December 31, 2016.

Acquisition of MAC

On October 1, 2014, the Company acquired MAC for a purchase price, net of cash acquired, of $53,747. MAC is a leading manufacturer of premium-grade commercial and industrial mobile heaters within the United States and Canada. The acquisition was funded solely through cash on hand.

The Company recorded a preliminary purchase price allocation during the fourth quarter of 2014 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately $49,378 of intangible assets, including approximately $25,898 of goodwill, as of the acquisition date. The purchase price allocation was finalized during the third quarter of 2015, resulting in a $4,229 decrease to total intangible assets, including an increase of $2,481 to goodwill. The goodwill ascribed to this acquisition is not deductible for tax purposes. The accompanying consolidated financial statements include the results of MAC from the date of acquisition through December 31, 2016.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

3. Acquisitions (Continued)

Pro Forma Information

The following unaudited pro forma information of the Company gives effect to these acquisitions as though the transactions had occurred on January 1, 2014:

	Year Ended December 31,		
	2016	2015	2014
Net Sales:			
As reported	$1,444,453	$1,317,299	$1,460,919
Pro forma	1,473,799	1,556,459	1,776,843
Net income attributable to Generac Holdings Inc.:			
As reported	$ 98,788	$ 77,747	$ 174,613
Pro forma	100,907	78,618	174,926
Net income attributable to Generac Holdings Inc. per common share—diluted			
As reported	$ 1.50	$ 1.12	$ 2.49
Pro forma	1.53	1.14	2.49

This unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated on January 1, 2014.

4. Derivative Instruments and Hedging Activities

Commodities

The Company is exposed to significant price fluctuations in commodities it uses as raw materials, and periodically utilizes commodity derivatives to mitigate the impact of these potential price fluctuations on its financial results and its economic well-being. These derivatives typically have maturities of less than eighteen months. At both December 31, 2016 and 2015, the Company had one commodity contract outstanding, covering the purchases of copper.

Because these contracts do not qualify for hedge accounting, the related gains and losses are recorded in cost of goods sold in the Company's consolidated statements of comprehensive income. Net gains (losses) recognized were $739, $(1,909) and $(629) for the years ended December 31, 2016, 2015, and 2014, respectively.

Foreign Currencies

The Company is exposed to foreign currency exchange risk as a result of transactions denominated in currencies other than the U.S. Dollar. The Company periodically utilizes foreign currency forward purchase and sales contracts to manage the volatility associated with certain foreign currency purchases and sales in the normal course of business. Contracts typically have maturities of twelve months or less.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

4. Derivative Instruments and Hedging Activities (Continued)

As of December 31, 2016 and 2015, the Company had thirty-eight and six foreign currency contracts outstanding, respectively.

Because these contracts do not qualify for hedge accounting, the related gains and losses are recorded in cost of goods sold in the Company's consolidated statements of comprehensive income. Net losses recognized for the years ended December 31, 2016, 2015 and 2014 were $385, $624 and $149, respectively.

Interest Rate Swaps

In October 2013, the Company entered into two interest rate swap agreements, and in May 2014, the Company entered into an additional interest rate swap agreement. 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 accordingly, the effective portions of the gains or losses are reported as a component of accumulated other comprehensive loss (AOCL). 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 the Company's derivatives:

	December 31, 2016	December 31, 2015
Commodity contracts	$ 623	$ (400)
Foreign currency contracts	(150)	(171)
Interest rate swaps	(1,739)	(2,618)

The fair value of the commodity contract is included in other assets, the fair value of the foreign currency contracts are included in other accrued liabilities, and the fair value of the interest rate swaps are included in other long-term liabilities in the consolidated balance sheet as of December 31, 2016. The fair value of the commodity and foreign currency contracts are included in other accrued liabilities, and the fair value of the interest rate swaps are included in other long-term liabilities in the consolidated balance sheet as of December 31, 2015. Excluding the impact of credit risk, the fair value of the derivative contracts as of December 31, 2016 and 2015 is a liability of $1,295 and $3,248, respectively, which represents the amount the Company would need to pay to exit the agreements on those dates.

The amount of gains (losses) recognized in AOCL in the consolidated balance sheets on the effective portion of interest rate swaps designated as hedging instruments for the years ended December 31, 2016, 2015 and 2014 were $535, $(965) and $(1,420), respectively. The amount of gains (losses) recognized in cost of goods sold in the consolidated statements of comprehensive income for

(U.S. Dollars in Thousands, Except Share and Per Share Data)

4. Derivative Instruments and Hedging Activities (Continued)

commodity and foreign currency contracts not designated as hedging instruments for the years ended December 31, 2016, 2015 and 2014 were $354, $(2,533) and $(778), respectively.

5. Accumulated Other Comprehensive Loss

The following presents a tabular disclosure of changes in AOCL during the years ended December 31, 2016 and 2015, net of tax:

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance—January 1, 2016	$ (9,502)	$(11,362)	$(1,611)	$(22,475)
Other comprehensive income (loss) before reclassifications	(18,545)	(273)(1)	535(2)	(18,283)
Amounts reclassified from AOCL	—	595(3)	—	595
Net current-period other comprehensive income (loss)	(18,545)	322	535	(17,688)
Ending Balance—December 31, 2016	$(28,047)	$(11,040)	$(1,076)	$(40,163)

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Loss on Cash Flow Hedges	Total
Beginning Balance—January 1, 2015	$(1,878)	$(13,243)	$ (646)	$(15,767)
Other comprehensive income (loss) before reclassifications	(7,624)	1,105(4)	(965)(5)	(7,484)
Amounts reclassified from AOCL	—	776(6)	—	776
Net current-period other comprehensive income (loss)	(7,624)	1,881	(965)	(6,708)
Ending Balance—December 31, 2015	$(9,502)	$(11,362)	$(1,611)	$(22,475)

(1) Represents unrecognized actuarial losses of $(412), net of tax benefit of $139, included in the computation of net periodic pension cost for the year ended December 31, 2016. See Note 14, "Benefit Plans," to the consolidated financial statements for additional information.

(2) Represents unrealized gains of $876, net of tax effect of $(341) for the year ended December 31, 2016.

(3) Represents actuarial losses of $941, net of tax effect of $(346), amortized to net periodic pension cost for the year ended December 31, 2016. See Note 14, "Benefit Plans," to the consolidated financial statements for additional information.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

5. Accumulated Other Comprehensive Loss (Continued)

(4) Represents unrecognized actuarial gains of $1,829, net of tax effect of $(724), included in the computation of net periodic pension cost for the year ended December 31, 2015. See Note 14, "Benefit Plans," to the consolidated financial statements for additional information.

(5) Represents unrealized losses of $(1,574), net of tax benefit of $609 for the year ended December 31, 2015.

(6) Represents actuarial losses of $1,228, net of tax effect of $(452), amortized to net periodic pension cost for the year ended December 31, 2015. See Note 14, "Benefit Plans," to the consolidated financial statements for additional information.

6. Segment Reporting

Effective in the second quarter of 2016, the Company changed its segment reporting from one reportable segment to two reportable segments—Domestic and International—as a result of the recent Pramac acquisition and the ongoing strategy to expand the business internationally. The Domestic segment includes the legacy Generac business and the impact of acquisitions that are based in the United States, all of which have revenues that are substantially derived from the U.S. and Canada. The International segment includes the Ottomotores, Tower Light and Pramac acquisitions, 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 engine powered 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 and distribution methods. All segment information has been retrospectively applied to all periods presented to reflect the new reportable segment structure.

