

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission File Number 001-34627

GENERAC HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-5654756

(IRS Employer
Identification No.)

S45 W29290 Hwy 59, Waukesha, WI
(Address of principal executive offices)

53189
(Zip Code)

(262) 544-4811

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 30, 2018, there were 62,059,983 shares of registrant's common stock outstanding.

**GENERAC HOLDINGS INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 174,001	\$ 138,472
Accounts receivable, less allowance for doubtful accounts	341,758	279,294
Inventories	496,088	387,049
Prepaid expenses and other assets	28,110	19,741
Total current assets	<u>1,039,957</u>	<u>824,556</u>
Property and equipment, net	243,362	230,380
Customer lists, net	64,585	41,064
Patents, net	32,375	39,617
Other intangible assets, net	3,228	2,401
Tradenames, net	153,585	152,683
Goodwill	769,168	721,523
Deferred income taxes	1,207	3,238
Other assets	25,206	10,502
Total assets	<u>\$ 2,332,673</u>	<u>\$ 2,025,964</u>
Liabilities and stockholders' equity		
Current liabilities:		
Short-term borrowings	\$ 35,758	\$ 20,602
Accounts payable	287,718	233,639
Accrued wages and employee benefits	41,335	27,992
Other accrued liabilities	136,416	112,618
Current portion of long-term borrowings and capital lease obligations	51,886	1,572
Total current liabilities	<u>553,113</u>	<u>396,423</u>
Long-term borrowings and capital lease obligations	859,625	906,548
Deferred income taxes	68,380	41,852
Other long-term liabilities	93,023	82,893
Total liabilities	<u>1,574,141</u>	<u>1,427,716</u>
Redeemable noncontrolling interests	59,897	43,929
Stockholders' equity:		
Common stock, par value \$0.01, 500,000,000 shares authorized, 71,105,573 and 70,820,173 shares issued at September 30, 2018 and December 31, 2017, respectively	711	708
Additional paid-in capital	473,886	459,816
Treasury stock, at cost	(321,397)	(294,005)
Excess purchase price over predecessor basis	(202,116)	(202,116)
Retained earnings	756,636	610,835
Accumulated other comprehensive loss	(9,557)	(21,198)
Stockholders' equity attributable to Generac Holdings Inc.	<u>698,163</u>	<u>554,040</u>
Noncontrolling interests	472	279
Total stockholders' equity	<u>698,635</u>	<u>554,319</u>
Total liabilities and stockholders' equity	<u>\$ 2,332,673</u>	<u>\$ 2,025,964</u>

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 559,515	\$ 455,839	\$ 1,452,098	\$ 1,181,199
Costs of goods sold	361,630	299,608	937,968	783,247
Gross profit	197,885	156,231	514,130	397,952
Operating expenses:				
Selling and service	46,536	43,463	135,270	124,940
Research and development	13,653	10,850	38,122	31,690
General and administrative	25,499	22,128	75,613	64,508
Amortization of intangibles	5,678	7,242	16,792	21,554
Total operating expenses	91,366	83,683	265,797	242,692
Income from operations	106,519	72,548	248,333	155,260
Other (expense) income:				
Interest expense	(9,824)	(10,672)	(30,939)	(32,353)
Investment income	382	14	1,095	57
Loss on extinguishment of debt	-	-	(1,332)	-
Other, net	(483)	(1,710)	(2,764)	(3,525)
Total other expense, net	(9,925)	(12,368)	(33,940)	(35,821)
Income before provision for income taxes	96,594	60,180	214,393	119,439
Provision for income taxes	20,072	20,404	49,870	42,105
Net income	76,522	39,776	164,523	77,334
Net income attributable to noncontrolling interests	746	341	1,841	433
Net income attributable to Generac Holdings Inc.	\$ 75,776	\$ 39,435	\$ 162,682	\$ 76,901
Net income attributable to common shareholders per common share - basic:	\$ 1.12	\$ 0.64	\$ 2.36	\$ 1.25
Weighted average common shares outstanding - basic:	61,579,564	61,758,190	61,659,817	62,094,807
Net income attributable to common shareholders per common share - diluted:	\$ 1.11	\$ 0.63	\$ 2.34	\$ 1.24
Weighted average common shares outstanding - diluted:	62,220,298	62,316,788	62,266,140	62,703,269
Comprehensive income attributable to Generac Holdings Inc.	\$ 80,768	\$ 42,939	\$ 173,355	\$ 90,867

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Operating activities		
Net income	\$ 164,523	\$ 77,334
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	18,332	17,137
Amortization of intangible assets	16,792	21,554
Amortization of original issue discount and deferred financing costs	3,554	2,400
Loss on extinguishment of debt	1,332	-
Deferred income taxes	17,218	25,336
Share-based compensation expense	9,910	8,402
Other	1,249	361
Net changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(55,649)	(68,003)
Inventories	(99,957)	9,379
Other assets	(16,488)	(3,852)
Accounts payable	47,559	(206)
Accrued wages and employee benefits	13,044	6,288
Other accrued liabilities	18,011	25,148
Excess tax benefits from equity awards	(432)	(661)
Net cash provided by operating activities	<u>138,998</u>	<u>120,617</u>
Investing activities		
Proceeds from sale of property and equipment	213	77
Proceeds from beneficial interests in securitization transactions	2,825	2,102
Expenditures for property and equipment	(25,577)	(16,658)
Acquisition of business, net of cash acquired	(71,926)	1,257
Net cash used in investing activities	<u>(94,465)</u>	<u>(13,222)</u>
Financing activities		
Proceeds from short-term borrowings	28,332	74,443
Proceeds from long-term borrowings	51,425	3,069
Repayments of short-term borrowings	(12,478)	(80,952)
Repayments of long-term borrowings and capital lease obligations	(51,164)	(13,051)
Stock repurchases	(25,656)	(30,012)
Cash dividends paid to noncontrolling interest of subsidiary	(314)	-
Payment of debt issuance costs	(1,702)	(1,517)
Taxes paid related to equity awards	(2,777)	(2,479)
Proceeds from exercise of stock options	5,191	1,717
Net cash used in financing activities	<u>(9,143)</u>	<u>(48,782)</u>
Effect of exchange rate changes on cash and cash equivalents	139	2,895
Net increase in cash and cash equivalents	35,529	61,508
Cash and cash equivalents at beginning of period	138,472	67,272
Cash and cash equivalents at end of period	<u>\$ 174,001</u>	<u>\$ 128,780</u>

See notes to condensed consolidated financial statements.

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

1. Description of Business and Basis of Presentation

Founded in 1959, Generac Holdings Inc. (the Company) is a leading global designer and manufacturer of a wide range of power generation equipment and other engine powered products serving the residential, light-commercial and industrial markets. The Company's power products are available globally through a broad network of independent dealers, distributors, retailers, wholesalers, equipment rental companies, and e-commerce partners, as well as sold direct to certain end user customers.

Over the years, the Company has executed a number of acquisitions that support its strategic plan (as discussed in Item 1 of its Annual Report on Form 10-K for the year ended December 31, 2017). A summary of acquisitions affecting the reporting periods presented include:

- In June 2018, the Company acquired Selmeq Equipos Industriales, S.A. de C.V. (Selmeq), headquartered in Mexico City, Mexico. Selmeq is a designer and manufacturer of industrial generators ranging from 10kW to 2,750kW. Selmeq offers a market-leading service platform and specialized engineering capabilities, together with robust integration, project management and remote monitoring services.
- In January 2017, the Company acquired Motortech GmbH (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 around the world.

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

The condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2018 and 2017, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for the fair presentation of the financial position, results of operation and cash flows have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

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

Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

New Accounting Standards Not Yet Adopted

In February 2016, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases. This guidance was issued to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet 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. The Company has developed a comprehensive project plan and established a cross-functional implementation team to evaluate the impact of the standard. The project plan includes evaluating the Company's lease portfolio, analyzing the standard's impact on the Company's various types of lease contracts and identifying the reporting requirements of the standard. While the Company does not anticipate the impact to the statement of comprehensive income to be material, it is still calculating the impact the lease asset and lease liability will have on the balance sheet.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging – Targeted Improvements to Accounting for Hedging Activities*. This guidance was issued to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and to make certain targeted improvements to simplify the application of the hedge accounting guidance. The standard 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 the Company's results of operations and financial position.

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In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This guidance was issued to address the diversity in practice related to the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The guidance can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption, and is effective for the Company in 2020. The Company is currently assessing the impact the adoption of this guidance will have on the Company’s results of operations and financial position.

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.

Recently Adopted Accounting Standards

On January 1, 2018, the Company adopted ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new standard requires presentation of certain components of net periodic pension cost as non-operating expense. The adoption of this new standard did not have a significant impact on the Company’s financial statements. The changes in presentation of the components of net periodic pension cost were applied retrospectively to all periods presented.

On January 1, 2018, the Company adopted ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. The changes in presentation of the proceeds from beneficial interests in securitization transactions were applied retrospectively to all periods presented.

On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, and all related amendments (the “new revenue recognition standard”) using the full retrospective method, which requires application to all periods presented.

The impact of adopting the above standards on the Company’s previously reported condensed consolidated financial statements is as follows:

Condensed Consolidated Balance Sheets

	September 30, 2017		
	As Reported	Impact of Adoption	As Adjusted
Accounts receivable	\$ 320,626	\$ (4,207)	\$ 316,419
Inventories	349,023	7,359	356,382
Other accrued liabilities	109,362	5,584	114,946
Deferred income taxes	49,528	(3,367)	46,161
Other long-term liabilities	69,556	6,178	75,734
Retained earnings	\$ 535,172	\$ (5,243)	\$ 529,929

	December 31, 2017		
	As Reported	Impact of Adoption	As Adjusted
Accounts receivable	\$ 280,002	\$ (708)	\$ 279,294
Inventories	380,341	6,708	387,049
Other accrued liabilities	105,067	7,551	112,618
Deferred income taxes	43,789	(1,937)	41,852
Other long-term liabilities	76,995	5,898	82,893
Retained earnings	\$ 616,347	\$ (5,513)	\$ 610,835

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Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended September 30, 2017		
	As Reported	Impact of Adoption	As Adjusted
Net sales	\$ 457,253	\$ (1,414)	\$ 455,839
Cost of goods sold	299,784	(176)	299,608
Selling and service expenses	44,402	(939)	43,463
Research and development expenses	10,864	(14)	10,850
General and administrative expenses	22,102	26	22,128
Other, net	1,570	140	1,710
Provision for income taxes	20,581	(177)	20,404
Net income attributable to Generac Holdings Inc.	\$ 39,709	\$ (274)	\$ 39,435
Earnings per share			
Basic	\$ 0.64	\$ -	\$ 0.64
Diluted	\$ 0.64	\$ (0.01)	\$ 0.63
Comprehensive income attributable to Generac Holdings Inc.	\$ 43,213	\$ (274)	\$ 42,939

	Nine Months Ended September 30, 2017		
	As Reported	Impact of Adoption	As Adjusted
Net sales	\$ 1,184,443	\$ (3,244)	\$ 1,181,199
Cost of goods sold	782,028	1,219	783,247
Selling and service expenses	127,702	(2,762)	124,940
Research and development expenses	31,732	(42)	31,690
General and administrative expenses	64,436	72	64,508
Other, net	3,105	420	3,525
Provision for income taxes	42,946	(841)	42,105
Net income attributable to Generac Holdings Inc.	\$ 78,211	\$ (1,310)	\$ 76,901
Earnings per share			
Basic	\$ 1.27	\$ (0.02)	\$ 1.25
Diluted	\$ 1.26	\$ (0.02)	\$ 1.24
Comprehensive income attributable to Generac Holdings Inc.	\$ 92,177	\$ (1,310)	\$ 90,867

Condensed Consolidated Statement of Cash Flows

	Nine Months Ended September 30, 2017		
	As Reported	Impact of Adoption	As Adjusted
Net income	\$ 78,644	\$ (1,310)	\$ 77,334
Deferred income taxes	28,703	(3,367)	25,336
Accounts receivable	(70,108)	2,105	(68,003)
Inventories	16,738	(7,359)	9,379
Other accrued liabilities	17,319	7,829	25,148
Net cash provided by operating activities	\$ 122,719	\$ (2,102)	\$ 120,617
Proceeds from beneficial interests in securitization transactions	\$ -	\$ 2,102	\$ 2,102
Net cash used in investing activities	\$ (15,324)	\$ 2,102	\$ (13,222)

2. Revenue Recognition

The Company's revenues primarily consist of product sales to its customers. The Company considers the purchase orders, which in some cases are governed by master sales agreements, to be the contracts with the customers. For each contract, the Company considers the commitment to transfer products, each of which is distinct, to be the identified performance obligations. Revenue is measured as the amount of consideration the Company expects to be entitled in exchange for the transfer of product, which is generally the price stated in the contract specific for each item sold, adjusted for the value of expected returns, discounts, rebates, or other promotional incentives or allowances offered to our customers. Expected returns for damaged or defective product are estimated using the expected value method based upon historical product return experience. Discounts and rebates offered to customers are typically defined in the master sales agreements with customers and, therefore, are recorded using the most likely amount method based on the terms of the contract. Promotional incentives are defined programs offered for short, specific periods of time and are estimated using the expected value method based upon historical experience. The Company does not expect the transaction price for revenue recognized will be subject to a significant revenue reversal. As the Company's product sale contracts and standard payment terms have a duration of less than one year, it uses the practical expedient applicable to such contracts and does not consider the time value of money. Sales, use, value add and other similar taxes assessed by governmental authorities and collected concurrent with revenue-producing activities are excluded from revenue. The Company has elected to recognize the cost for freight activities when control of the product has transferred to the customer as an expense within cost of goods sold in the condensed consolidated statements of comprehensive income. Product revenues are recognized at the point in time when control of the product is transferred to the customer, which typically occurs upon shipment or delivery to the customer. To determine when control has transferred, the Company considers if there is a present right to payment and if legal title, physical possession, and the significant risks and rewards of ownership of the asset has transferred to the customer. As substantially all of the Company's revenues are recognized at a point in time, the amount of unsatisfied performance obligations at each period end is not material. The Company's contracts have an original expected duration of one year or less. As a result, the Company has elected to use the practical expedient to not disclose its remaining performance obligations.

At the request of certain customers, the Company 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 customer takes possession of the product.

While the Company's standard payment terms are less than one year, the specific payment terms and conditions in its customer contracts vary. In some cases, customers prepay for their goods; in other cases, after appropriate credit evaluation, an open credit line is granted and payment is due in arrears. Contracts with payment in arrears are recognized in the condensed consolidated balance sheets as accounts receivable upon revenue recognition, while contracts where customers pay in advance are recognized as customer deposits and recorded in other accrued liabilities in the condensed consolidated balance sheets until revenue is recognized. The balance of customer deposits (contract liabilities) was \$18,543 and \$7,034 at September 30, 2018 and December 31, 2017, respectively. During the nine month period ended September 30, 2018, the Company recognized revenue of \$6,824 related to amounts included in the December 31, 2017 customer deposit balance. The Company typically recognizes revenue within one year of the receipt of the customer deposit.

The Company offers standard warranty coverage on substantially all products that it sells and accounts for this standard warranty coverage as an assurance warranty. As such, no transaction price is allocated to the standard warranty, and the Company records a liability for product warranty obligations at the time of sale to a customer based upon historical warranty experience. Refer to Note 10, "Product Warranty Obligations," to the condensed consolidated financial statements for further information regarding the Company's standard warranties.

The Company also sells extended warranty coverage for certain products, which it accounts for as service warranties. In most cases, the extended warranty is sold as a separate contract. As such, extended warranty sales are considered a separate performance obligation, and the extended warranty transaction price is separate and distinct from the product. The extended warranty transaction price is initially recorded as deferred revenue on the condensed consolidated balance sheets and amortized on a straight-line basis to selling and service expenses in the condensed consolidated statements of comprehensive income, as an offset to warranty expense, over the life of the contracts following the standard warranty period. For extended warranty contracts that the Company sells under a third-party marketing agreement, it is required to pay fees to the third-party service provider and classifies these fees as costs to obtain a contract. The contract costs are deferred and recorded as other assets on the condensed consolidated balance sheets. The deferred contract costs are amortized to selling and service expense in the condensed consolidated statements of comprehensive income consistent with how the related deferred revenue is recognized. Refer to Note 10, "Product Warranty Obligations," to the condensed consolidated financial statements for further information regarding the Company's extended warranties.