	Net Sales		
	Year Ended December 31,		
Reportable Segments	2016	2015	2014
Domestic	$1,173,559	$1,204,589	$1,343,367
International	270,894	112,710	117,552
Total	$1,444,453	$1,317,299	$1,460,919

(U.S. Dollars in Thousands, Except Share and Per Share Data)

6. Segment Reporting (Continued)

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

	Net Sales		
	Year Ended December 31,		
Product Classes	2016	2015	2014
Residential products	$ 772,436	$ 673,764	$ 722,206
Commercial & industrial products	557,532	548,440	652,216
Other	114,485	95,095	86,497
Total	$1,444,453	$1,317,299	$1,460,919

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 that is contained in the Company's credit agreements.

	Adjusted EBITDA		
	Year Ended December 31,		
	2016	2015	2014
Domestic	$ 261,428	$ 254,882	$ 322,769
International	16,959	15,934	14,514
Total adjusted EBITDA	$ 278,387	$ 270,816	$ 337,283
Interest expense	(44,568)	(42,843)	(47,215)
Depreciation and amortization	(54,418)	(40,333)	(34,730)
Non-cash write-down and other adjustments(1)	(357)	(3,892)	3,853
Non-cash share-based compensation expense(2)	(9,493)	(8,241)	(12,612)
Tradename and goodwill impairment(3)	—	(40,687)	—
Loss on extinguishment of debt(4)	(574)	(4,795)	(2,084)
Gain (loss) on change in contractual interest rate(5)	(2,957)	(2,381)	16,014
Transaction costs and credit facility fees(6)	(2,442)	(2,249)	(1,851)
Business optimization expenses(7)	(7,316)	(1,947)	—
Other	120	(465)	(296)
Income before provision for income taxes	$ 156,382	$ 122,983	$ 258,362

(1) Includes gains/losses on disposal of assets, unrealized mark-to-market adjustments on commodity contracts, and certain foreign currency and purchase accounting related adjustments.

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

(U.S. Dollars in Thousands, Except Share and Per Share Data)

6. Segment Reporting (Continued)

(3) Represents the 2015 impairment of certain tradenames due to a change in brand strategy to transition and consolidate various brands to the Generac® tradename ($36,076) and the impairment of goodwill related to the Ottomotores reporting unit ($4,611).

(4) Represents the write-off of original issue discount and capitalized debt issuance costs due to voluntary debt prepayments.

(5) For the year ended December 31, 2016, represents a non-cash loss in the third quarter 2016 relating to the continued 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio remaining above 3.0 times and expected to remain above 3.0 based on current projections. For the year ended December 31, 2015, represents a non-cash loss relating to a 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio rising above 3.0 times effective third quarter 2015 and expected to remain above 3.0 times based on projections at the time. For the year ended December 31, 2014 represents a non-cash gain relating to a 25 basis point reduction in borrowing costs as a result of the credit agreement leverage ratio falling below 3.0 times effective second quarter 2014 and expected to remain below 3.0 times based on projections at the time.

(6) 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.

(7) Represents charges relating to business optimization and restructuring costs.

The following tables summarize additional financial information by reportable segment:

	Assets		
	Year Ended December 31,		
	2016	2015	2014
Domestic	$1,521,665	$1,605,043	$1,672,336
International	340,019	173,592	192,083
Total	$1,861,684	$1,778,635	$1,864,419

	Depreciation and Amortization		
	Year Ended December 31,		
	2016	2015	2014
Domestic	$42,346	$35,327	$29,410
International	12,072	5,006	5,320
Total	$54,418	$40,333	$34,730

(U.S. Dollars in Thousands, Except Share and Per Share Data)

6. Segment Reporting (Continued)

	Capital Expenditures		
	Year Ended December 31,		
	2016	2015	2014
Domestic	$26,936	$29,368	$33,976
International	3,531	1,283	713
Total	$30,467	$30,651	$34,689

The Company's sales in the United States represent approximately 77%, 85%, and 84% of total sales for the years ended December 31, 2016, 2015 and 2014, respectively. Approximately 87% and 93% of the Company's identifiable long-lived assets are located in the United States as of December 31, 2016 and 2015, respectively.

7. Balance Sheet Details

Inventories consist of the following:

	December 31,	
	2016	2015
Raw material	$218,911	$179,769
Work-in-process	2,950	2,567
Finished goods	127,870	143,039
Total	$349,731	$325,375

As of December 31, 2016 and 2015, inventories totaling $10,598 and $11,253, respectively, were on consignment at customer locations.

Property and equipment consists of the following:

	December 31,	
	2016	2015
Land and improvements	$ 12,079	$ 8,553
Buildings and improvements	122,747	104,774
Machinery and equipment	81,687	72,280
Dies and tools	23,269	20,066
Vehicles	1,474	1,244
Office equipment and systems	66,929	29,395
Leasehold improvements	2,319	3,338
Construction in progress	8,654	30,482
Gross property and equipment	319,158	270,132
Accumulated depreciation	(106,365)	(85,919)
Total	$ 212,793	$184,213

(U.S. Dollars in Thousands, Except Share and Per Share Data)

8. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2016 and 2015 are as follows:

	Domestic	International	Total
Balance at December 31, 2014	$582,686	$ 52,879	$635,565
Acquisitions of businesses, net	38,765	—	38,765
Impairment	—	(4,611)	(4,611)
Balance at December 31, 2015	621,451	48,268	669,719
Acquisitions of businesses, net	—	46,202	46,202
Foreign currency translation	—	(11,281)	(11,281)
Balance at December 31, 2016	$621,451	$ 83,189	$704,640

The details of the gross goodwill allocated to each reportable segment at December 31, 2016 and 2015 are as follows:

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Gross	Accumulated Impairment	Net	Gross	Accumulated Impairment	Net
Domestic	$1,124,644	$(503,193)	$621,451	$1,124,644	$(503,193)	$621,451
International	87,800	(4,611)	83,189	52,879	(4,611)	48,268
Total	$1,212,444	$(507,804)	$704,640	$1,177,523	$(507,804)	$669,719

See Note 3, "Acquisitions," to the consolidated financial statements for further information regarding the Company's acquisitions and Note 2, "Significant Accounting Policies—Goodwill and Other Indefinite-Lived Intangible Assets," to the consolidated financial statements for further information regarding the Company's 2015 goodwill impairment charge.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

8. Goodwill and Intangible Assets (Continued)

The following table summarizes intangible assets by major category as of December 31, 2016 and 2015:

	Weighted Average Amortization Years	December 31, 2016			December 31, 2015		
		Gross	Accumulated Amortization	Net Book Value	Gross	Accumulated Amortization	Net Book Value
Finite-lived intangible assets:							
Tradenames	8	$ 50,742	$ (20,189)	$ 30,553	$ 43,252	$ (10,516)	$ 32,736
Customer lists	9	333,935	(288,623)	45,312	314,600	(275,287)	39,313
Patents	14	130,099	(82,038)	48,061	126,491	(72,719)	53,772
Unpatented technology	15	13,169	(11,771)	1,398	13,169	(11,628)	1,541
Software	—	1,046	(1,046)	—	1,046	(1,042)	4
Non-compete/other	7	2,513	(986)	1,527	1,731	(508)	1,223
Total finite-lived intangible assets		$531,504	$(404,653)	$126,851	$500,289	$(371,700)	$128,589
Indefinite-lived tradenames		128,321	—	128,321	128,321	—	128,321
Total intangible assets		$659,825	$(404,653)	$255,172	$628,610	$(371,700)	$256,910

See Note 2, "Significant Accounting Policies—Goodwill and Other Indefinite-Lived Intangible Assets," to the consolidated financial statements for further information regarding the Company's 2015 brand strategy change and resulting tradename impairment charge, which was netted against the gross intangible asset balance at December 31, 2015.

Amortization of intangible assets was $32,953, $23,591 and $21,024 in 2016, 2015 and 2014, respectively. Excluding the impact of any future acquisitions, the Company estimates amortization expense for the next five years will be as follows: 2017—$27,856; 2018—$19,511; 2019—$17,816; 2020—$17,743; 2021—$15,958.

9. Product Warranty Obligations

The Company records a liability for product warranty obligations 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. Additionally, the Company sells extended warranty coverage for certain products. The sales of extended warranties are recorded as deferred revenue, which is recognized over the life of the contracts.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

9. Product Warranty Obligations (Continued)

The following is a tabular reconciliation of the product warranty liability, excluding the deferred revenue related to our extended warranty coverage:

	Year Ended December 31,		
	2016	2015	2014
Balance at beginning of period	$ 30,197	$ 30,909	$ 33,734
Product warranty reserve assumed in acquisition	840	351	360
Payments	(18,691)	(21,686)	(20,975)
Provision for warranty issued	19,148	20,823	22,890
Changes in estimates for pre-existing warranties	201	(200)	(5,100)
Balance at end of period	$ 31,695	$ 30,197	$ 30,909

The following is a tabular reconciliation of the deferred revenue related to extended warranty coverage:

	Year Ended December 31,		
	2016	2015	2014
Balance at beginning of period	$28,961	$27,193	$23,092
Deferred revenue contracts assumed in acquisition	—	291	—
Deferred revenue contracts issued	7,733	5,978	7,343
Amortization of deferred revenue contracts	(5,614)	(4,501)	(3,242)
Balance at end of period	$31,080	$28,961	$27,193

Product warranty obligations and warranty related deferred revenues are included in the balance sheets as follows:

	December 31,	
	2016	2015
Product warranty liability		
Current portion—other accrued liabilities	$20,763	$21,726
Long-term portion—other long-term liabilities	10,932	8,471
Total	$31,695	$30,197
Deferred revenue related to extended warranties		
Current portion—other accrued liabilities	$ 6,728	$ 6,026
Long-term portion—other long-term liabilities	24,352	22,935
Total	$31,080	$28,961

(U.S. Dollars in Thousands, Except Share and Per Share Data)

10. Credit Agreements

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

	December 31, 2016	December 31, 2015
ABL facility	$ —	$ —
Other lines of credit	31,198	8,594
Total	$31,198	$8,594

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

	December 31, 2016	December 31, 2015
Term loan	$ 929,000	$ 954,000
Original issue discount and deferred financing costs	(26,677)	(29,905)
ABL facility	100,000	100,000
Capital lease obligation	4,647	1,694
Other	14,753	12,000
Total	1,021,723	1,037,789
Less: current portion of debt	14,399	500
Less: current portion of capital lease obligation	566	157
Total	$1,006,758	$1,037,132

Maturities of long-term borrowings outstanding at December 31, 2016, are as follows:

2017	$ 14,965
2018	745
2019	639
2020	100,547
After 2020	931,504
Total	$1,048,400

The Company's credit agreements provided for a $1,200,000 term loan B credit facility (Term Loan) and include a $300,000 uncommitted incremental term loan facility. In November 2016, the Company amended its Term Loan to extend the maturity date from May 31, 2020 to 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%. Beginning in the second quarter of 2014, and measured each quarterly period thereafter, the

10. Credit Agreements (Continued)

applicable margin related to base rate loans is reduced to 1.50% and the applicable margin related to LIBOR rate loans is reduced to 2.50%, in each case, if the Company's net debt leverage ratio, as defined in the Term Loan, falls below 3.00 to 1.00 for that measurement period.

Because the Company's net debt leverage ratio was below 3.00 to 1.00 on April 1, 2014, it realized a 25 basis point reduction in borrowing costs in the second quarter of 2014. As a result, the Company recorded a cumulative catch-up gain of $16,014 in the second quarter of 2014, which represents the total cash interest savings over the remaining term of the loan, as the Company projected the net debt leverage ratio to remain below 3.00 to 1.00 using current forecasts at that time. The gain was recorded as original issue discount on long-term borrowings in the consolidated balance sheets and as a gain on change in contractual interest rate in the consolidated statements of comprehensive income.

Because the Company's net debt leverage ratio was above 3.00 to 1.00 on July 1, 2015, it realized a 25 basis point increase in borrowing costs in the third quarter of 2015. As a result, the Company recorded a cumulative catch-up loss of $2,381 in the third quarter of 2015, which represents the additional cash interest expected to be paid while the net debt leverage ratio is expected to be above 3.00 to 1.00 using current forecasts at that time. The loss was recorded against original issue discount on long-term borrowings in the consolidated balance sheets and as a loss on change in contractual interest rate in the consolidated statements of comprehensive income.

As the Company's net debt leverage ratio continued to be above 3.00 to 1.00 on July 1, 2016, the Company recorded a cumulative catch-up loss of $2,957 in the third quarter of 2016, which represents the additional cash interest expected to be paid while the net debt leverage ratio is expected to be above 3.00 to 1.00 using current forecasts at that time. The loss was recorded against original issue discount on long-term borrowings in the consolidated balance sheets and as a loss on change in contractual interest rate in the consolidated statements of comprehensive income. The Company's net debt leverage ratio as of December 31, 2016 was above 3.00 to 1.00.

In May 2015, the Company amended certain provisions and covenants of the Term Loan. In connection with this amendment and in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, the Company capitalized $1,528 of fees paid to creditors as original issue discount on long-term borrowings and expensed $49 of transaction fees in the second quarter of 2015.

In November 2016, the Company amended its Term Loan to extend the maturity date from May 31, 2020 to May 31, 2023. In connection with this amendment and in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, the Company capitalized $4,242 of fees paid to creditors as original issue discount on long-term borrowings and expensed $315 of transaction fees in the fourth quarter of 2016. As of December 31, 2016, the Company is 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 $150,000 senior secured ABL revolving credit facility (ABL Facility). The maturity date of the ABL Facility originally was May 31, 2018. 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

10. Credit Agreements (Continued)

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.

In May 2015, the Company amended its ABL Facility. The amendment (i) increased the ABL Facility from $150,000 to $250,000 (Amended ABL Facility), (ii) extended the maturity date from May 31, 2018 to May 29, 2020, (iii) increased the uncommitted incremental facility from $50,000 to $100,000, (iv) reduced the interest rate spread by 50 basis points and (v) reduced the unused line fee by 12.5 basis points across all tiers. Additionally, the amendment relaxes certain restrictions on the Company's ability to, among other things, (i) make additional investments and acquisitions (including foreign acquisitions), (ii) make restricted payments and (iii) incur additional secured and unsecured debt (including foreign subsidiary debt). In connection with this amendment and in accordance with ASC 470-50, the Company capitalized $540 of new debt issuance costs in 2015.

In May 2015, the Company borrowed $100,000 under the Amended ABL Facility, the proceeds of which were used as a voluntary prepayment towards the Term Loan. As of December 31, 2016, there was $100,000 outstanding under the Amended ABL Facility, leaving $145,593 of availability, net of outstanding letters of credit.

In April, September and December 2014, the Company made voluntary prepayments of the Term Loan of $12,000, $50,000 and $25,000, respectively, with available cash on hand that was applied to future principal amortizations and the Excess Cash Flow payment requirement in the Term Loan. As a result of the prepayments, the Company wrote off $2,084 of original issue discount and capitalized debt issuance costs during the year ended December 31, 2014 as a loss on extinguishment of debt in the consolidated statement of comprehensive income.

In March and May 2015, the Company made voluntary prepayments of the Term Loan of $50,000 and $100,000, respectively, which were applied to the Excess Cash Flow payment requirement in the Term Loan. As a result of the prepayments, the Company wrote off $4,795 of original issue discount and capitalized debt issuance costs during the year ended December 31, 2015 as a loss on extinguishment of debt in the consolidated statement of comprehensive income.