The Company offers other services, including remote monitoring, installation and maintenance services in limited circumstances. These other services are currently not material, accounting for less than one percent of revenue in 2018.

Refer to Note 8, "Segment Reporting," to the condensed consolidated financial statements for the Company's disaggregated revenue disclosure. The information discussed above is applicable to each of the Company's product classes.

3. Selmec Acquisition

On June 1, 2018, the Company acquired Selmec for a purchase price of \$86,459, net of cash acquired and inclusive of estimated earnout payments of \$14,902. Headquartered in Mexico City, Mexico, Selmec is a designer and manufacturer of industrial generators ranging from 10kW to 2,750kW. Selmec offers a market-leading service platform and specialized engineering capabilities, together with robust integration, project management and remote monitoring services. To date, the acquisition purchase price was funded solely through cash on hand.

The Company recorded a preliminary purchase price allocation during the third quarter of 2018 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately \$81,500 of intangible assets, including approximately \$47,870 of goodwill recorded in the International segment, as of the acquisition date. The goodwill ascribed to the acquisition is not deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of Selmec from the date of acquisition through September 30, 2018.

4. Redeemable Noncontrolling Interest

On March 1, 2016, the Company acquired a 65% ownership interest in PR Industrial S.r.l. and its subsidiaries (Pramac). The 35% noncontrolling interest in Pramac had an acquisition date fair value of \$34,253 and was recorded as a redeemable noncontrolling interest in the condensed consolidated balance sheets, 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 his interest to the Company any time within five years from the date of acquisition. Within the first two years from the date of acquisition, the put option price was based on a fixed amount if voluntarily exercised. Subsequently, the put option price is based on the greater of the fixed amount or 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.

The redeemable noncontrolling interest is recorded at the greater of the initial fair value, increased or decreased for the noncontrolling interests' share of comprehensive income (loss), or the estimated redemption value, with any adjustments to the redemption value impacting retained earnings, but not net income. However, the redemption value adjustments are reflected in the earnings per share calculation, as detailed in Note 13, "Earnings Per Share," to the condensed consolidated financial statements. The following table presents the changes in the redeemable noncontrolling interest:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$ 53,035	\$ 37,796	\$ 43,929	\$ 33,138
Noncontrolling interest of Pramac	-	1,540 (1)	-	1,540 (1)
Net income	519	283	1,341	493
Foreign currency translation	(569)	2,178	(2,255)	7,535
Redemption value adjustment	6,912 (2)	-	16,882 (2)	(909)
Balance at end of period	\$ 59,897	\$ 41,797	\$ 59,897	\$ 41,797

- (1) Represents the additional noncontrolling interest of Pramac resulting from a common control transaction between the Generac Mobile Products S.r.l. and Pramac UK Limited legal entities.
- (2) The redemption value adjustments recorded during the three and nine month periods ended September 30, 2018 relate to the adjustment required to reflect the redeemable noncontrolling interest value as a multiple of earnings after two years from the date of acquisition, in accordance with the terms of the acquisition.

5. Derivative Instruments and Hedging Activities

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

Commodities

The Company is exposed to price fluctuations in commodities it uses as raw materials, primarily steel, copper and aluminum, and periodically utilizes commodity derivatives to mitigate the impact of these potential price fluctuations on its financial results. These derivatives typically have maturities of less than eighteen months. At September 30, 2018, December 31, 2017 and September 30, 2017, the Company had five, one and one commodity contracts outstanding, respectively, 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 condensed consolidated statements of comprehensive income. Net pre-tax losses recognized for the three and nine months ended September 30, 2018 were \$607 and \$810, respectively. Net pre-tax gains recognized for the three and nine months ended September 30, 2017 were \$140 and \$325, 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. As of September 30, 2018, December 31, 2017 and September 30, 2017, the Company had thirty-six, twenty-eight and twenty-two foreign currency contracts outstanding, respectively.

Because these contracts do not qualify for hedge accounting, the related gains and losses are recorded in other, net in the Company's condensed consolidated statements of comprehensive income. Net pre-tax losses recognized for the three and nine months ended September 30, 2018 were \$124 and \$442, respectively. Net pre-tax gains recognized for the three and nine months ended September 30, 2017 were \$447 and \$626, respectively.

Interest Rate Swaps

In October 2013, the Company entered into two interest rate swap agreements. In May 2014, the Company entered into one interest rate swap agreement, and in 2017, the Company entered into 20 additional interest rate swap agreements. The Company formally documented all relationships between interest rate hedging instruments and the related hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. These interest rate swap agreements qualify as cash flow hedges and therefore, the effective portions of the gains or losses are reported as a component of accumulated other comprehensive loss (AOCL) in the condensed consolidated balance sheets. The amount of gains, net of tax, recognized for the three and nine months ended September 30, 2018 were \$1,626 and \$10,403, respectively. The amount of gains, net of tax, recognized for the three and nine months ended September 30, 2017 were \$581 and \$1,345, respectively. The cash flows of the swaps are recognized as adjustments to interest expense each period. The ineffective portions of the derivatives' changes in fair value, if any, are immediately recognized in earnings.

Fair Value

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

	September 30, 2018	December 31, 2017
Commodity contracts	\$ (542)	\$ 107
Foreign currency contracts	(67)	167
Interest rate swaps	18,414	4,356

The fair values of the commodity contracts and foreign currency contracts are included in other accrued liabilities, and the fair value of the interest rate swaps is included in other assets in the condensed consolidated balance sheet as of September 30, 2018. The fair values of the commodity and foreign currency contracts are included in prepaid expenses and other assets, and the fair value of the interest rate swaps is included in other assets in the consolidated balance sheet as of December 31, 2017. Excluding the impact of credit risk, the fair value of the derivative contracts as of September 30, 2018 and December 31, 2017 is an asset of \$18,211 and \$4,703, respectively, which represents the amount the Company would receive upon exit of the agreements on those dates.

6. Fair Value Measurements

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

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short-term borrowings and ABL facility borrowings), excluding Term Loan borrowings, approximates the fair value of these instruments based upon their short-term nature. The fair value of Term Loan borrowings, which have an aggregate carrying value of \$856,729, was approximately \$858,516 (Level 2) at September 30, 2018, as calculated based on independent valuations whose inputs and significant value drivers are observable.

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For the fair value of the derivatives measured on a recurring basis, see the fair value table in Note 5, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements. The fair value of all derivative contracts is classified as Level 2. The valuation techniques used to measure the fair value of derivative contracts, all of which have counterparties with high credit ratings, were based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. The fair value of derivative contracts above considers the Company's credit risk in accordance with ASC 820-10.

7. Accumulated Other Comprehensive Loss

The following presents a tabular disclosure of changes in AOCL during the three and six months ended June 30, 2018 and 2017, net of tax:

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance – July 1, 2018	\$ (17,335)	\$ (10,978)	\$ 11,413	\$ (16,900)
Other comprehensive income before reclassifications	5,717	-	1,626 (1)	7,343
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive income	5,717	-	1,626	7,343
Ending Balance – September 30, 2018	<u>\$ (11,618)</u>	<u>\$ (10,978)</u>	<u>\$ 13,039</u>	<u>\$ (9,557)</u>
Beginning Balance – July 1, 2017	\$ (15,857)	\$ (11,040)	\$ (312)	\$ (27,209)
Other comprehensive income before reclassifications	3,826	-	581 (2)	4,407
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive income	3,826	-	581	4,407
Ending Balance – September 30, 2017	<u>\$ (12,031)</u>	<u>\$ (11,040)</u>	<u>\$ 269</u>	<u>\$ (22,802)</u>
Beginning Balance – January 1, 2018	\$ (12,856)	\$ (10,978)	\$ 2,636	\$ (21,198)
Other comprehensive income before reclassifications	1,238	-	10,403 (3)	11,641
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive income	1,238	-	10,403	11,641
Ending Balance – September 30, 2018	<u>\$ (11,618)</u>	<u>\$ (10,978)</u>	<u>\$ 13,039</u>	<u>\$ (9,557)</u>
Beginning Balance – January 1, 2017	\$ (28,047)	\$ (11,040)	\$ (1,076)	\$ (40,163)
Other comprehensive income before reclassifications	16,016	-	1,345 (4)	17,361
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive income	16,016	-	1,345	17,361
Ending Balance – September 30, 2017	<u>\$ (12,031)</u>	<u>\$ (11,040)</u>	<u>\$ 269</u>	<u>\$ (22,802)</u>

(1) Represents unrealized gains of \$2,197, net of tax effect of \$(571), for the three months ended September 30, 2018.

(2) Represents unrealized gains of \$954, net of tax effect of \$(373), for the three months ended September 30, 2017.

(3) Represents unrealized gains of \$14,057, net of tax effect of \$(3,654), for the nine months ended September 30, 2018.

(4) Represents unrealized gains of \$2,208, net of tax effect of \$(863), for the nine months ended September 30, 2017.

8. Segment Reporting

The Company has two reportable segments for financial reporting purposes - Domestic and International. The Domestic segment includes the legacy Generac business and the impact of acquisitions 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, Pramac, Motortech and Selmecc businesses, all of which have revenues that are substantially derived from outside of the U.S. and Canada. Both reportable segments design and manufacture a wide range of power generation equipment and other 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.

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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 (C&I) products are each a similar class of products based on similar power output and end customer. The breakout of net sales between residential, C&I, and other products by reportable segment is as follows:

Product Classes	Net Sales by Segment		
	Three Months Ended September 30, 2018		
	Domestic	International	Total
Residential products	\$ 300,387	\$ 11,531	\$ 311,918
Commercial & industrial products	121,952	84,414	206,366
Other	30,920	10,311	41,231
Total net sales	<u>\$ 453,259</u>	<u>\$ 106,256</u>	<u>\$ 559,515</u>

Product Classes	Three Months Ended September 30, 2017		
	Domestic	International	Total
Residential products	\$ 236,821	\$ 14,382	\$ 251,203
Commercial & industrial products	101,122	72,720	173,842
Other	24,966	5,828	30,794
Total net sales	<u>\$ 362,909</u>	<u>\$ 92,930</u>	<u>\$ 455,839</u>

Product Classes	Nine Months Ended September 30, 2018		
	Domestic	International	Total
Residential products	\$ 711,203	\$ 37,587	\$ 748,790
Commercial & industrial products	340,244	256,875	597,119
Other	83,078	23,111	106,189
Total net sales	<u>\$ 1,134,525</u>	<u>\$ 317,573</u>	<u>\$ 1,452,098</u>

Product Classes	Nine Months Ended September 30, 2017		
	Domestic	International	Total
Residential products	\$ 563,636	\$ 40,252	\$ 603,888
Commercial & industrial products	284,796	209,702	494,498
Other	67,051	15,762	82,813
Total net sales	<u>\$ 915,483</u>	<u>\$ 265,716</u>	<u>\$ 1,181,199</u>

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

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

Other products consist primarily of aftermarket service parts sold to our dealers, product accessories and proprietary engines sold to third-party original equipment manufacturers. Substantially all of the Other products revenues are transferred to the customer at a point in time.

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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			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Domestic	\$ 117,108	\$ 82,817	\$ 273,185	\$ 188,400
International	7,366	5,625	25,300	16,471
Total adjusted EBITDA	\$ 124,474	\$ 88,442	\$ 298,485	\$ 204,871
Interest expense	(9,824)	(10,672)	(30,939)	(32,353)
Depreciation and amortization	(11,841)	(13,108)	(35,124)	(38,691)
Non-cash write-down and other adjustments (1)	(900)	(756)	(3,522)	(2,632)
Non-cash share-based compensation expense (2)	(2,919)	(2,584)	(9,910)	(8,402)
Loss on extinguishment of debt (3)	-	-	(1,332)	-
Transaction costs and credit facility fees (4)	(1,767)	(234)	(2,470)	(970)
Business optimization expenses (5)	(583)	(487)	(750)	(1,933)
Other	(46)	(421)	(45)	(451)
Income before provision for income taxes	\$ 96,594	\$ 60,180	\$ 214,393	\$ 119,439

- (1) Includes gains/losses on disposal of assets, unrealized mark-to-market adjustments on commodity contracts, transactional foreign currency gains/losses and certain 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.
- (3) Represents the non-cash write-off of original issue discount and deferred financing costs due to a voluntary prepayment of Term Loan debt.
- (4) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance, debt issuance or refinancing; together with certain fees relating to our senior secured credit facilities.
- (5) Represents charges relating to business optimization and restructuring costs.

The Company's sales in the United States represented approximately 78% and 76% of total sales for the three month periods ended September 30, 2018 and 2017, respectively, and represented approximately 74% of total sales for the nine month periods ended September 30, 2018 and 2017. Approximately 80% and 85% of the Company's identifiable long-lived assets were located in the United States at September 30, 2018 and December 31, 2017, respectively.

9. Balance Sheet Details

Inventories consist of the following:

	September 30, 2018	December 31, 2017
Raw material	\$ 294,519	\$ 242,947
Work-in-process	4,101	2,544
Finished goods	197,468	141,558
Total	\$ 496,088	\$ 387,049

Property and equipment consists of the following:

	September 30, 2018	December 31, 2017
Land and improvements	\$ 15,583	\$ 13,118
Buildings and improvements	141,275	132,072
Machinery and equipment	96,756	90,487
Dies and tools	26,921	24,504
Vehicles	1,947	1,878
Office equipment and systems	80,144	73,254
Leasehold improvements	2,471	2,436
Construction in progress	19,216	18,799
Gross property and equipment	384,313	356,548
Accumulated depreciation	(140,951)	(126,168)
Total	\$ 243,362	\$ 230,380

10. Product Warranty Obligations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$ 38,660	\$ 32,813	\$ 35,422	\$ 31,695
Product warranty reserve assumed in acquisition	-	-	-	43
Payments	(5,205)	(5,135)	(15,097)	(13,980)
Provision for warranty issued	8,074	6,206	19,552	14,452
Changes in estimates for pre-existing warranties	(974)	(705)	678	969
Balance at end of period	<u>\$ 40,555</u>	<u>\$ 33,179</u>	<u>\$ 40,555</u>	<u>\$ 33,179</u>

Additionally, the Company sells extended warranty coverage for certain products, which it accounts for as a service warranty. The sales of extended warranties are recorded as deferred revenue, and typically have a duration of five to ten years. The deferred revenue related to extended warranty coverage is amortized over the duration of the extended warranty contract period, following the standard warranty period, using the straight-line method. The Company believes the straight-line method is appropriate because the performance obligation is satisfied based on the passage of time. The amortization of deferred revenue is recorded to selling and service expenses on the condensed consolidated statements of comprehensive income as an offset to warranty expense. The following is a tabular reconciliation of the deferred revenue related to extended warranty coverage:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$ 63,007	\$ 43,356	\$ 57,854	\$ 36,139
Deferred revenue contracts issued	4,787	12,741	15,029	23,204
Amortization of deferred revenue contracts	(2,873)	(1,908)	(7,962)	(5,154)
Balance at end of period	<u>\$ 64,921</u>	<u>\$ 54,189</u>	<u>\$ 64,921</u>	<u>\$ 54,189</u>

The timing of recognition of the Company's deferred revenue balance related to extended warranties at September 30, 2018 is as follows:

Remainder of 2018	\$ 3,187
2019	12,941
2020	12,566
2021	10,821
2022	8,502
After 2022	16,904
Total	<u>\$ 64,921</u>

In the second quarter of 2017, the Company launched a post-sale extended warranty marketing program. In the program's agreement, the Company is required to pay fees to a third-party service provider based on the number of extended warranty contracts sold, which it classifies as costs to obtain a contract. The contract costs are deferred and recorded as other assets in the condensed consolidated balance sheets. The deferred contract costs are amortized to selling and service expense in the condensed consolidated statements of comprehensive income over the same period that the underlying deferred revenue is recognized. The balance of deferred contract costs as of September 30, 2018 and 2017 was \$4,563 and \$2,196, respectively. Amortization of deferred contract costs recorded during the nine months ended September 30, 2018 was \$449.