In November 2016, the Company made a voluntary prepayment of the Term Loan of $25,000, which will be applied to the Excess Cash Flow payment requirement in the Term Loan. As a result of the prepayment, the Company wrote off $574 of original issue discount and capitalized debt issuance costs during the year ended December 31, 2016 as a loss on extinguishment of debt in the consolidated statement of comprehensive income.

As of December 31, 2016 and December 31, 2015, short-term borrowings consisted primarily of borrowings by our foreign subsidiaries on local lines of credit, which totaled $31,198 and $8,594, respectively.

11. Stock Repurchase Program

In August 2015, the Company's Board of Directors approved a $200,000 stock repurchase program. Under the program, the Company may repurchase up to $200,000 of its common stock over the following 24 months, in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. The Company completed the program in the third quarter of 2016.

In October 2016, the Company's Board of Directors approved a $250,000 stock repurchase program. Under the program, 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 repurchase 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 shares of 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. For the year ended December 31, 2016, the Company repurchased 3,968,706 shares of its common stock for $149,937. Since the inception of the programs, the Company has repurchased 7,272,206 shares of its common stock for $249,879, all funded with cash on hand.

12. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to the common shareholders 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

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12. Earnings Per Share (Continued)

stock options, as well as their related income tax benefits. The following table reconciles the numerator and the denominator used to calculate basic and diluted earnings per share:

	Year Ended December 31,		
	2016	2015	2014
Numerator			
Net income attributable to Generac Holdings Inc.	$ 98,788	$ 77,747	$ 174,613
Redeemable noncontrolling interest redemption value adjustment	(909)	—	—
Net income attributable to common shareholders	$ 97,879	$ 77,747	$ 174,613
Denominator			
Weighted average shares, basic	64,905,793	68,096,051	68,538,248
Dilutive effect of stock compensation awards(1)	476,981	1,104,246	1,632,796
Diluted shares	65,382,774	69,200,297	70,171,044
Net income attributable to common shareholders per share			
Basic	$ 1.51	$ 1.14	$ 2.55
Diluted	$ 1.50	$ 1.12	$ 2.49

(1) Excludes approximately 15,800, 161,400 and 81,600 stock options for the years ended December 31, 2016, 2015 and 2014, respectively, as the impact of such awards was anti-dilutive. Excludes approximately 1,000 shares of restricted stock for the year ended December 31, 2015, as the impact of such awards was anti-dilutive.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

13. Income Taxes

The Company's provision for income taxes consists of the following:

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$11,717	$13,614	$38,161
State	2,047	1,966	1,645
Foreign	4,460	3,588	5,701
	18,224	19,168	45,507
Deferred:			
Federal	41,264	31,869	42,474
State	3,029	1,387	(3,134)
Foreign	(5,585)	(7,326)	(1,462)
	38,708	25,930	37,878
Change in valuation allowance	638	138	364
Provision for income taxes	$57,570	$45,236	$83,749

As of December 31, 2016, due to the carryforward of net operating losses, and research and development credits, the Company is open to U.S. federal and state income tax examinations for the tax years 2006 through 2015. In addition, the Company is subject to audit by various foreign taxing jurisdictions for the tax years 2011 through 2015. During 2015, the Internal Revenue Service completed field work on income tax audits for the 2012 and 2013 tax years. A final audit report was issued and resulted in no change to the Company's provision for income taxes.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

13. Income Taxes (Continued)

Significant components of deferred tax assets and liabilities are as follows:

	December 31,	
	2016	2015
Deferred tax assets:		
Accrued expenses	$ 22,758	$18,982
Deferred revenue	10,645	9,389
Inventories	10,159	9,772
Pension obligations	7,512	7,684
Stock-based compensation	7,291	7,974
Operating loss and credit carryforwards	20,927	15,677
Other	2,822	2,842
Valuation allowance	(4,362)	(1,523)
Total deferred tax assets	77,752	70,797
Deferred tax liabilitites:		
Goodwill and intangible assets	58,133	12,455
Depreciation	25,194	19,507
Debt refinancing costs	7,193	7,732
Prepaid expenses	1,173	1,241
Total deferred tax liabilities	91,693	40,935
Net deferred tax assets (liabilities)	$(13,941)	$29,862

As of December 31, 2016 and 2015, deferred tax assets of $3,337 and $34,812, and deferred tax liabilities of $17,278 and $4,950, respectively, were reflected on the consolidated balance sheets.

The Company had approximately $592,000 of tax-deductible goodwill and intangible asset amortization remaining as of December 31, 2016 related to our acquisition by CCMP in 2006 that is expected to generate aggregate cash tax savings of approximately $231,000 through 2021, assuming continued profitability and a 39% tax rate. The recognition of the tax benefit associated with these assets for tax purposes is expected to be approximately $122,000 annually through 2020 and approximately $102,000 in 2021, which generates annual cash tax savings of approximately $48,000 through 2020 and approximately $40,000 in 2021, assuming profitability and a 39% tax rate.

Generac Brazil, acquired as part of the Ottomotores acquisition, has generated net operating losses for multiple years as part of the start-up of the business. The realizability of the deferred tax assets associated with these net operating losses is uncertain so a valuation allowance was recorded in the opening balance sheet as of December 8, 2012 and continued through December 31, 2016.

In addition, the Company recorded a valuation allowance in the opening balance sheet and as of December 31, 2016 related to the Pramac acquisition. The valuation allowance represents a reserve for deferred tax assets, including loss carryforwards, of Pramac subsidiaries, for which utilization is uncertain.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

13. Income Taxes (Continued)

At December 31, 2016, the Company had state research and development credits, and state manufacturing credit carryforwards of approximately $17,498 and $3,736, respectively, which expire between 2017 and 2031.

Changes in the Company's gross liability for unrecognized tax benefits, excluding interest and penalties, were as follows:

	December 31, 2016	December 31, 2015
Unrecognized tax benefit, beginning of period	$7,239	$6,394
Increase in unrecognized tax benefit for positions taken in current period	704	845
Unrecognized tax benefit, end of period	$7,943	$7,239

The unrecognized tax benefit as of December 31, 2016 and 2015, if recognized, would impact the effective tax rate.

Interest and penalties are recorded as a component of income tax expense. As of December 31, 2016, 2015 and 2014, total interest of approximately $272, $174 and $86, respectively, and penalties of approximately $425, $363 and $263, respectively, associated with net unrecognized tax benefits are included in the Company's consolidated balance sheets.

The Company does not expect a significant increase or decrease to the total amounts of unrecognized tax benefits related to continuing operations during the fiscal year ending December 31, 2017.

The Company considers the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and the Company's specific plans for reinvestment of those subsidiary earnings. The Company has not provided for additional U.S. income taxes on approximately $7,551 of undistributed earnings of consolidated non-U.S. subsidiaries. It is not practicable to estimate the amount of unrecognized withholding taxes and deferred tax liability on such earnings.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

13. Income Taxes (Continued)

A reconciliation of the statutory tax rates and the effective tax rates for the years ended December 31, 2016, 2015 and 2014 are as follows:

	Year Ended December 31,		
	2016	2015	2014
U.S. statutory rate	35.0%	35.0%	35.0%
State taxes	4.1	4.1	3.1
Research and development credits	(1.0)	(2.3)	(5.0)
Other	(1.3)	—	(0.7)
Effective tax rate	36.8%	36.8%	32.4%

14. Benefit Plans

Medical and Dental Plan

The Company maintains medical and dental benefit plans covering its full-time domestic employees and their dependents. Certain plans are partially or fully self-funded plans under which participant claims are obligations of the plan. These plans are funded through employer and employee contributions at a level sufficient to pay for the benefits provided by the plan. The Company's contributions to the plans were $15,019, $14,352, and $11,701 for the years ended December 31, 2016, 2015, and 2014, respectively.

The Company's foreign subsidiaries participate in government sponsored medical benefit plans. In certain cases, the Company purchases supplemental medical coverage for certain employees at these foreign locations. The expenses related to these plans are not material to the Company's consolidated financial statements.