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

	September 30, 2018	December 31, 2017
Product warranty liability		
Current portion - other accrued liabilities	\$ 23,374	\$ 20,576
Long-term portion - other long-term liabilities	17,181	14,846
Total	<u>\$ 40,555</u>	<u>\$ 35,422</u>
Deferred revenue related to extended warranties		
Current portion - other accrued liabilities	\$ 13,641	\$ 11,017
Long-term portion - other long-term liabilities	51,280	46,837
Total	<u>\$ 64,921</u>	<u>\$ 57,854</u>

11. Credit Agreements

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

	September 30, 2018	December 31, 2017
ABL Facility	\$ 11,000	\$ -
Other lines of credit	24,758	20,602
Total	<u>\$ 35,758</u>	<u>\$ 20,602</u>

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

	September 30, 2018	December 31, 2017
Term Loan	\$ 879,000	\$ 929,000
Original issue discount and deferred financing costs	(23,635)	(26,937)
ABL Facility	50,000	-
Capital lease obligation	4,091	4,690
Other	2,055	1,367
Total	<u>911,511</u>	<u>908,120</u>
Less: current portion of debt	51,266	936
Less: current portion of capital lease obligation	620	636
Total	<u>\$ 859,625</u>	<u>\$ 906,548</u>

The Company's credit agreements originally provided for a \$1,200,000 term loan B credit facility (Term Loan) and currently include a \$300,000 uncommitted incremental term loan facility. The maturity date of the Term Loan is May 31, 2023. The Term Loan is guaranteed by all of the Company's wholly-owned domestic restricted subsidiaries, and is secured by associated collateral agreements which pledge a first priority lien on virtually all of the Company's assets, including fixed assets and intangibles, other than all cash, trade accounts receivable, inventory, and other current assets and proceeds thereof, which are secured by a second priority lien. The Term Loan initially bore interest at rates based upon either a base rate plus an applicable margin of 1.75% or adjusted LIBOR rate plus an applicable margin of 2.75%, subject to a LIBOR floor of 0.75%. Beginning in the second quarter of 2014, the applicable margin related to base rate loans was reduced to 1.50% and the applicable margin related to LIBOR rate loans was reduced to 2.50%, in each case, if the Company's net debt leverage ratio, as defined in the Term Loan, fell below 3.00 to 1.00 for that measurement period.

In May 2017, the Company amended the Term Loan, modifying the pricing of the facility by reducing the applicable margin rates to base rate plus a fixed applicable margin of 1.25% or adjusted LIBOR rate plus a fixed applicable margin of 2.25%. Further, the amendment removed the pricing grid that would reduce the applicable margin if a net debt leverage ratio of 3.00 to 1.00 was achieved. As a result, the Company does not anticipate any future catch-up gains or losses resulting from changes in contractual interest rates to be recorded in the statements of comprehensive income. The amended Term Loan pricing, however, is still subject to the 0.75% LIBOR floor. In connection with this amendment and in accordance with ASC 470-50, the Company capitalized \$1,432 of fees paid to creditors as deferred financing costs on long-term borrowings in the second quarter of 2017.

In December 2017, the Company again amended the Term Loan, which further reduced the applicable margin rates to base rate plus a fixed applicable margin of 1.00% or adjusted LIBOR rate plus a fixed applicable margin of 2.00%. Additionally, the amendment eliminated the Excess Cash Flow payment requirement for 2017, and eliminated future related payment requirements if the Company's secured leverage ratio was maintained below 3.75 to 1.00 times. In connection with this amendment and in accordance with ASC 470-50, the Company capitalized \$2,346 of fees paid to creditors as original issue discount and deferred financing costs on long-term borrowings in the fourth quarter of 2017.

In June 2018, the Company again amended the Term Loan, which further reduced the applicable margin rates to base rate plus a fixed applicable margin of 0.75% or adjusted LIBOR rate plus a fixed applicable margin of 1.75%. In connection with this amendment and in accordance with ASC 470-50, the Company capitalized \$829 of fees paid to creditors as deferred financing costs on long-term borrowings in the second quarter of 2018.

As of September 30, 2018, the Company's secured leverage ratio was 1.82 to 1.00 times, and the Company was in compliance with all Term Loan covenants. There are no financial maintenance covenants on the Term Loan.

The Company's credit agreements also originally provided for a \$250,000 senior secured ABL revolving credit facility (ABL Facility), with a maturity date of May 29, 2020. Borrowings under the ABL Facility are guaranteed by all of the Company's wholly-owned domestic restricted subsidiaries, and are secured by associated collateral agreements which pledge a first priority lien on all cash, trade accounts receivable, inventory, and other current assets and proceeds thereof, and a second priority lien on all other assets, including fixed assets and intangibles of the Company and certain domestic subsidiaries. ABL Facility borrowings originally bore interest at rates based upon either a base rate plus an applicable margin of 0.50% or adjusted LIBOR rate plus an applicable margin of 1.50%, in each case, subject to adjustments based upon average availability under the ABL Facility.

In June 2018, the Company amended the ABL Facility; increasing it from \$250,000 to \$300,000 and extending the maturity date from May 29, 2020 to June 12, 2023 (Amended ABL Facility). In addition, the Amended ABL Facility modified the pricing by reducing certain applicable interest rates to either a base rate plus an applicable margin of 0.375% or an adjusted LIBOR rate plus an applicable margin of 1.375%. In connection with this amendment and in accordance with ASC 470-50, the Company capitalized \$755 of new debt issuance costs as deferred financing costs on long-term borrowings in 2018 and wrote-off \$34 of capitalized debt issuance costs as a loss on extinguishment of debt in the second quarter of 2018.

In June 2018, the Company borrowed \$50,000 under the Amended ABL Facility, the proceeds of which were used as a voluntary prepayment of the Term Loan. As a result of the prepayment of the Term Loan, the Company wrote-off \$1,298 of original issue discount and capitalized debt issuance costs during the second quarter of 2018 as a loss on extinguishment of debt in the condensed consolidated statements of comprehensive income.

As of September 30, 2018, there was \$61,000 outstanding under the Amended ABL Facility, leaving \$207,498 of availability, net of outstanding letters of credit. In October 2018, the Company repaid the \$50,000 outstanding Amended ABL Facility balance classified as current portion of long-term borrowings as of September 30, 2018.

As of September 30, 2018 and December 31, 2017, short-term borrowings consisted of borrowings by the Company's foreign subsidiaries on local lines of credit and the Amended ABL Facility, which totaled \$35,758 and \$20,602, respectively.

12. Stock Repurchase Program

In August 2015, the Company's Board of Directors approved a \$200,000 stock repurchase program, which the Company completed in the third quarter of 2016. In October 2016, the Company's Board of Directors approved an additional \$250,000 stock repurchase program. Under the second program, the Company may repurchase up to \$250,000 of its common stock over the 24 months following the date of approval. The Company may repurchase its common stock from time to time, in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. The repurchases may be executed using open market purchases, privately negotiated agreements or other transactions. The actual timing, number and value of shares repurchased under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's common stock and general market and economic conditions, applicable legal requirements, and compliance with the terms of the Company's outstanding indebtedness. The repurchases may be funded with cash on hand, available borrowings or proceeds from potential debt or other capital markets sources. The stock repurchase program may be suspended or discontinued at any time without prior notice. During the nine months ended September 30, 2018 and 2017, the Company repurchased 560,000 and 844,500 shares of its common stock, respectively, for \$25,656 and \$30,012, respectively, all funded with cash on hand. Since the inception of both programs, the Company has repurchased 8,676,706 shares of its common stock for \$305,547, all funded with cash on hand.

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In September 2018, the Company's Board of Directors approved another \$250,000 stock repurchase program, which will commence in October 2018 upon the expiration of the previous stock repurchase program.

13. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to the common stockholders of the Company by the weighted average number of common shares outstanding during the period, exclusive of restricted shares. Except where the result would be anti-dilutive, diluted earnings per share is calculated by assuming the vesting of unvested restricted stock and the exercise of stock options. The following table reconciles the numerator and the denominator used to calculate basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator				
Net income attributable to Generac Holdings Inc.	\$ 75,776	\$ 39,435	\$ 162,682	\$ 76,901
Redeemable noncontrolling interest redemption value adjustment	(6,912)	-	(16,882)	909
Net income attributable to common shareholders	<u>\$ 68,864</u>	<u>\$ 39,435</u>	<u>\$ 145,800</u>	<u>\$ 77,810</u>
Denominator				
Weighted average shares, basic	61,579,564	61,758,190	61,659,817	62,094,807
Dilutive effect of stock compensation awards (1)	640,734	558,598	606,323	608,462
Diluted shares	<u>62,220,298</u>	<u>62,316,788</u>	<u>62,266,140</u>	<u>62,703,269</u>
Net income attributable to common shareholders per share				
Basic	\$ 1.12	\$ 0.64	\$ 2.36	\$ 1.25
Diluted	\$ 1.11	\$ 0.63	\$ 2.34	\$ 1.24

(1) Excludes approximately 38,900 and 146,000 stock options for the three month periods ended September 30, 2018 and 2017, respectively, as the impact of such awards was anti-dilutive. Excludes approximately 48,200 and 188,800 stock options for the nine month periods ended September 30, 2018 and 2017, respectively, as the impact of such awards was anti-dilutive.

14. Income Taxes

The effective income tax rates for the nine months ended September 30, 2018 and 2017 were 23.3% and 35.3%, respectively. The decrease in the effective income tax rate in 2018 was primarily due to a reduction of the U.S. federal corporate tax rate as a result of the Tax Cuts and Jobs Act (Tax Act) enacted on December 22, 2017.

The SEC staff issued Staff Legal Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. The Company's accounting for certain elements of the Tax Act is incomplete. However, reasonable estimates of certain effects were able to be made and, therefore, provisional adjustments were recorded in the Company's financial statements as of, and for the period ended, December 31, 2017. For the nine months ended September 30, 2018, the Company recorded a \$2,500 favorable adjustment to the provisional amounts recorded in 2017 as a result of the completion of the 2017 federal income tax return. For further discussion on the impact of the Tax Act, see Item 8 (Note 13 "Income Taxes") of the Annual Report on Form 10-K for the year ended December 31, 2017.

15. Commitments and Contingencies

The Company has an arrangement with a finance company to provide floor plan financing for certain dealers. The Company receives payment from the finance company after shipment of product to the dealer. The Company participates in the cost of dealer financing up to certain limits and has agreed to repurchase products repossessed by the finance company, but does not indemnify the finance company for any credit losses they incur. The amount financed by dealers which remained outstanding under this arrangement at September 30, 2018 and December 31, 2017 was approximately \$40,600 and \$36,500, respectively.

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

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

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

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

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

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

- frequency and duration of power outages impacting demand for our products;
- availability, cost and quality of raw materials and key components and labor needed in producing our products;
- the impact on our results of possible fluctuations in interest rates, foreign currency exchange rates, commodities, product mix and regulatory tariffs;
- the possibility that the expected synergies, efficiencies and cost savings of our acquisitions will not be realized, or will not be realized within the expected time period;
- the risk that our acquisitions will not be integrated successfully;
- difficulties we may encounter as our business expands globally;
- 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 our filings with the Securities and Exchange Commission, including in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. Stockholders, potential investors and other readers should consider these factors carefully in evaluating the forward-looking statements.

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

Overview

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

Over the past eight years, we have executed a number of acquisitions that support our strategic plan. A summary of the recent acquisitions can be found in Note 1, “Description of Business and Basis of Presentation,” to the condensed consolidated financial statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q, and in Item 8 (Note 1 “Description of Business”) of the Annual Report on Form 10-K for the year ended December 31, 2017.

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 back-up 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 still not aware of the costs and benefits of automatic backup power solutions. We estimate that penetration rates for home standby generators are only approximately 4.0% 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 over the past decade in the light-commercial market. In addition, the installed base of backup power for telecommunications infrastructure is still increasing due to the growing importance for uninterrupted voice and data services. We believe by expanding our distribution network, continuing to develop our product line and targeting our marketing efforts, we can continue to build awareness and increase penetration for our standby generators for residential, commercial and industrial purposes.

Effect of large scale and baseline power disruptions. Power disruptions are an important driver of customer awareness for back-up power and have historically influenced demand for generators, both in the United States and internationally. Increased frequency and duration of major power outage events, that have a broader impact beyond a localized level, increases product awareness and may drive consumers to accelerate their purchase of a standby or portable generator during the immediate and subsequent period, which we believe may last for six to twelve months following a major power outage event for standby generators. For example, the major outage events that occurred during the second half of 2017 drove strong demand for portable and home standby generators, and the increased awareness of these products contributed to strong revenue growth in 2017 and thus far in 2018. 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 and 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 and gas and municipal infrastructure, among others. The market for these products is also affected by general economic and geopolitical conditions as well as credit availability in the geographic regions that we serve. In addition, we believe demand for our mobile power products will continue to benefit from a secular shift towards renting versus buying this type of equipment. We believe the passage of the Tax Act in late 2017 could have a favorable impact on future demand within many of the end markets that we serve, as the improved cash flow, liquidity and business sentiment may lead to further investments in equipment, facilities and infrastructure in the United States.

Factors Affecting Results of Operations

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

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

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

Seasonality. Although there is demand for our products throughout the year, in each of the past five years approximately 20% to 27% of our net sales occurred in the first quarter, 22% 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 when no major outage events occurred. We maintain a flexible production and supply chain infrastructure in order to respond to outage-driven peak demand.

Factors influencing interest expense and cash interest expense. Interest expense can be impacted by a variety of factors, including market fluctuations in LIBOR, interest rate election periods, interest rate swap agreements, repayments or borrowings of indebtedness, and amendments to our credit agreements. Cash interest expense decreased during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, primarily due to lower interest rate spreads resulting from Term Loan amendments, new interest rate swaps beginning July 2, 2018, and the October 2017 repayment of \$100.0 million of ABL Facility borrowings. These factors are partially offset by an increase in the market LIBOR rate. Refer to Note 11, "Credit Agreements," to the condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q for further information.

Factors influencing provision for income taxes and cash income taxes paid. The Tax Act significantly changes how the U.S. taxes corporations. The Tax Act requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our interpretation.

As a result of the Tax Act, we recognized a one-time, non-cash benefit of \$28.4 million in the fourth quarter of 2017 primarily from the impact of the revaluation of our net deferred tax liabilities. While we continue to assess the full impact of the Tax Act, the preliminary analysis suggests a meaningful benefit from the legislation. Specifically for 2018, our combined federal and state effective tax rate is expected to decline to between 23 to 25%, resulting in lower cash income taxes. As we complete our analysis of the Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made. Refer to Note 14, "Income Taxes," to the consolidated financial statements in Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2017 for further information on the Tax Act and its impact.

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Further, we had approximately \$470 million of tax-deductible goodwill and intangible asset amortization remaining as of December 31, 2017 related to our acquisition by CCMP Capital Advisors, LLC in 2006 that we expect to generate aggregate cash tax savings of approximately \$122 million through 2021, assuming continued profitability and a 26% combined federal and state tax rate. The aggregate cash tax savings reflects a decrease of \$61 million from prior estimates due to a reduction in the assumed tax rate from 39% to 26% as a result of the Tax Act. The amortization of these assets for tax purposes is expected to be \$122 million annually through 2020 and \$102 million in 2021, which generates annual cash tax savings of \$32 million through 2020 and \$26 million in 2021, assuming profitability and a 26% combined federal and state tax rate. As a result of the asset acquisition of the Magnum business in the fourth quarter of 2011, we had approximately \$34 million of incremental tax deductible goodwill and intangible assets remaining as of December 31, 2017. We expect these assets to generate aggregate cash tax savings of \$9.0 million through 2026 assuming continued profitability and a 26% combined federal and state tax rate. The aggregate cash tax savings reflects a decrease of \$4.5 million due to a reduction in the assumed tax rate from 39% to 26% as a result of the Tax Act. 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 \$1.0 million through 2025 and \$0.7 million in 2026, assuming profitability and a 26% combined federal and state 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 our consolidated financial statements.

Results of Operations

Three months ended September 30, 2018 compared to the three months ended September 30, 2017

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

(U.S. Dollars in thousands)	Three Months Ended September 30,		\$ Change	% Change
	2018	2017		
Net sales	\$ 559,515	\$ 455,839	\$ 103,676	22.7%
Cost of goods sold	361,630	299,608	62,022	20.7%
Gross profit	197,885	156,231	41,654	26.7%
Operating expenses:				
Selling and service	46,536	43,463	3,073	7.1%
Research and development	13,653	10,850	2,803	25.8%
General and administrative	25,499	22,128	3,371	15.2%
Amortization of intangible assets	5,678	7,242	(1,564)	-21.6%
Total operating expenses	91,366	83,683	7,683	9.2%
Income from operations	106,519	72,548	33,971	46.8%
Total other expense, net	(9,925)	(12,368)	2,443	-19.8%
Income before provision for income taxes	96,594	60,180	36,414	60.5%
Provision for income taxes	20,072	20,404	(332)	-1.6%
Net income	76,522	39,776	36,746	92.4%
Net income attributable to noncontrolling interests	746	341	405	118.8%
Net income attributable to Generac Holdings Inc.	\$ 75,776	\$ 39,435	\$ 36,341	92.2%

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

(U.S. Dollars in thousands)	Net Sales Three Months Ended September 30,		\$ Change	% Change
	2018	2017		
Domestic	\$ 453,259	\$ 362,909	\$ 90,350	24.9%
International	106,256	92,930	13,326	14.3%
Total net sales	\$ 559,515	\$ 455,839	\$ 103,676	22.7%

(U.S. Dollars in thousands)	Adjusted EBITDA Three Months Ended September 30,		\$ Change	% Change
	2018	2017		
Domestic	\$ 117,108	\$ 82,817	\$ 34,291	41.4%
International	7,366	5,625	1,741	31.0%
Total Adjusted EBITDA	\$ 124,474	\$ 88,442	\$ 36,032	40.7%

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

(U.S. Dollars in thousands)	Three Months Ended September 30,		\$ Change	% Change
	2018	2017		
Residential products	\$ 311,922	\$ 251,203	\$ 60,719	24.2%
Commercial & industrial products	206,366	173,842	32,524	18.7%
Other	41,227	30,794	10,433	33.9%
Total net sales	\$ 559,515	\$ 455,839	\$ 103,676	22.7%

Net sales. The increase in Domestic sales for the three months ended September 30, 2018 was primarily due to continued strong growth in shipments of home standby generators, C&I mobile products, C&I stationary generators, and service parts, all of which contributed to the year-over-year growth. Shipments of residential products were particularly strong as disruptions from power outages continued to drive awareness around the home standby category and the need for homeowners to have back-up power. Sales of our C&I mobile and stationary products were also strong during the quarter with rental, telecom, and healthcare verticals experiencing growth.

The increase in International sales for the three months ended September 30, 2018 was primarily due to the contribution from the Selmeac acquisition, which was \$13.4 million for the third quarter. Our Pramac, Tower Light and Motortech businesses grew modestly as we continue to drive market penetration across the globe. However, the tough prior year comparison with hurricane Maria impacted year-over-year growth rates in Latin America.

Gross profit. Gross profit margin for the third quarter of 2018 was 35.4% compared to 34.3% in the prior-year third quarter. A significant favorable mix shift towards higher margin home standby generator sales primarily drove this increase. Price and cost factors were largely neutral to gross margins relative to the prior year as a more favorable pricing environment and improved manufacturing overhead absorption helped to offset general inflationary pressures.

Operating expenses. The increase in operating expenses was primarily driven by higher variable operating expenses given the higher sales volumes, an increase in employee and incentive compensation costs, and recurring operating expenses from the Selmeac acquisition. These items were partially offset by lower promotion, marketing, and intangible amortization expenses.

Other expense. The decrease in other expense, net was primarily due to lower interest expense given the lower interest rate spreads resulting from Term Loan refinancing amendments and the October 2017 repayment of \$100.0 million of ABL Facility borrowings.

Provision for income taxes. The effective income tax rates for the three months ended September 30, 2018 and 2017 were 20.8% and 33.9%, respectively. The decrease in the effective income tax rate in 2018 was primarily due to a reduction in the U.S. federal corporate tax rate as a result of the Tax Act enacted on December 22, 2017. In addition, a favorable provision-to-return adjustment was recorded in the current year third quarter related to the finalization of our 2017 federal income tax return.

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

Adjusted EBITDA. Adjusted EBITDA for the Domestic segment was \$117.1 million, or 25.8% of net sales, as compared to \$82.8 million, or 22.8% of net sales in the prior year. Adjusted EBITDA margin in the current year benefitted from favorable mix, improved operating leverage, a favorable pricing environment, and focused margin improvement initiatives. These benefits were partially offset by an increase in employee costs and general inflationary pressures.

Adjusted EBITDA for the International segment, before deducting for non-controlling interests, improved to \$7.4 million, or 6.9% of net sales, as compared to \$5.6 million, or 6.1% of net sales, in the prior year. The improvement was primarily due to increased leverage of fixed operating costs on the higher organic sales volumes and favorable mix.

Adjusted Net Income. Adjusted Net Income of \$89.1 million for the three months ended September 30, 2018 increased 55.3% from \$57.4 million for the three months ended September 30, 2017, due to the factors outlined above, partially offset by an increase in cash income tax expense.

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

Nine months ended September 30, 2018 compared to the nine months ended September 30, 2017

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

(U.S. Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2018	2017		
Net sales	\$ 1,452,098	\$ 1,181,199	\$ 270,899	22.9%
Cost of goods sold	937,968	783,247	154,721	19.8%
Gross profit	514,130	397,952	116,178	29.2%
Operating expenses:				
Selling and service	135,270	124,940	10,330	8.3%
Research and development	38,122	31,690	6,432	20.3%
General and administrative	75,613	64,508	11,105	17.2%
Amortization of intangible assets	16,792	21,554	(4,762)	-22.1%
Total operating expenses	265,797	242,692	23,105	9.5%
Income from operations	248,333	155,260	93,073	59.9%
Total other expense, net	(33,940)	(35,821)	1,881	-5.3%
Income before provision for income taxes	214,393	119,439	94,954	79.5%
Provision for income taxes	49,870	42,105	7,765	18.4%
Net income	164,523	77,334	87,189	112.7%
Net income attributable to noncontrolling interests	1,841	433	1,408	325.2%
Net income attributable to Generac Holdings Inc.	\$ 162,682	\$ 76,901	\$ 85,781	111.5%

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

(U.S. Dollars in thousands)	Net Sales		\$ Change	% Change
	Nine Months Ended September 30,			
	2018	2017		
Domestic	\$ 1,134,525	\$ 915,483	\$ 219,042	23.9%
International	317,573	265,716	51,857	19.5%
Total net sales	\$ 1,452,098	\$ 1,181,199	\$ 270,899	22.9%

(U.S. Dollars in thousands)	Adjusted EBITDA		\$ Change	% Change
	Nine Months Ended September 30,			
	2018	2017		
Domestic	\$ 273,185	\$ 188,400	\$ 84,785	45.0%
International	25,300	16,471	8,829	53.6%
Total Adjusted EBITDA	\$ 298,485	\$ 204,871	\$ 93,614	45.7%

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

(U.S. Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2018	2017		
Residential products	\$ 748,794	\$ 603,888	\$ 144,906	24.0%
Commercial & industrial products	597,119	494,498	102,621	20.8%
Other	106,185	82,813	23,372	28.2%
Total net sales	\$ 1,452,098	\$ 1,181,199	\$ 270,899	22.9%

Net sales. The increase in Domestic sales for the nine months ended September 30, 2018 was primarily due to continued strong growth in shipments of home standby and portable generators, C&I mobile products, C&I stationary generators, and service parts, all of which contributed to the year-over-year growth. Shipments of residential products were particularly strong with demand climbing to record levels as disruptions from power outages continued to drive awareness around the home standby category and the need for homeowners to have back-up power. Sales of our C&I mobile and stationary products were also strong during the quarter with rental, telecom, and healthcare verticals experiencing growth.

The increase in International sales for the nine months ended September 30, 2018 was primarily due to the \$17.4 million contribution from the Selmeac acquisition, growth in our Pramac, Tower Light and Motortech businesses as we continue to drive market penetration across the globe, and the stronger Euro compared to prior year. However, the tough prior year comparison with hurricane Maria caused growth rates in Latin America to be relatively flat compared to the prior year.

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Gross profit. Gross profit margin for the first nine months of 2018 was 35.4% compared to 33.7% in the first nine months of 2017. The increase reflected better leverage of fixed manufacturing costs on the increase in sales, favorable mix of home standby generators, a favorable pricing environment, and focused initiatives to improve margins. These items were partially offset by general inflationary pressures from higher commodities, currencies, wages and logistics costs.

Operating expenses. The increase in operating expenses was primarily driven by an increase in employee and incentive compensation costs, higher variable operating expenses given the higher sales volumes, the recurring operating expenses from the Selmeac acquisition, and increased International operating expenses given the stronger Euro. These items were partially offset by lower promotion, marketing and intangible amortization costs.

Other expense. The decrease in other expense, net was primarily due to lower interest expense, partially offset by the \$1.3 million loss on extinguishment of debt resulting from a \$50.0 million voluntary prepayment of Term Loan debt.

Provision for income taxes. The effective income tax rates for the nine months ended September 30, 2018 and 2017 were 23.3% and 35.3%, respectively. The decrease in the effective income tax rate in 2018 was primarily due to a reduction in the U.S. federal corporate tax rate as a result of the Tax Act enacted on December 22, 2017.

Net income attributable to Generac Holdings Inc. The increase was primarily driven by higher operating earnings as outlined above and a lower effective tax rate during the current year quarter, partially offset by higher income attributable to noncontrolling interests.

Adjusted EBITDA. Adjusted EBITDA for the Domestic segment was \$273.2 million, or 24.1% of net sales, as compared to \$188.4 million, or 20.6% of net sales in the prior year. Adjusted EBITDA margin in the current year benefitted from favorable mix, improved operating leverage, a favorable pricing environment, lower promotional costs, and focused margin improvement initiatives. These benefits were partially offset by an increase in employee costs and general inflationary pressures.

Adjusted EBITDA for the International segment, before deducting for non-controlling interests, improved to \$25.3 million, or 8.0% of net sales, as compared to \$16.5 million, or 6.2% of net sales, in the prior year. The improvement in Adjusted EBITDA margin as compared to the prior year was primarily due to increased leverage of fixed operating costs on the higher organic sales and favorable mix.

Adjusted Net Income. Adjusted Net Income of \$204.1 million for the nine months ended September 30, 2018 increased 63.6% from \$124.8 million for the nine months ended September 30, 2017, due to the factors outlined above, partially offset by an increase in cash income tax expense.

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

Liquidity and Financial Condition

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

Our credit agreements originally provided for a \$1.2 billion Term Loan and currently include a \$300.0 million uncommitted incremental term loan facility that could be utilized in the future if needed. The Term Loan matures on May 31, 2023, and bears interest at rates based upon either a base rate plus an applicable margin of 0.75% or adjusted LIBOR rate plus an applicable margin of 1.75%, subject to a LIBOR floor of 0.75%. The Term Loan does not require an Excess Cash Flow payment if our secured leverage ratio is maintained below 3.75 to 1.00 times. As of September 30, 2018, our secured leverage ratio was 1.82 to 1.00 times, and we were in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

Our credit agreements also provide for the \$300.0 million Amended ABL Facility. The maturity date of the Amended ABL Facility is June 12, 2023. As of September 30, 2018, there were \$61.0 million of borrowings outstanding and \$207.5 million of availability under the Amended ABL Facility, net of outstanding letters of credit. In October 2018, the Company repaid the \$50.0 million outstanding Amended ABL Facility balance classified as current portion of long-term borrowings as of September 30, 2018. We were in compliance with all covenants of the Amended ABL Facility as of September 30, 2018.

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In August 2015, our Board of Directors approved a \$200.0 million stock repurchase program, which we completed in the third quarter of 2016. In October 2016, our Board of Directors approved another 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. Since the inception of both programs, we have repurchased 8,676,706 shares of our common stock for \$305.5 million, all funded with cash on hand. During the nine months ended September 30, 2018 and 2017, we repurchased 560,000 and 844,500 shares of our common stock, respectively, for \$25.7 million and \$30.0 million, respectively, all funded with cash on hand.

In September 2018, the Company's Board of Directors approved another \$250,000 stock repurchase program, which will commence in October 2018 upon the expiration of the previous stock repurchase program.

See Note 11, "Credit Agreements," to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Long-term Liquidity

We believe that our cash flow from operations and availability under our Amended ABL Facility and other short-term lines of credit, 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

Nine months ended September 30, 2018 compared to the nine months ended September 30, 2017

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

(U.S. Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2018	2017		
Net cash provided by operating activities	\$ 138,998	\$ 120,617	\$ 18,381	15.2%
Net cash used in investing activities	(94,465)	(13,222)	(81,243)	614.5%
Net cash used in financing activities	(9,143)	(48,782)	39,639	-81.3%

The increase in net cash provided by operating activities was primarily due to an increase in operating earnings as compared to the prior year, partially offset by increased working capital investment driven by organic sales growth and the replenishment of inventory levels as well as the timing of certain cash flows related to taxes, interest, pensions and sales of extended warranties.

Net cash used in investing activities for the nine months ended September 30, 2018 primarily represents cash payments of \$71.9 million related to the acquisition of businesses and \$25.6 million for the purchase of property and equipment. Net cash used in investing activities for the nine months ended September 30, 2017 primarily represents cash payments for the purchase of property and equipment.

Net cash used in financing activities for the nine months ended September 30, 2018 primarily represents \$63.6 million of debt repayments (\$51.1 million of long-term borrowings and \$12.5 million of short-term borrowings) and \$25.7 million cash used for the repurchase of our common stock. These payments were partially offset by \$79.8 million of cash proceeds from borrowings (\$51.4 million long-term and \$28.4 million short-term).

Net cash used in financing activities for the nine months ended September 30, 2017 primarily represents \$94.0 million of debt repayments (\$80.9 million of short-term borrowings and \$13.1 million of long-term borrowings) and \$30.0 million for the repurchase of our common stock. These payments were partially offset by \$77.5 million cash proceeds from borrowings (\$74.4 million short-term and \$3.1 million long-term).

Contractual Obligations

In June 2018, the Company amended its Term Loan and ABL Facility, and borrowed \$50.0 million under the Amended ABL Facility, the proceeds of which were used as a voluntary prepayment of the Term Loan. In October 2018, the Company repaid the \$50.0 million outstanding Amended ABL Facility balance classified as current portion of long-term borrowings as of September 30, 2018. See Note 11, "Credit Agreements," to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information. Other than these transactions, there have been no material changes to our contractual obligations since the February 26, 2018 filing of our Annual Report on Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

There have been no material changes to off-balance sheet arrangements since the February 26, 2018 filing of our Annual Report on Form 10-K for the year ended December 31, 2017.

Critical Accounting Policies

There have been no material changes in our critical accounting policies since the February 26, 2018 filing of our Annual Report on Form 10-K for the year ended December 31, 2017.

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2017, 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 our supplemental information disclosures, including information about contingencies, risk and financial condition. We believe, given current facts and circumstances, our 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. We make routine estimates and judgments in determining net realizable value of accounts receivable, inventories, property and equipment, prepaid expenses, product warranties and other reserves. Management believes our most critical accounting estimates and assumptions are in the following areas: goodwill and other indefinite-lived intangible asset impairment assessment; business combinations and purchase accounting; defined benefit pension obligations; and income taxes.

Non-GAAP Measures

Adjusted EBITDA

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

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

- for planning purposes, including the preparation of our annual operating budget and developing and refining our internal projections for future periods;
- to allocate resources to enhance the financial performance of our business;
- as one component for the determination of bonus compensation for our senior executives under our management incentive plan, as described further in our 2018 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 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. 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;

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- 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, write-offs relating to the retirement of debt, severance costs and other restructuring-related business optimization expenses;
- we believe to be akin to, or associated with, interest expense, such as administrative agent fees, revolving credit facility commitment fees and letter of credit fees; or
- are non-cash in nature, such as share-based compensation.

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

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

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

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

(U.S. Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income attributable to Generac Holdings Inc.	\$ 75,776	\$ 39,435	\$ 162,682	\$ 76,901
Net income attributable to noncontrolling interests	746	341	1,841	433
Net income	76,522	39,776	164,523	77,334
Interest expense	9,824	10,672	30,939	32,353
Depreciation and amortization	11,841	13,108	35,124	38,691
Provision for income taxes	20,072	20,404	49,870	42,105
Non-cash write-down and other adjustments (a)	900	756	3,522	2,632
Non-cash share-based compensation expense (b)	2,919	2,584	9,910	8,402
Loss on extinguishment of debt (c)	-	-	1,332	-
Transaction costs and credit facility fees (d)	1,767	234	2,470	970
Business optimization expenses (e)	583	487	750	1,933
Other	46	421	45	451
Adjusted EBITDA	124,474	88,442	298,485	204,871
Adjusted EBITDA attributable to noncontrolling interests	1,454	1,178	5,633	3,589
Adjusted EBITDA attributable to Generac Holdings Inc.	<u>\$ 123,020</u>	<u>\$ 87,264</u>	<u>\$ 292,852</u>	<u>\$ 201,282</u>

(a) Represents the following non-cash charges: gains/losses on disposals of assets, unrealized mark-to-market adjustments on commodity contracts, transactional foreign currency gains/losses and certain purchase accounting related adjustments. 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; and
- 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.