Savings Plan

The Company maintains defined-contribution 401(k) savings plans for eligible domestic employees. Under the plans, employees may defer receipt of a portion of their eligible compensation. The Company amended the 401(k) savings plans effective January 1, 2009, to add Company matching and non-elective contributions. The Company may contribute a matching contribution of 50% of the first 6% of eligible compensation of employees. The Company may also contribute a non-elective contribution for eligible employees employed on December 31, 2008. Both Company matching contributions and non-elective contributions are subject to vesting. Forfeitures may be applied against plan expenses and company contributions. The Company recognized $3,400, $3,000 and $3,400 of expense related to this plan in 2016, 2015 and 2014, respectively.

Pension Plans

The Company has frozen noncontributory salaried and hourly pension plans (Pension Plans) covering certain domestic employees. The benefits under the salaried plan are based upon years of

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14. Benefit Plans (Continued)

service and the participants' defined final average monthly compensation. The benefits under the hourly plan are based on a unit amount at the date of termination multiplied by the participant's years of credited service. The Company's funding policy for the Pension Plans is to contribute amounts at least equal to the minimum annual amount required by applicable regulations.

The Company uses a December 31 measurement date for the Pension Plans. The table that includes the accumulated benefit obligation and reconciliation of the changes in projected benefit obligation, changes in plan assets and the funded status of the Pension Plans is as follows:

	Year Ended December 31,	
	2016	**2015**
Accumulated benefit obligation at end of period	$ 65,956	$ 63,894
Change in projected benefit obligation		
Projected benefit obligation at beginning of period	$ 63,894	$ 68,376
Interest cost	2,747	2,681
Net actuarial loss (gain)	1,363	(5,254)
Benefits paid	(2,048)	(1,909)
Projected benefit obligation at end of period	$ 65,956	$ 63,894
Change in plan assets		
Fair value of plan assets at beginning of period	$ 43,985	$ 45,452
Actual return (loss) on plan assets	3,820	(384)
Company contributions	731	826
Benefits paid	(2,048)	(1,909)
Fair value of plan assets at end of period	$ 46,488	$ 43,985
Funded status: accrued pension liability included in other long-term liabilities	$(19,468)	$(19,909)
Amounts recognized in accumulated other comprehensive loss		
Net actuarial loss, net of tax	$(11,040)	$(11,362)

The actuarial loss for the Pension Plans that was amortized from AOCL into net periodic (benefit) cost during 2016 is $941. The amount in AOCL as of December 31, 2016 that is expected to be recognized as a component of net periodic pension expense during the next fiscal year is $883.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

14. Benefit Plans (Continued)

The components of net periodic pension (benefit) cost are as follows:

	Year Ended December 31,		
	2016	2015	2014
Interest cost	$ 2,747	$ 2,681	$ 2,591
Expected return on plan assets	(2,868)	(3,041)	(2,933)
Amortization of net loss	941	1,228	106
Net periodic pension (benefit) cost	$ 820	$ 868	$ (236)

Weighted-average assumptions used to determine the benefit obligations are as follows:

	December 31,	
	2016	2015
Discount rate—salaried pension plan	4.14%	4.36%
Discount rate—hourly pension plan	4.16%	4.39%
Rate of compensation increase(1)	n/a	n/a

(1) No compensation increase was assumed as the plans were frozen effective December 31, 2008.

Weighted-average assumptions used to determine net periodic pension (benefit) cost are as follows:

	Year Ended December 31,		
	2016	2015	2014
Discount rate	4.39%	3.99%	5.01%
Expected long-term rate of return on plan assets	6.62%	6.75%	6.88%
Rate of compensation increase(1)	n/a	n/a	n/a

(1) No compensation increase was assumed as the plans were frozen effective December 31, 2008.

To determine the long-term rate of return assumption for plan assets, the Company studies historical markets and preserves the long-term historical relationships between equities and fixed-income securities consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. The Company evaluates current market factors such as inflation and interest rates before it determines long-term capital market assumptions and reviews peer data and historical returns to check for reasonableness and appropriateness.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

14. Benefit Plans (Continued)

The Pension Plans' weighted-average asset allocation at December 31, 2016 and 2015, by asset category, is as follows:

		December 31, 2016		December 31, 2015	
Asset Category	Target	Dollars	%	Dollars	%
Fixed Income	20%	$ 7,812	17%	$ 8,571	19%
Domestic equity	49%	19,615	42%	20,479	47%
International equity	21%	13,466	29%	9,687	22%
Real estate	10%	5,595	12%	5,248	12%
Total	100%	$46,488	100%	$43,985	100%

The fair values of the Pension Plans' assets at December 31, 2016 are as follows:

	Total	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$37,860	$37,860	$—	$ —
Other investments	8,628	—	—	8,628
Total	$46,488	$37,860	$—	$8,628

The fair values of the Pension Plan's assets at December 31, 2015 are as follows:

	Total	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$40,310	$40,310	$—	$ —
Other investments	3,675	—	—	3,675
Total	$43,985	$40,310	$—	$3,675

A reconciliation of beginning and ending balances for Level 3 assets for the years ended December 31, 2016 and 2015 is as follows:

	Year Ended December 31,	
	2016	2015
Balance at beginning of period	$3,675	$3,185
Purchases	4,400	408
Realized gains	553	82
Balance at end of period	$8,628	$3,675

(U.S. Dollars in Thousands, Except Share and Per Share Data)

14. Benefit Plans (Continued)

Mutual Funds—This category includes investments in mutual funds that encompass both equity and fixed income securities that are designed to provide a diverse portfolio. The plan's mutual funds are designed to track exchange indices, and invest in diverse industries. Some mutual funds are classified as regulated investment companies. Investment managers have the ability to shift investments from value to growth strategies, from small to large capitalization funds, and from U.S. to international investments. These investments are valued at the closing price reported on the active market on which the individual securities are traded. These investments are classified within Level 1 of the fair value hierarchy.

Other Investments—This category includes investments in limited partnerships and are valued at estimated fair value, as determined with the assistance of each respective limited partnership, based on the net asset value of the investment as of the balance sheet date, which is subject to judgment, and therefore is classified within Level 3 of the fair value hierarchy.

The Company's target allocation for equity securities and real estate is generally between 65% - 85%, with the remainder allocated primarily to fixed income (bonds). The Company regularly reviews its actual asset allocation and periodically rebalances its investments to the targeted allocation when considered appropriate.

The Company expects to make estimated contributions of $568 to the Pension Plans in 2017.

The following benefit payments are expected to be paid from the Pension Plans:

2017	$ 2,258
2018	2,354
2019	2,430
2020	2,556
2021	2,692
2022 - 2026	16,021

Certain of the Company's foreign subsidiaries participate in local defined benefit or other post-employment benefit plans. These plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation earned throughout the applicable service period. Liabilities recorded under these plans are included in accrued wages and employee benefits in the Company's consolidated balance sheets and are not material.

15. Share Plans

The Company adopted an equity incentive plan (Plan) on February 10, 2010 in connection with its initial public offering. The Plan, as amended, allows for granting of up to 9.1 million stock-based awards to executives, directors and employees. Awards available for grant under the Plan include stock options, stock appreciation rights, restricted stock, other stock-based awards and performance-based compensation awards. Total share-based compensation expense related to the Plan was $9,493, $8,241 and $12,612 for the years ended December 31, 2016, 2015 and 2014, respectively, net of estimated

15. Share Plans (Continued)

forfeitures, which is recorded in operating expenses in the consolidated statements of comprehensive income.

Stock Options—Stock options granted in 2016 have an exercise price between $33.23 per share and $35.37 per share; stock options granted in 2015 have an exercise price between $28.36 per share and $49.70 per share, and the stock options granted in 2014 have an exercise price between $42.20 per share and $59.01 per share.