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

(c) Represents the non-cash write-off of original issue discount and deferred financing costs due to a \$50.0 million voluntary prepayment of Term Loan debt.

(d) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance or debt issuance or refinancing, together with certain fees relating to our senior secured credit facilities, such as administrative agent fees and credit facility commitment fees under our Term Loan and 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.

(e) For the three and nine months ended September 30, 2018 and 2017, represents severance and other non-recurring restructuring charges related to the consolidation of certain of our facilities. These charges represent expenses that are not from our core operations and do not reflect our ongoing operations.

Adjusted Net Income

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

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

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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.:

(U.S. Dollars in thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income attributable to Generac Holdings Inc.	\$ 75,776	\$ 39,435	\$ 162,682	\$ 76,901
Net income attributable to noncontrolling interests	746	341	1,841	433
Net income	76,522	39,776	164,523	77,334
Provision for income taxes	20,072	20,404	49,870	42,105
Income before provision for income taxes	96,594	60,180	214,393	119,439
Amortization of intangible assets	5,678	7,242	16,792	21,554
Amortization of deferred finance costs and original issue discount	1,187	1,092	3,554	2,400
Loss on extinguishment of debt	-	-	1,332	-
Transaction costs and other purchase accounting adjustments (a)	702	(35)	1,516	979
Business optimization expenses	583	487	750	1,933
Adjusted net income before provision for income taxes	104,744	68,966	238,337	146,305
Cash income tax expense (b)	(15,185)	(10,878)	(31,709)	(19,607)
Adjusted net income	89,559	58,088	206,628	126,698
Adjusted net income attributable to noncontrolling interests	447	697	2,491	1,912
Adjusted net income attributable to Generac Holdings Inc.	\$ 89,112	\$ 57,391	\$ 204,137	\$ 124,786
Adjusted net income per common share attributable to Generac Holdings, Inc. - diluted:	\$ 1.43	\$ 0.92	\$ 3.28	\$ 1.99
Weighted average common shares outstanding - diluted:	62,220,298	62,316,788	62,266,140	62,703,269

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

(b) Amounts for the three and nine months ended September 30, 2018 are now based on an anticipated cash income tax rate of approximately 15% for the full year ended 2018. Amounts for the three and nine months ended September 30, 2017 were based on an anticipated cash income tax rate at that time of approximately 17% for the full year ended 2017. Cash income tax expense for the respective periods is based on the projected taxable income and corresponding cash tax rate for the full year after considering the effects of current and deferred income tax items, and is calculated for each respective period by applying the derived full year cash tax rate to the period's pretax income.

New Accounting Standards

Refer to Note 1, "Description of Business and Basis of Presentation," to the condensed consolidated financial statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q for further information on the new accounting standards applicable to the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to Note 5, “Derivative Instruments and Hedging Activities,” to the condensed consolidated financial statements for a discussion of changes in commodity, currency and interest rate related risks and hedging activities. Otherwise, there have been no material changes in market risk from the information provided in Item 7A (Quantitative and Qualitative Disclosures About Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures**Disclosure Controls and Procedures**

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

Changes in Internal Control Over Financial Reporting

In June 2018, we acquired Selmec. As a result of the acquisition, we are reviewing the internal control structure of Selmec and are in the process of making appropriate changes as we incorporate our controls and procedures into the acquired business.

Other than the continuing assessment of controls for the Selmec acquisition, there have been no other significant changes during the three months ended September 30, 2018 in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

From time to time, we are involved in legal proceedings primarily involving product liability, employment matters and general commercial disputes arising in the ordinary course of our business. As of September 30, 2018, we believe that there is no litigation pending that would have a material effect on our results of operations or financial condition.

Item 1A. Risk Factors

There have been no material changes in our risk factors since the February 26, 2018 filing of our Annual Report on Form 10-K for the year ended December 31, 2017.

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

The following table summarizes our stock repurchase activity for the three months ended September 30, 2018, which consisted of the withholding of shares upon the vesting of restricted stock awards to pay related withholding taxes on behalf of the recipient:

	Total Number of 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
07/01/2018 – 07/31/2018	-	-	-	\$ 144,453,228
08/01/2018 – 08/31/2018	4,229	\$ 54.95	-	144,453,228
09/01/2018 – 09/30/2018	1,968	57.20	-	\$ 144,453,228
Total	<u>6,197</u>	\$ 55.66		

Item 5. Other Information

On November 5, 2018, the Company's Compensation Committee approved, and the Company entered into, an amended and restated employment agreement with Aaron Jagdfeld, President and Chief Executive Officer. The amended agreement provides that the term of the agreement will extend until November 4, 2021, and adds automatic renewals in one-year extensions of the term, unless either party provides notice of non-renewal within 90 days of the expiration date. The amended agreement also updates the "Cause" and "Good Reason" definitions and information about the Chief Executive Officer's compensation.

Also on November 5, 2018, the Company's Compensation Committee approved an Executive Change in Control Policy. The policy will replace the individual Change in Control Severance Agreements the Company has with its executive officers, while retaining the "double trigger" nature of such protections. Pursuant to the policy, the Company's executive officers and other designated employees will be entitled to certain payments and benefits in the event of a termination of the executive's employment without "Cause" or for "Good Reason" within the period beginning 120 days before and ending two years after a "Change in Control" (as each such term is defined in the policy). Upon such a "double trigger" event, the executive will be entitled to receive a severance payment equal to two times the executive's annual base salary and target annual bonus for the year of termination, plus any earned but unpaid bonus payments for the year prior to the year of termination. The executive will be entitled to continued participation in the Company's medical and life insurance programs for two years. The executive will also be entitled to vesting of unvested stock options and other long-term incentive awards, with any performance-based awards vesting at the "target" performance level. Receipt of the payments and benefits under the policy are generally contingent upon the executive signing a general release in favor of the Company and complying with applicable restrictive covenants.

Item 6. Exhibits

Exhibits Number	Description
10.1*	Amended and Restated Employment Agreement, dated November 5, 2018, between Generac and Aaron P. Jagdfeld, President and Chief Executive Officer.
10.2*	Generac Power Systems, Inc. Executive Change in Control Policy, effective November 5, 2018.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14 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 Rule 13a-14 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.
101*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related Notes to Condensed Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENERAC HOLDINGS INC.

By: _____ /s/ York A. Ragen

YORK A. RAGEN

*Chief Financial Officer
(Duly Authorized Officer and Principal Financial and Accounting
Officer)*

Dated: November 6, 2018

**AMENDED AND RESTATED
EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the “**Agreement**”) is made as of November 5, 2018 (the “**Effective Date**”), between GENERAC POWER SYSTEMS, INC. (the “**Company**”) and Aaron Jagdfeld (“**Executive**”).

RECITALS:

WHEREAS, the Company and Executive are party to that certain Employment Agreement dated as of November 10, 2006, which was subsequently amended and restated as of January 14, 2010 and as of November 5, 2015; and

WHEREAS, the Company desires that Executive continue his service to the Company pursuant to the terms hereinafter set forth, and Executive desires to continue to serve the Company in accordance with such terms.

NOW THEREFORE, in consideration of the promises and mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Employment.

(a) Executive shall be employed by the Company and shall have the titles of President and Chief Executive Officer of the Company and President and Chief Executive Officer of Generac Holdings Inc. (“**Holdings**”). Executive shall report directly to the Board of Directors of Holdings (the “**Board**”) and shall have such authority, duties and responsibilities as are commensurate with Executive’s position. Executive shall devote substantially all of his professional time to the Company in performing such duties and responsibilities.

(b) Executive shall perform substantially all of his duties under this Agreement at the Company’s Waukesha, Wisconsin office. In addition to the duties described in Section 1(a) hereof, Executive may be appointed as a director of the Company or its parent entities. Such additional positions shall be performed, and appointments accepted by Executive, without additional compensation or remuneration.

(c) The Executive acknowledges and agrees that he owes a fiduciary duty of loyalty to the Company to discharge his duties and otherwise act in a manner consistent with the best interests of the Company and its parent entities. During the Employment Period (as defined hereinafter), except with the prior consent of the Board (excluding the Executive if he should be a member of the Board at the time of such determination), the Executive shall devote his best efforts and substantially all of his working time, attention and energies to the performance of his duties and responsibilities under this Agreement (except for vacations to which he is entitled pursuant to Section 3(e) hereof and except for illness or incapacity).

2. Term of Employment. The term of this Agreement shall commence on the Effective Date hereof and shall continue until the third (3rd) anniversary of the Effective Date, unless terminated earlier as hereinafter provided (the “**Initial Employment Period**”). Following a Change in Control (as defined in the Company’s Executive Change in Control Policy), the Initial Employment Period (or any Renewal Period (as defined below), if applicable) shall automatically be renewed for the period ending on the later of (y) the last day of the Initial Employment Period, and (z) the expiration of the Protection Period (as defined in the Company’s Executive Change in Control Policy) (the “**CIC Renewal Period**”). This Agreement shall be automatically renewed for successive one (1) year terms thereafter (each a “**Renewal Period**”) unless and until either party provides the other party with written notice of non-renewal at least ninety (90) days prior to the end of the Initial Employment Period, the CIC Renewal Period, or a Renewal Period. The Initial Employment Period together with any applicable CIC Renewal Period or Renewal Period shall collectively be referred to as the “**Employment Period**.”

3. Base Salary and Benefits.

(a) Base Salary. Commencing as of the Effective Date, and thereafter during the Employment Period, Executive's base salary shall be \$870,000 per annum, which amount may, but shall not be required to be, increased by the Compensation Committee of the Board (or, if no such committee exists, the Board) from time to time in accordance with the compensation policies and practices of the Company, or decreased as part of across the board reductions affecting all executive officers of the Company (as so adjusted from time to time, the "**Base Salary**"). The Base Salary shall be payable in regular installments in accordance with the Company's standard payroll practices and shall be subject to customary withholding.

(b) Business Expenses. Upon presentation of receipts or other appropriate documentation therefor, the Company shall reimburse Executive for all reasonable expenses incurred by him during the Employment Period in the course of performing his duties under this Agreement, to the extent consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses.

(c) Employee Benefits. Except as otherwise set forth herein, Executive shall be entitled to participate in any employee benefit plan or program of the Company on a basis comparable to other executive officers of the Company.

(d) Annual Bonus. Commencing on the Effective Date, Executive shall be eligible, during the Employment Period, to receive an annual bonus (the "**Annual Bonus**") based on such criteria as is determined in accordance with the Company's annual incentive bonus plan. Executive's target Annual Bonus shall be equal to 112.5% of Base Salary.

(e) Vacation. Executive shall accrue vacation time during the Employment Period in accordance with the Company's applicable vacation guidelines and schedule. Executive shall also be entitled to all paid holidays given by the Company to its executive officers.

4. Termination.

(a) Termination Rights. Executive's employment hereunder may be terminated upon the occurrence of any of the following events and/or for the following reasons:

(i) Death of Executive. Executive's employment hereunder shall terminate upon his death.

(ii) Disability of Executive. The Company shall have the right to terminate Executive's employment hereunder if the Executive is or becomes Disabled (as defined below) during the Employment Period, shall be absent from his duties with the Company on a full time basis for one hundred eighty (180) days within a one-year period, and, within thirty (30) days after delivery of Notice of Termination by the Company, the Executive shall not have returned to the performance of his duties hereunder on a full time basis. For purposes of this Agreement, "**Disabled**" shall mean: (A) that Executive qualifies for benefits due to total disability on the part of the Executive under the Company's long-term disability plan, as in effect from time to time; or (B) in the event that the Company has no such long-term disability plan in effect on any date of determination, that Executive is unable, as a result of a medically determinable physical or mental illness, to perform the duties and services of his position.

(iii) Cause. The Company shall have the right to terminate Executive's employment for Cause. For purposes of this Agreement, "**Cause**" shall mean:

(A) the willful and continued failure by Executive substantially to perform his duties hereunder (other than such failure resulting from his becoming Disabled), after a written demand for substantial performance is delivered to Executive that specifically identifies the manner in which Executive has not substantially performed his duties, and Executive has not remedied such failure within a reasonable time after receipt of such written notice; for purposes of this paragraph, no act, or failure to act, on Executive's part will be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company;

(B) Executive's gross negligence or willful misconduct in the performance of his duties as an employee of the Company;

(C) Executive's commission of fraud, embezzlement, misappropriation of funds, breach of fiduciary duty or a material act of dishonesty against the Company;

(D) Executive's gross negligence or willful misconduct deemed a material violation of a Company policy;

(E) the indictment of Executive for a felony; or

(F) the drug addiction, habitual intoxication, or violation of the Company's Code of Ethics and Business Conduct and/or Supplemental Code of Ethics and Business Conduct by Executive that adversely affects Executive's job performance and duties hereunder, or the reputation or best interests of the Company.

(iv) Good Reason. The Executive shall have the right, after providing prior written notice of at least ninety (90) days and the Company failing to cure the basis identified in such notice, to terminate his employment with the Company for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(A) a reduction, in excess of five percent (5%), of Executive's Base Salary as in effect from time to time or target Annual Bonus opportunity, excluding across the board reductions affecting all executive officers of the Company;

(B) a material diminution in Executive's duties or responsibilities; provided however, notwithstanding the foregoing, a material diminution of the Executive's duties shall not be deemed to have occurred, solely in the event of Executive's removal as Chairman of the Company's Board of Directors ("Board"), if (i) the Executive continues to serve as a Director on the Board after such removal as Chairman, and (ii) any replacement or successor to the Executive appointed or elected by the Board to serve as Chairman is bestowed with the title of "Non-Executive Chairman";

(C) a failure of the Company to make available to Executive the type of employee benefits which are available to Executive as of the Effective Date;

(D) a requirement by the Company that Executive be based in an office that is located more than fifty (50) miles from Executive's principal place of employment as of the Effective Date; or

(E) a material breach of any material term or condition of this Agreement by the Company not cured within twenty (20) days after written notice to the Company delivered within ninety (90) days of the occurrence of such breach and in accordance with Section 9 hereof.

(v) Without Cause or Good Reason. The Company shall have the right to terminate Executive's employment hereunder without Cause and the Executive shall have the right to terminate his employment with the Company without Good Reason. If the Company elects not to extend the Employment Period in accordance with Section 2 hereof, such termination shall be deemed to be a termination by the Company without Cause and shall be treated as such for purposes of this agreement, including Section 5(d) hereof. If Executive elects not to extend the Employment Period in accordance with Section 2 hereof, such termination shall be deemed to be a termination by Executive without Good Reason and shall be treated as such for purposes of this agreement, including Section 5(c) hereof.

(b) Notice of Termination. Any termination of Executive's employment pursuant to any of Sections 4(a)(i)-(v) above shall be communicated by written "Notice of Termination" to the non-terminating party delivered in accordance with Section 10 below. For purposes of this Agreement, "**Notice of Termination**" shall mean a notice by a terminating party which shall indicate the specific termination provision hereunder pursuant to which Executive's employment is being terminated.

(c) Termination Date. In connection with any termination of Executive's employment pursuant to any of Sections 4(a)(i)-(v) above, Executive's employment with the Company shall terminate on the Termination Date. For purposes of this Agreement, "**Termination Date**" shall mean (i) if Executive's employment is terminated due to his death, the date of his death, (ii) if Executive's employment is terminated because Executive is or becomes Disabled, the date specified by the Company in the related Notice of Termination (which shall, in no event, be less than thirty (30) days after delivery of such Notice of Termination), (iii) if Executive terminates his employment without Good Reason, thirty (30) days following the date on which a Notice of Termination is given or such earlier date as is determined by the Company, and (iv) if Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or any later date (within thirty (30) days after the giving of such notice) set forth in the related Notice of Termination.

5. Effect of Termination.

(a) Death of Executive. Upon termination of Executive's employment due to the death of Executive during the Employment Period, Executive's surviving spouse and dependents or, if none, his estate, shall be entitled to receive from the Company (i) any accrued but unpaid Base Salary and vacation pay through the Termination Date, payable within thirty (30) days following such Termination Date (the "**Accrued Obligations**") and (ii) any earned Annual Bonus for the fiscal year during which the Termination Date occurred (and the Annual Bonus for the prior fiscal year, if earned but not yet paid), payable in accordance with the Company's usual bonus payment schedule. In addition, Executive's surviving spouse and dependents shall be entitled to continued participation in the Company's medical, hospitalization, dental, and life insurance programs in which Executive participated immediately prior to the Termination Date (collectively, "**Continued Benefits**") at the Company's expense for a period of eighteen (18) months following such Termination Date.

(b) Disability of Executive. In the event of termination of Executive's employment due to the Executive being or becoming Disabled, Executive shall be entitled to receive from the Company (i) the Accrued Obligations, which shall be paid within thirty (30) days following such Termination Date and (ii) any earned Annual Bonus for the fiscal year during which the Termination Date occurred (and the Annual Bonus for the prior fiscal year, if earned but not yet paid), payable in accordance with the Company's usual bonus payment schedule. In addition, Executive shall be entitled to continue to receive installments of Executive's then current Base Salary and Continued Benefits at the Company's expense from the Termination Date until the later to occur of (A) the six (6) month anniversary thereof and (B) the date on which Executive becomes entitled to long-term disability benefits under the applicable plan or program of the Company, which shall be payable (in the case of Base Salary) or provided (in the case of Continued Benefits) in accordance with the usual payroll and benefits policies of the Company.

(c) Termination for Cause; Termination without Good Reason. Upon the termination of Executive's employment either by the Company for Cause, or by Executive without Good Reason, the Company shall pay to Executive (i) the Accrued Obligations within thirty (30) days following such Termination Date and (ii) any earned Annual Bonus for the fiscal year during which the Termination Date occurred (and the Annual Bonus for the prior fiscal year, if earned but not yet paid), payable in accordance with the Company's usual bonus payment schedule. Payments made pursuant to clause (ii) directly above shall be subject to Executive executing an effective general release and waiver of all claims against the Company, its Affiliates, and their respective officers and directors substantially in the form attached hereto as Exhibit A (the "**Release**") within sixty (60) days following the Termination Date and Executive's continued compliance with the Confidentiality, Non-Competition and Intellectual Property Agreement (as defined below).

(d) Termination without Cause; Termination for Good Reason. Upon the termination of Executive's employment either by Executive with Good Reason, or by the Company without Cause, Executive shall be entitled to receive from the Company (i) the Accrued Obligations, which shall be paid within thirty (30) days following such Termination Date, (ii) any earned Annual Bonus for the fiscal year during which the Termination Date occurred (and the Annual Bonus for the prior fiscal year, if earned but not yet paid), payable in accordance with the Company's usual bonus payment schedule, (iii) continued payment of Executive's Base Salary for a period of twenty-four (24) months commencing on the Termination Date, payable in accordance with the standard payroll practices of the Company, and (iv) an amount equal to two (2) times Executive's target Annual Bonus for the year during which the Termination Date occurred, payable in equal installments over a period of twenty-four (24) months commencing on the Termination Date and in accordance with the standard payroll practices of the Company. In addition, Company shall maintain the Continued Benefits in full force and effect, for the continued benefit of Executive, his spouse and his dependents for a period of twenty-four (24) months commencing on the Termination Date, and Executive shall be entitled to full COBRA rights following the termination of such Continued Benefits. If Executive elects to utilize rights under COBRA after the Termination Date, Executive shall be responsible for all premiums in respect thereof, as permitted by law. Payments made pursuant to clause (ii) and (iii) directly above shall be subject to Executive executing an effective Release within sixty (60) days following the Termination Date and Executive's continued compliance with the Non-Competition Agreement (as defined below). Notwithstanding the foregoing, in the event that any Continued Benefits are prohibited by the terms of such programs or by applicable law, the Company shall reimburse Executive (or his surviving spouse and dependents if applicable) for the cost of obtaining comparable coverage.

(e) Interaction with Other Agreements. If Executive is eligible to receive termination payments and benefits under the terms of a severance agreement between Executive and the Company, Executive shall not be eligible to receive any termination payments or benefits under the terms of Section 5(d) hereof.

6. Confidentiality, Non-Compete, Non-Solicit/Hire and Intellectual Property Agreement. Company and Executive previously entered into a confidentiality, non-competition and intellectual property agreement, dated November 5, 2015, which agreement is attached hereto as Exhibit B, is hereby incorporated herein by reference, and shall remain in full force and effect following the execution of this Agreement (the "**Confidentiality, Non-Competition and Intellectual Property Agreement**").

7. Executive's Representations. Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive do not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound, and (ii) upon the execution and delivery of this Agreement by the parties, this Agreement will be the valid and binding obligation of Executive, enforceable in accordance with its terms, except to the extent the enforceability thereof may be limited by bankruptcy laws, insolvency laws, reorganization laws or other laws affecting creditors' rights generally or by general equitable principles, Executive hereby acknowledges and represents that he has had the opportunity to consult with independent legal counsel regarding his rights and obligations under this Agreement and that he fully understands the terms and conditions contained herein.

8. Indemnification. Subject to applicable law, Executive shall be entitled to the benefit of such indemnification rights as may from time to time exist under the terms of the Company's organizational documents and to such liability insurance as the Company may purchase for its executive officers from time to time.

9. Notices. Any notice provided for in this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally (whether by overnight courier or otherwise) with receipt acknowledged or sent by registered or certified mail or equivalent, if available, postage prepaid, or by fax (which shall be confirmed by a writing sent by registered or certified mail or equivalent on the same day that such fax was sent), addressed to the parties at the following addresses or to such other address as such party shall hereafter specify by notice to the other:

Notices to the Company:

Generac Power Systems, Inc.
P.O. Box 295
Waukesha, WI 53187
Attention: Chief Financial Officer and Chairman of the Audit Committee

If to the Executive, to him at his most recent address in the Company's records.

10. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

11. Complete Agreement. This Agreement, together with any other agreements referred to herein (and any exhibits, schedules or other documents referred to herein or therein) constitutes the complete agreement and understanding among the parties and supersedes and preempts any prior understandings, agreements or representations by or among the parties, written or oral, whether in term sheets, presentations or otherwise, relating to the subject matter hereof.

12. No Strict Construction. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party.

13. Counterparts. This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

14. Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive, the Company and their respective heirs, successors and assigns, except that Executive may not assign his rights or delegate his obligations hereunder without the prior written consent of the Company.

15. Choice of Law. All issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by, and construed in accordance with, the laws of the State of Wisconsin without giving effect to any choice of law or conflict of law rules or provisions that would cause the application of the laws of any jurisdiction other than the State of Wisconsin.

16. Amendment and Waiver. The provisions of this Agreement may be amended or waived only with the prior written consent of the Company and Executive, and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

17. Arbitration. Any controversy or claim arising out of or relating to this Agreement, the making, interpretation or the breach thereof shall be settled by arbitration in Milwaukee, Wisconsin in accordance with the rules and procedures of the Employment Dispute Resolution Rules of the American Arbitration Association then in effect.

18. Legal Fees and Expenses. The Company agrees to pay, as incurred, to the full extent permitted by law, all reasonable legal fees and expenses which Executive may reasonably incur in connection with the negotiation and documentation of the arrangements set forth herein.

19. Tax Withholding. The parties agree to treat all amounts paid to Executive hereunder as compensation for services. Accordingly, the Company may withhold from any amount payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

20. Section 409A Compliance.

(a) Six Month Delay for Specified Employees. If any payment, compensation or other benefit provided to Executive in connection with his employment termination is determined, in whole or in part, to constitute “nonqualified deferred compensation” within the meaning of Section 409A and Executive is a specified employee as defined in Section 409A(2)(B)(i), no part of such payments shall be paid before the day that is six (6) months plus one (1) day after Executive’s Termination Date (the “New Payment Date”). The aggregate of any payments that otherwise would have been paid to Executive during the period between the date of termination and the New Payment Date shall be paid to Executive in a lump sum on such New Payment Date. Thereafter, any payments that remain outstanding as of the day immediately following the New Payment Date shall be paid without delay over the time period originally scheduled, in accordance with the terms of this Agreement. Notwithstanding the foregoing, to the extent that the foregoing applies to the provision of any ongoing welfare benefits to the Executive that would not be required to be delayed if the premiums therefor were paid by Executive, Executive shall pay the full cost of premiums for such welfare benefits during the six-month period and the Company shall pay the Executive an amount equal to the amount of such premiums paid by Executive during such six-month period promptly after its conclusion.

(b) Compliance. The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Code and, accordingly, to the maximum extent permitted, the Agreement shall be interpreted to be in compliance therewith. The Parties acknowledge and agree that the interpretation of Section 409A and its application to the terms of this Agreement is uncertain and may be subject to change as additional guidance and interpretations become available. Anything to the contrary herein notwithstanding, all benefits or payments provided by the Company to Executive that would be deemed to constitute “nonqualified deferred compensation” within the meaning of Section 409A are intended to comply with Section 409A. If, however, any such benefit or payment is deemed to not comply with Section 409A, the Company and Executive agree to renegotiate in good faith any such benefit or payment (including, without limitation, as to the timing of any severance payments payable hereof) so that either (i) Section 409A will not apply or (ii) compliance with Section 409A will be achieved; provided, however, that any resulting renegotiated terms shall provide to Executive the after-tax economic equivalent of what otherwise has been provided to Executive pursuant to the terms of this Agreement, and provided further, that any deferral of payments or other benefits shall be only for such time period as may be required to comply with Section 409A. In no event whatsoever shall the Company be liable for any tax, interest or penalties that may be imposed on Executive by Section 409A of the Code or any damages for failing to comply with Section 409A.

(c) Termination as a Separation from Service. A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits subject to Section 409A upon or following a termination of employment until such termination is also a “separation from service” within the meaning of Section 409A and for purposes of any such provision of this Agreement, references to a “resignation,” “termination,” “terminate,” “termination of employment” or like terms shall mean separation from service.

(d) Payments for Reimbursements and In-Kind Benefits. All reimbursements for costs and expenses under this Agreement shall be paid in no event later than the end of the calendar year following the calendar year in which the Executive incurs such expense. With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursements or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year, provided, however, that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(e) Payments within Specified Number of Days. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., “payment shall be made within thirty (30) days following the date of termination”), the actual date of payment within the specified period shall be within the sole discretion of the Company.

(f) Installments as Separate Payment. If under this Agreement, an amount is paid in two or more installments, for purposes of Section 409A, each installment shall be treated as a separate payment.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day written above.

GENERAC POWER SYSTEMS, INC.

/s/ York A. Ragen

Name: York A. Ragen

Title: CFO

EXECUTIVE:

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld

Exhibit A

RELEASE OF CLAIMS

A release is required as a condition for receiving the benefits described in Section 5 of the Amended and Restated Employment Agreement between GENERAC POWER SYSTEMS, INC. (the “**Company**”) and Aaron Jagdfeld (“**Executive**”) dated _____ (the “**Employment Agreement**”); thus, by executing this release (“**Release**”), you have advised us that you hold no claims against the Company, its predecessors, successors or assigns, affiliates, shareholders or members and each of their respective officers, directors, agents and employees (collectively, the “**Releasees**”), and by execution of this Release you agree to waive and release any such claims, except relating to any compensation, severance pay and benefits described in the Employment Agreement.

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

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

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

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

Finally, this is to expressly acknowledge:

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

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

Date:

Aaron Jagdfeld:

SIGNATURE PAGE TO
A JAGDFELD RELEASE AGREEMENT

Exhibit B

**CONFIDENTIALITY, NON-COMPETITION AND INTELLECTUAL PROPERTY
AGREEMENT**

CONFIDENTIALITY, NON-COMPETITION AND INTELLECTUAL PROPERTY AGREEMENT (this "**Agreement**"), dated as of November 5, 2015, (the "**Effective Date**"), by and between GENERAC POWER SYSTEMS, INC. (together with its successors, assigns and affiliates, the "**Company**") and Aaron Jagdfeld ("**Executive**").

WHEREAS, Executive has entered into an amended and restated employment agreement dated as of the date hereof with the Company (the "**Employment Agreement**"). In connection with his performance of his duties and obligations under the Employment Agreement, Executive has and will receive specific confidential information relating to the business of the Company, which confidential information is necessary to enable Executive to perform Executive's duties. Executive will play a significant role in the development and management of the businesses of the Company and has and will be entrusted with confidential information relating to the Company and its customers, suppliers, subcontractors, employees and others; and

WHEREAS, it is a condition to the execution of the Employment Agreement, dated as of the date hereof, by and between Executive and the Company, that Executive execute and deliver this Agreement simultaneously with the execution and delivery of the Employment Agreement.

NOW, THEREFORE, it is mutually agreed as follows:

1. Confidentiality.

(a) Confidential Information. In addition to all duties of loyalty imposed on Executive by law, during the term of Executive's employment with the Company and thereafter, Executive shall maintain Confidential Information in confidence and secrecy and shall not disclose Confidential Information or use it for the benefit of any person or organization (including Executive) other than the Company.

(b) Trade Secrets. During his employment with the Company, Executive shall preserve and protect all Trade Secrets of the Company from unauthorized use or disclosure; and after termination of such employment, Executive shall not use or disclose any Trade Secret of the Company for so long as that Trade Secret remains a Trade Secret.

(c) Procedures. In the event that Executive is requested or required (by deposition, interrogatories, requests for information or documents in legal proceedings, subpoenas, civil demand or similar process) to disclose any Confidential Information or Trade Secrets, Executive will give the Company prompt written notice of such request or requirement so that the Company may seek an appropriate protective order or other remedy and/or waive compliance with the provisions of this Agreement, and Executive will cooperate with the Company's efforts to obtain such protective order. In the event that such protective order or other remedy is not obtained or the Company waives compliance with the relevant provisions of this Agreement, Executive is permitted to furnish that Confidential Information or Trade Secrets which is legally required to be disclosed and will use his reasonable efforts to obtain assurances that confidential treatment will be accorded to such information.

As used in this Agreement, all capitalized terms used without definition shall have the meanings ascribed to them in the Employment Agreement. In addition, the following terms have the meanings set forth below:

“Competitive Business” means any corporation, partnership, association, or other person or entity, including but not limited to Executive, (i) which competes directly, or is planning to compete directly, with the Company with respect to the design, development, manufacture, remanufacture, assembly, marketing, sales, or service of standby power products, or any other business of the Company, that was within Executive’s management, operational, marketing, purchasing or sales responsibility, including the responsibility of personnel reporting directly to Executive, or about which Executive received any Confidential Information or Trade Secrets at any time within eighteen (18) months prior to termination of Executive’s employment with the Company, and (ii) which engages or plans to engage in such competition in any state of the United States in which the Company sold or distributed, or actively attempted to sell or to distribute, such products within eighteen (18) months prior to termination of Executive’s employment with the Company.

“Confidential Information” shall mean information related to the Company’s business, not generally known in the trade or industry, which Executive learns or creates during the period of Executive’s employment with the Company, which may include but is not limited to product specifications, manufacturing procedures, methods, equipment, compositions, technology, formulas, know-how, research and development programs, sales methods, customer lists, customer usages and requirements, computer programs and other confidential technical or business information and data. Confidential Information shall not include any information that (i) is or becomes generally available to the public other than as a result of a disclosure by Executive in violation of this Agreement or (ii) becomes available to Executive on a non-confidential basis from a source other than the Company which is not prohibited from disclosing such information to Executive by a legal, contractual or fiduciary obligation to the Company or any other person.

“Goodwill” means any tendency of customers, distributors, representatives, employees, or federal, state, local or foreign governmental entities to continue or renew any valuable business relationship with the Company, based in whole or in part on past successful relationships with the Company or the lawful efforts of the Company to foster such relationships, and in which Executive, or any personnel reporting directly to Executive, actively participated at any time within eighteen (18) months prior to termination of Executive’s employment with the Company.

“Trade Secret(s)” means information, including a formula, pattern, compilation, program, device, method, technique or process, that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and that is the subject of efforts to maintain its secrecy that are reasonable under the circumstances.

(d) **Return of Property.** Executive further agrees to take all reasonable measures to prevent unauthorized persons or entities from obtaining or using Confidential Information or Trade Secrets. Promptly upon termination of his employment with the Company, Executive agrees to deliver to the Company all property and materials within Executive’s possession or control which belong to the Company or which contain Confidential Information or Trade Secrets.

2. Non-Competition; Non-Solicitation.

(a) Non-Competition. During the term of Executive's employment with the Company and for twenty-four (24) months following the termination of such employment for any reason (the "**Restricted Period**"), Executive shall not, directly or indirectly, participate in, consult with, be employed by, or assist with the organization, planning, ownership, financing, management, operation or control of any Competitive Business in any capacity in which, in the absence of this Agreement, Confidential Information, Trade Secrets or Goodwill of the Company would reasonably be considered useful.