Stock options issued in 2012 - 2016 vest in equal installments over four years, subject to the grantee's continued employment or service and expire ten years after the date of grant. Stock options issued in 2011 and 2010 vest in equal installments over five years, subject to the grantee's continued employment or service and expire ten years after the date of grant.

Stock option exercises can be net-share settled such that the Company withholds shares with value equivalent to the exercise price of the stock option awards plus the employees' minimum statutory obligation for the applicable income and other employment taxes. Total shares withheld were 473,743, 272,296 and 235,644 in 2016, 2015 and 2014, respectively, and were based on the value of the stock on the exercise dates as determined based upon an average of the Company's high and low stock sales price on the exercise dates. The net-share settlement has the effect of share repurchases by the Company as they reduce the number of shares that would have otherwise been issued. Total payments for the employees' tax obligations to the taxing authorities were $13,056, $9,768 and $10,411 in 2016, 2015 and 2014, respectively, and are reflected as a financing activity within the consolidated statements of cash flows.

Employees can also utilize a cashless for cash exercise of stock options, such that all exercised shares will be sold in the market immediately. Cash equivalent to the exercise price of the awards plus the employees' minimum statutory tax obligations is retained by the Company, with the remaining cash being transferred to the employee. Total proceeds from the cashless for cash exercise of stock options were $1,623 in 2016, and are reflected as a financing activity in the consolidated statement of cash flows.

The grant-date fair value of each option grant is estimated using the Black-Scholes-Merton option pricing model. The fair value is then amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility is calculated based on an analysis of historic and implied volatility measures for a set of peer companies. The average expected life is based on the contractual term of the option using the simplified method. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The compensation expense recognized is net of estimated forfeitures. Forfeitures are estimated based on actual share option forfeiture history. The weighted-average

15. Share Plans (Continued)

assumptions used in the Black-Scholes-Merton option pricing model for 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Weighted average grant date fair value	$13.77	$19.07	$26.35
Assumptions:			
Expected stock price volatility	41%	41%	45%
Risk free interest rate	1.31%	1.72%	1.90%
Expected annual dividend per share	$ —	$ —	$ —
Expected life of options (years)	6.25	6.25	6.25

The Company periodically evaluates its forfeiture rates and updates the rates it uses in the determination of its stock-based compensation expense. The impact of the change to the forfeiture rates on non-cash compensation expense was immaterial for the years ended December 31, 2016, 2015 and 2014.

A summary of the Company's stock option activity and related information for the years ended December 31, 2016, 2015 and 2014 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding as of December 31, 2013	2,937,301	$ 5.74	9.5	$148,369
Granted	187,189	57.21		
Exercised	(549,282)	3.44		
Expired	(259)	15.94		
Forfeited	(32,810)	12.68		
Outstanding as of December 31, 2014	2,542,139	9.94	8.5	$ 96,518
Granted	287,165	45.18		
Exercised	(604,088)	3.79		
Expired	(6,409)	50.11		
Forfeited	(90,793)	37.27		
Outstanding as of December 31, 2015	2,128,014	15.15	7.7	$ 40,271
Granted	398,313	33.24		
Exercised	(995,469)	2.89		
Forfeited	(47,894)	37.41		
Outstanding as of December 31, 2016	1,482,964	27.49	7.5	$ 23,840
Exercisable as of December 31, 2016	787,654	17.64	6.7	$ 19,897

15. Share Plans (Continued)

As of December 31, 2016, there was $8,051 of total unrecognized compensation cost, net of expected forfeitures, related to unvested options. The cost is expected to be recognized over the remaining service period, having a weighted-average period of 2.7 years. Total share-based compensation cost related to the stock options for 2016, 2015 and 2014 was $4,366, $4,198 and $8,509, respectively, which is recorded in operating expenses in the consolidated statements of comprehensive income.

Restricted Stock—Restricted stock awards issued in 2012 and after, vest in equal installments over three years, subject to the grantee's continued employment or service. Certain restricted stock awards also include performance shares, which were awarded in the years 2014 through 2016. The number of performance shares that can be earned are contingent upon Company performance measures over a three-year period. Performance measures are based on a weighting of revenue growth and EBITDA margin, from which grantees may earn from 0% to 200% of their target performance share award. The performance period for the 2014 awards covers the years 2014 through 2016, the performance period for the 2015 awards covers the years 2015 through 2017, and the performance period for the 2016 awards covers the years 2016 through 2018. The Company estimates the number of performance shares that will vest based on projected financial performance. The fair market value of the restricted awards at the time of the grant is amortized to expense over the period of vesting. The fair value of restricted awards is determined based on the market value of the Company's shares on the grant date. The compensation expense recognized for restricted share awards is net of estimated forfeitures.

Restricted stock vesting is net-share settled such that, upon vesting, the Company withholds shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and then pays those taxes on behalf of the employee. In effect, the Company repurchases these shares and classifies as treasury stock, and pays the cash to the taxing authorities on behalf of the employees to satisfy the tax withholding requirements. Total shares withheld were 28,593, 65,763 and 34,854 in 2016, 2015 and 2014, respectively, and were based on the value of the stock on the vesting dates as determined based upon an average of the Company's high and low stock sales price on the vesting dates. Total payments for the employees' tax obligations to the taxing authorities were $952, $3,233 and $1,770 in 2016, 2015 and 2014, respectively, and are reflected as a financing activity within the consolidated statements of cash flows.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

15. Share Plans (Continued)

A summary of the Company's restricted stock activity for the years ended December 31, 2016, 2015 and 2014 is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested as of December 31, 2013	304,406	$29.68
Granted	115,473	54.35
Vested	(105,123)	28.31
Forfeited	(47,472)	42.31
Non-vested as of December 31, 2014	267,284	38.72
Granted	193,117	41.31
Vested	(183,362)	32.56
Forfeited	(33,999)	47.77
Non-vested as of December 31, 2015	243,040	44.16
Granted	232,295	33.56
Vested	(95,858)	41.93
Forfeited	(18,074)	38.30
Non-vested as of December 31, 2016	361,403	38.18

As of December 31, 2016, there was $7,192 of unrecognized compensation cost, net of expected forfeitures, related to non-vested restricted stock awards. That cost is expected to be recognized over the remaining service period, having a weighted-average period of 1.9 years. Total share-based compensation cost related to the restricted stock for 2016, 2015 and 2014 was $5,127, $4,043 and $4,103, respectively, which is recorded in operating expenses in the consolidated statements of comprehensive income.

During 2016, 2015 and 2014, 19,326, 16,260 and 8,869 shares, respectively, of fully vested stock were granted to certain members of the Company's Board of Directors as a component of their compensation for their service on the Board. Total compensation cost for these share grants in 2016, 2015 and 2014 was $670, $615 and $509, respectively, which is recorded in operating expenses in the consolidated statements of comprehensive income.

(U.S. Dollars in Thousands, Except Share and Per Share Data)

16. Commitments and Contingencies

The Company leases certain manufacturing and office facilities, machinery and computer equipment, automobiles and warehouse space under operating leases. The approximate aggregate minimum rental commitments at December 31, 2016, are as follows:

2017	$ 7,922
2018	7,314
2019	6,368
2020	5,559
2021	3,946
After 2021	5,730
Total	$36,839

Total rent expense for the years ended December 31, 2016, 2015 and 2014, was approximately $9,146, $4,796, and $4,102, respectively.

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 December 31, 2016 and 2015 was approximately $33,900 and $32,400, 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.