(b) Non-Solicitation. During the Restricted Period, Executive shall not, directly or indirectly, on behalf of any Competitive Business, either by himself or by providing substantial assistance to others, solicit to terminate employment with the Company, or to accept or begin employment with or service to any Competitive Business, any employee of the Company whom Executive supervised or about whom Executive gained Confidential Information at any time during the last eighteen (18) months of Executive's employment with the Company.

3. No Right to Continued Employment. Nothing in this Agreement shall confer upon Executive any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which, subject to the terms of the Employment Agreement, are hereby reserved, to discharge Executive at any time for any reason whatsoever, with or without Cause.

4. No Conflicting Agreements. Executive warrants that Executive is not bound by the terms of a confidentiality agreement, non-competition or other agreement with a third party that would conflict with Executive's obligations hereunder.

5. Remedies.

(a) In the event of breach or threatened breach by Executive of any provision hereof, the Company shall be entitled to seek temporary or preliminary injunctive relief or other equitable relief, without the posting of any bond or other security.

(b) The period of time during which the restrictions set forth in Section 2 hereof will be in effect will be extended by the length of time during which Executive is in breach of the terms of those provisions as finally determined by an arbitrator or any court of competent jurisdiction.

6. Successors and Assigns. This Agreement shall be binding upon Executive and Executive's heirs, assigns and representatives and inure to the benefit of the Company and its successors and assigns, including without limitation any entity to which substantially all of the assets or the business of the Company are sold or transferred. The obligations of Executive are personal and shall not be assigned by Executive.

7. Severability. It is expressly agreed that if any restrictions set forth in this Agreement are found by any court having jurisdiction to be unreasonable because they are too broad in any respect, then and in each such case, the remaining provisions herein contained shall, to the greatest extent permissible under applicable law, nevertheless, remain effective, and this Agreement, or any portion hereof, shall, to the extent permitted by applicable law, be considered to be amended, so as to be considered reasonable and enforceable by such court, and the court

shall specifically have the right to restrict the time period or the business or geographical scope of such restrictions to any portion of the time period, business or geographic areas to the extent the court deems such restriction to be necessary to cause the covenants to be enforceable and, in such event, the covenants shall be enforced to the extent so permitted and the remaining provisions shall be unaffected thereby. In such event, the parties hereto agree to execute all documents necessary to evidence such amendment so as to eliminate or modify any such unreasonable provision in order to carry out the intent of this Agreement insofar as possible and to render this Agreement enforceable in all respects as so modified. The covenants contained herein shall be construed to extend to separate jurisdictions or sub-jurisdictions of the United States in which the Company, during the term of Executive's employment, have been or are engaged in business, and to the extent that any such covenant shall be illegal and/or unenforceable with respect to any jurisdiction, said covenant shall not be affected thereby with respect to each other jurisdiction, such covenants with respect to each jurisdiction being construed as severable and independent. The restrictive covenant provisions of this Agreement shall govern to the extent there is any conflict between their terms and the terms of any other agreement or understanding with the Company.

8. Notices. Any notice required or permitted to be given under this Agreement shall be in writing and be deemed given when delivered by hand or received by registered or certified mail, postage prepaid, or by nationally reorganized overnight courier service addressed to the party to receive such notice at the following address or any other address substituted therefor by notice pursuant to these provisions:

If to the Company:

Generac Power Systems, Inc.
P.O. Box 295
Waukesha, WI 53187
Attention: Chief Financial Officer and Chairman of the Audit Committee

If to the Executive, to her at her most recent address in the Company's records.

9. Amendment. No provision of this Agreement may be modified, amended, waived or discharged in any manner except by a written instrument executed by the Company and Executive.

10. Waiver. The failure of the Company to enforce at any time any of the provisions of this Agreement shall not be deemed or construed to be a waiver of any such provision, nor in any way affect the validity of this Agreement or any provision hereof or the right of the Company to enforce thereafter each and every provision of this Agreement. No waiver of any breach of any of the provisions of this Agreement by the Company shall be effective unless set forth in a written instrument executed by the Company, and no waiver of any such breach shall be construed or deemed to be a waiver of any other or subsequent breach.

11. Applicable Law. All issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by, and construed in accordance with, the laws of the State of Wisconsin without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Wisconsin or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Wisconsin.

12. Enforcement. If any party shall institute legal action to enforce or interpret the terms and conditions of this Agreement or to collect any monies hereunder, venue for any such action shall be the State Wisconsin. Each party irrevocably consents to the jurisdiction of the courts located in the State of Wisconsin for all suits or actions arising out of this Agreement. Each party hereto waives to the fullest extent possible, the defense of an inconvenient forum, and each agrees that a final judgment in any action shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day written above.

GENERAC POWER SYSTEMS, INC.

/s/ York A. Ragen

Name: York A. Ragen

Title: CFO

EXECUTIVE:

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld

SIGNATURE PAGE TO
A JAGDFELD CONFIDENTIALITY AGREEMENT

GENERAC POWER SYSTEMS, INC.
EXECUTIVE CHANGE IN CONTROL POLICY

Effective November 5, 2018

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Generac Power Systems, Inc.
Executive Change in Control Policy

Article 1
Purpose of the Policy

This Generac Power Systems, Inc. Executive Change in Control Policy (the "Policy") outlines certain benefits available to Eligible Executives whose employment with the Company is involuntarily terminated in connection with a Change in Control under the conditions described below. The Board considers the maintenance of a sound management team to be essential to protecting and enhancing the best interests of the Company and its stockholders. The Company recognizes that the possibility of a Change in Control may exist from time to time, and that this possibility, and the uncertainty and questions it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders. Accordingly, the Board has determined that appropriate steps should be taken to encourage the continued attention and dedication of the Executives to their assigned duties without the distraction that may arise from the possibility of a Change in Control.

Article 2
Definitions

As used in the Policy, the following words and phrases shall have the following respective meanings:

- 2.1 Accelerated Vesting is defined in Section 3.4 of the Policy.
- 2.2 Base Salary means an Eligible Executive's annual base salary in effect on the date of his or her Qualifying Termination.
- 2.3 Board means the Board of Directors of the Company.
- 2.4 Cause means any of the following:
 - (a) An Executive's willful and continued failure to perform substantially his or her duties owed to the Employer (other than such failure resulting from a Disability) after a written demand for substantial performance is delivered to the Executive specifically identifying the nature of such unacceptable performance and is not cured by the Executive within a reasonable period, not to exceed 30 days;
 - (b) An Executive is convicted of (or pleads guilty or no contest to) a felony or any crime involving moral turpitude;
 - (c) An Executive has engaged in conduct that constitutes gross negligence or willful misconduct in the performance of his or her employment duties and/or deemed a material violation of a Company policy;

- (d) An Executive commits fraud, embezzlement, misappropriation of funds, breach of fiduciary duty, or a material act of dishonesty against the Company;
- (e) An Executive's drug addiction, habitual intoxication, or violation of the Company's Code of Ethics and Business Conduct and/or Supplemental Code of Ethics and Business Conduct adversely affects Executive's job performance and duties, or the reputation or best interests of the Company; or
- (d) An Executive's breach of any representation, warranty or covenant under this Policy, an award agreement, an employment agreement or other agreement or arrangement with an Employer.

An act or omission by an Executive shall not be "willful" if conducted in good faith and with the Executive's reasonable belief that such conduct is in the best interests of the Employer.

2.5 Change in Control means the occurrence of any of the following events:

- (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (1) any acquisition directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (1) and (2) of subsection (c) of this definition;
- (b) The cessation for any reason of individuals who, as of November 5, 2018, constitute the Board (the "Incumbent Board") to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

- (c) The consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (1) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, and (2) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or
- (d) The approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

2.6 CIC Severance Pay is defined in Section 3.2 of the Policy.

2.7 Code means the Internal Revenue Code of 1986, as amended.

2.8 Company means Generac Power Systems, Inc.

2.9 Disability means disability as defined under the Employer's then-current long term disability insurance plan in which the Executive participates.

2.10 Eligible Executive is defined in Section 3.1 of this Policy.

2.11 Employer means Generac Power Systems, Inc. or any of its subsidiaries that employs an Eligible Executive on the applicable date.

2.12 Executive means the Company's officers as designated in accordance with Rule 16a-1(f) under the Securities Exchange Act of 1934, with the exception of the Chief Executive Officer of the Company, and any other executive, officer or key employee of an Employer designated by the Chief Executive Officer of the Company as eligible to participate in the Policy.

2.13 Good Reason means, without the express written consent of an Executive, the occurrence of any of the following events during a Protection Period:

- (a) An Executive's Base Salary or target annual bonus opportunity under the Company's Annual Performance Bonus Plan or other similar annual bonus plan of the Company or any other Employer is reduced in excess of 5%, excluding across the board reductions affecting all executive officers of the Company;
- (b) An Executive's duties or responsibilities are negatively and materially changed in a manner inconsistent with the Executive's position (including status, offices, titles, and reporting responsibilities) or authority; or
- (c) The Company requires an Executive's principal office to be relocated more than 50 miles from its location as of the date immediate preceding a Change in Control.

Notwithstanding the foregoing, Good Reason shall not exist unless the Executive provides the Board not less than 30 nor more than 90 days' written notice, with specificity, of the grounds constituting Good Reason and an opportunity within such notice period for the Company to cure such grounds, and the Company fails to cure such grounds within the prescribed time period. Such notice shall be given within 90 days following the initial existence of such grounds constituting Good Reason for such notice and subsequent termination, if not so cured above, to be effective.

2.14 Policy means this Generac Power Systems, Inc. Executive Change in Control Policy.

2.15 Policy Administrator means the Compensation Committee of the Board or such other person or committee appointed from time to time by the Policy Administrator to administer the Policy.

2.16 Protection Period means the period commencing 120 days prior to the occurrence of a Change in Control and ending on the second anniversary of the date of the Change in Control.

2.17 Qualifying Termination means a termination of an Executive's employment with all Employers prior to his or her attainment of age 65 (i) involuntarily by the Company without Cause (and other than due to his or her death or Disability) or (ii) voluntarily by an Executive for Good Reason, and in either case only during a Protection Period.

2.18 Subsidized COBRA is defined in Section 3.3 of the Policy.

Article 3 Eligibility and Benefits

3.1 Eligibility for Benefits. An Executive (i) whose employment with an Employer ends due to a Qualifying Termination and (ii) who satisfies the "Conditions for Payment of Benefits" set forth in Article 4 below (an "Eligible Executive") shall be eligible for the benefits described in this Article 3. For avoidance of doubt, an Executive shall not be eligible to receive the benefits under the Policy if the Company, in its sole discretion, determines that the Executive's employment is terminated due to a resignation or voluntary termination of employment, due to the Executive's death or Disability, for Cause, or for any reason other than a Qualifying Termination. Further, for the avoidance of doubt, the provisions of this Article 3 shall not apply unless a Change in Control actually occurs.

3.2 CIC Severance Payment. An Eligible Executive shall receive (i) any accrued but unpaid Base Salary and vacation pay through the Qualifying Termination date; (ii) any annual bonus for the fiscal year prior to the year in which the Qualifying Termination date occurred, if earned but not yet paid; and (iii) a lump sum payment in the aggregate amount equal to the sum of the Eligible Executive's Base Salary and the Eligible Executive's target annual bonus for the year during which the Qualifying Termination occurred, multiplied by two (2) (collectively, "CIC Severance Pay"), subject to the conditions outlined in this Agreement. Subject to the timing considerations outlined below, the CIC Severance Pay will be paid within 10 business days after Executive's Qualifying Termination or, in the event of a termination of employment occurring prior to the Change in Control, within 10 business days after the Change in Control; provided, unless the Change of Control occurring on or preceding such termination also meets the requirements of Section 409A(a)(2)(A)(v) of the Code and Treasury Regulation Section 1.409A-3(i)(5) (or any successor provision) thereunder, the amount payable to an Eligible Executive under this Section 3.2 shall be paid to such Eligible Executive in equal bi-weekly payroll installments over a period of 18 months, not in a lump sum, to the extent necessary to avoid the application of Section 409A(a)(1)(A) and (B) (and in the event that CIC Severance Pay is payable in installments, each installment payment shall be treated as a separate payment within the meaning of Code Section 409A).

3.3 Continued Benefits. Eligible Executive and his or her eligible spouse and dependents shall be entitled to continued participation in the Employer's medical, hospitalization, dental, and life insurance programs in which Eligible Executive participated immediately prior to the Qualifying Termination date for a period of twenty-four (24) months following such date (the "Continued Benefits"), and Eligible Executive and his or her eligible spouse and dependents shall be entitled to full COBRA rights following the termination of such Continued Benefits. If Eligible Executive elects to utilize rights under COBRA after the Qualifying Termination date, Eligible Executive shall be responsible for all premiums in respect thereof, as permitted by law. Notwithstanding the foregoing, in the event that any Continued Benefits are prohibited by the terms of such programs or by applicable law, the Company shall reimburse Eligible Executive for the cost of obtaining comparable coverage.

3.4 Accelerated Vesting. Unless otherwise provided in an award agreement for an option or other long-term incentive award issued after the effective date of the Policy, the following terms shall apply to an Eligible Executive's options and other long-term incentive awards to the extent such awards are assumed or substituted by the surviving entity:

- (a) All of an Eligible Executive's unvested options and other long-term incentive awards granted to the Eligible Executive pursuant to award agreements through the date of termination shall vest in accordance with such agreements upon the Qualifying Termination or, in the event of a Qualifying Termination prior the Change in Control, upon the Change in Control (and if such options and awards would otherwise be forfeited and the Qualifying Termination occurs during the 90-day period preceding the Change in Control in the absence of a Change in Control, such awards shall remain outstanding for up to 90 days solely for the purpose of determining whether Eligible Executive becomes entitled to vest in such awards pursuant to this Section but otherwise shall not be payable or exercisable following the date on which they would have otherwise been forfeited (unless the Change in Control subsequently occurs during such 90-day period)) (the vesting described in this clause (a) being referred to as "Accelerated Vesting");

- (b) All of the Eligible Executive's options shall continue to be exercisable following a Qualifying Termination until the earlier of (i) one year after the date of termination and (ii) the expiration of the original scheduled term of such options;
- (c) Any limitation on the acceleration of the vesting of options (that would otherwise be applicable pursuant to the Generac Power Systems, Inc. 2010 Equity Incentive Plan or otherwise) to reduce or eliminate the effects of Section 280G and/or Section 4999 of the Code, shall not be implemented unless the after-tax amount the Eligible Executive receives would be increased (as compared to the after-tax amount the Eligible Executive would receive in the absence of such limitation on acceleration of vesting), and in such event such limitation on acceleration of vesting shall be implemented to the minimum extent necessary to maximize the Eligible Executive's after-tax amount, provided that the Eligible Executive shall determine the order in which such limitation on acceleration of vesting is applied or, solely if required to comply with Section 409A of the Code, the option acceleration limitation shall be applied in the reverse order of scheduled vesting dates (i.e., the option tranche that would have vested first in the absence of a Change in Control will be the last tranche to have its acceleration limited); and
- (d) Any long-term incentive award where the number of shares that are earned upon vesting or the amount of payment varies dependent attainment of a performance level will be deemed earned at the "target" performance level (i.e., 100% payout).

3.5 Death of Executive. In the event of an Eligible Executive's death prior to receipt of all CIC Severance Pay, the balance of such CIC Severance Pay shall be paid in a lump sum to the Eligible Executive's spouse, if any, or if none, to the Eligible Executive's estate.

3.6 Compliance with Code Section 409A. Notwithstanding the foregoing or any provision of the Policy to the contrary, to the extent that the CIC Severance Pay hereunder constitutes a "deferral of compensation" under a "nonqualified deferred compensation plan" under Code Section 409A and regulations thereunder and does not qualify as a "short-term deferral" under Treasury Regulation Section 1.409A-1(b)(4), the following provisions shall apply:

- (a) If such CIC Severance Pay is payable on account of an Executive's "involuntary separation from service" as defined in Treasury Regulation Section 1.409A-1(n) (an "Involuntary Separation from Service"), the Executive shall receive such amount of his or her CIC Severance Pay during the 6-month period immediately following the date of termination as equals the lesser of: (x) such CIC Severance Pay amount due Executive under Section 4.2 during such 6-month period or (y) two multiplied by the compensation limit in effect under Section 401(a)(17) of the Code for the calendar year in which the date of termination occurs and as otherwise provided under Treasury Regulation Section 1.409A-1(b)(9)(iii) and shall be entitled to such of his or her CIC Severance Pay benefits as satisfy the exception under Treasury Regulation Section 1.409A-1(b)(9)(v) (the "Limitation Amount").