17. Quarterly Financial Information (Unaudited)

	Quarters Ended 2016			
	Q1	Q2	Q3	Q4
Net sales	$286,535	$367,376	$373,121	$417,421
Gross profit	98,060	124,147	137,772	154,127
Operating income	26,964	44,082	56,340	77,231
Net income attributable to Generac Holdings Inc.	10,208	20,888	26,183	41,509
Net income attributable to common shareholders per common share—basic:	$ 0.15	$ 0.32	$ 0.41	$ 0.64
Net income attributable to common shareholders per common share—diluted:	$ 0.15	$ 0.31	$ 0.40	$ 0.64

(U.S. Dollars in Thousands, Except Share and Per Share Data)

17. Quarterly Financial Information (Unaudited) (Continued)

	Quarters Ended 2015			
	Q1	Q2	Q3	Q4
Net sales	$311,818	$288,360	$359,291	$357,830
Gross profit	102,603	95,897	130,326	131,124
Operating income	44,911	39,467	67,867	27,316
Net income attributable to Generac Holdings Inc.	19,685	14,844	34,036	9,182
Net income attributable to common shareholders per common share—basic:	$ 0.29	$ 0.22	$ 0.50	$ 0.14
Net income attributable to common shareholders per common share—diluted:	$ 0.28	$ 0.21	$ 0.49	$ 0.14

18. Valuation and Qualifying Accounts

For the years ended December 31, 2016, 2015 and 2014:

	Balance at Beginning of Year	Additions Charged to Earnings	Charges to Reserve, Net(1)	Reserves Established for Acquisitions	Balance at End of Year
Year ended December 31, 2016					
Allowance for doubtful accounts	$ 2,494	$1,654	$(1,110)	$2,604	$ 5,642
Reserves for inventory	10,582	5,359	(5,357)	2,447	13,031
Valuation of deferred tax assets	1,523	638	—	2,201	4,362
Year ended December 31, 2015					
Allowance for doubtful accounts	$ 2,275	$ 481	$ (325)	$ 63	$ 2,494
Reserves for inventory	9,387	3,739	(3,158)	614	10,582
Valuation of deferred tax assets	1,385	138	—	—	1,523
Year ended December 31, 2014					
Allowance for doubtful accounts	$ 2,658	$ 672	$(1,264)	$ 209	$ 2,275
Reserves for inventory	6,558	2,797	(2,250)	2,282	9,387
Valuation of deferred tax assets	1,021	364	—	—	1,385

(1) Deductions from the allowance for doubtful accounts equal accounts receivable written off, less recoveries, against the allowance. Deductions from the reserves for inventory excess and obsolete items equal inventory written off against the reserve as items were disposed of.

19. Subsequent Events

On January 1, 2017, the Company acquired Motortech GmbH and its affiliates (Motortech), headquartered in Celle, Germany. Motortech is a leading manufacturer of gaseous-engine control systems and accessories, which are sold primarily to European gas-engine manufacturers and to aftermarket customers. Motortech employs over 250 people at its German headquarters, manufacturing plant in Poland, and sales offices located in the United States and China. Prior to December 31, 2016, a cash deposit of $15,329 was paid, which is recorded in other current assets on the consolidated balance sheet as of December 31, 2016.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

In April 2016, the Company dismissed Ernst & Young LLP as its independent registered public accounting firm, and appointed Deloitte & Touche LLP as its new independent registered public accounting firm. See the Company's 8-K filed as of April 20, 2016 for full disclosures related to the change in accountants.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934 (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has conducted an evaluation of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed in this report on Form 10-K has been recorded, processed, summarized and reported as of the end of the period covered by this report on Form 10-K.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. GAAP.

Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements.

There are inherent limitations to the effectiveness of any internal control over financial reporting, including the possibility of human error or the circumvention or overriding of the controls. Accordingly, even an effective internal control over financial reporting can provide only reasonable assurance of achieving its objective. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate, because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016 based on the criteria established in the 2013 *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2016. In conducting this assessment, our management excluded the Pramac business, which was acquired on March 1, 2016 and whose financial statements constitute 22.5% and 11.1% of net and total assets, respectively, 12.6% of revenues, and 0.7% of net income of the total consolidated financial statement amounts as of and for the year ended December 31, 2016.

In January 2016, we implemented a new global enterprise resource planning (ERP) system for a majority of our business, with another subsidiary of the Company implementing in October 2016. In connection with this ERP system implementation, we have updated our internal controls over financial reporting, as necessary, to accommodate modifications to our business processes and accounting procedures. Additional implementations will occur at our remaining locations over a multi-year period.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting as of December 31, 2016. Its report appears in the consolidated financial statements included in this Annual Report on Form 10-K on page 40.

Changes in Internal Control Over Financial Reporting

Other than the assessment of controls for the ERP system implementation and Pramac acquisition noted above, there have been no changes in our internal control over financial reporting that occurred during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 not already provided herein under "Item 1—Business—Executive Officers", will be included in our 2017 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be included in our 2017 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item, including under the heading "Securities Authorized for Issuance Under Equity Compensation Plans," will be included in our 2017 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included in our 2017 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item will be included in our 2017 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

Included in Part II of this report:

(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

(a)(3) Exhibits

See the Exhibits Index following the signature pages for a list of the exhibits being filed or furnished with or incorporated by reference into this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENERAC HOLDINGS INC.

By: /s/ AARON JAGDFELD

Aaron Jagdfeld
Chairman, President and Chief Executive Officer

Dated: February 24, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons and on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ AARON JAGDFELD Aaron Jagdfeld	Chairman, President and Chief Executive Officer	February 24, 2017
/s/ YORK A. RAGEN York A. Ragen	Chief Financial Officer and Chief Accounting Officer	February 24, 2017
/s/ TODD A. ADAMS Todd A. Adams	Lead Director	February 24, 2017
/s/ JOHN D. BOWLIN John D. Bowlin	Director	February 24, 2017
/s/ ROBERT D. DIXON Robert D. Dixon	Director	February 24, 2017
/s/ ANDREW G. LAMPEREUR Andrew G. Lampereur	Director	February 24, 2017
/s/ BENNETT MORGAN Bennett Morgan	Director	February 24, 2017

Signature	Title	Date
/s/ DAVID A. RAMON David A. Ramon	Director	February 24, 2017
/s/ KATHRYN ROEDEL Kathryn Roedel	Director	February 24, 2017
/s/ DOMINICK ZARCONE Dominick Zarcone	Director	February 24, 2017

EXHIBIT INDEX

Exhibits Number	Description
3.1	Third Amended and Restated Certificate of Incorporation of Generac Holdings Inc. (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010).
3.2	Amended and Restated Bylaws of Generac Holdings Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the SEC on February 16, 2016).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.1	Restatement Agreement, dated as of May 31, 2013, to that certain Credit Agreement, dated as of February 9, 2012, as amended and restated as of May 31, 2012, among Generac Power Systems, Inc., Generac Acquisition Corp., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and Bank of America, N.A. and Goldman Sachs Bank USA, as syndication agents (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013)
10.2	Guarantee and Collateral Agreement, dated as of February 9, 2012, as amended and restated as of May 30, 2012, among Generac Holdings Inc., Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on May 31, 2012).
10.3	Credit Agreement, dated as of February 9, 2012, as amended and restated as of May 30, 2012, as further amended and restated as of May 31, 2013, among Generac Power Systems, Inc., Generac Acquisition Corp., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Bank of America, N.A. and Goldman Sachs Bank USA, as syndication agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013).
10.4	Guarantee and Collateral Agreement, dated as of May 30, 2012, among Generac Holdings Inc., Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed with the SEC on May 31, 2012).
10.5	First Amendment to Guarantee and Collateral Agreement, dated as of May 31, 2013, to that certain Guarantee and Collateral Agreement, dated as of February 9, 2012, as amended and restated as of May 30, 2012, among Generac Holdings Inc., Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013).