- (b) To the extent that, upon such Involuntary Separation from Service, the amount of CIC Severance Pay that would have been payable to the Executive during the 6-month period following the last day of his or her employment exceeds the Limitation Amount, such excess shall be paid on the first regular bi-weekly payroll date following the expiration of such 6-month period.
- (c) If the Company reasonably determines that such employment termination is not an Involuntary Separation from Service, all CIC Severance Pay that would have been payable to the Executive under the Policy during the 6-month period immediately following the date of termination, but for such determination, shall be paid on the first regular bi-weekly payroll date immediately following the expiration of such 6-month period following the date of termination.
- (d) Any CIC Severance Pay payments that are postponed shall accrue interest at an annual rate (compounded monthly) equal to the short-term applicable federal rate (as in effect under Section 1274(d) of the Code on the last day of the Executive's employment) plus 100 basis points, which interest shall be paid on the first regular bi-weekly payroll date immediately following the expiration of the 6-month period following the date of termination.

3.7 No Duplication of Benefits. Notwithstanding the provisions of Article 3 or any other provision of the Policy to the contrary, any benefits provided under this Policy to an Eligible Executive shall be in lieu of any termination or severance payments or benefits for which such Executive may be eligible under any plan of or agreement or arrangement with an Employer. For avoidance of doubt, upon a Qualifying Termination, an Executive shall only be entitled to CIC Severance Pay and Continued Benefits under this Policy and shall not be entitled to severance benefits, change in control benefits or subsidized COBRA under another plan of or arrangement with an Employer.

Article 4
Conditions for Payment and Right to Terminate
CIC Severance Benefits

4.1 Conditions for Payment of Benefits. An Executive who has a Qualifying Termination will not be eligible for CIC Severance Pay, Continued Benefits, or Accelerated Vesting unless the Company determines that the Executive has satisfied all of the following conditions:

- (a) Consent to and compliance with the “Executive Covenants” in Article 5 below;
- (b) Delivery, within 21 days (or after such other consideration period provided under applicable law) after presentation thereof by the Company to the Executive, to the Company of an executed Agreement and general release (the “General Release”) in the form determined by the Company, and which may be revised by the Company in its sole discretion; and
- (c) Delivery to the Company of a resignation from all offices, directorships and fiduciary positions with the Company, its affiliates, and employee benefit plans.

Notwithstanding the due date of any benefits or payments under Article 3, any amounts due following a Qualifying Termination under the Policy shall not be payable until after the expiration of any statutory revocation period applicable to the General Release without Executive having revoked such General Release which must occur by the 60th day after the later of the Executive’s termination of employment or the Change in Control (the “Release Condition”) and any such amounts shall commence on the later of the applicable due date or five (5) business days after the Release Condition is satisfied, provided that, if the 60-day period following termination of employment spans two calendar years, then any payments and benefits subject to Code Section 409A shall commence on the later of the applicable due date or on a date during that portion of such 60-day period occurring in the calendar year following the year of termination of employment, provided that the Release Condition is satisfied.

4.2 Right to Terminate Severance Benefits. Notwithstanding anything in this Policy to the contrary, the Company shall have the right to terminate the benefits payable under this Policy at any time in the event that the Company determines that a former Executive receiving benefits under this Policy has breached any of the terms and conditions set forth in any agreement executed by the former Executive as a condition to receiving benefits under the Policy, including, but not limited to, the General Release, or violation of any non-disclosure, non-competition or non-solicitation or provisions contained in such other plans or agreements.

4.3 Clawback. The benefits under this Policy are subject to the terms of the Company's or any other Employer's recoupment, clawback or similar policies as may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of any cash or other property received under this Policy.

Article 5 Executive Covenants

5.1 Reasonableness of Restrictions. Each Executive shall acknowledge that he or she has had and will continue to have access to Confidential Information (as defined below), that such Confidential Information is of economic value to the Employer, that such Confidential Information would be of value to a competitor of the Employer in competing against the Employer, and that it would be unfair for the Executive to exploit such Confidential Information for the Executive’s personal benefit or for the benefit of a competitor. Each Executive shall further acknowledge that he or she has had and/or will have an opportunity to learn about, and develop relationships with, customers of the Employer and that the Employer have a legitimate interest in protecting relationships with such customers, and that it would be unfair for the Executive to exploit information the Executive has learned about such customers and relationships that the Executive has developed with such customers for the Executive’s personal benefit or for the benefit of a competitor. The Executive further acknowledges that the Employer currently markets and sells products and services to customers throughout the world and that the Executive’s job duties have included and/or will include contact with products that are marketed throughout the United States or, for an Executive employed outside the United States, the country in which the Executive is employed and that the Confidential Information to which the Executive has had and/or will have access to, and the Executive’s customer knowledge and contacts and relationships, would be of value to a competitor in competing against the Employer anywhere in the country in which the Executive is employed. Accordingly, each Executive shall acknowledge that the protections provided to the Employer in this Article 5 are reasonable and necessary to protect the legitimate interests of the Employer and that abiding by the Executive’s obligations under this Article 5 will not impose an undue hardship on the Executive.

5.2 Restricted Services Obligation. For a period of two years following the end, for whatever reason, of an Executive's employment with the Employer, the Executive shall agree not to directly or indirectly provide Restricted Services to any Competitor respecting its operations in the country in which the Executive was employed. For purposes of this Section, (i) "Restricted Services" means services of any kind or character comparable to those the Executive provided to the Employer during the one year period preceding the end of the Executive's employment with the Employer, and (ii) "Competitor" means any business located in the country in which the Executive was employed that is engaged in the development and/or sale of any product line or service offering that is substantially similar (and thus competitive with) to a product line or service offering sold by the Employer for which the Executive had direct managerial responsibility during the last year of the term of the Executive's employment with the Employer. Notwithstanding the foregoing, this Section 5.2 shall not apply to an Executive whose principal place of employment with an Employer is in the State of California.

5.3 Customer Non-Solicitation. For a period of two years following the end, for whatever reason, of the Executive's employment with the Employer, the Executive shall agree not to directly or indirectly attempt to sell or otherwise provide to any Restricted Customer any goods, products or services of the type or substantially similar to the type sold or otherwise provided by the Employer (and thus competitive with such goods, products or services) for which the Executive was employed during the twelve months prior to termination of the Executive's employment. For purposes of this Section 5.3, "Restricted Customer" means any individual or entity (i) for whom/which the Employer provided goods, products or services, and (ii) with whom/which the Executive was the primary contact on behalf of the Company during the Executive's last twelve months of employment or about whom/which the Executive acquired non-public information during the Executive's last twelve months of employment that would be of benefit to the Executive in selling or attempting to sell such goods, products or services in competition with the Employer.

5.4 Non-Solicitation of Employees. During the term of the Executive's employment with the Employer and for a period of one year thereafter, the Executive shall agree not to directly or indirectly encourage any employee of the Employer with whom the Executive has worked to terminate his or her employment with the Employer or solicit such an individual for employment outside the Employer in a manner which would end or diminish that employee's services to the Employer.

5.5 Non-Disparagement. During the term of the Executive's employment with the Employer and thereafter in perpetuity, the Executive shall not knowingly disparage, criticize, or otherwise make derogatory statements regarding the Employer or any of its affiliates, successors, directors, officers, customers or suppliers. During the term of the Executive's employment with the Employer and thereafter in perpetuity, none of the Company or any other Employer nor any of their respective officers shall knowingly disparage, criticize, or otherwise make derogatory statements regarding the Executive. The restrictions of this Section 5.5 shall not apply to any statements that are made truthfully in response to a subpoena or other compulsory legal process.

5.6 Non-Disclosure of Confidential Information.

- (a) The Executive shall maintain in confidence and shall not directly, indirectly, or otherwise use, disseminate, disclose, publish or otherwise misappropriate, or use for the Executive's benefit or the benefit of any Person, or deliver to any Person any Confidential Information (as defined herein) or trade secrets of the Company. "Confidential Information" means any document, record, notebook, computer program or similar repository of or containing, any confidential or proprietary information of or relating to the Employer, including, without limitation, information with respect to the Employer's operations, processes, products, inventions, business practices, finances, principals, vendors, suppliers, customers, potential customers, marketing methods, costs, prices, contractual relationships, regulatory status, compensation paid to employees or other terms of employment. Confidential Information shall be defined to exclude information which is or becomes public knowledge through no fault of the Executive, or which was known to the Executive before the start of the Executive's earliest relationship with the Employer, or which is otherwise not subject to protection under applicable law. The Executive's obligations under this Section 5.6 shall apply for so long as the Executive continues in the employment of the Employer and for two years following the termination of such employment, for whatever reason, as to any Confidential Information that does not constitute a trade secret under applicable law. As to any Confidential Information that does constitute a trade secret under applicable law, the Executive shall agree that the Executive's obligations under this Section 5.6 shall apply for so long as the item qualifies as a trade secret.
- (b) The Executive is advised that he or she may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and provided that such disclosure is solely for the purpose of reporting or investigating a suspected violation of the law, or (ii) in a complaint or other document filed in a lawsuit or other proceeding, provided that such filing is made under seal. Additionally, in the event the Executive files a lawsuit against the Employer for retaliation by the Employer against the Executive for reporting a suspected violation of law, the Executive has the right to provide trade secret information to the Executive's attorney and use the trade secret information in the court proceeding, although the Executive must file any document containing the trade secret under seal and may do not disclose the trade secret, except pursuant to court order.

5.7 Return of Company Property. All correspondence, drawings, manuals, letters, notes, notebooks, reports, programs, plans, proposals, financial documents, or any other documents concerning the Employer's customers, business plans, marketing strategies, products or processes, whether confidential or not, is the property of the Company (the "Company Property"). Accordingly, upon the Executive's Termination of Employment for any reason, the Executive shall promptly deliver to the Company all such Company Property, including any and all copies of any such Company Property, and shall not make any notes of or relating to any information contained in any such Company Property. The Executive may respond to a lawful and valid subpoena or other legal process but shall give the Company the earliest possible notice thereof, shall, as much in advance of the return date as possible, make available to the Company and its counsel the documents and other information sought and shall assist such counsel in resisting or otherwise responding to such process.

5.8 Injunctive Relief. The Executive shall acknowledge that a breach of the covenants contained in this Article 5 will cause irreparable damage to the Company and its goodwill, the exact amount of which will be difficult or impossible to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, the Executive shall agree that, in the event of an actual or threatened breach of any of the covenants contained in this Article 5, in addition to any other remedy which may be available at law or in equity, the Company shall be entitled to specific performance and injunctive relief. The Company acknowledges that a breach of the Company's covenant contained in Section 5.5 will cause irreparable damage to the Executive, the exact amount of which will be difficult or impossible to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, the Company agrees that, in the event of an actual or threatened breach of the Company's covenant contained in Section 5.5, in addition to any other remedy which may be available at law or in equity, the Executive shall be entitled to specific performance and injunctive relief.

Article 6

General Rules

6.1 Right to Withhold Taxes. The Employer shall withhold such amounts from payments under the Policy as it determines necessary to fulfill any country, federal, state, or local wage or compensation withholding requirements.

6.2 Assignment. Benefits under the Policy may not be assigned.

6.3 Unfunded Policy. The Employer will make all payments under the Policy, and pay all expenses of the Policy, from its general assets. Nothing contained in the Policy shall give any eligible Executive any right, title or interest in any property of the Employer.

6.4 Code Section 409A. It is intended that any amounts payable under the Policy shall comply with the provisions of Code Section 409A and the Treasury Regulations relating thereto so as not to subject an Executive to the payment of interest and tax penalty which may be imposed under Code Section 409A. In furtherance of this interest, anything to the contrary herein notwithstanding, no amounts shall be payable to an Eligible Executive before such time as such payment fully complies with the provisions of Code Section 409A and, to the extent that any regulations or other guidance issued under Code Section 409A after the date of this Agreement would result in the Executive being subject to payment of interest and tax penalty under Code Section 409A, the parties agree to amend this Agreement in order to bring this Agreement into compliance with Code Section 409A. In addition, solely for purposes of compliance with Code Section 409A, Qualifying Termination shall not be deemed to have occurred for purposes of the Policy unless such termination is also a separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h) (applying the 20% default post-separation limit thereunder)) as an employee and references to a "termination" or "termination of employment" shall mean separation from service as an employee.

6.5 Governing Laws; Other Obligations. The provisions of the Policy shall be construed, administered and enforced in accordance with the laws of the State of Wisconsin and any applicable federal laws. The obligations and restrictions set forth in this Policy are in addition to and not in lieu of any obligations or restrictions imposed upon Executive under any other agreement or any other law or statute including, but not limited to, any obligations Executive may owe under any law governing trade secrets, any common law duty of loyalty, or any fiduciary duty. No time or geographic restriction provided above shall affect the availability or scope of protection afforded to the Company's trade secrets.

Article 7 Amendment and Termination

The Compensation Committee may modify, amend, or terminate the Policy at any time without prior notice, and the Company's Chief Executive Officer or Chief Human Resources Officer may also amend or modify the Policy to reflect administrative or other changes that do not have a material effect on the amount of benefits provided under the Policy. However, the Company will pay or continue to pay benefits in accordance with the provisions of the Policy to the Executives whose employment is terminated prior to any modification, amendment or termination of the Policy. Furthermore, anything to the contrary notwithstanding, any modification, amendment, or termination of the Policy that materially reduces the CIC Severance Pay, the Continued Benefits, or any other benefit provided to an Executive hereunder shall be null and void and of no effect unless made at least one hundred-twenty (120) days prior to the occurrence of a Change in Control.

Article 8
Administration

8.1 Powers and Duties. The Policy Administrator shall have sole authority and discretion to administer and construe the terms of the Policy, subject to applicable requirements of law. Without limiting the foregoing, the Policy Administrator shall have power to:

- (a) Provide rules and regulations for the administration of the Policy and, from time to time, to amend or supplement such rules and regulations;
- (b) Construe the Policy, which construction shall be final and binding;
- (c) Correct any defect, supply any omission, or reconcile any inconsistency in the Policy in such manner and to such extent as it shall deem expedient to effect the purpose of the Policy; and
- (d) Delegate to such other parties as are appropriate all or any part of the responsibilities specifically required of the Policy Administrator under the terms of the Policy.

No benefits shall be paid under the Policy unless the Policy Administrator, in its sole discretion, determines that an Eligible Executive is entitled to such benefits.

8.2 Finality of Action. Except as provided in Section 9.3, the acts and determinations of the Compensation Committee and Company within the powers conferred by the Policy shall be final and conclusive for all purposes of the Policy.

8.3 Claim Procedure. An Executive who believes that he or she is entitled to benefits under the Policy in an amount greater than what the Executive is receiving or has received may file a claim within 12 months of his or her termination of employment for such benefits by writing directly to the corporate offices of the Company, located in Waukesha, Wisconsin. Such claims shall be referred to a person designated by the Company, who shall prepare an appropriate written response.

Every claim that is filed timely shall be answered in writing stating whether the claim is granted or denied. If the claim is denied, the reasons for denial and reference to the relevant plan provisions shall be set forth in a written notice to the claimant. Such notice shall also describe information necessary for the claimant to perfect an appeal and include an explanation of the Policy's claim appeal procedure.

Within 90 days of notice that a claim is denied, the claimant may file a written appeal to the Company, including any comments, statements or documents the claimant may wish to provide. Appeals shall be considered by the Compensation Committee or a committee of not less than three persons designated by the Compensation Committee, none of whom shall be the person who responded to the initial claim. In the event the claim is denied upon appeal, the Compensation Committee or its designee shall set forth in writing the reasons for denial and the relevant provisions of the Policy.

The Company shall comply with any reasonable written request from a claimant for documents or information relevant to this claim prior to the filing of an appeal.

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

I, Aaron Jagdfeld, certify that:

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

Date: November 6, 2018

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld

Title: Chief Executive Officer

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

I, York A. Ragen, certify that:

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

Date: November 6, 2018

/s/ York A. Ragen

Name: York A. Ragen

Title: *Chief Financial Officer*

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

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

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2018 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2018

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld

Title: *Chief Executive Officer*

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

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

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2018 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2018

/s/ York A. Ragen

Name: York A. Ragen

Title: *Chief Financial Officer*