Exhibits Number	Description
10.6	Credit Agreement, dated as of May 30, 2012, among Generac Power Systems, Inc., its Domestic Subsidiaries listed as Borrowers on the signature pages thereto, Generac Acquisition Corp., the lenders party thereto, Bank of America, N.A. as Administrative Agent, JPMorgan Chase Bank, N.A. and Goldman Sachs Bank USA, as syndication agents, and Wells Fargo Bank, National Association, as Documentation Agent (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on May 31, 2012).
10.7	Amendment No. 1 dated as of May 31, 2013 to the Credit Agreement, dated as of May 30, 2012, among Generac Power Systems, Inc., its Domestic Subsidiaries listed as Borrowers on the signature pages thereto, Generac Acquisition Corp., the lenders party thereto, Bank of America, N.A. as Administrative Agent, JPMorgan Chase Bank, N.A. and Goldman Sachs Bank USA, as syndication agents, and Wells Fargo Bank, National Association, as Documentation Agent (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013)
10.8	First Amendment to the Guarantee and Collateral Agreement, dated as of May 31, 2013, to that certain Guarantee and Collateral Agreement, dated as of May 30, 2012, among Generac Holdings Inc., Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013).
10.9	Amendment No. 2 dated as of May 29, 2015 to the Credit Agreement, dated as of May 30, 2012, as amended by Amendment No. 1, dated as of May 31, 2013, among Generac Holdings, Inc., Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and Bank of America, N.A., as Administrative Agent and the other agents named therein (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on June 1, 2015).
10.10	Replacement Term Loan Amendment dated as of November 2, 2016 to the Credit Agreement, dated as of February 9, 2012, as amended and restated as of May 30, 2012, as further amended and restated as of May 31, 2013, and as amended by the First Amendment dated as of May 18, 2015, among Generac Power Systems, Inc., Generac Acquisition Corp., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and the other agents named therein.
10.11+	2009 Executive Management Incentive Compensation Program (incorporated by reference to Exhibit 10.46 of the Registration Statement on Form S-1 filed with the SEC on December 17, 2009).
10.12+	Generac Holdings Inc. Amended and Restated 2010 Equity Incentive Plan (incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A of the Company filed with the SEC on April 27, 2012)
10.13+	Generac Holdings Inc. Annual Performance Bonus Plan (incorporated by reference to Exhibit 10.63 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.14+	Amended and Restated Employment Agreement, dated November 5, 2015, between Generac and Aaron Jagdfeld (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2015).

Exhibits Number	Description
10.15+	Form of Change in Control Severance Agreement (incorporated by reference to Exhibit 10.64 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.16	Form of Confidentiality, Non-Competition and Intellectual Property Agreement (incorporated by reference to Exhibit 10.40 of the Registration Statement on Form S-1 filed with the SEC on November 24, 2009).
10.17+	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.44 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.18+	Form of Nonqualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.45 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.19+	Amended Form of Restricted Stock Award Agreement pursuant to the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q filed with the SEC on May 8, 2012).
10.20+	Amended Form of Nonqualified Stock Option Award Agreement pursuant to the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed with the SEC on May 8, 2012).
10.21+	Amended Form of Restricted Stock Award Agreement with accelerated vesting pursuant to the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q filed with the SEC on May 8, 2012).
10.22	Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.51 of the Registration Statement on Form S-1 filed with the SEC on January 11, 2010).
10.23	Form of Officer Indemnification Agreement (incorporated by reference to Exhibit 10.52 of the Registration Statement on Form S-1 filed with the SEC on January 11, 2010).
10.24+	Form of Performance Share Award Agreement (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the SEC on May 5, 2014).
21.1*	List of Subsidiaries of Generac Holdings Inc.
23.1*	Consent of Deloitte & Touche, Independent Registered Public Accounting Firm.
23.2*	Consent of Ernst & Young, Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibits Number	Description
101*	The following financial information from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on February 24, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets at December 31, 2016 and December 31, 2015; (ii) Consolidated Statements of Comprehensive Income for the Fiscal Years Ended December 31, 2016, December 31, 2015 and December 31, 2014; (iii) Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended December 31, 2016, December 31, 2015 and December 31, 2014; (iv) Consolidated Statements of Cash Flows for the Fiscal Years Ended December 31, 2016, December 31, 2015 and December 31, 2014; (v) Notes to Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

\+ Indicates management contract or compensatory plan or arrangement.

GENERAC HOLDINGS INC. - BOARD OF DIRECTORS

Todd Adams (2) (5)
President and Chief Executive Officer
Rexnord Corp.
Director since 2013

John D. Bowlin (2)
Director since 2006
Former President and Chief Executive Officer, Miller Brewing Company

Robert D. Dixon (1) (3)
Director since 2012
Former Chief Executive Officer, Natural Systems Utilities LLC

Aaron P. Jagdfeld (4)
President and Chief Executive Officer
Generac Holdings Inc.
Director since 2006

William "BJ" Jenkins (2)
President and Chief Executive Officer
Barracuda Networks
Director since 2017

Andrew G. Lampereur (1)
Director since 2014
Former Executive Vice President and Chief Financial Officer, Actuant Corporation

Bennett Morgan (2) (3)
Director since 2013
Former President and Chief Operating Officer
Polaris Industries Inc.

David A. Ramon (1)
Executive Chairman and
Acting Chief Executive Officer
Diversified Maintenance
Director since 2010

Kathryn Roedel (3)
Director since 2016
Former Executive Vice President and Chief Services and Fulfillment Officer
Select Comfort Corporation

Dominick Zarcone (1)
President and Chief Executive Officer
LKQ Corporation
Director since 2016

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Nominating and Corporate Governance Committee
(4) Executive Chairman
(5) Lead Director

EXECUTIVE OFFICERS

Aaron P. Jagdfeld – *22 years of service*
President and Chief Executive Officer

York A. Ragen – *11 years of service*
Chief Financial Officer

Russ Minick – *6 years of service*
Chief Marketing Officer

Erik Wilde – *1 year of service*
Executive Vice President, North America Industrial

Roger Pascavis – *20 years of service*
Executive Vice President, Strategic Global Sourcing

Patrick Forsythe – *9 years of service*
Executive Vice President, Global Engineering

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that are subject to risks and uncertainties. For important information about our use of forward-looking statements and limitations thereof, please see Part I of our Annual Report on Form 10-K for the year ended December 31, 2016, which is included with this annual report.

GENERAC HOLDINGS INC. - SHAREHOLDER INFORMATION

ANNUAL MEETING
The 2017 annual meeting of stockholders of Generac Holdings Inc. will be held on Thursday, June 15, 2017, at 9:00 a.m. central time, at Generac's corporate office.

CORPORATE OFFICE
Generac Holdings Inc.
S45 W29290 Hwy. 59, Waukesha, WI 53189
262-544-4811 - www.generac.com

TRANSFER AGENT AND REGISTRAR
Computershare Trust Company, N.A.
P.O. BOX 30170, College Station, TX 77842-3170
Toll free within the US: 800-962-4284
Outside the US: 781-575-3120
https://www-us.computershare.com/investor/Contact
www.computershare.com/investor

INVESTOR RELATIONS CONTACT
Michael Harris, Vice President – Finance
Generac Holdings Inc.
S45 W29290 Hwy. 59, Waukesha, WI 53189
262-506-6064 - investorrelations@generac.com

INDEPENDENT AUDITORS
Deloitte & Touche LLP
555 East Wells Street, Suite 1400
Milwaukee, WI 53202

FORM 10-K
Our annual report on Form 10-K was filed with the Securities and Exchange Commission and is available online, or upon written request to Generac Holdings Inc. Investor Relations.

STOCK EXCHANGE
Generac Holdings Inc. common stock is listed on the New York Stock Exchange under the ticker symbol GNRC.

GNRC
LISTED
NYSE

Generac Holdings Inc.
S45 W29290 Hwy. 59
Waukesha, WI 53189
1-888-GENERAC (1-888-436-3722)